THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TAX - Q4 2016 Liberty Tax Inc Earnings Call

EVENT DATE/TIME: JUNE 14, 2016 / 8:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Vanessa Szajnoga *Liberty Tax, Inc. - VP of Legal*

John Hewitt *Liberty Tax, Inc. - Founder, Chairman & CEO*

Kathy Donovan *Liberty Tax, Inc. - VP & CFO*

CONFERENCE CALL PARTICIPANTS

Lee Jagoda *CJS Securities - Analyst*

Chris Howe *Barrington Research - Analyst*

Michael Millman *Millman Research Associates - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Ashley and I will be your conference operator today. At this time, I would like to welcome everyone to the Liberty Tax FY16 earnings call.

(Operator Instructions)

Thank you, I would now like to turn the conference over to Vanessa Szajnoga. Please go ahead.

Vanessa Szajnoga - *Liberty Tax, Inc. - VP of Legal*

Thank you, Ashley.

Good afternoon, everyone, and thank you for joining us. With me today are John Hewitt, our Founder, Chairman, and Chief Executive Officer, and Kathy Donovan, our Vice President and Chief Financial Officer.

The press release announcing our FY16 earnings was distributed this afternoon. The earnings release may be accessed at the Investor Relations section of our website located at www.LibertyTax.com. A replay of this call will be available shortly after its conclusion. The information to access the replay was in the earnings press release.

I'd like to remind everyone that today's remarks may include forward-looking statements as defined under the Securities and Exchange Act of 1934. Such statements are based on current information and management's expectations as of this date and are not guarantees of future performance. Forward-looking statements involve certain risks, uncertainties, and assumptions that are difficult to predict.

As a result, our actual outcomes and results could differ materially. You can learn more about these risks in our annual report on Form 10-K for the fiscal year ended April 30, 2015, and our other SEC filings. Liberty Tax undertakes no obligation to publicly update these risk factors or forward-looking statements.

This presentation also contains references to certain non-GAAP financial measures, which are metrics that we use internally to measure our operating performance. For a description of these non-GAAP financial measures, including the reasons management uses each, and the reconciliations of these non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with generally accepted accounting principles, please see the latest earnings release, which is also available under the Investor Relations section of our website.

I would now like to turn the call over to our Founder, Chairman, and CEO, John Hewitt. John?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Thank you, Vanessa, and good afternoon, everyone. Thank you for joining us today. We appreciate the opportunity to share some insight into the recently completed tax season and to tell you about the opportunities we see in the future for the industry as a whole and Liberty in particular.

The 2016 tax season was certainly one of the most difficult and challenging tax seasons I have ever experienced. Our Company has a long history of growth, innovation, results-oriented management, and solid long-term financial performance. We are committed to upholding our core principles, which have sustained our success for nearly two decades.

We are eager to execute upon the plans in place to work towards a successful year ahead. With that said, let's give you some updated numbers through the end of the fiscal year.

This year, as of April 29th, the IRS reported total growth and returns of 1.9% and paid preparer growth of 0.5%. This indicated strong growth in returns for both the industry overall and for tax professionals more than last year. The lack of return growth from the branded tax professional sector indicates growth from mom-and-pop preparers.

Returns in our offices filed by 3.9%; however, our US system-wide revenue grew by 1.1% due to a 5% increase in our average net fee. Canadian system-wide revenue was up 3.8% on a local currency basis.

During the 2016 tax season, one of the biggest changes in our core business was the introduction of additional offices through our Company store business segment. This season, we operated almost 130 more offices compared to the last tax season, bringing our total US Company stores to over 250 offices.

We opened and operated about 80 cluster offices that can provide perspective and exiting franchisees with an opportunity to grow by purchasing these turnkey-ready offices. Going forward, these offices will be available for sale, along with other offices that we have taken over from franchisees, as part of our ongoing compliance efforts.

In addition to our Company's store business, we were excited to see the progress and development of our SiempreTax+ brand. SiempreTax+ is already one of the fastest growing tax-preparation franchises in US history, even outpacing the initial growth of Liberty Tax service. Store count in our Siempre+ brand has grown by roughly 150%. We had 144 active locations this past tax season. This represents an increased interest from franchisees to open a Siempre+ office to complement their existing Liberty offices. Many franchisees currently hold the rights to a SiempreTax+ franchise in areas that we believe are right for SiempreTax+ success, based upon the identification of territories with a large Hispanic presence.

