

JTH Holding, Inc.
Form 10-Q/A
December 20, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended July 31, 2012

OR

o 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)

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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 Class A Common Stock, \$0.01 par value, at the close of business on August 27, 2012, was 12,141,500 shares.

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JTH HOLDING, INC.

Form 10-Q for the Period Ended July 31, 2012

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PART I

ITEM 1

FINANCIAL STATEMENTS

Explanatory Note

We are filing this Amendment No. 1 on Form 10-Q/A (the "Amended Filing") to our Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2012 originally filed with the Securities and Exchange Commission ("SEC") on August 29, 2012 (the "Original Filing") to restate our condensed consolidated financial statements as of and for the three months ended July 31, 2012 and 2011. Details regarding the restatement can be found in our Annual Report on Form 10-K for the year ended April 30, 2013, filed with the SEC on October 1, 2013.

Items Amended in This Filing

This Amended Filing amends and restates the following items of our Original Filing as of and for the quarterly period ended July 31, 2012 and 2011:

- Part I Item 1. Financial Statements (Unaudited),
- Part I Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part I Item 4. Controls and Procedures
- Part II Item 6. Exhibits

In accordance with applicable SEC rules, this Amended Filing includes new certifications as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") from our Chief Executive Officer and Chief Financial Officer dated as of the date of filing of this Amended Filing.

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Pursuant to Rule 12b-15 under the Exchange Act, this Amended Filing contains only the items and exhibits to the Original Filing that are being amended and restated, and unaffected items and exhibits are not included herein. Except as noted herein, the information included in the Original Filing remains unchanged. This Amended Filing continues to describe the conditions as of the date of the Original Filing and, except as contained herein, we have not updated or modified the disclosures contained in the Original Filing to reflect any events that have occurred after the Original Filing. Accordingly, forward-looking statements included in this Amended Filing may represent management's views as of the Original Filing and should not be assumed to be accurate as of any date thereafter. This Amended Filing should be read in conjunction with our filings made with the SEC subsequent to the filing of the Original Filing, including any amendment to those filings.

Table of Contents**JTH HOLDING, INC. AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets

July 31, 2012 and April 30, 2012 (unaudited)

(In thousands)

| | July 31, 2012 As Restated(1) | April 30, 2012 |
|---|---------------------------------|----------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,228 | \$ 19,848 |
| Receivables (note 2): | | |
| Trade accounts | 18,533 | 38,321 |
| Notes | 46,916 | 30,283 |
| Interest, net | 1,520 | 674 |
| Allowance for doubtful accounts | (4,474) | (4,496) |
| Total receivables, net | 62,495 | 64,782 |
| Prepaid expenses and other current assets | 2,125 | 5,328 |
| Income tax receivable | 6,095 | 286 |
| Deferred income taxes (note 7) | 3,319 | 3,901 |
| Total current assets | 76,262 | 94,145 |
| Property, equipment, and software, net of accumulated depreciation of \$17,536 and \$16,682 for July 31, 2012 and April 30, 2012, respectively | 25,462 | 23,948 |
| Notes receivable, excluding current portion, net of allowance for uncollectible amounts of \$885 and \$794 for July 31, 2012 and April 30, 2012, respectively, (note 2) | 12,314 | 11,711 |
| Goodwill (note 3) | 6,350 | 5,400 |
| Other intangible assets, net of accumulated amortization of \$4,227 and \$3,485 for July 31, 2012 and April 30, 2012, respectively, (note 3) | 12,348 | 10,314 |
| Deferred income taxes (note 7) | 2,845 | 4,093 |
| Other assets, net | 2,590 | 2,585 |
| Total assets | \$ 138,171 | \$ 152,196 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Current installments of long-term debt (note 5) | \$ 3,174 | \$ 2,736 |
| Accounts payable and accrued expenses (notes 6 and 12) | 7,301 | 14,170 |
| Due to area developers (note 2) | 9,987 | 15,956 |
| Income taxes payable (note 7) | 6,689 | 6,689 |
| Deferred revenue-short-term portion | 7,325 | 6,920 |
| Total current liabilities | 27,787 | 46,471 |
| Long-term debt, excluding current installments (note 5) | 36,834 | 26,249 |
| Deferred revenue-long-term portion | 11,616 | 12,411 |
| Total liabilities | 76,237 | 85,131 |
| Commitments and contingencies (note 12) | | |
| Stockholders' equity (notes 6, 8, 9, and 11): | | |

