JTH HOLDING, INC. AND SUBSIDIARIES

Consolidated Financial Statements

April 30, 2013 and 2012

(With Report of Independent Registered Public Accounting Firm Thereon)

KPMG LLP
Suite 1900
440 Monticello Avenue
Norfolk, VA 23510

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
JTH Holding, Inc.:

We have audited the accompanying consolidated balance sheets of JTH Holding, Inc. and subsidiaries (the Company) as of April 30, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended April 30, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JTH Holding, Inc. and subsidiaries as of April 30, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended April 30, 2013, in conformity with U.S. generally accepted accounting principles.

As discussed in note 19 to the consolidated financial statements, the consolidated financial statements as of and for the years ended April 30, 2012 and 2011 have been restated to correct certain misstatements.

KPMG LLP

Norfolk, Virginia
September 26, 2013

JTH HOLDING, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

April 30, 2013 and 2012

(In thousands)

Assets	2013	2012 As Restated (1)
Current assets:		
Cash and cash equivalents	$ 19,013	$ 19,848
Receivables (note 2):		
Trade accounts	41,856	38,321
Notes	34,156	30,283
Interest, net	877	674
Allowance for doubtful accounts	(5,583)	(4,496)
Total receivables, net	71,306	64,782
Available-for-sale securities (note 4)	3,619	—
Deferred income taxes (note 10)	4,232	3,901
Other current assets	4,963	5,614
Total current assets	103,133	94,145
Property, equipment, and software, net (notes 3 and 8)	33,037	23,948
Notes receivable, excluding current portion, net of allowance for uncollectible amounts of $1,101 and $794 for 2013 and 2012, respectively (note 2)	14,352	11,711
Goodwill (note 5)	5,685	5,400
Other intangible assets, net (note 5)	10,921	10,314
Deferred income taxes (note 10)	—	4,093
Other assets, net	2,402	2,585
Total assets (note 6)	$ 169,530	$ 152,196
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments of long-term debt (note 8)	$ 3,400	$ 2,736
Accounts payable and accrued expenses (notes 9 and 16)	11,954	14,170
Due to area developers (note 2)	18,248	15,956
Income taxes payable (note 10)	5,897	6,689
Deferred revenue - short-term portion	7,555	6,920
Total current liabilities	47,054	46,471
Long-term debt, excluding current installments (note 8)	24,283	26,249
Revolving credit facility (note 7)	—	—
Deferred revenue - long-term portion	10,381	12,411
Liability classified stock-based compensation awards (note 12)	5,111	—
Deferred income taxes (note 10)	865	—
Total liabilities	87,694	85,131
Stockholders' equity (notes 4, 9, 11, 12, and 14):		
Class A preferred stock, $0.01 par value per share, 190,000 shares authorized, 0 and 170,320 shares issued and outstanding at April 30, 2013 and 2012, respectively	—	2,129
Special voting preferred stock, $0.01 par value per share, 10 shares authorized, issued and outstanding	—	—
Class A common stock, $0.01 par value per share, 21,200,000 shares authorized, 11,975,128 and 10,343,957 shares issued and outstanding at April 30, 2013 and 2012, respectively	120	103
Class B common stock, $0.01 par value per share, 1,000,000 shares authorized, 900,000 shares issued and outstanding	9	9
Exchangeable shares, $0.01 par value, 100,000 shares issued and outstanding	1	1
Additional paid-in capital	1,920	3,182
Accumulated other comprehensive income, net of taxes	1,194	676
Retained earnings	78,592	60,965
Total stockholders' equity	81,836	67,065
Commitments, contingencies, and subsequent events (notes 6, 7, 16, and 17)		
Total liabilities and stockholders' equity	$ 169,530	$ 152,196

(1) As restated - See Note 19 "Restatement of Previously Issued Financial Statements" of Notes to Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

April 30, 2013 and 2012

(In thousands)

	2013	2012 As Restated [1]	2011 As Restated [1]
Revenues:			
Franchise fees	$ 8,721	$ 7,996	$ 8,780
Area developer fees	7,699	6,702	6,335
Royalties and advertising fees	73,129	70,016	66,182
Financial products	30,345	22,903	16,507
Interest income (note 2)	13,848	12,406	11,322
Tax preparation fees, net of discounts	10,148	7,026	4,789
Net gain on sale of company-owned offices and other revenue	3,723	4,176	4,021
Total revenues	147,613	131,225	117,936
Operating expenses:			
Employee compensation and benefits	37,998	29,802	25,162
General and administrative expenses	31,212	26,878	22,472
Area developer expense	25,736	23,872	23,094
Advertising expense	15,293	15,346	15,078
Depreciation, amortization, and impairment charges (notes 3 and 5)	6,538	5,999	5,439
Costs associated with postponed IPO	—	1,348	—
Total operating expenses	116,777	103,245	91,245
Income from operations	30,836	27,980	26,691
Other income (expense):			
Foreign currency transaction gains	—	4	75
Interest expense (notes 7, 8, and 9)	(2,039)	(1,854)	(1,954)
Income before income taxes	28,797	26,130	24,812
Income tax expense (note 10)	11,170	9,747	10,142
Net income	$ 17,627	$ 16,383	$ 14,670
Net income per share of Class A and Class B common stock:			
Basic	$ 1.26	$ 1.17	$ 0.85
Diluted	1.25	1.16	0.83

[1] As restated - See Note 19 “Restatement of Previously Issued Financial Statements” of Notes to Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

April 30, 2013 and 2012

(In thousands)

	2013	2012	2011
		As Restated [1]	**As Restated [1]**
Net income	$ 17,627	$ 16,383	$ 14,670
Interest rate swap agreements, net of taxes (note 9)	438	196	(164)
Unrealized gain on equity securities available-or-sale, net of taxes (note 4)	387	—	—
Foreign currency translation adjustment	(307)	99	424
Comprehensive income	$ 18,145	$ 16,678	$ 14,930

[1] As restated - See Note 19 “Restatement of Previously Issued Financial Statements” of Notes to Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

April 30, 2013 and 2012

(In thousands)

	Class A Common stock		Class B Common stock		Class A Preferred stock		Special voting preferred stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance at May 1, 2012 (As Restated)[1]	10,344	$ 103	900	$ 9	170	$ 2,129	—	$ —
Exercise of stock options (note 11)	350	4	—	—	—	—	—	—
Repurchase of common stock	(422)	(4)	—	—	—	—	—	—
Conversion of preferred stock to common stock	1,703	17	—	—	(170)	(2,129)	—	—
Balance at April 30, 2013	11,975	$ 120	900	$ 9	—	$ —	—	$ —

	Exchangeable shares		Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
	Shares	Amount				
Balance at May 1, 2012 (As Restated)[1]	100	$ 1	$ 3,182	$ 676	$ 60,965	$ 67,065
Exercise of stock options (note 11)	—	—	3,797	—	—	3,801
Repurchase of common stock	—	—	(6,452)	—	—	(6,456)
Conversion of preferred stock to common stock	—	—	2,112	—	—	—
Stock-based compensation expense (note 11)	—	—	1,704	—	—	1,704
Conversion of stock-based compensation awards from equity to liability classification (notes 11 and 12)	—	—	(2,694)	—	—	(2,694)
Tax benefit of stock option exercises (note 9)	—	—	271	—	—	271
Net income (As Restated)[1]	—	—	—	—	17,627	17,627
Interest rate swap agreements, net of taxes (note 8)	—	—	—	438	—	438
Foreign currency translation adjustment	—	—	—	(307)	—	(307)
Unrealized gain on equity securities available-for-sale, net of taxes	—	—	—	387	—	387
Comprehensive income						18,145
Balance at April 30, 2013	100	$ 1	$ 1,920	$ 1,194	$ 78,592	$ 81,836

See accompanying notes to consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

April 30, 2013 and 2012

(In thousands)

	Class A Common stock		Class B Common stock		Class A Preferred stock		Special voting preferred stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance at May 1, 2011 (As Restated)[1]	10,519	$ 105	900	$ 9	170	$ 2,129	—	$ —
Exercise of stock options (note 11)	110	1	—	—	—	—	—	—
Repurchase of common stock	(285)	(3)	—	—	—	—	—	—
Balance at April 30, 2012 (as Restated)	10,344	$ 103	900	$ 9	170	$ 2,129	—	$ —

	Exchangeable shares		Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
	Shares	Amount				
Balance at May 1, 2011 (As Restated)[1]	100	$ 1	$ 4,811	$ 381	$ 44,582	$ 52,018
Exercise of stock options (note 11)	—	—	741	—	—	742
Repurchase of common stock	—	—	(4,257)	—	—	(4,260)
Stock-based compensation expense (note 11)	—	—	1,429	—	—	1,429
Tax benefit of stock option exercises (note 9)	—	—	458	—	—	458
Net income (As Restated)[1]	—	—	—	—	16,383	16,383
Interest rate swap agreements, net of taxes (note 8)	—	—	—	196	—	196
Foreign currency translation adjustment	—	—	—	99	—	99
Comprehensive income						16,678
Balance at April 30, 2012 (As Restated)[1]	100	$ 1	$ 3,182	$ 676	$ 60,965	$ 67,065

[(1)] As restated - See Note 19 "Restatement of Previously Issued Financial Statements" of Notes to Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders' Equity

April 30, 2013 and 2012

(In thousands)

	Class A Common stock		Class B Common stock		Class A Preferred stock		Special voting preferred stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance at May 1, 2010 (As Reported)	10,730	$ 107	900	$ 9	190	$ 2,375	—	$ —
Restatement adjustment	—	—	—	—	—	—	—	—
Balance at May 1, 2010 (As Restated)[1]	10,730	107	900	9	190	2,375	—	—
Exercise of stock options (note 11)	460	5	—	—	—	—	—	—
Repurchase of common stock	(686)	(7)	—	—	—	—	—	—
Repurchase of preferred stock	—	—	—	—	(18)	(227)	—	—
Conversion of preferred stock to common stock	15	—	—	—	(2)	(19)	—	—
Balance at April 30, 2011 (As Restated)[1]	10,519	$ 105	900	$ 9	170	$ 2,129	—	$ —