The US Census Bureau predicts that 19% of the US population will be Hispanic by 2020. This is an underserved population, and Liberty is committed to being a meaningful provider of services in the Hispanic community. We will continue to set aggressive goals for our SiempreTax+ brand.

We believe that growing Hispanic population and business will continue to create an opportunity for growth in our industry. There are many hidden opportunities in the Hispanic market, such as less expensive and targeted advertising, as well as the growing acculturation of the Hispanic population and significantly less competition. The increased importance of the Hispanic community in the US makes this an ideal time to expand the SiempreTax+ brand and establish a strong foothold in the community.

During the 2016 tax season, the ACA, Obamacare, again did not drive the expected volume of incremental returns to the industry overall or to tax professionals in particular. Through our independent data, we saw the majority of customers continue to indicate that they had insurance, but very few actually obtained it in the exchange and were thus reconciled to include it on their tax return as a premium tax credit. Roughly 19% of our customers were impacted by ACA, between those claiming an exemption, paying a penalty, or reconciling their premium tax credit.

Our experience with the second year of ACA has shown that the majority of marketplace participants do require additional adjustments to their tax return related to the ACA subsidies. As the exemptions are gradually reduced, this should cause more ACA tax filers to look for tax professionals' help.

Additionally, the IRS has yet to start the auditing process for individuals who claimed to have health insurance during the year. This process will allow the IRS to match the filer and their taxpayer identification number against health insurance provider records prior to filing; however, it is still too early to say if the long-awaited ACA effect will be felt even next year.

The push to combat fraud within some of our offices and the resulting negative publicity had an impact on our performance. Our compliance programs continued to evolve as we work to ensure that we can quickly identify and prevent tax filer non-compliance.

We are committed to doing things right. As we previously announced, this includes a creation of a compliance executive tax force charged with identifying offices with compliance issues and terminating those offices in an effort to protect the brand and the integrity of tax preparation. We recognize that these initial steps are a part of our longer process in combating what is an industry-wide issue.

We are committing to end-to-end review in cooperation with third party experts to expand our compliance efforts. We have engaged the services of Fred Goldberg, a former IRS Commissioner and a current partner at the law firm Skadden, Arps. We are being proactive and look forward to continue to work with authorities and industry groups in combating these industry-wide issues.

Separately, Jim Wheaton, our former Chief Compliance Officer, has left the Company. He was a valuable member of the executive team and we thank him for his contributions over the years.

For FY17, we are looking forward to the franchise selling season and expect the excitement surrounding our SiempreTax+ brand and turnkey-ready Company stores to be the foundation of this year's efforts. We have also decided to shift focus away from our seasonal business locations. We believe placing the franchisees' focus on running permanent locations and growing the existing customer base will result in a more positive return growth and profitability for our franchisees.

This planting season, we are placing an increased emphasis on expansions from existing franchisees. These offices typically perform much stronger than a new franchisee, as our existing franchisees already have a wealth of experience.

To focus on office growth, I am personally providing guidance to each of our area developers on expansion goals for the next three years to ensure that our existing franchisees see the potential in every territory. Franchisees who commit to expand over next three years will also benefit from my guidance for their development.

I believe the Company remains well positioned for competitive long-term growth, outperforming an industry that will also continue to grow. It is resistant to recession and has become increasingly complicated in a way that will benefit larger national systems, with fraud controls in place once Congress and the IRS have leveled the playing field for all.

The impact of several franchisees leaving our system this year could potentially impact our return counts in the coming season. Despite this possibility, we are committed to growing both revenue and earnings next year by continuing to capitalize on the opportunities in our financial products group and generating higher revenue and profit in Company stores, and by closely managing expenses.

Now I'd like to turn the call over to our CFO, Kathy Donovan.

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

Thanks, John. Good afternoon, everyone.

As you saw in today's press release, for the full fiscal year, the Company grew revenue 7% to $173.4 million. We reported GAAP earnings per share of $1.38, up 126%, and non-GAAP earnings per share of $1.41, up 4%.

Starting with revenue first, our financial products group delivered another strong quarter and a strong year. Despite the decline in the return counts on the tax preparation side, financial product revenue grew 22% for the year to $45.3 million. This reflects the success of our new refund advance product, improved pricing, and our decision to process 100% of our refund transfers in house this year, which increases our profitability and allows us to recognize the full amount charged to the customer as revenue.