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| | | | |
|---|------------|----|---------|
| Class A preferred stock, \$0.01 par value per share, 190,000 shares authorized, 0 and 170,320 shares issued and outstanding July 31, 2012 and April 30, 2012, respectively | | | 2,129 |
| Special voting preferred stock, \$0.01 par value per share, 10 shares authorized, issued and outstanding | | | |
| Class A common stock, \$0.01 par value per share, 21,200,000 shares authorized, 12,141,500 and 10,343,957 shares issued and outstanding at July 31, 2012 and April 30, 2012, respectively | 121 | | 103 |
| Class B common stock, \$0.01 par value per share, 1,000,000 shares authorized, 900,000 shares issued and outstanding | 9 | | 9 |
| Exchangeable shares, \$0.01 par value, 100,000 shares issued and outstanding | 1 | | 1 |
| Additional paid-in capital | 6,708 | | 3,182 |
| Accumulated other comprehensive income, net of taxes | 493 | | 676 |
| Retained earnings | 54,602 | | 60,965 |
| Total stockholders' equity | 61,934 | | 67,065 |
| Total liabilities and stockholders' equity | \$ 138,171 | \$ | 152,196 |

(1) As restated - See Note 14 Restatement of Previously Issued Financial Statements of Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

Table of Contents**JTH HOLDING, INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Operations

Three months ended July 31, 2012 and 2011 (unaudited)

(In thousands, except per share data)

| | 2012 | As Restated(1) | 2011 |
|---|------------|----------------|------------|
| Revenues: | | | |
| Franchise fees | \$ 666 | | \$ 800 |
| Area developer fees | 1,923 | | 1,683 |
| Royalties and advertising fees | 1,324 | | 1,309 |
| Financial products | 302 | | 159 |
| Interest income (note 2) | 2,548 | | 1,798 |
| Tax preparation fees, net of discounts | 216 | | 156 |
| Net gain on sale of company-owned offices and other revenue | 265 | | 427 |
| Total revenues | 7,244 | | 6,332 |
| Operating expenses: | | | |
| Employee compensation and benefits | 6,666 | | 5,650 |
| General and administrative expenses | 5,816 | | 3,844 |
| Area developer expense | 717 | | 622 |
| Advertising expense | 2,560 | | 1,790 |
| Depreciation, amortization, and impairment charges | 1,591 | | 1,374 |
| Total operating expenses | 17,350 | | 13,280 |
| Loss from operations | (10,106) | | (6,948) |
| Other income (expense): | | | |
| Foreign currency transaction gains | 2 | | 2 |
| Interest expense (notes 5 and 6) | (292) | | (312) |
| Loss before income taxes | (10,396) | | (7,258) |
| Income tax benefit (note 7) | (4,033) | | (2,707) |
| Net loss | \$ (6,363) | | \$ (4,551) |
| Net loss per share of Class A and Class B common stock: | | | |
| Basic and Diluted | \$ (0.52) | | \$ (0.40) |

(1) As restated - See Note 14 Restatement of Previously Issued Financial Statements of Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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JTH HOLDING, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss

Three months ended July 31, 2012 and 2011 (unaudited)

(In thousands)

| | 2012 | As Restated(1) | 2011 |
|--|------------|----------------|---------|
| Net loss | \$ (6,363) | \$ (4,551) | (4,551) |
| Interest rate swap agreements, net of taxes (note 6) | 45 | (65) | (65) |
| Foreign currency translation adjustment | (228) | (218) | (218) |
| Comprehensive loss | \$ (6,546) | \$ (4,834) | (4,834) |

