

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **January 31, 2014**

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

Commission File Number **001-35588**

JTH Holding, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

27-3561876
(IRS employer identification no.)

**1716 Corporate Landing Parkway
Virginia Beach, Virginia 23454**

(Address of principal executive offices)
(757) 493-8855

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's Common Stock, \$0.01 par value, at the close of business on March 10, 2014 was 12,155,628 shares.

JTH HOLDING, INC.

Form 10-Q for the Period Ended January 31, 2014

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PART I

**ITEM 1
FINANCIAL STATEMENTS**

JTH HOLDING, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
January 31, 2014 (unaudited), January 31, 2013 (unaudited), and April 30, 2013
(In thousands, except share data)

Assets	January 31, 2014	January 31, 2013	April 30, 2013
Current assets:			
Cash and cash equivalents	\$ 3,742	\$ 849	\$ 19,013
Receivables (note 2):			
Trade accounts	43,749	31,869	41,856
Notes	89,566	96,933	34,156
Interest, net	4,887	5,433	877
Allowance for doubtful accounts	(4,636)	(4,649)	(5,583)
Total receivables, net	133,566	129,586	71,306
Available-for-sale securities (note 3)	—	—	3,619
Income tax receivable	8,449	12,611	3
Deferred income taxes	4,442	3,144	4,232
Other current assets	18,527	18,675	4,960
Total current assets	168,726	164,865	103,133
Property, equipment, and software, net of accumulated depreciation of \$21,229, \$18,286, and \$19,006, respectively	37,553	31,978	33,037
Notes receivable, excluding current portion, net of allowance for uncollectible amounts (note 2)	23,645	21,356	14,352
Goodwill (note 4)	6,279	5,721	5,685
Other intangible assets, net of accumulated amortization of \$5,777, \$3,847, and \$3,998, respectively (note 4)	17,645	11,620	10,921
Other assets, net	2,124	5,706	2,402
Total assets	\$ 255,972	\$ 241,246	\$ 169,530
Liabilities and Stockholders' Equity			
Current liabilities:			
Current installments of long-term debt (note 5)	\$ 6,649	\$ 3,488	\$ 3,400
Accounts payable and accrued expenses	12,804	15,260	11,954
Due to area developers (note 2)	15,390	14,955	18,248
Income taxes payable	—	—	5,897
Deferred revenue - short-term portion	6,362	6,489	7,555
Total current liabilities	41,205	40,192	47,054
Long-term debt, excluding current installments (note 5)	22,337	24,775	24,283
Revolving credit facility (note 5)	104,592	108,105	—
Deferred revenue - long-term portion	8,510	9,935	10,381
Liability classified stock-based compensation awards (note 9)	—	—	5,111
Deferred income taxes	2,030	382	865
Total liabilities	178,674	183,389	87,694
Commitments and contingencies (note 12)			
Stockholders' equity (notes 8 and 9):			
Class A preferred stock, \$0.01 par value per share, 190,000 shares authorized, 0 shares issued and outstanding	—	—	—
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, 12,153,278, 12,078,854, and 11,975,128 shares issued and outstanding, respectively	122	121	120
Class B common stock, \$0.01 par value per share, 1,000,000 shares authorized, 900,000 shares issued and outstanding	9	9	9
Exchangeable shares, \$0.01 par value, 100,000 shares issued and outstanding	1	1	1
Additional paid-in capital	9,053	6,752	1,920
Accumulated other comprehensive income (loss), net of taxes	(129)	810	1,194
Retained earnings	68,242	50,164	78,592
Total stockholders' equity	77,298	57,857	81,836
Total liabilities and stockholders' equity	\$ 255,972	\$ 241,246	\$ 169,530

See accompanying notes to condensed consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
Three months and nine months ended January 31, 2014 and 2013 (unaudited)
(In thousands, except per share data)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2014	2013	2014	2013
Revenues:				
Franchise fees	\$ 1,247	\$ 1,698	\$ 3,172	\$ 4,503
Area developer fees	1,311	1,741	4,994	5,742
Royalties and advertising fees	22,081	20,188	24,710	22,561
Financial products	9,864	8,039	10,482	8,510
Interest income (note 2)	3,001	3,140	7,435	8,339
Tax preparation fees, net of discounts	2,054	1,445	2,682	1,886
Other revenue	1,182	1,369	2,647	2,661
Total revenues	40,740	37,620	56,122	54,202
Operating expenses:				
Employee compensation and benefits	10,318	10,285	24,603	24,566
General and administrative expenses	9,121	7,857	23,131	19,783
Area developer expense	7,909	6,814	9,442	8,646
Advertising expense	5,860	7,687	11,051	12,786
Depreciation, amortization, and impairment charges	2,267	1,424	5,590	4,447
Total operating expenses	35,475	34,067	73,817	70,228
Income (loss) from operations	5,265	3,553	(17,695)	(16,026)
Other income (expense):				
Foreign currency transaction gains (losses)	(3)	(1)	(15)	3
Gain on sale of available-for-sale securities	1,995	—	2,183	—
Interest expense (note 5)	(464)	(819)	(1,066)	(1,623)
Income (loss) before income taxes	6,793	2,733	(16,593)	(17,646)
Income tax expense (benefit) (note 7)	2,737	1,060	(6,244)	(6,845)
Net income (loss)	\$ 4,056	\$ 1,673	\$ (10,349)	\$ (10,801)
Net income (loss) per share of Class A and Class B common stock:				
Basic	\$ 0.29	\$ 0.12	\$ (0.80)	\$ (0.85)
Diluted	0.28	0.12	(0.80)	(0.85)

See accompanying notes to condensed consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)
Three months and nine months ended January 31, 2014 and 2013 (unaudited)
(In thousands)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2014	2013	2014	2013
Net income (loss)	\$ 4,056	\$ 1,673	\$ (10,349)	\$ (10,801)
Interest rate swap agreements, net of taxes of \$-, \$130, \$-, and \$225, respectively	—	213	—	368
Unrealized gain (loss) on equity securities available for sale, net of taxes of \$26, \$26, \$608, and \$67, respectively (note 3)	44	(42)	975	110
Reclassified gain on sale of available-for-sale securities included in income, net of taxes of \$803, \$-, \$821, and \$-, respectively (note 3)	(1,192)	—	(1,362)	—
Foreign currency translation adjustment	(839)	(197)	(1,155)	(390)
Forward contracts related to foreign currency exchange rates (note 6)	220	46	220	46
Comprehensive income (loss)	\$ 2,289	\$ 1,693	\$ (11,671)	\$ (10,667)

See accompanying notes to condensed consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Nine months ended January 31, 2014 and 2013 (unaudited)
(In thousands)

	2014	2013
Cash flows from operating activities:		
Net loss	\$ (10,349)	\$ (10,801)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	5,886	4,581
Depreciation, amortization, and impairment charges	5,590	4,447
Amortization of deferred financing costs	250	217
Stock-based compensation expense related to equity classified awards	1,394	1,232
Stock-based compensation expense related to liability classified awards	(872)	—
Gain on bargain purchases and sales of company-owned offices	(629)	(178)
Equity in loss of affiliate	173	118
Deferred tax expense	955	4,952
Gain on sale of available-for-sale securities	(2,183)	—
Changes in assets and liabilities decreasing cash flows from operating activities	(51,065)	(56,383)
Net cash used in operating activities	<u>(50,850)</u>	<u>(51,815)</u>
Cash flows from investing activities:		
Issuance of operating loans to franchisees	(62,218)	(60,875)
Payments received on operating loans to franchisees	1,532	1,536
Purchases of area developer rights, company-owned offices, and acquired customer lists	(6,585)	(3,741)
Proceeds from sale of company-owned offices and area developer rights	2,368	2,252
Purchase of available-for-sale securities	—	(2,980)
Proceeds from sale of available-for-sale securities	5,163	—
Purchase of property and equipment	(7,652)	(9,177)
Net cash used in investing activities	<u>(67,392)</u>	<u>(72,985)</u>
Cash flows from financing activities:		
Proceeds from the exercise of stock options	6,122	1,592
Repurchase of common stock	(5,174)	(1,634)
Repayment of long-term debt	(2,897)	(2,227)
Borrowings under revolving credit facility	110,694	108,582
Repayments under revolving credit facility	(6,102)	(478)
Payment for debt issue costs	—	(281)
Tax benefit of stock option exercises	554	269
Net cash provided by financing activities	<u>103,197</u>	<u>105,823</u>
Effect of exchange rate changes on cash, net	(226)	(22)
Net decrease in cash and cash equivalents	<u>(15,271)</u>	<u>(18,999)</u>
Cash and cash equivalents at beginning of period	19,013	19,848
Cash and cash equivalents at end of period	<u>\$ 3,742</u>	<u>\$ 849</u>

See accompanying notes to condensed consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Nine months ended January 31, 2014 and 2013 (unaudited)
(In thousands)

	<u>2014</u>	<u>2013</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	\$ 851	\$ 1,310
Cash paid for taxes, net of refunds	6,388	6,958
Accrued capitalized software costs included in accounts payable	182	1,657
During the nine months ended January 31, 2014 and 2013, the Company acquired certain assets from franchisees, area developers, and third parties as follows:		
Fair value of assets purchased	\$ 16,444	\$ 9,265
Receivables applied, net of amounts due ADs and related deferred revenue	(3,543)	(3,224)
Notes and accounts payable issued	(6,316)	(2,300)
Cash paid to franchisees, area developers, and third parties	<u>\$ 6,585</u>	<u>\$ 3,741</u>
During the nine months ended January 31, 2014 and 2013, the Company sold certain assets to franchisees and area developers as follows:		
Book value of assets sold	\$ 6,209	\$ 5,601
Loss on sale	(160)	(351)
Deferred gain on sale	1,080	1,252
Notes received	(4,761)	(4,250)
Cash received from franchisees and area developers	<u>\$ 2,368</u>	<u>\$ 2,252</u>

See accompanying notes to condensed consolidated financial statements.