As a result of the lower tax return volume, the actual number of refund transfers declined to 901,000 this year compared to 949,000 last year. The attachment rate also declined slightly from 49.7% to 49.2%, primarily due to a mix shift in the number of refund-due versus balance-due returns. Tax preparation fees were also up nearly 40% for the year, reflecting the higher number of Company-operated stores.

Going forward, as John discussed, we will be focused on continuing to drive both revenue and profit by optimizing the potential of our financial product offerings and continuing to improve the operations of the Company stores. Offsetting this revenue growth were declines in franchise fees and area developer fees. The decline in franchise fees this year was largely due to reduced payments on previous sales, along with fewer expansion sales in the fourth quarter. Area developer fees will continue to trend down as revenue from some of the earlier agreements has now been fully recognized over their full ten-year life.

Finally, royalty and advertising fees were flat to prior year. A 5.1% increase in the average net fee was offset by a 3.9% decline in return count. In addition to that, the mix shift in favor of more Company-operated stores increased tax preparation fees while reducing royalties.

Turning to expenses, the increase in operating expense was primarily due to higher costs in the financial products group associated with the new refund advance product and with moving 100% of our RTs in house, along with higher salaries and administrative costs related to the increased number of Company-operated stores.

Advertising expense decreased this year as we took a more targeted approach for both online and new franchise advertising. We again spent more than our franchise agreements required for tax-season advertising in anticipation of higher advertising payments from our franchisees. Going forward, we are setting up our programs in a way that will allow us to more easily increase or decrease our spend as we see how the season unfolds.

Our effective tax rate for the year declined to 36.3%. We received a one-time benefit from the permanent approval of the R&D tax credit, as well as the benefit of several discrete one-time items. In the future, we expect our tax rate to be between 37.5% and 38%.

Looking forward, we have already incurred and we expect to incur additional costs in the future as a result of ongoing task force efforts involving the issues surrounding this season's office closures. We are still early in our investigation and cannot yet estimate how much will be spent, but we will clearly disclose all such costs in future earnings reports and identify them in our reconciliation of non-GAAP financial information.

Now let's take a quick look at the balance sheet and cash flow. Our balance sheet remains solid. We delivered nearly $30 million in cash from operations and ended the year with $10 million of cash on hand. The decline in cash during the year was primarily driven by the payment of $8 million in legal settlements that were accrued last year and paid out this year. Finally, as of tomorrow, we will have met our annual requirement to have no borrowings outstanding under our revolver for 45 consecutive days during each fiscal year.

As John said earlier, we are committed to driving growth in both revenue and earnings per share, and we would like to reiterate our commitment to delivering value to our shareholders. Our Board has approved our sixth consecutive quarterly dividend of $0.16 per share, which will be paid on July 22nd to shareholders of record on July 12th.

In addition, they have also increased our share repurchase authorization to $10 million. We aren't going to discuss specific plans at this time, but as always, decisions about future share repurchases will be based on our operating results, market conditions, and other capital needs.

And with that, John and I would now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from the line of Lee Jagoda, CJS Securities.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Welcome, Lee.

Lee Jagoda - *CJS Securities - Analyst*

Hi, good afternoon. So first on the ad spending commentary, can you give us some insight as to some of the things you can do, given that you have to budget well ahead of when you actually know your volumes?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Well, Lee, our revenue is pretty consistent from year-over-year and same-store sales, so we have a good idea. And also, we have, by experience, we know how many customers are going to come in each day during the tax season. So we can extrapolate in -- by late January, we can extrapolate by how many returns we've done as to how many we're going to do each day the rest of the tax season. Because a certain percentage file each day.

So for example, and this isn't exact, but on the fifth Monday of the year, 3.2% of people are filing. So we can extrapolate that and be very accurate in projecting our end-of-season revenue.

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

So instead of committing it all upfront based on estimates, before the season has begun, we're going to make smaller commitments up front and then commit the entire amount after we've seen a couple of weeks of activity.

Lee Jagoda - *CJS Securities - Analyst*

Got it. That's great. And then given it's likely that some stores close during the tax season, what was your end-of-season store count?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

We don't have that right now, and not that many stores closed. It was less than -- certainly less than 100, probably less than 50. So it was less than a 2% impact.