	Exchangeable shares		Additional paid-in capital	Accumulated other comprehensive income	Retained income	Total
	Shares	Amount				
Balance at May 1, 2010 (As Reported)	100	$ 1	$ 9,159	$ 121	$ 63,424	$ 75,196
Restatement adjustment	—	—	—	—	(31,017)	(31,017)
Balance at May 1, 2010 (As Restated)[1]	100	1	9,159	121	32,407	44,179
Exercise of stock options (note 11)	—	—	3,800	—	—	3,805
Repurchase of common stock	—	—	(10,069)	—	—	(10,076)
Repurchase of preferred stock	—	—	—	—	(2,495)	(2,722)
Conversion of preferred stock to common stock	—	—	19	—	—	—
Stock-based compensation expense (note 11)	—	—	1,494	—	—	1,494
Tax benefit of stock option exercises (note 9)	—	—	408	—	—	408
Net income (As Restated)[1]	—	—	—	—	14,670	14,670
Interest rate swap agreements, net of taxes (note 8)	—	—	—	(164)	—	(164)
Foreign currency translation adjustment	—	—	—	424	—	424
Comprehensive income						14,930
Balance at April 30, 2011 (As Restated)[1]	100	$ 1	$ 4,811	$ 381	$ 44,582	$ 52,018

(1) As restated - See Note 19 "Restatement of Previously Issued Financial Statements" of Notes to Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

April 30, 2013 and 2012

(In thousands)

	2013	2012 As Restated [1]	2011 As Restated [1]
Cash flows from operating activities:			
Net income	$ 17,627	$ 16,383	$ 14,670
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful accounts	7,098	5,788	5,497
Depreciation and amortization	5,750	5,511	5,001
Amortization of deferred financing costs	301	418	254
Impairment of goodwill and other intangible assets	788	488	438
Stock-based compensation expense related to equity classified awards	1,496	1,429	1,494
Stock-based compensation expense related to liability classified awards	2,625	—	—
Gain on sale of company-owned offices	(777)	(973)	(1,109)
Equity in loss of affiliate	193	138	—
Deferred tax expense	4,119	2,304	1,671
Changes in assets and liabilities increasing (decreasing) cash flows from operating activities:			
Trade receivable	(27,722)	(25,230)	(20,803)
Notes and interest receivable	16,505	16,401	13,466
Prepaid expenses and other assets	210	(95)	149
Accounts payable and accrued expenses	(1,837)	(3,559)	4,041
Due to area developers	5,213	3,989	4,417
Income taxes	(508)	221	61
Deferred revenue	(2,640)	(2,770)	(4,472)
Net cash provided by operating activities	28,441	20,443	24,775
Cash flows from investing activities:			
Issuance of operating loans to franchisees	(75,605)	(67,969)	(56,400)
Payments received on operating loans from franchisees	68,782	60,918	50,921
Purchases of area developer rights and company-owned offices	(5,980)	(4,741)	(3,091)
Proceeds from sale of company-owned offices and area developer rights	4,072	2,146	1,711
Purchase of marketable equity securities	(2,980)	—	—
Purchase of equity method investment	—	(1,009)	—
Purchases of property and equipment	(11,928)	(10,288)	(7,051)
Net cash used in investing activities	(23,639)	(20,943)	(13,910)
Cash flows from financing activities:			
Proceeds from the exercise of stock options	3,801	742	3,805
Repurchase of common stock	(6,456)	(4,260)	(10,076)
Repurchase of preferred stock	—	—	(2,722)
Term debt borrowings	—	25,000	—
Repayment of long-term debt	(2,953)	(2,118)	(2,284)
Borrowings under revolving credit facility	121,216	124,270	135,484

(Continued)

JTH HOLDING, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

April 30, 2013 and 2012

(In thousands)

	2013	2012 As Restated[1]	2011 As Restated [1]
Repayments under revolving credit facility	(121,216)	(124,270)	(135,484)
Payment for debt issue costs	(289)	(1,123)	(333)
Tax benefit of stock option exercises	271	458	408
Net cash provided by (used in) financing activities	(5,626)	18,699	(11,202)
Effect of exchange rate changes on cash, net	(11)	(13)	(113)
Net increase (decrease) in cash and cash equivalents	(835)	18,186	(450)
Cash and cash equivalents at beginning of year	19,848	1,662	2,112
Cash and cash equivalents at end of year	$ 19,013	$ 19,848	$ 1,662
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of capitalized interest	$ 1,872	$ 1,640	$ 1,671
Cash paid for taxes, net of refunds	7,328	7,222	8,032
Supplemental disclosures of noncash investing and financing activities:			
During the years ended April 30, 2013, 2012, and 2011, the Company acquired certain assets from franchisees and area developers as follows:			
Fair value of assets purchased	$ 10,714	$ 12,050	$ 6,826
Receivables applied	(6,804)	(10,120)	(5,233)
Accounts payable canceled	2,922	2,961	2,405
Notes payable issued	(1,655)	(1,540)	(1,936)
Elimination of related deferred revenue	803	1,390	1,029
Cash paid to franchisees	$ 5,980	$ 4,741	$ 3,091
During the years ended April 30, 2013, 2012, and 2011, the Company sold certain assets to franchisees and area developers as follows:			
Book value of assets sold	$ 6,517	$ 5,929	$ 4,913
Gain on sale	(417)	(191)	1
Deferred revenue	2,846	1,370	1,267
Applied from acquisitions of franchise territories	—	—	(120)
Notes received	(4,874)	(4,962)	(4,350)
Cash received from franchisees	$ 4,072	$ 2,146	$ 1,711
Accrued capitalized software costs included in accounts payable	$ 733	$ 345	$ 1,368

[1] As restated - See Note 19 “Restatement of Previously Issued Financial Statements” of Notes to Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization and Plan of Reorganization

JTH Holding, Inc. (the Company), a Delaware corporation, is a holding company engaged through its subsidiaries as a franchisor and operator of a system of income tax preparation offices located in the United States and Canada. The Company's principal operations are conducted through JTH Tax, Inc. (d/b/a Liberty Tax Service) the Company's largest subsidiary. Through this system of income tax preparation offices, the Company also facilitates to its customers refund-based tax settlement financial products such as refund anticipation loans, electronic refund checks, and personal income tax refund discounting. The Company also offers online tax preparation services.

(b) Restatement of Previously Issued Financial Statements

On August 1, 2013, the Company concluded that previously issued consolidated financial statements should not be relied upon due to revenue recognition adjustments. The Company's decision to restate its consolidated financial statements was based upon the results of an internal review of the Company's historical revenue recognition policies and their application. The Company has restated its consolidated balance sheet as of April 30, 2012 and the related statements of income, comprehensive income, stockholders' equity and cash flows for the fiscal years ended April 30, 2012 and 2011. See note 19 for a detailed description of the impact of corrections on previously issued consolidated financial statements.

(c) Principles of Consolidation

The consolidated financial statements include the accounts of JTH Holding, Inc. and its wholly owned subsidiaries. Assets and liabilities of the Company's Canadian operations have been translated into U.S. dollars using the exchange rate in effect at the end of the year. The revenues and expenses have been translated using the average exchange rates in effect each month of the year. Transaction gains and losses are recognized in income when incurred. The Company consolidates entities in which it has a controlling interest, the usual condition of which is ownership of a majority voting interest. The Company also considers for consolidation an entity, in which the Company has certain interest, where a controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity (VIE) is required to be consolidated by its primary beneficiary. The Company does not possess any ownership interests in franchisee entities; however, the Company may provide financial support to franchisee entities. Because the Company's franchise arrangements provide franchisee entities the power to direct the activities that most significantly impact their economic performance, the Company does not consider itself the primary beneficiary of any such entity that might be a VIE. Based on the results of management's analysis of potential VIEs, the Company has not consolidated any franchise or other entities. The Company's maximum exposure to loss resulting from involvement with potential VIEs is attributable to accounts and notes receivables and future lease payments due from franchisees. When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity, the Company applies the equity method of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

(d) Office Count

The following table shows the U.S. office activity for the years ended April 30, 2013, 2012 and 2011 and the number of Canadian and Company-owned offices at the end of each year:

	Tax Season		
	2013	**2012**	**2011**
Franchised U.S. offices, beginning of period	3,845	3,549	3,233
U.S. offices opened	596	676	622
U.S. offices purchased from the Company	60	37	47
U.S. offices acquired by the Company	(64)	(76)	(37)
U.S. offices closed	(409)	(341)	(316)
Franchised U.S. offices, end of period	4,028	3,845	3,549
Franchised Canadian offices, end of period	231	244	241
Total franchised offices	4,259	4,089	3,790
Company-owned offices, end of period			
U.S.	234	75	41
Canadian	27	19	14
Total	261	94	55
Total offices	4,520	4,183	3,845

(e) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(f) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount less an allowance for doubtful accounts and accrue finance charges at 18% annually if unpaid after 30 days. Account balances are charged off against the allowance after all possible means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its accounts receivable.

(g) Notes Receivable

Notes receivable are recorded less unrecognized revenue, net of an allowance for doubtful accounts. Unrecognized revenue relates to the financed portion of franchise fees and area developer (AD) fees and, in the case of sales of company-owned offices, the financed portion of gains related to such sales, in each case where revenue has not yet been recognized. The Company provides an allowance against accrued interest on a delinquent note when a scheduled payment becomes 90 days past due. Notes are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

(h) Allowance for Doubtful Accounts

The allowance for doubtful accounts includes the Company's best estimate of the amount of probable credit losses in the Company's existing accounts and notes receivable. Because the repayment of accounts and notes receivable is dependent on the performance of the underlying franchises, management estimates the amount of the allowance for doubtful accounts based on a comparison of amounts due to the estimated fair value of the underlying franchises.

(i) Property, Equipment, and Software

Property, equipment, and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the depreciable assets, generally three to five years for computer equipment, three to seven years for software, seven years for furniture and fixtures, and twenty to thirty-five years for buildings. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the assets. Certain allowable costs of software developed or obtained for internal use are capitalized and typically amortized over 36 months.

(j) Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill is not amortized, but instead tested for impairment at least annually. The reporting unit for the acquisition of assets from various franchisees is considered to be the franchise territory, and these assets are operated as company-owned offices. Goodwill is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it with its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. Fair value of the reporting unit for company-owned offices is determined using the net fees of the offices in the franchise territory. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

(k) Investments

During 2013, the Company purchased corporate equity securities. The Company classified this investment as available-for-sale securities and recognizes the unrealized gain on the available-for-sale securities, net of tax, in accumulated other comprehensive income in the stockholders' equity section of the balance sheets. Cash flows for the purchase of this investment are classified as investing activities.

(Continued)

(l) Deferred Revenue

Area development fees received are recognized as revenue on a straight-line basis over the initial contract term of each area developer agreement, subject to the cumulative amount of revenue recognized not exceeding the amount of cash received. Deferred revenue represents the amount of cash received for AD fees in excess of the revenue recognized.