JTH HOLDING, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

January 31, 2014 and 2013 (Unaudited)

(1) Organization and Significant Accounting Policies

(a) Organization

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 refund-based tax settlement financial products, such as instant cash advances, electronic refund checks, and personal income tax refund discounting, for its customers. The Company also offers online tax preparation services.

The Company's operating revenues are seasonal in nature with peak revenues occurring in the months of January through April. Therefore, results for interim periods are not indicative of results to be expected for the full year.

Unless specifically noted otherwise, as used throughout these condensed consolidated financial statements, the term "Company" or "Liberty" refers to the consolidated entities of JTH Holding, Inc.

(b) Principles of Consolidation and Unaudited Financial Statements

The condensed 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 period. Revenues and expenses have been translated using the average exchange rates in effect each month of the period. Transaction gains and losses are recognized when incurred. The Company also consolidates any variable interest entities of which it is the primary beneficiary. 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 intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP) for interim financial information. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures only required in annual financial statements. Consolidated balance sheet data as of April 30, 2013 was derived from the Company's April 30, 2013 Annual Report on Form 10-K.

In the opinion of management, all adjustments necessary for a fair presentation of such financial statements in accordance with US GAAP have been recorded. These adjustments consisted only of normal recurring items. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's financial statements and notes thereto included in its April 30, 2013 Annual Report on Form 10-K.

(c) Office Count

The following table shows the U.S. office activity and the number of Canadian and company-owned offices for the 2014 and 2013 tax seasons:

	Tax Season	
	2014	2013
Franchised U.S. offices, operated during the prior tax season	4,028	3,845
U.S. offices opened	558	596
U.S. offices purchased from the Company	66	60
U.S. offices acquired by the Company	(91)	(64)
U.S. offices closed	(566)	(409)
Franchised U.S. offices, operated during the tax season	3,995	4,028
Franchised Canadian offices, operated during the tax season	227	231
Total franchised offices, operated during the tax season	4,222	4,259
Company-owned offices, operated during the tax season:		
U.S.	180	234
Canadian	36	27
Total	216	261
Total offices, operated during the tax season	4,438	4,520

(d) Use of Estimates

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

(e) Foreign Operations

Canadian operations contributed \$352,000 and \$1,158,000 in revenues for the three and nine months ended January 31, 2014, respectively and \$328,000 and \$1,103,000 in revenues for the three and nine months ended January 31, 2013, respectively.

(2) Accounts and Notes Receivable

The Company provides financing to franchisees for the purchase of franchises, clusters of territories, company-owned offices, and 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. Most notes bear interest at 12%. Activity related to notes receivable for the nine months ended January 31, 2014 and January 31, 2013 and for the fiscal year ended April 30, 2013 was as follows:

	January 31, 2014	January 31, 2013	April 30, 2013
	(In thousands)		
Balance at beginning of period	\$ 89,340	\$ 79,838	\$ 79,838
Notes received for:			
Sales of franchises and clusters of territories	3,629	4,431	6,770
Sales of certain assets to franchisees	9,259	11,073	15,130
Franchisee to franchisee note assumptions	8,453	10,303	11,259
Working capital and equipment loans to franchisees	62,218	60,875	75,642
Refinancing of accounts receivable	7,140	18,486	18,527
	<u>90,699</u>	<u>105,168</u>	<u>127,328</u>
Repayment of notes	(7,017)	(6,515)	(95,664)
Notes canceled	(16,864)	(18,806)	(21,981)
Foreign currency adjustment	(487)	(127)	(181)
Balance at end of period	155,671	159,558	89,340
Unrecognized revenue portion of notes receivable	(41,686)	(40,423)	(39,731)
Notes receivable less unrecognized revenue	<u>\$ 113,985</u>	<u>\$ 119,135</u>	<u>\$ 49,609</u>

Most of the notes receivable are due from the Company's franchisees and area developers (ADs) and are collateralized by the underlying franchise and, when the franchise or area owner is an entity, is generally guaranteed by the owners of the respective entity. The debtors' ability to repay the notes is dependent upon both the performance of the tax preparation industry as a whole and the individual franchisees' or ADs' areas.

The refinancing of accounts receivable had resulted from a franchisee electing to deliver to the Company a promissory note for past-due royalties and advertising fees that had previously been recorded as accounts receivable in the condensed consolidated financial statements. Effective October 1, 2013, the Company reduced the interest rate on its past due accounts receivable from 18% to 12% and ceased its practice of refinancing accounts receivable into notes receivable. This is not expected to have a material effect on the Company's condensed consolidated financial statements.

Notes canceled are 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. Each quarter, the adequacy of the allowance for doubtful accounts is assessed and additional provision for bad debt recorded as deemed necessary.

Unrecognized revenue relates to the financed portion of franchise fees and AD fees and, in the case of sales of company-owned offices, the financed portion of gains related to these 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 AD fee notes receivable generate a corresponding increase in deferred revenue, which is amortized into revenue over the life of the AD contract, generally 10 years.

Accounts and notes 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 \$15,390,000, \$14,955,000, and \$18,248,000 at January 31, 2014, January 31, 2013, and April 30, 2013, respectively.

At January 31, 2014, the Company had unfunded lending commitments for working capital loans to franchisees and area developers of \$10,392,000.

Allowance for Doubtful Accounts

Management believes that the recorded allowance is adequate based upon its consideration of the estimated value of the franchises and AD areas supporting the receivables. Any adverse change in the tax preparation industry or the individual franchisees' or ADs' areas could affect the Company's estimate of the allowance. Activity in the allowance for doubtful accounts for the three and nine months ended January 31, 2014 and 2013 was as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2014	2013	2014	2013
	(In thousands)			
Balance at beginning of period	\$ 6,048	\$ 5,844	\$ 6,684	\$ 5,290
Provision for doubtful accounts	2,456	1,317	5,886	4,581
Write-offs	(3,039)	(1,665)	(7,067)	(4,345)
Foreign currency adjustment	(55)	(1)	(93)	(31)
Balance at end of period	<u>\$ 5,410</u>	<u>\$ 5,495</u>	<u>\$ 5,410</u>	<u>\$ 5,495</u>

The allocation of the allowance for doubtful accounts between long-term and short-term as of January 31, 2014, January 31, 2013, and April 30, 2013 was as follows:

	January 31, 2014	January 31, 2013	April 30, 2013
	(In thousands)		
Short-term	\$ 4,636	\$ 4,649	\$ 5,583
Long-term	774	846	1,101
Total	<u>\$ 5,410</u>	<u>\$ 5,495</u>	<u>\$ 6,684</u>

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 contractually obligated accounts and notes receivable plus accrued interest less unrecognized revenue, reduced by the allowance for uncollected interest, amounts due ADs, 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 earned during the most recently completed tax season and the number of unopened offices.

The allowance for doubtful accounts at January 31, 2014, January 31, 2013, and April 30, 2013 was allocated as follows:

	January 31, 2014	January 31, 2013	April 30, 2013
	(In thousands)		
Impaired:			
Notes receivable, including interest, and less unrecognized revenue	\$ 7,633	\$ 6,351	\$ 9,399
Accounts receivable	3,481	3,023	5,907
Less allowance for uncollected interest, amounts due ADs, related deferred revenue and amounts due franchisees	(1,636)	(1,678)	(2,336)
Net amount due	<u>\$ 9,478</u>	<u>\$ 7,696</u>	<u>\$ 12,970</u>
Allowance for doubtful accounts for impaired notes and accounts receivable	<u>\$ 4,366</u>	<u>\$ 3,994</u>	<u>\$ 6,120</u>
Nonimpaired:			
Notes receivable, including interest, and less unrecognized revenue	\$ 112,233	\$ 119,787	\$ 42,459
Accounts receivable	42,776	30,659	37,650
Less allowance for uncollected interest, amounts due ADs, related deferred revenue and amounts due franchisees	(17,994)	(17,537)	(19,992)
Net amount due	<u>\$ 137,015</u>	<u>\$ 132,909</u>	<u>\$ 60,117</u>
Allowance for doubtful accounts for non-impaired notes and accounts receivable	<u>\$ 1,044</u>	<u>\$ 1,501</u>	<u>\$ 564</u>
Total allowance for doubtful accounts	<u>\$ 5,410</u>	<u>\$ 5,495</u>	<u>\$ 6,684</u>

The Company's average investment in impaired notes receivable during the nine months ended January 31, 2014 and 2013 was \$8,515,000 and \$6,539,000, respectively. Interest income recognized related to performing impaired notes was \$124,000 and \$486,000 for the three and nine months ended January 31, 2014, respectively, and \$107,000 and \$352,000 for the three and nine months ended January 31, 2013, respectively. The Company's investment in notes receivable on nonaccrual status at January 31, 2014, January 31, 2013, and April 30, 2013 was \$6,472,000, \$4,286,000, and \$8,375,000, respectively.