Lee Jagoda - *CJS Securities - Analyst*

Okay, and then one more and I'll let others ask a couple. Industry competitors, specifically H&R Block, appears to be getting pretty aggressive in going towards regaining customers, particularly in the early tax season next year. Assuming that means pricing, do you think it represents a change in the way industry pricing will be managed or what do you think the changes are likely to be next year?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Well, Lee, I've heard H&R Block for the last five years when they've lost 3 million returns, each year they say how aggressive they're going to be the next year. So that doesn't alarm me. And also, I don't think it's going to be significant in pricing in the sense that we've tried every pricing model that you can think of. Every return is $49, or every return is 50% off, or every return is $100 or et cetera, et cetera. Price is not a big motivator for change.

The one thing they did that they admitted last year or a couple years ago that they did unsuccessfully was they offered free 1040 EZs, and that had a modest impact, a very small impact on us and the rest of the industry. And they already said -- they've already said that was unsuccessful, unsustainable, but I've heard rumors they may go back to that. Other than that, there's nothing that we see that they can do that's going to have a major impact on Liberty Tax.

Lee Jagoda - *CJS Securities - Analyst*

Okay, I will hop back in queue, thank you.

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

Thanks, Lee.

Operator

Your next question comes from the line of Alex Paris, Barrington Research.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Welcome, Alex.

Chris Howe - *Barrington Research - Analyst*

Hi, good afternoon. This is actually Chris Howe sitting in for Alex Paris.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Hi, Chris.

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

Hi, Chris.

Chris Howe - *Barrington Research - Analyst*

Hi. I just had a few questions here. In regard to the mix of do-it-yourself versus assisted, this is kind of in reference to your Q4 2015 comments. Are you still expecting a couple hundred basis point increase over the next one or two years? And in follow-up to that, are there any additional catalysts besides ACA, immigration reform and Hispanic immigrants that may come to fruition?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Chris, the ACA has been -- impact has been delayed, the positive impact has been delayed. It's -- two years ago, we guessed it would be over a three-year period and it hasn't started yet over a two-year period. So our thought is that it will have an impact of 100 or 200 basis points, but it will be over an undetermined or indeterminable amount of years.

So yes, it's going to have an impact. How soon it has an impact is unclear, but ACA and immigration reform and immigration getting undocumented workers to file in our offices are still the two biggest opportunities that are tailwinds to this industry.

Chris Howe - *Barrington Research - Analyst*

Okay, thank you. And would you be able to provide an update or some additional color on how the cluster program is coming along? And how does the performance of a cluster store compare to your other franchisee-owned stores?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

The cluster stores are -- what we look to do and when we take back franchises, we often have one here and one there and two over there. And this allows us to -- we opened four offices in Syracuse and five offices in Buffalo and four offices in Rochester. And so we're putting them in groups and making them available for purchase.

And we found in the past, as you can imagine, that they are much easier to award or sell a existing store front than it is an empty territory, where the prospective franchisee has no idea where they are going to locate or what it's going to look like and so forth. So we're excited about the opportunity to get these good locations up and ready and available for new franchisees.

I do want to talk about one thing -- to answer, go back to your first question, that there is something happening in the industry that we're looking to happen that could impact the industry and that's evening the playing field. In this industry, it's very unusual, from my experience in business, but the mom-and-pops have been taking market share from the national players for about five years. And that just isn't true in hardware, it isn't true in department stores, it isn't true in convenience stores, et cetera, et cetera.

And what's happened is it's been an uneven playing field, and we expect that to change. We expect there to be required certification of preparers in the future, and we require that and we expect that the IRS requirements for assisted preparers is going to be matched by their requirements from online filers. Specifically, in the biggest change has been in earned income credit and the documentation that we must keep in our offices and the diligence we must do far exceeds what an online provider has to do. And that's so that the fraudulent or the people without adequate records are turning to online, and we expect that to change back.

We expect the IRS and/or Congress to even the playing field and make it the same requirements for someone who files a tax return online as someone who comes into one of our offices. And so we expect that to be a benefit and a shift towards assisted preparation.

Chris Howe - *Barrington Research - Analyst*

That is very helpful, thank you for the color. I'll jump back in the queue.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Thanks, Chris.

Operator

Your next question comes from the line of Michael Millman, Millman Research.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Michael, welcome.

Michael Millman - *Millman Research Associates - Analyst*

Thank you. So following up on your last question, what about pricing in terms of the independents?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Yes, I think the major reason that independents have taken share, the major reason obviously is fraud, that there are some independents that are more likely to commit fraud. When we -- we have turned in over the last few years hundreds of people to the IRS and who -- or states as having committed fraud. When you have 30,000 preparers, you're going to have some bad apples.