(m) Revenue Recognition

The Company typically grants franchise rights to franchisees for a term of 5 years. In exchange for franchise fees and royalties and advertising fees, the Company is obligated by its franchise agreements to provide training, an operations manual, site selection guidance, tax preparation software, operational assistance, tax and technical support, the ability to perform electronic filing and marketing and advertising. Franchise fee revenue for the sales of individual territories is recognized when the obligations of the Company to prepare the franchisee for operation are substantially complete and cash has been received. No franchise fee is recognized related to the Company's sale of a zero franchise fee territory. Direct costs related to territories sold with no franchise fee are deferred until the related royalty revenue is recognized.

Area developer rights are granted for a term of 10 years. Area development fees are deferred until the AD has paid 20% of the fee. Once 20% of the fee has been paid, area developer fees are recognized as revenue on a straight-line basis over the initial contract term of each area developer agreement with the cumulative amount of revenue recognized not to exceed the amount of cash received. Amounts due to ADs for their services under an area development agreement are expensed as the related franchise fees and royalty revenues are recognized.

Royalties and advertising fees are recognized currently as franchise territories generate sales. Tax return preparation fees and financial products revenue are recognized as revenue in the period the related tax return is filed or prepared for the customer. Discounts for promotional programs are recorded at the time the return is prepared and are recorded as reductions to revenues.

Interest income is recognized when cash is received for notes associated with franchise fees or area developer fees. For all other notes, interest income is recognized when earned, and is recorded net of an allowance.

Gains on sales of Company-owned offices are recognized when the purchase price is paid. Losses on sales of Company-owned offices are recognized immediately.

(n) Derivative Instruments and Hedging Activities

The Company accounts for derivatives and hedging activities and recognizes all derivative instruments as either assets or liabilities in the balance sheet at their respective fair values. For derivatives designated in hedging relationships, changes in fair value are either offset through earnings against the change in fair value of the hedged item attributable to the risk being hedged or recognized in accumulated other comprehensive income, to the extent the derivative is effective at offsetting the changes in cash flows being hedged, until the hedged item affects earnings.

The Company only enters into a derivative contract when it intends to designate the contract as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For all hedging relationships, the Company formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged transaction, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method used to measure ineffectiveness. The Company also formally assesses, both at the inception of the hedging relationship and on an ongoing basis, whether the derivatives that are used in hedging relationships are highly effective in offsetting changes in cash flows of hedged transactions. For derivative instruments that are designated and qualify as part of a cash flow hedging relationship, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The Company discontinues hedge accounting prospectively when it determines that the derivative is no longer effective in offsetting cash flows attributable to the hedged risk, the derivative expires or is sold, terminated, or exercised, the cash flow hedge is de-designated because a forecasted transaction is not probable of occurring, or management determines to remove the designation of the cash flow hedge.

In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When it is no longer probable that a forecasted transaction will occur, the Company discontinues hedge accounting and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income related to the hedging relationship.

At April 30, 2013, the Company did not have any outstanding derivative instruments or hedging activities; however, at April 30, 2012 and 2011, the Company had interest rate swaps in place.

(o) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company has elected to classify accrued interest in interest expense, and accrued penalties, if any, in general and administrative expenses.

(p) Long-Lived Assets

The Company's long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. Recognition and measurement of a potential impairment is performed for these assets at the lowest level where cash flows are individually identifiable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. These assets and liabilities are classified as held-for-sale and are presented separately in the appropriate asset and liability sections of the balance sheet.

(q) Comprehensive Income

Comprehensive income consists of net income, foreign currency translation adjustments, interest rate swap agreements, net of applicable taxes and the unrealized gain on equity securities available for sale, net of taxes, and is presented in the accompanying consolidated statements of stockholders' equity and comprehensive income.

(r) Advertising Expenses

Advertising costs are expensed in the period incurred.

(s) Stock-Based Compensation

For equity classified employee stock-based compensation, the Company records costs of its employee stock-based compensation based on the grant-date fair value of awards using the Black-Scholes-Merton option pricing model. For liability classified awards, the Company records costs based on the fair value at the reporting date. Changes in fair value are recorded to stock compensation expense and additional paid-in capital as appropriate. The Company reflects the excess tax benefits recognized in equity related to stock option exercises as financing cash flows. The Company recognizes compensation costs for an award that has a graded vesting schedule on a straight-line basis over the requisite service period for the entire award.

Compensation costs related to restricted stock units are based on the grant-date fair value and are amortized to compensation expense over the vesting period.

(t) Costs Associated with Postponed IPO

During April 2012, the Company determined it would postpone its planned initial public offering and, accordingly, expensed the direct, incremental fees charged by attorneys, accountants, and printers that had been incurred and capitalized to date.

(u) Use of Estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements and accompanying notes in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(v) Recently Issued Accounting Standards

In June 2011, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, *Presentation of Comprehensive Income*. This update changes the methods for presenting comprehensive income, and eliminates the method of including comprehensive income in the consolidated statements of stockholders' equity. Under ASU 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments in this ASU did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company adopted this guidance in the first quarter of fiscal 2013. Because it only affects presentation, this guidance did not have a material effect on the Company's consolidated financial statements.

In September 2011, FASB issued ASU 2011-08, *Intangibles-Goodwill and Other (ASC Topic 350): Testing Goodwill for Impairment*. This amendment provides the option of first using a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If a company concludes that it is more likely than not that fair value exceeds carrying value, the two-step test for impairment is not required. The amendment includes a revised list of considerations in completing the qualitative assessment. The Company adopted this ASU in fiscal 2013 but doing so did not have a material effect on the Company's consolidated financial statements.

(w) Segment Reporting

Management has identified two operating segments, U.S. operations and Canadian operations. Although there are two operating segments, each segment is engaged in providing tax return preparation and related services and products. These two operating segments, which have similar gross margin and sales trends, have been aggregated into a single reporting segment because both segments are similar in the nature of services offered, production process, type of customer, the distribution methods, and the regulatory environment that they operate in.

Canadian operations contributed $5,936,000, $5,411,000 and $6,759,000 in revenues for the years ended April 30, 2013, 2012 and 2011, respectively.

(x) Supplier Concentration

The Company has used a third-party financial institution to provide certain financial products to its customers, pursuant to an agreement that was scheduled to expire on October 16, 2014. For the year ended April 30, 2012, a significant portion of the Company's customer's financial products were provided by this financial institution. On August 27, 2012, the Company delivered a termination notice with respect to that agreement that became effective September 16, 2012. The parties have agreed to mediation regarding the termination, and the agreement provides for arbitration if the mediation does not resolve the parties' dispute. The Company believes the outcome of these proceedings will not significantly impact its results of operations or financial position. The Company believes there will be little impact on its customers because the Company has been able to offer similar financial products through contractual relationships with other third-parties and internal capabilities.

(2) Notes and Accounts Receivable

The Company provides financing to franchisees for the purchase of franchises, clusters of territories, Company-owned offices and/or for working capital and equipment needs. The franchise-related notes generally are payable over five years and the working capital and equipment notes generally are due within one year. All notes bear interest at 12%. Activity related to notes receivable for the years ended April 30, 2013 and 2012 is as follows:

	2013	2012 As Restated
	(In thousands)	
Balance at beginning of year	$ 79,838	$ 70,564
Notes received for:		
Sales of franchises and clusters of territories	6,770	8,131
Sales of certain assets to franchisees and ADs	15,130	12,554
Franchisee to franchisee note assumptions	11,259	7,439
Working capital and equipment loans to franchisees	75,642	67,969
Refinancing of accounts receivable	18,527	16,787
	127,328	112,880
Repayment of notes	(95,664)	(82,258)
Notes canceled	(21,981)	(21,188)
Foreign currency adjustment	(181)	(160)
Balance at end of year	89,340	79,838
Unrecognized revenue portion of notes receivable	(39,731)	(37,050)
Notes receivable less unrecognized revenue	$ 49,609	$ 42,788

Most of the notes receivable are due from the Company’s franchisees and ADs and are collateralized by the underlying franchise and are guaranteed by the respective franchisee or AD and franchise or AD owner(s). The franchisees’ ability to repay the notes is dependent upon both the performance of the tax preparation industry as a whole and the individual or ADs’ franchises or areas.

The refinancing of accounts receivable results from a franchisee electing to deliver to the Company a promissory note for past-due royalties and advertising fees that have been previously recorded as accounts receivable in the financial statements.

Notes canceled is comprised of the cancellation of existing unpaid notes of selling franchisees in franchisee to franchisee sales that include the assumption of debt by the acquiring franchisee, and any unpaid notes receivable from a franchisee or AD related to specific territories or clusters of territories that the Company reacquires. In the latter transactions, the cancellation of notes is part of the consideration paid by the Company, and any excess of the consideration paid over the fair value of assets acquired is written off to the allowance for doubtful accounts.

(Continued)

Management believes that the recorded allowance is adequate based upon its consideration of the estimated value of the franchises and ADs supporting the receivables. Any adverse change in the tax preparation industry could affect the Company's estimate of the allowance.

Notes and accounts receivable include royalties billed that relate to territories operated by franchisees located in AD territories. The Company has recorded amounts payable to ADs for their share of these receivables of $18,248,000 and $15,956,000 at April 30, 2013 and 2012, respectively.

Activity in the allowance for doubtful accounts for the years ended April 30, 2013, 2012, and 2011 is as follows:

	2013	2012 As Restated	2011 As Restated
		(In thousands)	
Beginning balance	$ 5,290	$ 4,827	$ 3,455
Additions charged to expense	7,098	5,788	5,497
Write-offs	(5,655)	(5,595)	(4,224)
Foreign currency adjustment	(49)	270	99
Ending balance	$ 6,684	$ 5,290	$ 4,827

Management considers accounts and notes receivable to be impaired if the amounts due exceed the fair value of the underlying franchise and estimates an allowance for doubtful accounts based on that excess. Amounts due include the recorded value of the accounts and notes receivable less unrecognized revenue and reduced by the allowance for uncollected interest, amounts due ADs, the related deferred revenue and amounts owed to the franchisee by the Company. In establishing the fair value of the underlying franchise, management considers net fees of open offices and the number of unopened offices.