(1) As restated - See Note 14 Restatement of Previously Issued Financial Statements of Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

Table of Contents**JTH HOLDING, INC. AND SUBSIDIARIES**

Condensed Consolidated Statements of Cash Flows

Three months ended July 31, 2012 and 2011 (unaudited)

(In thousands)

| | 2012 | 2011 |
|---|------------|------------|
| Cash flows from operating activities: | | |
| Net loss | \$ (6,363) | \$ (4,551) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for doubtful accounts | 1,528 | 990 |
| Depreciation and amortization | 1,591 | 1,374 |
| Amortization of deferred financing costs | 69 | 84 |
| Stock-based compensation expense | 398 | 396 |
| Gain on bargain purchases and sales of company-owned offices | (60) | (159) |
| Equity in loss of affiliate | 69 | |
| Deferred tax expense | 1,941 | 1,583 |
| Changes in assets and liabilities decreasing cash flows from operating activities | (15,390) | (11,101) |
| Net cash used in operating activities | (16,217) | (11,384) |
| Cash flows from investing activities: | | |
| Issuance of operating loans to franchisees | (9,956) | (7,985) |
| Payments received on operating loans from franchisees | 999 | 1,134 |
| Purchases of area developer rights and company-owned offices | (1,329) | (285) |
| Proceeds from sale of company-owned offices and area developer rights | 350 | 87 |
| Purchases of property and equipment | (1,976) | (3,267) |
| Net cash used in investing activities | (11,912) | (10,316) |
| Cash flows from financing activities: | | |
| Proceeds from the exercise of stock options | 1,592 | 21 |
| Repurchase of common stock | (843) | (1,654) |
| Repayment of long-term debt | (1,561) | (704) |
| Borrowings under revolving credit facility | 11,078 | 28,597 |
| Repayments under revolving credit facility | | (4,145) |
| Payment for debt issue costs | (8) | |
| Tax benefit of stock option exercises | 269 | 458 |
| Net cash provided by financing activities | 10,527 | 22,573 |
| Effect of exchange rate changes on cash, net | (18) | (1) |
| Net increase (decrease) in cash and cash equivalents | (17,620) | 872 |
| Cash and cash equivalents at beginning of period | 19,848 | 1,662 |
| Cash and cash equivalents at end of period | \$ 2,228 | \$ 2,534 |

(1) As restated - See Note 14 Restatement of Previously Issued Financial Statements of Notes to Condensed Consolidated Financial Statements.

See accompanying notes to consolidated financial statements.

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Condensed Consolidated Statements of Cash Flows

Three months ended July 31, 2012 and 2011 (unaudited)

(In thousands)

| | 2012 | 2011 |
|--|----------|----------|
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest, net of capitalized interest | \$ 199 | \$ 197 |
| Cash paid for taxes, net of refunds | 6,364 | 6,968 |
| Supplemental disclosures of noncash investing and financing activities: | | |
| During the three months ended July 31, 2012 and 2011, the Company acquired certain assets from franchisees and area developers as follows: | | |
| Fair value of assets purchased | \$ 3,975 | \$ 3,933 |
| Receivables applied | (2,370) | (4,209) |
| Accounts payable canceled | 874 | 547 |
| Notes payable issued | (1,506) | (100) |
| Elimination of related deferred revenue | 356 | 114 |
| Cash paid to franchisees and area developers | \$ 1,329 | \$ 285 |
| During the three months ended July 31, 2012 and 2011, the Company sold certain assets to franchisees and area developers as follows: | | |
| Book value of assets sold | \$ 437 | \$ 473 |
| Deferred gain on sale | 269 | 51 |
| Notes received | (356) | (437) |
| Cash received from franchisees and area developers | \$ 350 | \$ 87 |
| Accrued capitalized software costs included in accounts payable | \$ 850 | \$ 577 |

(1) As restated - See Note 14 Restatement of Previously Issued Financial Statements of Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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JTH HOLDING, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

July 31, 2012 and 2011 (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 to its customers refund-based tax settlement financial products such as refund anticipation loans, electronic refund checks, and personal income tax refund discounting. The Company also offers online tax preparation services.