And when we turn them over, I don't think they just leave the industry and go away silently. They go to somewhere else that has less lax rules. And so the mom and pop has less control over their tax preparers, and also they will do -- they do charge less, but that's been true since H&R Block invented this industry 60 years ago.

There's been mom and pops that will do tax returns for a song, and there are some parts of the population, 10% or 15% of the people that will go somewhere just because of price. I'm sure some people call up -- when they're looking for a doctor, they call every doctor and ask for a price and go to the cheapest doctor, but the majority do not do that. So price is not a major factor for the lion's share of the people that file a tax return and pay a preparer.

Michael Millman - *Millman Research Associates - Analyst*

So what do the chains need to do to get back in the game?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Now say that again? What do we need to change?

Michael Millman - *Millman Research Associates - Analyst*

What does the brand need to do other than wait for the laws to get tougher to get back into a growth mode?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Well, the good news for us is you're right, the branded preparers face adversity as long as it's an uneven playing field between online and brick and mortar, between mom and pop and national player. Liberty has prospered in that environment before. It's only the last two years that Liberty has struggled with the -- had -- actually had a small decrease in returns. We expect to execute and to operate in the highest functioning of the national players, and as a result, we expect to outperform the other national players and mom and pops, like we did in years past.

Michael Millman - *Millman Research Associates - Analyst*

Also specifically next year, what do you think Path is going to do to the industry or do to how things work out?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

It's going to be, the Path Act, and for those of you on the call that aren't familiar with it, is requires -- Congress has required the IRS not to pay refundable credits before February 15. And that's new and the first time ever in my 47-year career that IRS has been under instruction to delay refunds.

That's going to have a number of impacts. First of all, we're going to be the bearer of bad news. They're not going to probably get that, the low income customers that are impacted aren't going to hear about it until January. And so we're going to tell the first few customers in our offices that you're not going to -- you normally get your refund at the end of January or early February. You're going to wait a couple weeks extra this year because the IRS -- on this type of return, which is a big percentage of our business in early January, because the IRS is doing extra due diligence and they were required by Congress to hold the money.

Well, we're concerned about that because these people live paycheck to paycheck, and that by habit, they will -- instead of paying their January rent, they will spend that money on Christmas gifts and so pay their rent late when they get their refunds. And they're going to be strapped for -- they are going to be strapped for money and they're not going to know it's coming.

And it's unfortunate because it's their money. The IRS has been holding and the US government has been holding their money, and it's unfortunate that over half the population of the United States uses the tax system as a savings vehicle. And this vehicle is going to be delayed surprisingly to them next year for a couple weeks. So one impact is there are going to be some -- we're the bearer of bad news.

The good news is that once we've told thousands of customers in early January they're going to go tell their friends, and they're just not going to come in and they're not going to file tax returns until later than they've ever done before. So January is going to be the worst -- the worst January in my experience in this industry. That's going to move into the next quarter, our February quarter.

And while it presents a crisis of sorts because the taxpayers don't get paid on bank products until the bank products are funded. And so our franchisees that are used to getting money end of January aren't going to get money for the two busiest weeks of the year, the first two weeks of February. They're not going to get money until after February 15 and that could put them in a hole.

Fortunately, Liberty's well situated to help them get through that process economically and we have the funding from our banking partners to get them their money so that they can operate successfully during that period. So in this case, that's a benefit to the national players who have either the cash or the lending capacity to weather that difficult period of where we will have finished over 65% of our business by about February 15 and the tax preparers will not have been paid for even 25% of it. So it gives us an opportunity, a competitive edge over the less well-funded mom and pops.

Michael Millman - *Millman Research Associates - Analyst*

Was it also an opportunity for RALs?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

It is. Obviously the only -- and they're not RALs anymore. It's the same acronym, but as you know and I know, the RAL has been legislated out of existence. It's a refund advance, not a refund anticipation loan. So it's a refund advance loan and it makes it much more important this year, because the only way you can get money in January from many of these people because they don't qualify for normal credit, they don't have bank accounts, they don't qualify for normal credit cards. The only way they will get -- be able to get money is a refund advance, so that will be more important than ever before.

Michael Millman - *Millman Research Associates - Analyst*

Great. Thank you, John.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Thank you, Michael.