The allowance for doubtful accounts at April 30, 2013, and 2012 is allocated as follows:

	2013	2012 As Restated
	(In thousands)	
Impaired:		
Notes receivable including interest less unrecognized revenue	$ 9,399	$ 6,728
Accounts receivable	5,907	4,375
Less allowance for uncollected interest, amounts due ADs, related deferred revenue and amounts due franchisees	(2,336)	(1,704)
Net amount due	$ 12,970	$ 9,399
Allowance for doubtful accounts for impaired notes and accounts receivable	$ 6,120	$ 4,488
Nonimpaired:		
Notes receivable including interest less unrecognized revenue	$ 42,459	$ 37,936
Accounts receivable	37,650	35,259
Less allowance for uncollected interest, amounts due ADs, related deferred revenue and amounts due franchisees	(19,992)	(17,432)
Net amount due	$ 60,117	$ 55,763
Allowance for doubtful accounts for nonimpaired notes and accounts receivable	$ 564	$ 802
Total allowance for doubtful accounts	$ 6,684	$ 5,290

The aging of accounts and notes receivable at April 30, 2013 is as follows:

	2013			
	Total past due	Allowance for uncollected interest	Current	Total receivables
	(In thousands)			
Accounts receivable	$ 16,821	$ (1,701)	$ 26,736	$ 41,856
Notes receivable including interest less unrecognized revenue	9,747	(1,372)	42,111	50,486
Total	$ 26,568	$ (3,073)	$ 68,847	$ 92,342

(Continued)

The aging of accounts and notes receivable at April 30, 2012 is as follows:

	2012 As Restated			
	Total past due	**Allowance for uncollected interest**	**Current**	**Total receivables**
	(In thousands)			
Accounts receivable	$ 18,419	$ (1,313)	$ 21,215	$ 38,321
Notes receivable including interest less unrecognized revenue	6,476	(1,202)	38,188	43,462
Total	$ 24,895	$ (2,515)	$ 59,403	$ 81,783

Accounts receivable are considered to be past due if unpaid after 30 days and notes receivable are considered past due if unpaid after 90 days, at which time the notes are put on nonaccrual status.

The Company's average investment in impaired notes receivable during the years ended April 30, 2013 and 2012 was $8,063,000 and $6,367,000, respectively. Interest income related to impaired notes was $794,000, $423,000, and $519,000 for the years ended April 30, 2013, 2012, and 2011, respectively. The Company's investment in notes receivable on nonaccrual status at April 30, 2013 and 2012 was $8,375,000 and $5,274,000, respectively.

Unrecognized revenue relates to the financed portion of franchise fees and area developer fees and, in the case of sales of company-owned offices, the financed portion of gains related to such sales, in each case where revenue has not yet been recognized. For franchise fees and gains related to the sale of company-owned offices, revenue is recorded as note payments are received by the Company. Payments on area developer fee notes receivable generate a corresponding increase in deferred revenue, which is amortized into revenue over the life of the area developer contract, generally 10 years. Although the timing of actual payments will determine revenues recognized in future periods, the scheduled contractual note payments on the unrecognized portion of these notes for the next five years and thereafter are as follows:

	2014	**2015**	**2016**	**2017**	**2018**	**Thereafter**	**Total**
Franchise fees and company-owned offices	$ 8,082	$ 5,066	$ 2,934	$ 2,458	$ 62	$ —	$ 18,602
Area developer fees	3,982	3,670	3,758	3,652	3,086	2,981	21,129
Total	$ 12,064	$ 8,736	$ 6,692	$ 6,110	$ 3,148	$ 2,981	$ 39,731

(3) Property, Equipment, and Software, Net

Property, equipment, and software at April 30, 2013 and 2012 are as follows:

	2013	2012
	(In thousands)	
Land and land improvements	$ 1,328	$ 997
Buildings and building improvements	7,602	6,826
Leasehold improvements	225	292
Furniture, fixtures, and equipment	6,388	5,053
Software	36,500	27,462
	52,043	40,630
Less accumulated depreciation and amortization	19,006	16,682
Property, equipment, and software, net	$ 33,037	$ 23,948

Total depreciation expense was $3,069,000, $3,562,000, and $3,438,000 for the years ended April 30, 2013, 2012, and 2011, respectively.

The software included above includes both internally developed software and purchased software. Included in software are $21,688,000 and $13,243,000 of assets that had not been placed in service at April 30, 2013 and 2012, respectively.

(4) Investments

During the year ended April 30, 2013, the Company purchased corporate equity securities, as a strategic investment in a business partner, for $2,980,000. The Company classifies this investment as available-for-sale and recognizes unrealized gain on the available-for-sale securities, net of tax, in accumulated other comprehensive income in the stockholders' equity section of the balance sheets. The unrealized gain, net of tax, on the available-for-sale securities at April 30, 2013 was $387,000.

(5) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the years ended April 30, 2013 and 2012 are as follows:

	Goodwill	Accumulated impairment loss	Net
		(In thousands)	
Balance at April 30, 2011 (As Restated)	$ 3,457	$ (345)	$ 3,112
Acquisitions of assets from franchisees	4,859	—	4,859
Disposals and foreign currency changes, net	(2,159)	76	(2,083)
Impairments	—	(488)	(488)
Balance at April 30, 2012 (As Restated)	6,157	(757)	5,400
Acquisitions of assets from franchisees	3,449	—	3,449
Disposals and foreign currency changes, net	(3,149)	610	(2,539)
Impairments	—	(625)	(625)
Balance at April 30, 2013	$ 6,457	$ (772)	$ 5,685

The Company performed its annual impairment review of goodwill and recorded impairment of $625,000 and $488,000 for the years ended April 30, 2013 and 2012, respectively. Goodwill related to assets acquired from franchisees was $3,772,000 and $3,487,000 at April 30, 2013 and 2012, respectively.

Components of intangible assets are as follows:

	April 30, 2013			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
		(In thousands)		
Amortizable intangible assets:				
Acquired customer lists	7 years	$ 1,603	$ (171)	$ 1,432
Assets acquired from franchisees:				
Customer lists	4 years	1,834	(582)	1,252
Reacquired rights	2 years	1,640	(905)	735
Area developer rights	10 years	9,842	(2,340)	7,502
Total		$ 14,919	$ (3,998)	$ 10,921

	April 30, 2012 As Restated			
	Weighted average amortization period	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**
		(In thousands)		
Amortizable intangible assets:				
Assets acquired from franchisees:				
Customer lists	4 years	$ 1,795	$ (490)	$ 1,305
Reacquired rights	2 years	1,575	(705)	870
Area developer rights	10 years	10,429	(2,290)	8,139
Total		$ 13,799	$ (3,485)	$ 10,314

For the years ended April 30, 2013 and 2012, the Company acquired assets from various franchisees for $7,899,000 and $8,446,000, respectively. These acquisitions were accounted for as business combinations, with the value first being allocated to the identifiable intangible assets (the customer list and the reacquired rights) and the remainder being allocated to goodwill. The acquired businesses are operated as Company-owned offices until a buyer is found.

The purchase price of assets acquired from franchisees was allocated as follows:

	2013	**2012 As Restated**
	(In thousands)	
Customer lists	$ 3,234	$ 1,913
Reacquired rights	1,216	1,674
Goodwill	3,449	4,859
Total	$ 7,899	$ 8,446

In December 2012, the Company purchased certain assets of an online tax preparation software provider for $1,603,000. The entire purchase price has been allocated to identifiable intangible assets.

For the years ended April 30, 2013, 2012 and 2011, amortization expense, impairment charges, and write-downs are as follows:

	2013	**2012 As Restated**	**2011 As Restated**
		(In thousands)	
Amortization expense, excluding impairment charges	$ 2,681	$ 1,949	$ 1,563
Impairment charges and write-downs	$ 788	$ 488	$ 438

The Company expects that the assets will be sold before the end of their estimated useful life. Therefore, during the years ended April 30, 2013, 2012 and 2011, impairment analyses were performed for amortizable intangible assets. As a result, the carrying values of assets acquired from franchisees and area developer rights were reduced by the amounts disclosed in the table above, and were recorded to depreciation, amortization, and impairment charges on the consolidated statements of income. The Company estimated the fair value of the assets acquired from franchisees based on historical transactions involving sales of Company-owned offices. Write-downs of assets acquired from franchisees relate to purchases of offices that the Company decided not to operate.

Estimated amortization expense for the next five years is as follows:

	Amortization expense
	(In thousands)
Year ending April 30:	
2014	$ 2,317
2015	1,941
2016	1,641
2017	1,354
2018	1,153
	$ 8,406

(6) Leases

The Company is obligated under various operating leases for office space that expire at various dates. At April 30, 2013, future minimum lease payments under noncancelable operating leases with initial or remaining lease terms in excess of one year, together with amounts due from franchisees under subleases, are as follows:

	Lease payments	Sublease receipts
	(In thousands)	
Year ending April 30:		
2014	$ 4,338	$ 2,393
2015	1,915	1,094
2016	865	490
2017	633	389
2018	318	136
Thereafter	386	110
Total minimum lease payments	$ 8,455	$ 4,612

Total rent expense for operating leases, net of subleases, was $3,220,000, $2,352,000, and $1,805,000 for the years ended April 30, 2013, 2012, and 2011, respectively.

(7) Credit Facility

In February 2008, JTH Tax, Inc. entered into a revolving credit facility. This revolving credit facility, which provided for maximum allowable borrowings of $125 million, was replaced effective April 30, 2012. The current credit facility consists of a $25 million term loan and a $105 million revolving credit facility, with an accordion feature permitting the Company to request an increase in availability of up to an additional $70 million. On December 28, 2012, the Company utilized the accordion feature to increase the borrowing limit under the revolving credit facility by $38.4 million, increasing the maximum borrowings under that portion of its credit facility to $143.4 million.

The term loan amortizes on a quarterly basis and matures on April 30, 2017, and the revolving loan also expires on April 30, 2017. The outstanding borrowings on both loans accrue interest, which is paid monthly, at an adjusted one-month LIBOR rate plus a margin that varies from 1.50% to 2.25%, depending on the Company's leverage ratio. At April 30, 2013, the interest rate was 1.95%. A commitment fee that varies from 0.25% to 0.50% depending on the Company's leverage ratio on the unused portion of the credit facility, is paid monthly. This indebtedness is collateralized by substantially all of the Company's assets, including the assets of its subsidiaries.

The credit facility contains certain financial covenants that the Company must meet, including leverage and fixed charge coverage ratios, as well as minimum net worth requirements. In addition, the Company must reduce the outstanding balance under its revolving loan to zero for a period of at least 45 consecutive days each fiscal year. The Company's borrowing availability on the credit facility at April 30, 2013 was $98,638,000. At April 30, 2013 and 2012, the Company had no outstanding borrowings under its revolving credit facility, and at April 30, 2013, the balance of the term loan was $23,750,000. The Company was in compliance with the financial covenants of its credit facility at April 30, 2013. At January 31, 2013, the Company was not in compliance with its leverage ratio requirement due to an unprecedented delay in the start of the federal tax season attributable to the last minute fiscal cliff resolution by Congress. In March 2013, the Company obtained a waiver from its creditors for this covenant failure. The accounting policy changes that have resulted in the restatements of our financial statements resulted in our inability to satisfy several credit facility covenants related to the delivery and accuracy of our financial reports. The Company obtained a waiver of these failures from our bank syndicate in August 2013.