Age Analysis of Past Due Receivables

The aging of accounts and notes receivable at January 31, 2014 was as follows:

	Total Past Due	Allowance for Uncollected Interest	Current	Total Receivables
(In thousands)				
Accounts receivable	\$ 18,976	\$ (2,508)	\$ 27,281	\$ 43,749
Notes receivable	7,466	(994)	112,400	118,872
Total	<u>\$ 26,442</u>	<u>\$ (3,502)</u>	<u>\$ 139,681</u>	<u>\$ 162,621</u>

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.

(3) Investments

During fiscal 2013, the Company purchased corporate equity securities, as a strategic investment in a business partner, for \$2,980,000. These securities were sold during the nine months ended January 31, 2014. A gross gain on the sale of \$2,183,000 was recognized and reclassified out of accumulated other comprehensive income and recorded as other income.

(4) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended January 31, 2014 and January 31, 2013 are as follows:

	January 31, 2014			January 31, 2013		
	Goodwill	Accumulated impairment loss	Net	Goodwill	Accumulated impairment loss	Net
(In thousands)						
Balance at beginning of period	\$ 6,457	\$ (772)	\$ 5,685	\$ 6,157	\$ (757)	\$ 5,400
Acquisitions of assets from franchisees	4,071	—	4,071	2,840	—	2,840
Disposals and foreign currency changes, net	(3,530)	188	(3,342)	(3,086)	567	(2,519)
Impairments	—	(135)	(135)	—	—	—
Balance at end of period	<u>\$ 6,998</u>	<u>\$ (719)</u>	<u>\$ 6,279</u>	<u>\$ 5,911</u>	<u>\$ (190)</u>	<u>\$ 5,721</u>

Components of intangible assets are as follows as of January 31, 2014, January 31, 2013, and April 30, 2013:

	January 31, 2014			January 31, 2013			April 30, 2013		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
(In thousands)									
Amortizable other intangible assets:									
Acquired customer lists	\$ 4,816	\$ (634)	\$ 4,182	\$ 1,587	\$ (42)	\$ 1,545	\$ 1,603	\$ (171)	\$ 1,432
Assets acquired from franchisees:									
Customer lists and reacquired rights	4,163	(1,961)	2,202	3,178	(1,287)	1,891	3,474	(1,487)	1,987
Area developer rights	14,443	(3,182)	11,261	10,702	(2,518)	8,184	9,842	(2,340)	7,502
	<u>\$ 23,422</u>	<u>\$ (5,777)</u>	<u>\$17,645</u>	<u>\$ 15,467</u>	<u>\$ (3,847)</u>	<u>\$ 11,620</u>	<u>\$ 14,919</u>	<u>\$ (3,998)</u>	<u>\$ 10,921</u>

Intangible assets are amortized over six years for acquired customer lists, four years for customer lists acquired from franchisees, two years for reacquired rights acquired from franchisees, and ten years for area developer rights.

In January 2014, the Company purchased certain assets of an online tax preparation software provider for \$3,200,000, of which \$1,600,000 was payable at the closing date with the remainder payable on April 30, 2014. The entire purchase price has been preliminarily allocated to the identifiable intangible assets.

During the nine months ended January 31, 2014, the Company acquired the assets of various franchisees for \$7,517,000. These acquisitions were accounted for as business combinations, with all value allocated to intangible assets. The acquired businesses are operated as Company-owned offices until a buyer is located and a new franchise agreement is entered into. The purchase price of assets acquired from franchisees was allocated as follows:

	Nine Months Ended January 31,	
	2014	2013
(In thousands)		
Customer lists and reacquired rights	\$ 3,446	\$ 2,424
Goodwill	4,071	2,840
Total	<u>\$ 7,517</u>	<u>\$ 5,264</u>

(5) Debt

The Company has a credit facility that consists of a \$25,000,000 term loan and a revolving credit facility that currently allows borrowing of up to \$143,350,000. Outstanding borrowings accrue interest at one-month London Inter-Bank Offered Rate (LIBOR) plus a margin ranging from 1.50% to 2.25% depending on the Company's leverage ratio. At January 31, 2014, the interest rate was 1.92%, and the average interest rate paid was 1.90% during the nine months ended January 31, 2014. The indebtedness is collateralized by substantially all the assets of the Company and both loans mature on April 30, 2017. 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. The Company was in compliance with the financial covenants at January 31, 2014.

Debt at January 31, 2014, January 31, 2013, and April 30, 2013 consisted of the following:

	January 31, 2014	January 31, 2013	April 30, 2013
(In thousands)			
Credit Facility:			
Revolver	\$ 104,592	\$ 108,105	\$ —
Term loan	22,344	24,063	23,750
	126,936	132,168	23,750
Amounts due to former ADs and mortgages	6,642	4,200	3,933
	133,578	136,368	27,683
Less: current portion	(6,649)	(3,488)	(3,400)
Long-term debt	\$ 126,929	\$ 132,880	\$ 24,283

(6) 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 periodically 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 an advance is made and the advances are repaid prior to April 30 of the fiscal year of the advance. These forward contracts are designated as cash flow hedges. At January 31, 2014 and 2013, the fair value of foreign currency contracts was an asset of \$220,000, included in other assets, and a liability of \$46,000, included accounts payable and accrued expenses, respectively. The Company had no outstanding forward contracts at April 30, 2013. During the nine months ended January 31, 2014 and 2013, these foreign currency hedges were effective and, therefore, no amounts were recognized in the consolidated statements of operations.

(7) Income Taxes

The Company computes its provision for or benefit from income taxes by applying the estimated annual effective tax rate to income or loss from recurring operations and adding the effects of any discrete income tax items specific to the period.

In January 2013 the American Taxpayer Relief Act of 2012 was signed into law. The Act includes a reinstatement of the federal research and experimentation credit through December 31, 2013 that was retroactive to January 1, 2012. We recorded a discrete tax benefit of approximately \$395,000 for the retroactive effect during the three months ended January 31, 2013. Due to the expiration of the credit on December 31, 2013, we have reduced the projected tax benefit of our fiscal 2014 credit by \$140,000, which represents a third of our fiscal year projected credit. Should the credit again be extended retroactively, we will reallocate the benefit in the quarter of enactment.

(8) Stockholders' Equity

During the nine months ended January 31, 2014 and 2013, activity in stockholders' equity was as follows:

	2014	2013
(In thousands)		
Class A common shares issued from the exercise of stock options	409	151
Class A common shares issued from the vesting of restricted stock	15	—
Proceeds from exercise of stock options	\$ 6,122	\$ 1,592
Class A common shares repurchased	246	119
Payments for repurchased shares	\$ 5,174	\$ 1,634
Tax benefit of stock option exercises	\$ 554	\$ 269
Class A common shares issued upon conversion of Class A preferred shares	—	1,703

The components of accumulated other comprehensive income at January 31, 2014 are a foreign currency translation adjustment of \$(349,000) and a foreign currency forward contract of \$220,000. The components of accumulated other comprehensive income at January 31, 2013 are a foreign currency translation adjustment of \$723,000, an interest rate swap of \$(69,000), a foreign currency forward contract of \$46,000, and the unrealized gain on available-for-sale securities of \$110,000. The components of accumulated other comprehensive income at April 30, 2013 are a foreign currency translation adjustment of \$807,000 and the unrealized gain on available-for-sale securities of \$387,000.

Net Income (Loss) per Share

Net income (loss) per share of Class A and Class B common stock is computed using the two-class method. Basic net income (loss) 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. Undistributed losses are not allocated to these participating securities because they do not meet the required criteria for such allocation. During the nine months ended January 31, 2013, two of the Company's major shareholders elected to convert 170,320 shares of the Class A preferred stock to 1,703,200 shares of Class A common stock.

Diluted net income (loss) 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. 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 loss 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 (loss) per share of Class B common stock does not assume conversion of those shares.

The rights, including liquidation and dividend rights, of the holders of Class A and Class B common stock are identical, with the exception of the election of directors. As a result, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common stock as if the earnings for the year had been distributed. Participating securities have dividend rights that are identical to Class A and Class B common stock.