Operator

Your next question is a follow-up from Lee Jagoda, CJS Securities.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Welcome back, Lee.

Lee Jagoda - *CJS Securities - Analyst*

Thanks. Can you try to quantify the impact of price, specifically on the refund transfer product on a year-over-year basis? And how much pricing power do you think you still have for further increases?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

We don't charge extra for the refund advance, so we don't think that's a pricing factor.

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

We didn't charge extra to the client but we do to our franchisees.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Right. So the franchisee pays an additional fee, so their prices are slightly higher. We continue to think that our prices will be in the low single digits going forward, so somewhere in the low single digits.

Lee Jagoda - *CJS Securities - Analyst*

For financial product or for [tax preparation]?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

No, for all customers.

Lee Jagoda - *CJS Securities - Analyst*

Right, but on the refund transfer product, you obviously charge a fee to use the refund transfer product and that fee appears to have increased quite a bit this year. If I look towards next year, how much pricing power do you think still exists?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

We're negotiating with our banks as we speak, so I would lose negotiating power with my bank if I told you. So we'll announce that in our December call.

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

But we definitely believe that we have several actual opportunities on the JTH financial side that we are looking at compared to what other competitors do. And we believe our pricing is below them in virtually every category. And so we are just, at this point, going through and deciding what is it that we want to -- what package we want to put together next year.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

So, as Kathy said, there's opportunity there for us for sure, but we're in negotiation with the banks right now.

Lee Jagoda - *CJS Securities - Analyst*

Sure, and then John, earlier in your comments, you mentioned that some loss of franchisees could impact volumes during next tax season. I'll ask it this way: Is that to say that you expect fewer locations in 2016 year over year?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

No. The impact of locations we intend to reacquire the lease and to reopen them.

Lee Jagoda - *CJS Securities - Analyst*

So why would that decrease tax returns or impact volumes then?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Well, it's sometimes we may not get the same location. The operators there were very experienced, an average of, and some of them have 8 to 10 years' experience. And we're only talking about, again, less than -- most likely less than 100 offices involved. But we anticipate some -- there have been compliance issues, and that's why they've been terminated. So we expect to have issues in those locations, customer issues.

Lee Jagoda - *CJS Securities - Analyst*

And if I think about your clustering program and the idea that you're opening up more Company-owned stores, and I couple that with your focusing on more existing franchisees versus new franchisees, if the strategy is for an existing franchisee to buy one of the Company-owned stores that you've already opened in a cluster program, how do you get store growth to continue on a year-over-year basis unless you intend to just drive store growth by opening up Company-owned locations, which would cost a lot more money initially?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Well, first of all, and I'm not saying that we're going to do that, but we could -- as we sell our cluster stores, we could add more cluster stores, right? There are 6,000 territories in this country where there's an H&R Block and there's no Liberty. So there's plenty of room to put in existing offices, and we encourage our area developers, there are 150 area developers, and our franchisees to help us find locations which we can roll over to both existing and new franchisees.

So again, I'm not going to reveal our program to our competitors, but we had -- let's say we had 80 cluster stores today and we sold them tomorrow. We could go open 80 more cluster locations, Lee.

Lee Jagoda - *CJS Securities - Analyst*

Got it very helpful, thank you.

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

And then just one other thing as far as total office count. We did mention that we'll probably be downsizing some of the seasonal locations. The rents continue to go up and they don't make as much sense as the brick-and-mortar locations. So they will not have a large impact on return count, but you may see less seasonal locations.

Lee Jagoda - *CJS Securities - Analyst*

And just to be clear, how many seasonal locations do you currently have?

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

It was about 250.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Yes, it's small. It's under 300.

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

Yes.

Lee Jagoda - *CJS Securities - Analyst*

Order of magnitude, would you expect that to be cut in half, go close to zero, what's the expectation there?

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

We're not going to lose more than 100 I don't think. But again, their volumes are far below our store-front locations, so it takes three or four of them to get up to one store front.

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

Or more.

Operator

Now I'd like to turn the call over to John Hewitt.

John Hewitt - *Liberty Tax, Inc. - Founder, Chairman & CEO*

Well thank you, everyone, for your attention and again, as always, our future success depends on us having happy, successful employees and happy, successful franchisees and we thank them for their great contribution to our team. Have a great day, everyone.

Kathy Donovan - *Liberty Tax, Inc. - VP & CFO*

Thank you, all.

Operator

This does conclude today's conference call. You may now disconnect.