The credit facility also contains certain events of default that if they occur may cause the bank syndicate to terminate the credit facility and declare amounts owed to become immediately payable. At April 30, 2013, except for the event of default noted above, the Company has not incurred an event of default.

(8) Long-Term Debt

Long-term debt at April 30, 2013 and 2012 is as follows:

	2013	2012
	(In thousands)	
Term loan payable in quarterly principal installments commencing July 31, 2012 of 1.25%,1.875%, 2.5%, 2.5% and 3.125% of the original amount borrowed for the years ending April 30, 2013, 2014, 2015, 2016 and 2017, respectively	$ 23,750	$ 25,000
Mortgage note payable to a bank in monthly installments of $16 including interest at 6.06% through September 2016; at which time a balloon payment of $2,213 is payable; collateralized by land and building	2,370	2,411
Notes payable for acquired assets from franchisees, interest rates ranging from 0% to 12%; due May 2013 through June 2013	1,439	1,401
Other debt	124	173
Total long-term debt	27,683	28,985
Less current installments	3,400	2,736
Total long-term debt, less current installments	$ 24,283	$ 26,249

Aggregate maturities of long-term debt at April 30, 2013 are as follows (in thousands):

Year ending April 30:	
2014	$ 3,400
2015	2,590
2016	2,582
2017	19,111
Total long-term debt	$ 27,683

(9) Derivative Instruments and Hedging Activities

The Company uses interest-rate-related derivative financial instruments to manage its exposure related to changes in interest rates on its variable-rate line of credit and forward contracts to manage its exposure to foreign currency fluctuation related to short-term advances made to its Canadian subsidiary. The Company does not speculate using derivative instruments nor does it enter into derivative instruments for any purpose other than cash flow hedging.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty, and therefore, the Company is not exposed to the counterparty's credit risk in those circumstances. The Company minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties. The derivative instruments entered into by the Company do not contain credit-risk-related contingent features.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates. The market risk associated with interest rates is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Company assesses interest rate risk by continually identifying and monitoring changes in interest rates that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company maintains risk management control systems to monitor interest rate risk attributable to both the Company's outstanding or forecasted debt obligations and forecasted revenues as well as the Company's offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates and foreign currency rates on the Company's future cash flows.

It is the policy of the Company to enter into forward contracts at the time short-term advances are made to its Canadian subsidiary.

Interest rate swap agreements. On July 1, 2009, the Company entered into interest rate swap agreements with a financial institution to manage fluctuations in cash flows resulting from changes in the one-month LIBOR interest rate on its line of credit. These swaps effectively changed the variable-rate line of credit into a fixed-rate line of credit. For the notional amounts, the Company received a variable interest rate based on the one-month LIBOR and pays a fixed interest rate of 2.49% to 2.52%, depending on the agreement. The notional amounts of the interest rate swaps varied from $10,000,000 to $70,000,000 per month, in relation to the Company's forecasted seasonal borrowings. These interest rate swaps were designated as cash flow hedges. At April 30, 2012, the fair value of interest rate swaps was a liability of $694,000, and was included in accounts payable and accrued expenses. During the years ended April 30, 2013 and 2012, $0 and $92,000 of income, respectively, were recognized in the consolidated statements of income due to the ineffectiveness of these interest rate swaps. The interest rate swap agreements expired in March 2013.

Forward contracts related to foreign currency exchange rates. In connection with short-term advances made to its Canadian subsidiary related to personal income tax refund discounting, the Company enters into forward contracts to eliminate the exposure related to foreign currency fluctuations. Under the terms of the forward currency contracts, the exchange rate for repayments is fixed at the time advance is made and the advances are repaid prior to April 30 of each year. These forward contracts are designated as cash flow hedges. At April 30, 2013 and 2012, there were no forward contracts outstanding. During the years ended April 30, 2013, 2012, and 2011, no amounts have been recognized in the statements of income due to the ineffectiveness of these foreign currency hedges.

At April 30, 2013, there are no deferred gains on derivative instruments accumulated in other comprehensive income that are expected to be reclassified to earnings during the next 12 months.

(10) Income Taxes

Total income taxes were calculated for the years ended April 30, 2013, 2012, and 2011 as follows:

	2013	2012 As Restated	2011 As Restated
		(In thousands)	
Income taxes from continuing operations	$ 11,170	$ 9,747	$ 10,142
Tax benefit of stock option exercises	(271)	(458)	(408)
Interest rate swap agreements	257	152	(104)
Unrealized appreciation on available-for-sale securities	252	—	—
Foreign currency translation adjustment	—	(550)	167
Total income taxes	$ 11,408	$ 8,891	$ 9,797

Components of income tax expense for the years ended April 30, 2013, 2012, and 2011 are as follows:

	2013	2012 As Restated	2011 As Restated
		(In thousands)	
Current:			
Federal	$ 5,368	$ 5,961	$ 6,324
State	1,254	1,160	1,292
Foreign	429	322	855
Current tax expense	7,051	7,443	8,471
Deferred:			
Federal	3,365	1,963	1,331
State	787	382	272
Foreign	(33)	(41)	68
Deferred tax expense	4,119	2,304	1,671
Total income tax expense	$ 11,170	$ 9,747	$ 10,142

For the years ended April 30, 2013, 2012, and 2011, income before taxes consists of the following:

	2013	2012 As Restated	2011 As Restated
		(In thousands)	
U.S. operations	$ 27,434	$ 24,859	$ 22,148
Foreign operations	1,363	1,271	2,664
	$ 28,797	$ 26,130	$ 24,812

(Continued)

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 35% to pretax income from continuing operations as a result of the following for the years ended April 30, 2013, 2012, and 2011:

	2013	2012 As Restated	2011 As Restated
		(In thousands)	
Computed "expected" income tax expense	$ 10,079	$ 9,145	$ 8,684
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal benefit	1,455	1,033	1,048
Nondeductible items, net	421	297	356
Tax credits	(545)	(445)	—
Other	(240)	(283)	54
Total income tax expense	$ 11,170	$ 9,747	$ 10,142

The tax effect of temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities that give rise to significant portions of deferred tax assets and liabilities at April 30, 2013 and 2012 are as follows:

	2013	2012 As Restated
	(In thousands)	
Deferred tax assets:		
Unexercised nonqualified stock options	$ 2,425	$ 1,192
Allowance for doubtful accounts	3,501	2,593
Interest rate swap agreements	—	257
Deferred revenue	4,948	7,398
Other	441	208
Total deferred tax assets	11,315	11,648
Deferred tax liabilities:		
Property, equipment, software, and other intangible assets	7,258	3,480
Prepaid expenses	438	174
Unrealized appreciation on available-for-sale securities	252	—
Total deferred tax liabilities	7,948	3,654
Net deferred tax asset	$ 3,367	$ 7,994

In assessing the realizability of the gross deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

The Company has adopted the accounting and disclosure requirements for uncertain tax positions, which require a two-step approach to evaluate tax positions. This approach involves recognizing any tax positions that are more likely than not to occur and then measuring those positions to determine the amounts to be recognized in the financial statements. The Company has determined no reserves for uncertain tax positions were required at April 30, 2012.

Foreign subsidiary net earnings that were considered permanently reinvested were $1,363,000, $1,271,000 and $2,664,000 for the fiscal years ended April 30, 2013, 2012 and 2011, respectively. Because these foreign subsidiary net earnings are considered permanently reinvested, the amount of deferred tax liability that would need to be provided if these earnings were not reinvested is not reasonably determinable.

At April 30, 2013, the tax years that remain subject to examination by the Internal Revenue Service are the years ended April 30, 2010, 2011 and 2012, and years that remain open for other major taxing jurisdictions are the years ended April 30, 2010, 2011 and 2012.

(11) Stockholders' Equity

(a) Preferred Stock and Exchangeable Shares

The Company has 190,000 shares of authorized Class A preferred stock with a par value of $0.01, of which 170,320 were issued and outstanding at April 30, 2012 and 0 were outstanding at April 30, 2013 because effective June 15, 2012, two of the Company's major shareholders elected to convert 170,320 shares of Class A preferred stock to 1,703,200 shares of Class A common stock. For the years ended April 30, 2011 and 2012, the outstanding shares of Class A preferred stock are presented on the consolidated balance sheets at their original purchase price.

The holders of the Class A preferred stock were entitled to a dividend if a dividend is declared for common stock and were to receive a dividend as if each share of preferred stock had been converted to Class A common stock in accordance with the conversion ratio, and a liquidation preference upon the liquidation, dissolution, or consolidation of the Company. In the event of liquidation, dissolution, or consolidation, the holders of Class A preferred stock would be entitled to receive out of the assets of the Company, after payment or provision for payment of the debts or other liabilities of the Company, the original issue price per share for each share of Class A preferred stock then outstanding, plus an amount equal to the original issue price per share multiplied by 10% per annum from the original issue date, compounded annually to the date of such distribution. The liquidation value of a share of outstanding Class A preferred stock was $43.15 as of April 30, 2012.

A holder of the Class A preferred stock, at the holder's option, could elect to convert each share of the Class A preferred stock into 10 shares of fully paid and nonassessable shares of Class A common stock.

During 2011, the Company repurchased 18,146 shares of its Class A preferred stock for $2,722,000.

In October 2001, the Company acquired the remaining 40% of the outstanding common stock of the Canadian subsidiary in a transaction that was accounted for as a purchase. The Company issued consideration to the minority shareholder consisting of 1,600,000 shares of Class A common stock, 10 shares of special voting preferred stock, and 100,000 shares of exchangeable shares of a Canadian subsidiary in exchange for $2,000,000 in cash and the 40% minority interest in the Canadian subsidiary. The 100,000 exchangeable shares are exchangeable at any time at a 10:1 ratio into the Class A common stock of the Company. The special voting preferred shares issued have a $0.01 par value and no liquidation value and entitle the holder to vote each share as if it represented 100,000 shares of Class A common stock. These shares will be canceled as the holder exchanges the exchangeable shares.

(b) Common Stock

The Company is authorized to issue 21,200,000 shares of Class A common stock, par value $0.01 per share, and 1,000,000 shares of Class B common stock, par value $0.01 per share. Class A common stock and Class B common stock entitle the holders thereof to the same rights and privileges and are identical in all respects as to all matters, except the holders of Class B common stock are entitled to elect one more director than the number of directors elected by holders of all other classes of stock combined. Also, a holder of Class B common stock may, at the holder's option, elect to convert the Class B common stock into an equal number of fully paid and nonassessable shares of Class A common stock.