The computation of basic and diluted net income (loss) per share for the three and nine months ended January 31, 2014 and 2013 was as follows:

	Three Months Ended January 31, 2014	
	Class A Common Stock	Class B Common Stock
(in thousands, except for share and per share amounts)		
Basic net income per share:		
<i>Numerator</i>		
Allocation of undistributed earnings	\$ 3,775	\$ 281
Amounts allocated to participating securities:		
Exchangeable shares	(270)	(20)
Net income attributable to common stockholders	<u>\$ 3,505</u>	<u>\$ 261</u>
<i>Denominator</i>		
Weighted-average common shares outstanding	<u>12,091,857</u>	<u>900,000</u>
Basic net income per share	<u>\$ 0.29</u>	<u>\$ 0.29</u>
Diluted net income per share:		
<i>Numerator</i>		
Allocation of undistributed earnings for basic computation	\$ 3,505	\$ 261
Reallocation of undistributed earnings as a result of assumed conversion of:		
Class B common stock to Class A common stock	261	
Exchangeable shares to Class A common stock	290	
	<u>\$ 4,056</u>	<u>\$ 261</u>
<i>Denominator</i>		
Number of shares used in basic computation	12,091,857	900,000
Weighted-average effect of dilutive securities		
Class B common stock to Class A common stock	900,000	
Exchangeable shares to Class A common stock	1,000,000	
Employee stock options	662,809	42,634
	<u>14,654,666</u>	<u>942,634</u>
Diluted net income per share	<u>\$ 0.28</u>	<u>\$ 0.28</u>

	Nine Months Ended January 31, 2014	
	Class A	Class B
	Common Stock	Common Stock
	(in thousands, except for share and per share amounts)	
Basic and diluted net loss per share:		
<i>Numerator</i>		
Allocation of undistributed losses	\$ (9,629)	\$ (720)
<i>Denominator</i>		
Weighted-average common shares outstanding	12,037,734	900,000
Basic and diluted net loss per share	\$ (0.80)	\$ (0.80)

Diluted net income (loss) per share excludes the impact of shares of potential common stock from the exercise of options to purchase 225,000 and 2,190,000 shares for the three and nine months ended January 31, 2014, respectively, because the effect would be antidilutive.

	Three Months Ended January 31, 2013	
	Class A	Class B
	Common Stock	Common Stock
	(in thousands, except for share and per share amounts)	
Basic net income per share:		
<i>Numerator</i>		
Allocation of undistributed earnings	\$ 1,557	\$ 116
Amounts allocated to participating securities:		
Exchangeable shares	(111)	(8)
Net income attributable to common stockholders	\$ 1,446	\$ 108
<i>Denominator</i>		
Weighted-average common shares outstanding	12,090,238	900,000
Basic net income per share	\$ 0.12	\$ 0.12
Diluted net income per share:		
<i>Numerator</i>		
Allocation of undistributed earnings for basic computation	\$ 1,446	\$ 108
Reallocation of undistributed earnings as a result of assumed conversion of:		
Class B common stock to Class A common stock	108	—
Exchangeable shares to Class A common stock	119	—
	\$ 1,673	\$ 108
<i>Denominator</i>		
Number of shares used in basic computation	12,090,238	900,000
Weighted-average effect of dilutive securities:		
Class B common stock to Class A common stock	900,000	—
Exchangeable shares to Class A common stock	1,000,000	—
Employee stock options	79,701	5,127
	14,069,939	905,127
Diluted net income per share	\$ 0.12	\$ 0.12

	Nine Months Ended January 31, 2013	
	Class A	Class B
	Common Stock	Common Stock
	(in thousands, except for share and per share amounts)	
Basic and diluted net loss per share:		
<i>Numerator</i>		
Allocation of undistributed losses	\$ (10,037)	\$ (764)
<i>Denominator</i>		
Weighted-average common shares outstanding	11,831,496	900,000
Basic and diluted net loss per share	\$ (0.85)	\$ (0.85)

Diluted net income (loss) per share excludes the impact of shares of potential common stock from the exercise of options to purchase 2,546,000 and 2,745,000 shares for the three and nine months ended January 31, 2013, respectively, because the effect would be antidilutive.

(9) Stock Compensation Plans

Stock Options

At January 31, 2014, 1,818,936 shares of Class A common stock are available for grant under the 2011 Equity and Cash Incentive Plan.

The following table summarizes the information for options granted during the nine months ended January 31, 2014:

	2014
Weighted average fair value of options granted	\$ 6.19
Dividend yield	0.0%
Expected volatility	34.15% - 36.99%
Expected terms (in years)	3.7 - 5.3
Risk-free interest rates	0.79% - 1.49%

The Company does not have enough public trading history to calculate volatility for the term of the granted options, therefore, it used a 50/50 weighted average volatility, equally weighing our public trading history and that of other public companies in the tax preparation industry.

Stock option activity during the nine months ended January 31, 2014 was as follows:

	Number of options	Weighted average exercise price
Balance at beginning of period	2,534,683	\$ 14.81
Granted	452,374	18.20
Exercised	(408,798)	14.98
Canceled	(264,461)	15.02
Balance at end of period	2,313,798	15.42

The Company granted 452,374 stock options to certain directors and employees in the nine months ended January 31, 2014. The total intrinsic value of options exercised during the nine months ended January 31, 2014 was approximately \$2,458,000. Stock options vest from six months to five years from the date of grant and expire five years after the vesting date.

Nonvested stock option (options that did not vest in the period in which granted) activity during the nine months ended January 31, 2014 was as follows:

	Nonvested options	Weighted average exercise price
Balance at beginning of period	132,500	\$ 15.00
Granted	452,374	18.20
Vested	(39,490)	15.33
Canceled	—	—
Balance at end of period	545,384	17.63

At January 31, 2014, unrecognized compensation costs related to nonvested stock options were \$2,372,000. These costs are expected to be recognized between fiscal 2014 and fiscal 2016.

The following table summarizes information about stock options outstanding and exercisable at January 31, 2014:

Number of options outstanding at January 31, 2014	Range of exercise prices	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of options exercisable at January 31, 2014	Weighted average exercise price
117,500	\$ 10.50	\$ 10.50	1.0	117,500	\$ 10.50
1,543,416	14.00-16.50	15.03	2.5	1,440,916	15.03
200,508	15.00	15.00	3.3	200,508	15.00
407,374	16.38 - 19.75	17.98	4.6	9,490	16.38
45,000	20.19	20.19	6.2	—	—
2,313,798		15.42		1,768,414	14.73

During the fiscal year ended April 30, 2013, the settlement of certain stock option transactions caused a change in the classification of the related outstanding stock options to liability instruments from equity instruments, 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 equity to liability instruments was \$5,111,000. On June 11, 2013, the Company's board of directors voted to prohibit those types of transactions, therefore, the Company reclassified the stock options back to equity instruments, resulting in a reduction to stock compensation expense of \$872,000. The liability was removed and the remainder was reclassified to additional paid-in capital.

Restricted Stock Units

During the nine months ended January 31, 2014, the Company awarded restricted stock units (RSUs) to its non-employee directors and certain employees. The weighted average fair value at grant date was \$16.86 and the weighted average service period is 19 months. Compensation costs associated with these restricted shares are amortized over the service period and recognized as an increase in additional paid-in capital.

Restricted stock activity during the nine months ended January 31, 2014 was as follows:

	Number of RSUs	Weighted average fair value at grant date
Balance at beginning of period	15,971	\$ 13.50
Granted	23,565	16.86
Vested	(14,598)	13.36
Canceled	(2,975)	15.74
Balance at end of period	21,963	16.90

At January 31, 2014, unrecognized compensation costs related to restricted stock units were \$252,000. These costs are expected to be recognized during fiscal 2014 and fiscal 2015.

(10) Fair Value of Financial Instruments

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

Cash equivalents, accounts receivable, 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. Cash equivalent financial instruments consist of 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.

Available-for-sale securities: Fair values for equity securities available for sale are based on published market prices. Equity securities available for sale are carried at their aggregate fair value.

Nonfinancial assets and liabilities: The fair value of customer lists and reacquired rights is measured on a nonrecurring basis in the period that the Company deemed the assets impaired. Fair value is determined based on historical transactions involving sales of company-owned offices.

Long-term debt: Because the Company's long-term debt has a variable interest component, the carrying amount approximates fair value.