(c) Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income at April 30, 2013 and 2012 are as follows:

	2013	2012
	(In thousands)	
Foreign currency adjustment	$ 807	$ 1,113
Unrealized gain on equity securities available for sale, net of taxes	387	—
Interest rate swap agreements, net of tax	—	(437)
	$ 1,194	$ 676

(d) Earnings per Share

Net income per share of Class A and Class B common stock is computed using the two-class method. Basic net income per share is computed by allocating undistributed earnings to common shares and participating securities (Class A preferred stock and exchangeable shares) and using the weighted average number of common shares outstanding during the period.

Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, the potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and nonvested restricted shares. The dilutive effect of outstanding stock options is reflected in diluted earnings per share by application of the treasury stock method. Additionally, the computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock, Class A preferred stock and exchangeable shares, while the diluted net income per share of Class B common stock does not assume conversion of those shares.

The rights, including liquidation and dividends rights, of the holders of Class A and Class B common stock are identical, except with respect to voting. As a result, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B as if the earnings for the year had been distributed. Participating securities include Class A preferred stock and exchangeable shares, which have dividend rights that are identical to Class A and Class B common stock.

The computation of basic and diluted net income per share for the years ended April 30, 2013, 2012 and 2011 is as follows:

	2013	
	Class A common stock	**Class B common stock**
	(In thousands, except for share and per share amounts)	
Basic net income per share:		
Numerator:		
Allocation of undistributed earnings	$ 16,386	$ 1,241
Amounts allocated to participating securities:		
Class A preferred stock	(247)	(18)
Exchangeable shares	(1,171)	(89)
Net income attributable to common stockholders	$ 14,968	$ 1,134
Denominator:		
Weighted-average common shares outstanding	11,883,214	900,000
Basic net income per share	$ 1.26	$ 1.26
Diluted net income per share:		
Numerator:		
Allocation of undistributed earnings for basic computation	$ 14,968	$ 1,134
Reallocation of undistributed earnings as a result of assumed conversion of:		
Class B common stock to Class A common stock	1,134	—
Class A preferred stock to Class A common stock	265	—
Exchangeable shares to Class A common stock	1,260	—
	$ 17,627	$ 1,134
Denominator:		
Number of shares used in basic computation	11,883,214	900,000
Weighted-average effect of dilutive securities and the conversion or exercise of:		
Class B common stock to Class A common stock	900,000	—
Class A preferred stock to Class A common stock	210,560	—
Exchangeable shares to Class A common stock	1,000,000	—
Employee stock options	78,584	5,054
	14,072,358	905,054
Diluted net income per share	$ 1.25	$ 1.25

	2012 As Restated Class A common stock	2012 As Restated Class B common stock
	(In thousands, except for share and per share amounts)	
Basic net income per share:		
Numerator:		
Allocation of undistributed earnings	$ 15,076	$ 1,307
Amounts allocated to participating securities:		
Class A preferred stock	(1,836)	(159)
Exchangeable shares	(1,078)	(94)
Net income attributable to common stockholders	$ 12,162	$ 1,054
Denominator:		
Weighted-average common shares outstanding	10,383,780	900,000
Basic net income per share	$ 1.17	$ 1.17
Diluted net income per share:		
Numerator:		
Allocation of undistributed earnings for basic computation	$ 12,162	$ 1,054
Reallocation of undistributed earnings as a result of assumed conversion of:		
Class B common stock to Class A common stock	1,054	—
Class A preferred stock to Class A common stock	1,995	—
Exchangeable shares to Class A common stock	1,172	—
	$ 16,383	$ 1,054
Denominator:		
Number of shares used in basic computation	10,383,780	900,000
Weighted-average effect of dilutive securities add the conversion or exercise of:		
Class B common stock to Class A common stock	900,000	—
Class A preferred stock to Class A common stock	1,703,200	—
Exchangeable shares to Class A common stock	1,000,000	—
Employee stock options	180,956	11,644
	14,167,936	911,644
Diluted net income per share	$ 1.16	$ 1.16

(Continued)

	2011 As Restated	
	Class A common stock	Class B common stock
	(In thousands, except for share and per share amounts)	
Basic net income per share:		
Numerator:		
Allocation of undistributed earnings, based on net income	$ 13,521	$ 1,149
Preferred stock redeemed, treated as dividend (note 19)	(2,300)	(195)
Allocation of undistributed earnings, as adjusted	11,221	954
Amounts allocated to participating securities:		
Class A preferred stock	(1,448)	(123)
Exchangeable shares	(783)	(67)
Net income attributable to common stockholders	$ 8,990	$ 764
Denominator:		
Weighted-average common shares outstanding	10,588,954	900,000
Basic net income per share	$ 0.85	$ 0.85
Diluted net income per share:		
Numerator:		
Allocation of undistributed earnings for basic computation	$ 8,990	$ 764
Reallocation of undistributed earnings as a result conversion of:		
Class B common stock to Class A common stock	764	—
Class A preferred stock to Class A common stock	1,572	—
Exchangeable shares to Class A common stock	849	—
	$ 12,175	$ 764
Denominator:		
Number of shares used in basic computation	10,588,954	900,000
Weighted-average effect of dilutive securities add the conversion or exercise of:		
Class B common stock to Class A common stock	900,000	—
Class A preferred stock to Class A common stock	1,850,800	—
Exchangeable shares to Class A common stock	1,000,000	—
Employee stock options	322,494	20,241
	14,662,248	920,241
Diluted net income per share	$ 0.83	$ 0.83

Diluted net income per share excludes the impact of shares of common stock from the exercise of options to purchase 2,402,183, 2,278,225 and 1,894,250 shares for the years ended April 30, 2013, 2012, and 2011, respectively, because the effect would be antidilutive.

(12) Stock Compensation Plan

(a) Stock Options

In May 1998, the board of directors approved the JTH Holding, Inc. Stock Option Plan (the 1998 Plan). Employees and outside directors were eligible to receive awards under the Plan, and a total of 6,100,000 shares of Class A common stock were authorized for grant under the 1998 Plan. The 1998 Plan was readopted by the board of directors in May 2008 and was replaced by a new plan in August 2011 (the New Plan). At April 30, 2013, 2,027,439 shares of Class A common stock are available for grant under the New Plan. Stock options generally vest from six months to five years from the date of grant and generally expire five years from the vesting date.

The following table summarizes the information for options granted in the years ended April 30, 2013, 2012, and 2011:

	2013	**2012**	**2011**
Weighted average fair value of options granted	$1.80	$2.30	$2.54
Dividend yield	—%	—%	—%
Expected volatility	13.0% -14.9%	14.9% - 15.0%	14.6% - 15.7%
Expected terms	4-6 years	4 - 6 years	4 - 6 years
Risk-free interest rates	0.6%-1.0%	0.8% - 1.9%	1.2% - 2.3%

Stock option activity during the years ended April 30, 2013, 2012, and 2011 is as follows:

	Number of options	**Weighted average exercise price**
Outstanding at April 30, 2010	1,970,720	$ 11.61
Granted	1,048,800	15.03
Exercised	(460,162)	8.27
Canceled	(98,020)	10.08
Outstanding at April 30, 2011	2,461,338	13.77
Granted	433,670	15.00
Exercised	(110,125)	6.74
Canceled	(55,870)	14.88
Outstanding at April 30, 2012	2,729,013	14.21
Granted	332,035	15.00
Exercised	(349,500)	10.88
Canceled	(176,865)	13.65
Outstanding at April 30, 2013	2,534,683	14.81

Stock options were granted to employees of the Company except for options granted to nonemployee directors of 43,135, 80,000, and 80,000 stock options during the years ended April 30, 2013, 2012, and 2011, respectively.

The total intrinsic value of options exercised was approximately $1,686,000, $900,000, and $3,100,000 during the years ended April 30, 2013, 2012, and 2011, respectively.

Nonvested stock options (options that did not vest in the period in which granted) activity during the years ended April 30, 2013, 2012, and 2011 are as follows:

	Nonvested options	Weighted average exercise price
Outstanding at April 30, 2010	177,500	$ 14.65
Granted	702,500	15.00
Vested	(275,000)	14.78
Canceled	—	—
Outstanding at April 30, 2011	605,000	15.00
Granted	433,670	15.00
Vested	(577,450)	15.00
Canceled	(8,720)	15.00
Outstanding at April 30, 2012	452,500	15.00
Granted	332,035	15.00
Vested	(596,935)	15.00
Canceled	(55,100)	15.00
Outstanding at April 30, 2013	132,500	15.00

At April 30, 2013, unrecognized compensation costs related to nonvested stock options are $859,000. These costs are expected to be recognized between 2014 and 2015.

The following table summarizes information about stock options outstanding and exercisable at April 30, 2013:

Number of shares outstanding at April 30, 2013	Range of exercise prices	Weighted average exercise price	Weighted average remaining contractual life (years)	Number of shares exercisable at April 30, 2013	Weighted average exercise price
117,500	$ 10.50	$ 10.50	1.9	117,500	$ 10.50
2,152,625	14.00-16.50	15.02	2.9	2,020,125	15.02
264,558	15.00	15.00	3.8	264,558	15.00
				2,402,183	

During the fiscal year ended April 30, 2013, the cash settlement of certain stock option transactions caused a change in the classification of certain outstanding stock options to a liability instrument from an equity instrument, which resulted in an increase in stock compensation expense of $2,625,000. At April 30, 2013, the value of the liability for the 997,824 options that changed classifications from an equity to a liability instrument was $5,111,000. The following table summarizes the information used to value the liability classified stock based compensation awards:

	April 30, 2013
Weighted average fair value of options granted	$5.12
Dividend yield	—%
Expected volatility	36.2%
Expected terms	2.90
Risk-free interest rates	0.36%

(b) Restricted Stock Units

During the year ended April 30, 2013, the Company awarded 15,971 shares of restricted stock units to its nonemployee directors. The weighted average fair value at grant date was $13.50 and the vesting or service period is between 16-18 months. Compensation costs associated with these restricted shares are amortized over the service period and recognized as an increase in additional paid-in capital.

(13) Fair Value of Financial Instruments

The Company uses the following methods and assumptions to estimate the fair value of financial instruments:

Cash equivalents, receivables, other current assets, accounts payable and accrued expenses, and due to area developers: The carrying amounts approximate fair value because of the short maturity of these instruments. At April 30, 2013 and 2012, the Company had cash equivalents of $16,798,000 and $18,848,000, respectively, invested in money market accounts.

Notes receivable: The carrying amount of the Company’s notes receivable approximates fair value based upon the present value of expected future cash flows discounted at the interest rate currently offered by the Company, which approximates rates currently offered by local lending institutions for loans of similar terms to individuals/entities with comparable credit risk.

Long-term debt: The carrying amount of the Company’s long-term debt approximates fair value based on the present value of expected future cash flows discounted at the interest rates offered by the lenders, which approximates rates currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.

Concentrations of credit risks: Financial instruments that could potentially subject the Company to concentrations of credit risks consist of cash equivalents and accounts and notes receivable with its franchisees.

The Company maintains its cash and cash equivalents in bank deposit accounts, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on its cash and cash equivalents balances.

The Company manages credit risk by evaluating the financial position of the franchisee, value of the franchises, as well as the personal guarantee of the individual franchisees. At April 30, 2013 and 2012, there were no significant concentrations of credit risk associated with any individual franchisee or group of franchisees. The Company maintains an allowance for potential losses based on its expected collectibility of the receivables, which the Company believes is adequate for its credit loss exposure. The consolidated financial statements include various estimated fair value information at April 30, 2013 and 2012.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities subject to fair value measurements on a recurring basis are classified according to a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

- Level 1 – Quoted prices for identical assets and liabilities in active markets.
- Level 2 – Quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-based valuations in which all significant inputs are observable in the market.
- Level 3 – Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

At April 30, 2013 and 2012, the following tables present, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis:

		April 30, 2013 Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
		(In thousands)		
Assets:				
Recurring:				
Cash equivalents	$ 16,798	$ 16,798	$ —	$ —
Equity securities, available for sale	3,619	3,619	—	—
	$ 20,417	$ 20,417	$ —	$ —
Nonrecurring:				
Impaired accounts and notes receivable	$ 7,973	$ —	$ —	$ 7,973
Impaired goodwill	1,254	—	—	1,254
Impaired reacquired rights	286	—	—	286
Impaired customer lists	453	—	—	453
	$ 9,966	$ —	$ —	$ 9,966
Liabilities:				
Recurring:				
Liability classified stock-based compensation awards	$ 5,111	$ —	$ 5,111	$ —

(Continued)

		April 30, 2012 As Restated Fair value measurements using		
	Total	**Level 1**	**Level 2**	**Level 3**
		(In thousands)		
Assets:				
Recurring:				
Cash equivalents	$ 18,848	$ 18,848	$ —	$ —
Nonrecurring:				
Impaired accounts and notes receivable	$ 5,746	$ —	$ —	$ 5,746
Impaired goodwill	1,477	—	—	1,477
Impaired reacquired rights	412	—	—	412
Impaired customer lists	564	—	—	564
	$ 8,199	$ —	$ —	$ 8,199
Liabilities:				
Recurring:				
Interest rate swap agreements	$ 694	$ —	$ 694	$ —

The Company's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1 or 2 recurring fair value measurements for the years ended April 30, 2013 and 2012.

Management considers accounts and notes receivable to be impaired if the amounts due exceed the fair value of the underlying franchise. In establishing the estimated fair value of the underlying franchise consideration is given to the net fees of open offices and the number of unopened offices.

Management considers intangible assets, reacquired rights, customer list and goodwill, associated with a Company-owned office to be impaired if the net carrying amount exceeds the fair value of the underlying office. In establishing the fair value of a customer list, consideration is given to historical transactions involving sales of Company-owned offices and the net fees of the underlying office.

The fair value of the Company's interest swap agreements is the difference between the present value of interest payments due under the current swap agreements and similar swap agreements using a market rate of interest on date of valuation.

(14) Related-Party Transactions

The Company considers directors and their affiliated companies, executive officers and their immediate family members to be related parties. For the years ended April 30, 2013, 2012, and 2011, the Company repurchased common and Class A preferred stock from related parties as follows:

	2013	2012	2011
Common stock:			
Shares repurchased	191,000	52,000	98,000
Amount	$ 3,010,000	$ 787,000	$ 1,471,000
Preferred stock:			
Shares repurchased	—	—	18,000
Amount	$ —	$ —	$ 2,722,000

At April 30, 2013 and 2012, notes receivable from related parties are as follows:

	2013	2012
Note receivable	$ 22,000	$ 21,000
Repayments received during the year	2,000	971,000

Interest rates on these notes approximate prevailing market rates at the time of their issuance.

(15) Employee 401(k) Plan

The Company sponsors a defined contribution 401(k) profit sharing plan. Under the plan, employees who are 18 years of age and have completed 90 days of service are eligible to make voluntary contributions to the plan. The Company matches 50% of each employee’s contribution up to 3% of the employee’s salary. Total compensation expense related to these contributions was $412,000, $375,000, and $305,000 for the years ended April 30, 2013, 2012, and 2011, respectively.

(16) Commitments and Contingencies

ERC class action litigation. The Company was sued in November 2011 in federal courts in Arkansas, California, Florida and Illinois, and additional lawsuits were filed in federal courts in January 2012 in Maryland and North Carolina, in February 2012 in Wisconsin, in May 2012 in New York and Minnesota, since the initial filings. In April 2012, a motion to consolidate all of the then-pending cases before a single judge in federal court in the Northern District of Illinois was granted, and in June 2012, the plaintiffs filed a new complaint in the consolidated action. The consolidated complaint alleges that an electronic refund check (ERC) represents a form of refund anticipation loan (RAL) because the taxpayer is “loaned” the tax preparation fee, and that an ERC is therefore subject to federal truth-in-lending disclosure and state law requirements regulating RALs. The plaintiffs therefore allege violations of state-specific RAL and other consumer statutes. The lawsuit purports to be a class action, and the plaintiffs allege potential damages in excess of $5 million, but we may be able to recover any damages from the providers of the financial products that designed the programs and related disclosures. The Company is aware that virtually identical lawsuits have been filed against several of its competitors. The Company has not concluded that a loss related to this matter is probable, nor has the Company accrued a loss contingency related to this matter. The Company believes it has meritorious defenses to the claims in this case, and intends to defend the case vigorously, but there can be no assurances as to the outcome or the impact on the Company's consolidated financial position, results of operations and cash flows. The case is at an early procedural stage.

South Carolina litigation. In November 2010, several former customers of one of the Company's South Carolina franchisees initiated a purported class action against the Company, its chief executive officer and another of the Company's employees in the United States District Court for the District of South Carolina, in a case styled *Martin v. JTH Tax, Inc*. Class action status was denied in February 2013, and the case was settled in June 2013. The settlement amount is immaterial and has been included in the accompanying consolidated financial statements.

Republic Bank Dispute. In August 2012, the Company terminated an agreement with one of its financial product providers, Republic Bank & Trust Company, which would otherwise have expired in October 2014. The Company's right to terminate the agreement is being disputed by Republic Bank & Trust Company, and the parties conducted a contractually required mediation in late June 2013. If the mediation does not resolve the parties' dispute, the agreement provides for arbitration of the dispute. At this stage, an arbitration proceeding has not been commenced, but the Company believes that the outcome of this dispute will not significantly impact its results of operation or financial position.

The Company is also party to claims and lawsuits that are considered to be ordinary, routine litigation incidental to the business, including claims and lawsuits concerning the preparation of customers' income tax returns, the fees charged to customers for various products and services, relationships with franchisees, intellectual property disputes, employment matters and contract disputes. Although the Company cannot provide assurance that it will ultimately prevail in each instance, the Company believes the amount, if any, it will be required to pay in the discharge of liabilities or settlements in these claims will not have a material adverse impact on its consolidated results of operations.

(17) Subsequent Events

On May 31, 2013, the Company authorized the grant of 16,348 restricted stock units and 9,490 stock options to the nonemployee directors of the Company. The grant price of the restricted stock units and the exercise price of the options is $16.38. The options will vest after six months and can be exercised over a five-year period after the vesting date. The restricted stock will have a vesting period of 18 months.

On September 20, 2013, the Company authorized the grant of 397,284 options and 7,134 restricted stock units to certain employees and nonemployee directors of the Company. The exercise price of the options will be $17.95 per share, which is the fair value at grant date. The options will vest between six months and three years and may generally be exercised over a five-year period after the vesting date. The restricted stock units will generally have a vesting period that expires on June 30, 2015.

(18) Quarterly Financial Data (Unaudited)

As discussed in greater detail in note 19, the Company determined the need to restate its previously issued consolidated financial information for the quarterly periods ended July 31, 2012, October 31, 2012, January 31, 2013 and each of the quarterly periods in the year ended April 30, 2012.

	Three months ended			
	July 31, 2012 As Restated	October 31, 2012 As Restated	January 31, 2013 As Restated	April 30, 2013
	(In thousands, except per share amounts)			
Revenue	$ 7,244	$ 9,482	$ 37,921	$ 92,966
Net income (loss)	$ (6,363)	$ (6,111)	$ 1,673	$ 28,428
Net income (loss) per share of Class A and Class B common stock:				
Basic	$ (0.52)	$ (0.47)	$ 0.12	$ 2.04
Diluted	$ (0.52)	$ (0.47)	$ 0.12	$ 2.01

	Three months ended			
	July 31, 2011 As Restated	October 31, 2011 As Restated	January 31, 2012 As Restated	April 30, 2012 As Restated
	(In thousands, except per share amounts)			
Revenue	$ 6,332	$ 8,248	$ 44,226	$ 72,419
Net income (loss)	$ (4,551)	$ (5,366)	$ 5,266	$ 21,034
Net income (loss) per share of Class A and Class B common stock:				
Basic	$ (0.40)	$ (0.48)	$ 0.38	$ 1.51
Diluted	$ (0.40)	$ (0.48)	$ 0.37	$ 1.49

Because most of the Company's customers file their tax returns during the period from January through April of each year, most of the Company's revenues are earned during this period. As a result, the Company generally operates at a loss through the first eight months of the fiscal year.