Fair value is 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. Valuation methodologies for the fair value hierarchy are as follows:

- 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 January 31, 2014, January 31, 2013, and April 30, 2013, 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 (in thousands):

	January 31, 2014			
	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
Assets:				
Recurring:				
Forward contract related to foreign currency exchange rates	\$ 220	\$ —	\$ 220	\$ —
Nonrecurring:				
Impaired accounts and notes receivable	5,647	—	—	5,647
Total recurring and nonrecurring assets	\$ 5,867	\$ —	\$ 220	\$ 5,647

	January 31, 2013			
	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
Assets:				
Recurring:				
Equity securities, available for sale	\$ 3,162	\$ 3,162	\$ —	\$ —
Nonrecurring:				
Impaired accounts and notes receivable	4,399	—	—	4,399
Total recurring and nonrecurring assets	\$ 7,561	\$ 3,162	\$ —	\$ 4,399
Liabilities:				
Recurring:				
Interest rate swap agreements	\$ 115	\$ —	\$ 115	\$ —
Forward contract related to foreign currency exchange rates	46	—	46	—
Total recurring liabilities	\$ 161	\$ —	\$ 161	\$ —

	April 30, 2013			
	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
Assets:				
Recurring:				
Cash equivalents	\$ 16,798	\$ 16,798	\$ —	\$ —
Equity securities, available for sale	3,619	3,619	—	—
Total recurring assets	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
Total nonrecurring assets	9,966	—	—	9,966
Total recurring and nonrecurring assets	\$ 30,383	\$ 20,417	\$ —	\$ 9,966
Liabilities:				
Recurring:				
Liability classified share-based instrument	\$ 5,111	\$ —	\$ 5,111	\$ —

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 requiring fair value measurements for the nine months ended January 31, 2014.

Management considers accounts and notes receivable to be impaired if the amount due exceeds 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 earned during the most recently completed tax season and the number of unopened offices.

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

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

The Company manages such risk by evaluating the financial position of the franchisee, value of the franchises, as well as the personal guarantee of the individual franchisees. At January 31, 2014, January 31, 2013, and April 30, 2013, 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 collectability of the receivables, which the Company believes is adequate for its credit loss exposure.

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.

(11) Related Party Transactions

The Company considers directors and their affiliated companies, executive officers of the Company, and members of their immediate family to be related parties. For the nine months ended January 31, 2014 and 2013, the Company repurchased common stock from related parties as follows (all repurchases were in conjunction with the exercise of stock options):

	2014	2013
Common stock repurchases:		
Shares repurchased	147,618	20,077
Amount	\$ 2,878,585	\$ 301,155

(12) 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, and 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 the Company 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.

TCPA class action litigation. The Company was sued in September 2013 in federal court in Illinois in connection with alleged violations of the Telephone Consumer Protection Act. Plaintiff alleges that the Company inappropriately made autodialed telephone calls to cellular telephones, seeks the certification of a nationwide class action, and claims statutory damages of \$500-\$1,500 per violation. The Company tendered the defense of this litigation to a third party entity that had contracted with the Company to solicit potential franchisees, and that third party entity has acknowledged its defense and indemnification obligations to the Company. However, because the third party contractor may not have the financial resources to satisfy its defense and indemnity obligations, the Company recently concluded that it may not be able to rely fully upon the fulfillment of those obligations. 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 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.

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 or cash flows.

ITEM 2
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Special Note Regarding Forward-Looking Statements

This quarterly report contains forward-looking statements concerning our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition. Any statements contained herein that are not of historical facts may be deemed to be forward-looking statements. You can identify these statements by words such as “aim,” “anticipate,” “assume,” “believe,” “could,” “due,” “estimate,” “expect,” “goal,” “intend,” “may,” “objective,” “plan,” “predict,” “potential,” “positioned,” “should,” “target,” “will,” “would” and other similar expressions that are predictions of or indicate future events and future trends. These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management’s beliefs and assumptions and are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. As a result, any or all of our forward-looking statements in this quarterly report may turn out to be inaccurate. Factors that may cause such differences include, but are not limited to, the risks described under “Item 1A—Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended April 30, 2013 and risks described in all other filings with the Securities and Exchange Commission, including:

- our possible inability to sustain growth at our historical pace;
- the seasonality of our business;
- our inability to secure reliable sources of the tax settlement products we make available to our customers;
- the continued service of our senior management team and our ability to attract additional talent;
- government regulation and oversight, including the regulation of our tax settlement products such as refund transfers and loan settlement products;
- government initiatives that simplify tax return preparation, improve the timing and efficiency of processing tax returns, limit payments to tax preparers or decrease the number of tax returns filed or the size of the refunds;
- government initiatives to pre-populate income tax returns;
- increased regulation of the products and services that we offer;
- the possible characterization of refund transfers as a form of loan or extension of credit;
- changes in the tax settlement products offered to our customers that make our services less attractive to customers or more costly to us;
- our ability to maintain relationships with our tax settlement product service providers;
- our ability and the ability of our franchisees to comply with regulatory requirements;
- changes in our franchise sale model that may reduce our revenue;
- the ability of our franchisees to open new territories and operate them successfully;
- the ability of our franchisees to generate sufficient revenue to repay their indebtedness to us;
- our ability to manage an increasing number of company-owned offices and tax kiosks;
- our exposure to litigation;
- our ability and our franchisees’ ability to protect customers’ personal information, including from a cyber-security incident;

- an ability to access the credit markets and satisfy our covenants to lenders;
- challenges in deploying accurate tax software in a timely way each tax season;
- competition in the tax preparation market;
- our reliance on technology systems, including the deployment of our NextGen project and electronic communications;
- our ability to deploy our NextGen software in a timely manner and with all the features our customers require;
- the impact of any acquisitions or dispositions, including our ability to integrate acquisitions and capitalize on their anticipated synergies;
- potential shareholder litigation as a result of the restatement of our previously issued consolidated financial statements;
- risks relating to our management's determination that there was a material weakness in our internal control over financial reporting, and as a result that our disclosure controls and procedures were not effective during periods at and prior to January 31, 2014; and
- other factors, including the risk factors discussed in this quarterly report.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on the forward-looking statements. These forward-looking statements speak only as of the date of this quarterly report. Unless required by law, we do not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. A potential investor or other vendor should, however, review the factors and risks we describe in the reports we will file from time to time with the U.S. Securities and Exchange Commission, or SEC, after the date of this quarterly report.

Overview

We are one of the leading providers of tax preparation services in the United States and Canada. As measured by both the number of returns prepared and the number of retail offices, we are the third largest and fastest growing national retail preparer of individual tax returns in the United States and the second largest retail preparer of individual tax returns in Canada. From 2001 through 2013, we grew the number of U.S. tax returns prepared in our offices from approximately 137,000 to 1.8 million. Our tax preparation services and related tax settlement products are offered primarily through franchised locations, although we operate a limited number of company-owned offices each tax season. All of the offices are operated under the Liberty Tax Service brand.

From 2001 through 2013, we grew our number of tax offices from 508 to more than 4,500. During fiscal 2014, we experienced a reduction in offices to just over 4,400 due primarily to our inability to sell franchises during part of our second quarter. We and our franchisees operated 4,175 offices in the United States during the 2014 tax season through February, a 2.0% decrease from the 2013 tax season, when we operated 4,262 offices, which was a 8.7% increase over the number of offices operated in the 2012 tax season. Approximately 59% of our revenue during the first nine months of fiscal 2014 was derived from franchise fees, area developer fees, royalties and advertising fees, and for this reason, continued growth in and seasoning of our franchise locations is viewed by management as the key to our future performance.

Our revenue primarily consists of the following components:

- **Franchise Fees:** Our standard franchise fee per territory is currently \$40,000 and we offer our franchisees flexible structures and financing options for franchise fees. Franchise fee revenue is recognized when our obligations to prepare the franchisee for operation are substantially complete and as cash is received. However, in 2011 we introduced a franchise fee option that forgoes the initial franchise fee payment in favor of a higher royalty rate.

The franchise fee revenue we report includes the portion of franchise fees received by us from franchisees but contractually due to area developers. The amount of franchise fees due to area developers is recorded as an expense.

We restated our financial statements for certain prior periods during the second quarter of this fiscal year, and that restatement prevented us from filing our Annual Report on Form 10-K for the fiscal year ended April 30, 2013 on a

timely basis. For this reason, we were unable to sell franchises for several weeks during August and September 2013, a key part of our sales season. This inability to sell franchises affected our franchise fee revenue for the fiscal second and third quarters of fiscal 2014.

- **Area Developer Fees:** Our area developer fees per area vary based on our assessment of the revenue potential of each area developer area, and also depend on the performance of any existing franchisees within the area developer area being sold. Area developer fees received 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. The length of our area developer agreements is ten years.

For this reason, significant year-to-year trends in our area development sales activity are apparent from our comparative financial results only to the extent that the most recent year is so anomalous as to result in a significant variation in recognized area developer revenue. We will identify trends in these sales even where they do not represent a material year-to-year difference for purposes of area developer revenue recognition.

As described below, we experienced a decrease in area developer fees received during our fiscal 2014 year-to-date because of our inability to sell franchises (including area developer territories) during portions of the second quarter.

We expect new area developer sales to become a less significant source of new revenue in the future as we continue to build out our franchise network and have less need to utilize ADs to support that effort.

- **Advertising Fees:** We earn advertising fee revenue from our franchisees. Our franchise agreement requires all franchisees to pay us an advertising fee of 5% of the franchisee's tax preparation revenue, which we use primarily to fund collective advertising efforts.
- **Royalties:** We earn royalty revenue from our franchisees. Our franchise agreement requires franchisees to pay us a base royalty equal to 14% of the franchisee's tax preparation revenue, subject to certain specified minimums. Franchisees acquiring territories under our "zero franchise fee" alternative are required to pay us franchise royalties of 25% through their first five tax seasons, and thereafter 14% of their tax preparation revenue. Over time, as our offices continue to "season," we expect that our growth in revenue from royalties will continue to outpace our growth in revenue from franchise fees. We also expect to see steadier growth from our royalty revenue, but our franchise fee revenue may decrease if franchisees choose our "zero franchise fee" alternative.