The following tables summarize the effects of the restatement and presentation reclassifications on our previously issued unaudited condensed consolidated financial statements:

	Three months ended January 31, 2013		
	As Reported	Adjustments	As Restated
	(In thousands, except per share amounts)		
Revenue	$ 30,538	$ 7,383	$ 37,921
Net income	$ 1,112	$ 561	$ 1,673
Net income per share of Class A and Class B common stock:			
Basic	$ 0.08	$ 0.04	$ 0.12
Diluted	$ 0.08	$ 0.04	$ 0.12

	Three months ended October 31, 2012			Three months ended July 31, 2012		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
	(In thousands, except per share amounts)					
Revenue	$ 7,289	$ 2,193	$ 9,482	$ 6,786	$ 458	$ 7,244
Net income (loss)	$ (6,698)	$ 587	$ (6,111)	$ (6,152)	$ (211)	$ (6,363)
Net income (loss) per share of Class A and Class B common stock:						
Basic	$ (0.51)	$ 0.04	$ (0.47)	$ (0.51)	$ (0.01)	$ (0.52)
Diluted	$ (0.51)	$ 0.04	$ (0.47)	$ (0.51)	$ (0.01)	$ (0.52)

	Three months ended April 30, 2012			Three months ended January 31, 2012		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
	(In thousands, except per share amounts)					
Revenue	$ 59,789	$ 12,630	$ 72,419	$ 35,650	$ 8,576	$ 44,226
Net income (loss)	$ 22,039	$ (1,005)	$ 21,034	$ 4,677	$ 589	$ 5,266
Net income (loss) per share of Class A and Class B common stock:						
Basic	$ 1.58	$ (0.07)	$ 1.51	$ 0.33	$ 0.05	$ 0.38
Diluted	$ 1.56	$ (0.07)	$ 1.49	$ 0.33	$ 0.04	$ 0.37

	Three months ended October 31, 2011			Three months ended July 31, 2011		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
	(In thousands, except per share amounts)					
Revenue	$ 8,793	$ (545)	$ 8,248	$ 4,868	$ 1,464	$ 6,332
Net income (loss)	$ (4,326)	$ (1,040)	$ (5,366)	$ (4,979)	$ 428	$ (4,551)
Net income (loss) per share of Class A and Class B common stock:						
Basic	$ (0.38)	$ (0.10)	$ (0.48)	$ (0.44)	$ 0.04	$ (0.40)
Diluted	$ (0.38)	$ (0.10)	$ (0.48)	$ (0.44)	$ 0.04	$ (0.40)

The adjustments reflected in the table above include the following:

- Adjustments to revenue to include the change to gross presentation for the AD portion of franchise fees and royalties, the net impact of charging our franchise fee recognition policy to receipt of funds and the net impact of recognizing area developer fees over the life of the agreement instead of upfront.
- Adjustments to net income include the revenue adjustments mentioned above, expense adjustments for the gross presentation of amounts due ADs, changes to the provision for bad debt due to the elimination of the provision for refunds, adjustments to amortization due to the purchase price allocation for company-owned offices and adjustments to the provision for income taxes due to the restatement adjustments.

(19) Restatement of Previously Issued Financial Statements

On August 1, 2013, the Company concluded that previously issued consolidated financial statements should not be relied upon due to revenue recognition adjustments. The Company's decision to restate its consolidated financial statements was based upon the results of an internal review of the Company's historical revenue recognition policies and their application. The Company has restated its consolidated balance sheet as of April 30, 2012 and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the fiscal years ended April 30, 2012 and 2011. Additionally, the Company has restated the unaudited quarterly financial information for each quarter in the fiscal year ended April 30, 2012 and for the first three quarters of the year ended April 30, 2013 as shown in note 18.

Impact of Corrections on Previously Issued Consolidated Financial Statements

Adjustments were made for the following items:

- We determined that our area developer agreements do not constitute a franchise relationship for accounting purposes. Therefore, instead of recording revenue at the inception of the area developer relationship under franchise accounting, we now record these fees over the life of the area developer contract, which is typically 10 years. Additionally, our financial statements now show the portion of franchise fees, interest and royalties that the AD is entitled to receive from us in our revenue captions, with an equal amount of expense shown in a new operating expense caption, area developer expense. These amounts were previously presented on a net basis.

- We changed our revenue recognition policy for franchise fees to record revenue as amounts are received from the franchisee. Previously, we generally recorded such revenues at the time of sale, net of expected note cancellations related to the amount financed. Therefore, under the new revenue recognition policy any portion of franchise fees that is financed is only reflected as revenue as the note payments are made.
- We also revised our methodology for the allocation of the purchase price associated with the acquisitions of businesses from franchisees. Historically, we allocated the entire purchase price to an identifiable intangible asset, customer list. The new methodology allocates the purchase price to all identifiable intangible assets, which consist of reacquired rights and customer list. Any unallocated purchase price is recorded as goodwill.

The following table presents the effect of the restatement adjustments on the consolidated balance sheets:

	April 30, 2012		
	As Reported	**Adjustments**	**As Restated**
		(In thousands)	
Receivables:			
Notes	$ 41,889	$ (11,606)	$ 30,283
Interest	1,610	(936)	674
Allowance for doubtful accounts	(5,044)	548	(4,496)
Total receivables, net	76,776	(11,994)	64,782
Deferred income taxes	41	3,860	3,901
Total current assets	102,279	(8,134)	94,145
Notes receivable, excluding current portion	37,949	(25,444)	12,505
Allowance for uncollectible amounts for long-term notes receivable	(2,086)	1,292	(794)
Goodwill	1,913	3,487	5,400
Other intangibles, net	22,158	(11,844)	10,314
Deferred income taxes	—	4,093	4,093
Other assets, net	2,580	5	2,585
Total assets	188,741	(36,545)	152,196
Due to area developers	21,893	(5,937)	15,956
Deferred income taxes	1,222	(1,222)	—
Deferred revenue - short-term portion	3,270	3,650	6,920
Total current liabilities	49,980	(3,509)	46,471
Deferred revenue - long-term portion	—	12,411	12,411
Deferred income taxes	12,310	(12,310)	—
Total liabilities	88,539	(3,408)	85,131
Retained earnings	94,102	(33,137)	60,965
Total stockholders’ equity	100,202	(33,137)	67,065
Total liabilities and stockholders’ equity	188,741	(36,545)	152,196

The adjustments reflected in the table above include:

- Adjustments to notes receivable to present balance net of the unrecognized revenue portion of notes
- Adjustments to interest receivable to convert from accrual basis to cash basis for notes related to unrecognized revenue
- Adjustments to allowance for doubtful accounts includes the impact of the change in our franchise fee revenue recognition policy

- Adjustments to deferred income taxes, long-term portion shown in other assets, net and income taxes payable reflect the impact of the restatement adjustments
- Adjustments to goodwill and a portion of the other intangibles, net relate to the revised purchase price allocation methodology for businesses acquired from franchisees
- Adjustments to other intangibles includes the net impact of the elimination of the deferred revenue balance of repurchased area developer areas
- Adjustments to due to area developer to conform to net presentation for notes related to unrecognized revenue
- Adjustments to deferred revenue to reflect the recognition of area developer fees over the life of their agreement
- Adjustments to stockholders' equity reflects the cumulative impact of all of the restatement adjustments

The following tables present the effect of the restatement adjustments on the consolidated statements of income:

	April 30, 2012		
	As Reported	**Adjustments**	**As Restated**
Franchise fees	$ 15,073	$ (7,077)	$ 7,996
Provision for refunds	928	(928)	—
Area developer fees	—	6,702	6,702
Royalties and advertising fees	49,964	20,052	70,016
Interest income	11,437	969	12,406
Net gain on sale of company-owned offices and other assets and other revenue	3,625	551	4,176
Total revenues	109,100	22,125	131,225
General and administrative expenses	25,780	1,098	26,878
Area developer expense	—	23,872	23,872
Depreciation, amortization, and impairment charges	7,169	(1,170)	5,999
Total operating expenses	79,445	23,800	103,245
Income from operations	29,655	(1,675)	27,980
Income before income taxes	27,805	(1,675)	26,130
Income tax expense	10,394	(647)	9,747
Net income	17,411	(1,028)	16,383
Net income per share of Class A and Class B common stock:			
Basic	$ 1.24	$ (0.07)	$ 1.17
Diluted	$ 1.23	$ (0.07)	$ 1.16

(Continued)

	April 30, 2011		
	As Reported	**Adjustments**	**As Restated**
Franchise fees	$ 14,354	$ (5,574)	$ 8,780
Provision for refunds	1,206	(1,206)	—
Area developer fees	—	6,335	6,335
Royalties and advertising fees	46,879	19,303	66,182
Interest income	10,110	1,212	11,322
Net gain on sale of company-owned offices and other assets and other revenue	4,091	(70)	4,021
Total revenues	95,524	22,412	117,936
General and administrative expenses	20,707	1,765	22,472
Area developer expense	—	23,094	23,094
Depreciation, amortization, and impairment charges	6,062	(623)	5,439
Total operating expenses	67,009	24,236	91,245
Income from operations	28,515	(1,824)	26,691
Income before income taxes	26,636	(1,824)	24,812
Income tax expense	10,874	(732)	10,142
Net income	15,762	(1,092)	14,670
Net income per share of Class A and Class B common stock:			
Basic	$ 1.10	$ (0.25)	$ 0.85
Diluted	$ 1.08	$ (0.25)	$ 0.83

The adjustments reflected in the tables above include:

- Adjustments to franchise fees includes the reclassification of area developer fees to a separate caption, the net impact of changing our franchise fee recognition policy to receipt of funds and the change to gross presentation for the area developer portion
- Adjustments to provision for refunds is due to the change in our franchise fee recognition policy
- Adjustments to area developer fees is the net effect of reclassifying AD fees out of franchisee fees and the impact of recognizing revenue over the life of the agreement
- Adjustments to royalties and advertising reflects the change to gross presentation for the area developer portion of royalties
- Adjustments to interest income reflect the change to gross presentation for the area developer portion of interest and the conversion to cash basis from accrual basis for interest on notes related to unrecognized revenue
- Adjustments to general and administrative expense reflects the increase in the provision for bad debts due to the elimination of the provision for refunds

- Adjustments to area developer expense reflects the change to a gross presentation for franchise fees, royalties and interest owed to area developer
- Adjustments to amortization and impairment charges are the net effect of the change in purchase price allocation for company-owned offices acquired from franchisees and the impact of a smaller balance of area developer rights due to the netting of deferred revenue upon reacquisition
- Adjustments to the provision for income taxes reflects the impact of the restatement adjustments
- Adjustment for the year ended April 30, 2011 to the basic and diluted net income per share of Class A and Class B common stock reflects the repurchase of preferred stock as a reduction of net income attributable to common stockholders.

The following tables present the effect of the restatement adjustments on the consolidated statements of comprehensive income:

	April 30, 2012		
	As Reported	**Adjustments**	**As Restated**
Net income	$ 17,411	$ (1,028)	$ 16,383
Comprehensive income	$ 17,706	$ (1,028)	$ 16,678

	April 30, 2011		
	As Reported	**Adjustments**	**As Restated**
Net income	$ 15,762	$ (1,092)	$ 14,670
Comprehensive income	$ 16,022	$ (1,092)	$ 14,930

The explanations for the restatement adjustments shown above are detailed on the previous pages.

The restatement had no impact on net operating, investing, or financing activities within the consolidated statements of cash flows.