Our reported royalties and advertising fees include the portion of royalties that is paid to us by franchisees but that is contractually due to ADs under our area developer agreements. The amount of royalties due to area developers is recorded as an expense. Our ADs generally receive 50% of both the franchise fees and royalties derived from territories located in their area.

- **Financial Products:** We offer two types of tax settlement financial products: refund transfer products, including a product previously referred to by us as an "electronic refund check" or "ERC", which involve providing a means by which a customer may receive his or her refund more quickly and conveniently, and other tax settlement products, such as ICA refund-based loans. We earn fees from the use of these financial products.
- **Interest Income:** We earn interest income from our franchisees and ADs related to both indebtedness for the unpaid portions of their franchise fees and AD territory fees, and for other loans we extend to our franchisees related to the operation of their territories. For franchise fees and AD loans upon which the underlying revenue has not been recognized, we recognize the interest income only to the extent of actual payment.
- **Tax Preparation Fees:** We also earn tax preparation revenue directly from both the operation of company-owned offices and the provision of tax preparation services through our online tax products.

The Company restated prior financial statements earlier in fiscal 2014. We currently estimate that the direct costs associated with the restatement will be approximately \$850,000. We incurred and recognized the majority of these costs during the nine months ended January 31, 2014. As noted above, the restatement also resulted in an inability to sell franchises and area developer territories for several weeks during August and September 2013.

For purposes of this section and throughout this quarterly report, all references to "fiscal 2014" and "fiscal 2013" refer to our fiscal years ended April 30, 2014 and 2013, respectively, and corresponding references to fiscal quarters are references to quarters within those fiscal years. For purposes of this section and throughout this quarterly report, all references to "year" or "years" are the respective fiscal year or years ended April 30 unless otherwise noted in this quarterly report, and all references to "tax season" refer to the period between January 1 and April 30 of the referenced year.

Results of Operations

The table below shows results of operations for the three and nine months ended January 31, 2014 and 2013.

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2014	2013	Change		2014	2013	Change	
			s	%			s	%
	(dollars in thousands)							
Total revenues	\$ 40,740	\$ 37,620	\$ 3,120	8%	\$ 56,122	\$ 54,202	\$ 1,920	4%
Income (loss) from operations	5,265	3,553	1,712	48%	(17,695)	(16,026)	(1,669)	10%
Net income (loss)	4,056	1,673	2,383	142%	(10,349)	(10,801)	452	(4)%

Revenues. The table below sets forth the components and changes in our revenues for the three and nine months ended January 31, 2014 and 2013.

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2014	2013	Change		2014	2013	Change	
			s	%			s	%
	(dollars in thousands)							
Franchise fees	\$ 1,247	\$ 1,698	\$ (451)	(27)%	\$ 3,172	\$ 4,503	\$ (1,331)	(30)%
Area developer fees	1,311	1,741	(430)	(25)%	4,994	5,742	(748)	(13)%
Royalties	16,844	15,660	1,184	8%	18,847	17,457	1,390	8%
Advertising fees	5,237	4,528	709	16%	5,863	5,104	759	15%
Financial products	9,864	8,039	1,825	23%	10,482	8,510	1,972	23%
Interest income	3,001	3,140	(139)	(4)%	7,435	8,339	(904)	(11)%
Tax preparation fees, net of discounts	2,054	1,445	609	42%	2,682	1,886	796	42%
Other revenue	1,182	1,369	(187)	(14)%	2,647	2,661	(14)	(1)%
Total revenues	\$ 40,740	\$ 37,620	\$ 3,120	8%	\$ 56,122	\$ 54,202	\$ 1,920	4%

Total revenues increased by \$3.1 million and \$1.9 million in the three and nine months ended January 31, 2014, representing an 8% and 4% increase, respectively, over the prior year periods. The largest components of the increase were:

- A \$1.2 million and \$1.4 million increase, respectively, in royalties because the number of tax returns filed by our offices increased during fiscal year 2014 over fiscal year 2013. This may have occurred because the IRS had more forms available at the beginning of the fiscal 2014 tax season. Also, there was an increase in the average net fee per tax return filed.
- A \$709,000 and \$759,000 increase, respectively, in advertising fees because the number of tax returns filed by our offices increased during fiscal year 2014 over fiscal year 2013, and because there was an increase in the average net fee per tax return filed.
- A \$1.8 million and \$2.0 million increase, respectively, in financial products revenue primarily due to an increase in the volume of returns accepted by the IRS during fiscal 2014 over fiscal 2013. Financial products require the return to be accepted by the IRS before we can originate the product and record the associated revenue and a higher percentage were accepted before January 31, 2014 compared to the same date in 2013.
- A \$609,000 and \$796,000 increase, respectively, in tax preparation fees, net of discounts, primarily due to an increase in the number of online tax returns filed during fiscal 2014 over fiscal 2013 as well as an increase in average net fee. The acquisition of certain assets of an online tax preparation software provider in the third quarter of fiscal 2014 favorably impacted the number of returns filed.

These increases in revenue were partially offset by the following decreases:

- A \$451,000 and \$1.3 million decrease, respectively, in franchise fees due to a decrease in the number of franchise sales because we were unable to sell franchises for a portion of the second quarter of fiscal 2014. This is typically a peak franchise sales period.
- A \$139,000 and \$904,000 decrease, respectively, in interest income primarily due to our decision to cease the practice of refinancing accounts receivable into notes receivable.
- A \$430,000 and \$748,000 decrease, respectively, in area developer fees due primarily to the repurchase of several areas from ADs during fiscal 2014, which caused a decrease in area developer fees because some of the AD fees have not been fully recognized.

Operating expenses. The table below details the amounts and changes in our operating expenses for the three and nine months ended January 31, 2014 and 2013.

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2014	2013	Change		2014	2013	Change	
			\$	%			\$	%
(dollars in thousands)								
Employee compensation and benefits	\$ 10,318	\$ 10,285	\$ 33	— %	\$ 24,603	\$ 24,566	\$ 37	— %
General and administrative expenses	9,121	7,857	1,264	16 %	23,131	19,783	3,348	17 %
Area developer expense	7,909	6,814	1,095	16 %	9,442	8,646	796	9 %
Advertising expense	5,860	7,687	(1,827)	(24)%	11,051	12,786	(1,735)	(14)%
Depreciation, amortization and impairment charges	2,267	1,424	843	59 %	5,590	4,447	1,143	26 %
Total operating expenses	\$ 35,475	\$ 34,067	\$ 1,408	4 %	\$ 73,817	\$ 70,228	\$ 3,589	5 %

Our total operating expenses increased by \$1.4 million and \$3.6 million in the three and nine months ended January 31, 2014, compared to the same period in fiscal 2013, representing a 4% and 5% increase, respectively. The largest components of these increases were:

- A \$1.3 million and \$3.3 million increase, respectively, in general and administrative expenses caused primarily by the following:
 - A \$1.1 million and \$1.3 million increase, respectively, in bad debt expense based on our assessment of the appropriate level of allowance for doubtful accounts.
 - Non-recurring expenses of \$63,000 and \$850,000, respectively, related to the restatement of our prior financial statements.
- A \$1.1 million and \$796,000 increase, respectively, in area developer expense, related to the corresponding increase in royalties revenue noted above.
- A \$843,000 and \$1.1 million increase, respectively, in depreciation, amortization and impairment charges due to the additional amortization expense related to the purchase of certain assets of online tax preparation software providers and because we put our NextGen software program into service during the third quarter of fiscal 2014. Also, we incurred more amortization related to area developer rights and customer lists acquired from franchisees during the fiscal 2014 periods than we did during the same periods of fiscal 2013.

These increases in operating expenses were partially offset by a \$1.8 million and \$1.7 million decrease, respectively, in advertising expense caused by a reallocation of advertising resources from the third quarter into the fourth quarter in anticipation of the delay in the beginning of the IRS acceptance of electronic filings.

Other income (expense). Available-for-sale securities with a cost basis of \$3.0 million were sold during the nine months ended January 31, 2014. A gain on the sale of \$2.2 million was recognized and recorded as a component of other income. Interest expense decreased \$557,000 during the nine months ended January 31, 2014 as compared to the same period during fiscal 2013 because we no longer have an interest rate swap. There were no other material changes in other income between the three and nine months ended January 31, 2014 and the same periods of fiscal 2013.

We recorded income tax benefits with effective rates of 37.6% and 38.8%, respectively, in the nine months ended January 31, 2014 and 2013, respectively. For the third quarters of fiscal 2014 and 2013, we recorded income tax expense with effective rates of 40.3% and 38.8%, respectively. Due to the seasonal nature of our business, we expect the losses we incur through the first three quarters of a fiscal year will be more than offset by the results of our fiscal fourth quarter.

Liquidity and Capital Resources

Overview of factors affecting our liquidity

Seasonality of cash flow. Our tax return preparation business is seasonal, and most of our revenues and cash flow are generated during the period from January through April 30. Following each tax season, from May 1 through early February of the following year, we rely significantly on excess operating cash flow from the previous season, on cash payments made by franchisees and ADs who purchase new territories and areas prior to the next tax season and make cash payments in connection with those purchases, and on the use of our credit facility to fund our operating expenses and invest in the future growth of our business. Our business has historically generated a strong cash flow from operations on an annual basis. We devote a significant portion of our cash resources during the off season to finance the working capital needs of our franchisees. We have also incurred significant expenditures in the development of our NextGen project, the first stage of which was put into service during the 2014 tax season.

Credit facility. Our credit facility consists of a \$25 million term loan and a revolving credit facility that presently allows maximum borrowing of \$143.4 million. The term loan amortizes on a quarterly basis and matures on April 30, 2017; the revolving loan also expires on that date. The outstanding borrowings on both loans accrue interest at an adjusted one month LIBOR rate plus a margin that varies from 1.50% to 2.25%, depending on our leverage ratio. The interest rate was 1.92% and 1.95% at January 31, 2014 and April 30, 2013, respectively. This indebtedness is collateralized by substantially all of our assets, including the assets of our subsidiaries.

Under our credit facility, we are subject to a number of covenants that could potentially restrict how we carry out our business or that require us to meet certain periodic tests in the form of financial covenants. The restrictions we consider to be material to our ongoing business include the following:

- We must satisfy a “leverage ratio” test that is based on our outstanding indebtedness at the end of each fiscal quarter,
- We must satisfy a “fixed charge coverage ratio” test at the end of each fiscal quarter, and
- We must reduce the outstanding balance under our revolving loan to zero for a period of at least 45 consecutive days each fiscal year.

In addition, were we to experience certain types of changes in control affecting continuing control of us by our CEO, John Hewitt, or certain changes to the composition of our Board of Directors, we might become subject to an event of default under our credit facility, which may result in the acceleration of our obligations under that facility.

Our credit facility also contains customary affirmative and negative covenants, including limitations on indebtedness, limitations on liens and negative pledges, limitations on investments, loans and acquisitions, limitations on mergers, consolidations, liquidations and dissolutions, limitations on sales of assets, limitations on certain restricted payments and limitations on transactions with affiliates, among others.

We were in compliance with our financial covenants as of January 31, 2014. At January 31, 2014, our leverage ratio was 3.07:1 and our fixed charge coverage ratio was 5.27:1.

Franchisee lending and potential exposure to credit loss. A substantial portion of our cash flow during the year is utilized to provide funding to our franchisees and ADs. At January 31, 2014, our total balance of loans to franchisees and ADs for working capital and equipment loans, representing cash amounts we had advanced to the franchisees and ADs, was \$68.3 million. In addition, at that date, our franchisees and ADs together owed us an additional \$94.3 million, net of unrecognized revenue of \$41.7 million for unpaid amounts owed to us, typically representing the unpaid purchase price of areas comprising clusters of territories, and other amounts owed to us for royalties and other unpaid amounts for which our franchisees and ADs had outstanding payment obligations.

Our actual exposure to potential credit loss associated with franchisee loans is less than the aggregate amount of those loans because a significant portion of those loans are to franchisees located within area developer areas, where our AD is ultimately entitled to a substantial portion of the franchise fee and royalty revenues represented by some of these loans. For this reason, the amount of indebtedness of franchisees to us is effectively offset in part by our related payable obligation to ADs with respect to franchise fees and royalties. As of January 31, 2014, the total indebtedness of franchisees to us where the franchisee is located in an area developer area was \$96.3 million, but \$ 15.4 million of that indebtedness represents amounts ultimately payable to ADs as their share of franchise fees and royalties.

Our franchisees make electronic return filings for their customers utilizing our proprietary technology. Our franchise agreements allow us to obtain repayment of amounts due to us from our franchisees through an electronic fee intercept program before our franchisees receive net proceeds of the tax preparation and other fees they have charged to their customers on tax returns associated with financial products. Therefore, we are able to minimize the nonpayment risk associated with amounts outstanding from franchisees by obtaining direct electronic payment in the ordinary course throughout the tax season. Our credit risk associated with amounts outstanding from ADs is also mitigated by our electronic fee intercept program, which enables us to obtain repayments of amounts that would otherwise flow through to ADs as their share of franchisee fee and royalty payments, to the extent of an AD's indebtedness to us.

The unpaid amounts owed to us from our franchisees and ADs are collateralized by the underlying franchise or area and are guaranteed by the respective franchisee or AD and the related owner(s). Accordingly, to the extent a franchisee or AD does not satisfy its payment obligations to us, we may repossess the underlying franchise or area in order to resell it in the future. At January 31, 2014, we had an investment in impaired accounts and notes receivable and related interest receivable of approximately \$9.5 million. We consider accounts and notes receivable to be impaired if the amounts due exceed the fair value of the underlying franchise and estimate an allowance for doubtful accounts based on that excess. Amounts due include the recorded value of the accounts and notes receivable reduced by the allowance for uncollected interest, amounts due to ADs for their portion of franchisee receivables, any related deferred revenue and amounts owed to the franchisee or AD by us. In establishing the fair value of the underlying franchise, we consider net fees of open territories and the number of unopened territories. At January 31, 2014, we have recorded an allowance for doubtful accounts for impaired accounts and notes receivable of \$4.4 million. There were no significant concentrations of credit risk with any individual franchisee or AD as of January 31, 2014. We believe our allowance for doubtful accounts as of January 31, 2014 is adequate for our existing loss exposure. We closely monitor the performance of our franchisees and ADs and will adjust our allowances as appropriate if we determine the existing allowances are inadequate to cover estimated losses.

Dividends. We have never declared or paid a cash dividend on our capital stock. Although we may pay cash dividends in the future, the payment of dividends will be at the discretion of our Board of Directors and will depend, among other things, on our earnings, capital requirements and financial condition. Our ability to pay dividends will also be subject to compliance with the financial covenants that are contained in our credit facility and may be restricted by any future indebtedness that we incur or issuances of preferred stock.

Sources and uses of cash

Operating activities. In the first nine months of fiscal 2014, we used \$965,000 less cash for our operating activities compared to the first nine months of fiscal 2013 primarily due to more royalties and advertising fees collections related to fiscal 2013 shifting into the first fiscal quarter of 2014 than in the first quarter of the prior fiscal year, which was a consequence of the late start of IRS filings during the 2013 tax season.

Investing activities. In the first nine months of fiscal 2014, we utilized \$5.6 million less in cash for investing activities compared to the same period in fiscal 2013. Some of the items that contributed to the decrease in our investing cash usage for the first nine months of fiscal 2014 compared to the prior year include:

- The sale of securities in fiscal 2014 generating proceeds of \$5.2 million compared to the purchase of those securities in 2013 for \$3.0 million.
- A \$1.5 million reduction in the purchase of property and equipment primarily due to the purchase of a building in fiscal 2013.

The decrease in investing cash utilization was partially offset by:

- An increase of \$2.8 million in purchases of area developer rights, company-owned offices, and acquired customer lists, due to area developer purchases that occurred in the first nine months of fiscal 2014 exceeding those that occurred in the same period of fiscal 2013 as well as the purchase of certain assets of an online tax preparation software provider in fiscal 2014.

Financing activities. In the first nine months of fiscal 2014, we generated \$2.6 million less cash from financing activities compared to the same period of fiscal 2013, predominantly because our net borrowings under our revolving credit facility decreased \$3.5 million because we required less cash for investing and operating activities. This decrease in cash from financing activities was partially offset by \$1.0 million in proceeds from the exercise of stock options net of repurchases of common stock in conjunction with these exercises.

Future cash needs and capital requirements

Operating cash flow needs. We believe our cash from operations and our current credit facility will be sufficient to support our cash flow needs for the foreseeable future.

At January 31, 2014, using the leverage ratio applicable under our loan covenants at the end of that quarter, we had available borrowing capacity of \$32.1 million. Under our credit facility, our leverage ratio requirement at the end of each fiscal quarter is 3:1, except at January 31, when it increases to 4:1.

Our credit facility also contains a requirement that we reduce the balance of our revolving loan to zero for a period of at least 45 consecutive days each fiscal year. However, because our term loan will remain outstanding during that 45 day period, and given our historic cash flow experience at the end of and beginning of each fiscal year, we do not anticipate that the unavailability of our revolving loan during that 45 day period each fiscal year will adversely affect our cash flow. We satisfied this requirement for fiscal 2014 during the quarter ended July 31, 2013, and so that requirement will next be required to be satisfied during fiscal 2015.

We believe several factors will affect our cash flow in future periods, including the following:

- The extent to which we extend additional financing to our franchisees and ADs, beyond the levels of prior periods,
- The extent to which we finance any tax settlement products offered by JTH Financial in the future,
- The extent and timing of our expenditures related to our NextGen project. Our NextGen project is an integral part of our determination to deliver an improved level of service to our franchisees. In addition to integrating our online and retail-based tax preparation software, we expect the NextGen project, when fully deployed, to improve the ability of our franchisees to comply with financial information protection requirements by moving most tax preparation information to a secure centralized platform, and to provide web-based support services in a way that will be both more accessible to our franchisees and their employees and less expensive for us to provide. The first stage of our NextGen project was put into service during the 2014 tax season, with additional stages still in development.
- The cash flow effect of selling franchises under our program allowing franchisees to purchase additional territories without making any cash down payment,
- The offsetting impact of the higher royalty rates we receive from franchisees who elect to purchase territories under the zero franchise fee payment plan,
- The extent to which we engage in stock repurchases,
- Our ability to generate fee and other income related to tax settlement products in light of regulatory pressures on us and our business partners,
- The extent to which we repurchase AD areas in order to allow us to receive a full stream of royalties from the franchisees in the AD areas in future periods, and
- The extent, if any, to which our Board of Directors elects to declare dividends on our common stock.

Effect of our credit facility covenants on our future performance. Our credit facility, which matures on April 30, 2017, imposes several restrictive covenants, including a covenant that requires us to maintain a “leverage ratio” of not more than 4:1 at the end of the fiscal quarter ending January 31, and a ratio of not more than 3:1 at the end of each other fiscal quarter. The higher permitted leverage ratio at the end of the January 31 quarter reflects the fact that as of that date, we have typically extended significant credit to our franchisees for working capital and other needs that is not reflected in revenue that we receive from our franchisees until the period beginning in February each year.

At January 31, 2014, our leverage ratio was 3.07:1. Using the 4:1 test, our available borrowing capacity under the revolving credit facility at January 31, 2014 was \$32.1 million. The leverage ratio is measured only at the end of each fiscal quarter, and so there may be times at which we exceed the quarter-end leverage ratio during the quarter, which we are permitted to do provided that our leverage ratio is within the allowable ratio at quarter-end.

We are additionally obligated to satisfy a fixed charge coverage ratio test which requires that ratio to be not less than 1.50:1 at the end of every fiscal quarter. At January 31, 2014, our fixed charge coverage ratio was 5.27:1.

We were in compliance with our financial covenants as of January 31, 2014; however, the accounting policy changes that resulted in the restatements of our financial statements resulted in our inability to satisfy several credit facility covenants for which we obtained a waiver in August 2013. We expect to be able to manage our cash flow and our operating activities in such a manner that we will be able to satisfy our obligations under the revolving credit facility for the remainder of the term of that facility.

As noted above, although we are subject under our credit facility to a requirement that we reduce the balance of our revolving loan to zero for a period of at least 45 consecutive days each fiscal year, because of the addition of a term loan into our credit facility, we do not believe that this requirement will affect our cash flow or future performance.

Seasonality of Operations

Given the seasonal nature of the tax return preparation business, we have historically generated and expect to continue to generate most of our revenues during the period from January 1 through April 30. In fiscal 2013 we earned 26% of our revenue during our fiscal third quarter ending January 31, and earned 89% of our revenue during the combined fiscal third and fourth quarters. We historically operate at a loss through the first eight months of each fiscal year, during which we incur costs associated with preparing for the upcoming tax season.

Off Balance Sheet Arrangements

From time to time, we have been party to interest rate swap agreements that allow us to manage fluctuations in cash flow resulting from changes in the interest rate on our credit facility. These swaps effectively change the variable-rate of our credit facility into a fixed rate credit facility. Our interest rate swap agreements expired in March 2013 and we were not a party to an interest rate swap agreement at January 31, 2014. We may enter into interest rate swap agreements in the future if we determine that it is appropriate to hedge our interest rate risk.

We also enter into forward contracts to eliminate exposure related to foreign currency fluctuations in connection with the short-term advances we make to our Canadian subsidiary in order to fund personal income tax refund discounting for our Canadian operations. At January 31, 2014, the fair value of forward contracts outstanding was an asset of \$220,000 and was included in other assets.

ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks from those reported at April 30, 2013 in our Annual Report on Form 10-K.

ITEM 4

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), evaluated the effectiveness of our disclosure controls and procedures as defined under Exchange Act Rule 13a-15(e) and 15d-15(e). Based on the evaluation of our disclosure controls and procedures and because the material weakness in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act), described in *Management's Report on*

Internal Control over Financial Reporting in Item 9A of our Annual Report on Form 10-K for the year ended April 30, 2013, has not yet been remediated, our CEO and CFO have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures were not effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During our most recent fiscal quarter, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, as described in *Plan for Remediation of Material Weakness* on Form 10-K for the year ended April 30, 2013, we are dedicating resources to support our efforts to improve the control environment and to remedy the material weakness noted above.

PART II

ITEM 1 LEGAL PROCEEDINGS

There have been no material developments with respect to the legal proceedings reported in our Annual Report on Form 10-K for the year ended April 30, 2013 since the date of that report. However, the Company was sued in September 2013 in federal court in Illinois in connection with alleged violations of the Telephone Consumer Protection Act. Plaintiff alleges that the Company inappropriately made autodialed telephone calls to cellular telephones, seeks the certification of a nationwide class action, and claims statutory damages of \$500-\$1,500 per violation. The Company tendered the defense of this litigation to a third party entity that had contracted with the Company to solicit potential franchisees, and that third party entity has acknowledged its defense and indemnification obligations to the Company. However, because the third party contractor may not have the financial resources to satisfy its defense and indemnity obligations, the Company recently concluded that it may not be able to rely fully upon the fulfillment of those obligations. 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 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.

ITEM 1A RISK FACTORS

There have been no material changes in our risk factors from those reported in our Annual Report on Form 10-K for the year ended April 30, 2013.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no issuances of unregistered shares of our Class A Common Stock during the quarter ended January 31, 2014.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Stock repurchase activity during the three months ended January 31, 2014 was as follows:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Value of Shares that may Be Purchased Under the Plan(2)
November 1 through November 30, 2013	1,816	\$ 20.95	1,816	\$ 2,968,655
December 1 through December 31, 2013	20,455	23.78	20,455	2,792,330
January 1 through January 31, 2014	87,700	24.56	87,700	3,019,838
Total	109,971	24.36	109,971	

(1) During the three months ended January 31, 2014, 55,657 shares repurchased were associated with the exercise of stock options.

(2) On August 29, 2012 we announced that our Board of Directors approved a \$5 million authorization for share repurchases, and did not specify an expiration date for that share repurchase program. The repurchases include deemed repurchases from shareholders exercising options on a net basis. Share repurchases associated with stock option exercises do not reduce the maximum value of shares that may be purchased under the repurchase program, and cash proceeds received from stock option exercises increase the amount of the authorization. In March 2014, our Board of Directors increased the authorization by an additional \$5 million, plus cash proceeds received from stock option exercises.

**ITEM 6
EXHIBITS**

We have filed the following exhibits as part of this report:

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference
31.1	Certification of Chief Executive Officer	X	
31.2	Certification of Chief Financial Officer	X	
32.1(1)	Section 1350 Certification (Chief Executive Officer)	X	
32.2(1)	Section 1350 Certification (Chief Financial Officer)	X	
101.INS(2)	XBRL Instance Document	X	
101.SCH(2)	XBRL Taxonomy Extension Schema	X	
101.CAL(2)	XBRL Taxonomy Extension Calculation Linkbase	X	
101.LAB(2)	XBRL Taxonomy Extension Label Linkbase	X	
101.PRE(2)	XBRL Taxonomy Extension Presentation Linkbase	X	
101.DEF(2)	XBRL Taxonomy Extension Definition Linkbase	X	

(1) This exhibit is intended to be furnished and shall not be deemed "filed" for purposes of the Securities Exchange Act of 1934, as amended.

(2) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not to be "filed" or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under these sections.

SIGNATURES

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

**JTH HOLDING INC.
(Registrant)**

Dated: March 13, 2014

By: /s/ John T. Hewitt
John T. Hewitt
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

Dated: March 13, 2014

By: /s/ Kathleen E. Donovan
Kathleen E. Donovan
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

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I, John T. Hewitt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of JTH HOLDING, INC.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2014

By: /s/ John T. Hewitt
John T. Hewitt
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

I, Kathleen E. Donovan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of JTH HOLDING, INC.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 13, 2014

By: /s/ Kathleen E. Donovan
Kathleen E. Donovan
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of JTH Holding, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended January 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John T. Hewitt, Chief Executive Officer and Chairman of the Board of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 13, 2014

By: /s/ John T. Hewitt
John T. Hewitt
Chief Executive Officer and Chairman of the Board (Principal
Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of JTH Holding, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended January 31, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kathleen E. Donovan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 13, 2014

By: /s/ Kathleen E. Donovan
Kathleen E. Donovan
Chief Financial Officer
(Principal Financial Officer)