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 in income 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 significant 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 required in annual financial statements. Consolidated balance sheet data as of April 30, 2012 was derived from the Company's April 30, 2013 Annual Report to Shareholders on Form 10-K. As discussed in Note 14, the Company has restated its condensed consolidated financial statements as of and for the three months ended July 31, 2012 and 2011.

In the opinion of management, all adjustments necessary for a fair presentation of such financial statements in accordance with US GAAP have been recorded. Such 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 to Shareholders on Form 10-K.

(c) *Use of Estimates*

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported

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JTH HOLDING, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

July 31, 2012 and 2011 (Unaudited)

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.

(d) Recently Issued Accounting Standards

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

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

(e) Foreign Operations

Canadian operations contributed \$484,000 in revenues for the three months ended July 31, 2012 and \$613,000 for the three months ended July 31, 2011.

(f) Seasonality of Business

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.

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Notes to Condensed Consolidated Financial Statements

July 31, 2012 and 2011 (Unaudited)

(2) Notes and Accounts Receivable

The Company provides financing to franchisees for the purchase of franchises, clusters of territories, company-owned offices and/or for working capital and equipment needs. The franchise-related notes generally are payable over five years and the working capital and equipment notes generally are due within one year. All notes bear interest at 12%. Activity related to notes receivable for the three months ended July 31, 2012 and the fiscal year ended April 30, 2012 is as follows:

| | July 31, 2012 As Restated | April 30, 2012 |
|--|--|---------------------------|
| | (In thousands) | |
| Balance at beginning of period | \$ 79,838 | \$ 70,564 |
| Notes received for: | | |
| Sales of franchises and clusters of territories | 2,799 | 8,131 |
| Sales of company-owned offices | 125 | 12,554 |
| Franchisee to franchisee note assumptions | 2,488 | 7,439 |
| Working capital and equipment loans to franchisees | 9,956 | 67,969 |
| Refinancing of accounts receivable | 10,576 | 16,787 |
| | 25,944 | 112,880 |
| Repayment of notes | (3,070) | (82,258) |
| Notes canceled | (6,218) | (21,188) |
| Foreign currency adjustment | (138) | (160) |
| Balance at end of period | 96,356 | 79,838 |
| Unrecognized revenue portion of notes receivable | (36,241) | (37,050) |
| Notes receivable less unrecognized revenue | \$ 60,115 | \$ 42,788 |

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

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

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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.

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

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.

Notes and accounts receivable include royalties billed that relate to territories operated by franchisees located in AD territories. The Company has recorded amounts payable to area developers for their share of these receivables of \$9,987,000 and \$15,956,000 at July 31, 2012 and April 30, 2012, respectively.

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Notes to Condensed Consolidated Financial Statements

July 31, 2012 and 2011 (Unaudited)

Activity in the allowance for doubtful accounts for the three months ended July 31, 2012 and 2011 is as follows:

| | 2012 | As Restated (In thousands) | 2011 |
|------------------------------|----------|-------------------------------|---------|
| Beginning balance | \$ 5,290 | \$ 4,827 | 4,827 |
| Additions charged to expense | | 1,528 | 990 |
| Write-offs | | (1,425) | (1,809) |
| Foreign currency adjustment | | (34) | (13) |
| Ending balance | \$ 5,359 | \$ 3,995 | 3,995 |

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 less unrecognized revenue, reduced by the allowance for uncollected interest, amounts due ADs, the related deferred revenue and amounts owed to the franchisee by the Company. In establishing the fair value of the underlying franchise, management considers net fees of open offices earned during the most recently completed tax season and the number of unopened offices.

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Notes to Condensed Consolidated Financial Statements

July 31, 2012 and 2011 (Unaudited)

The allowance for doubtful accounts at July 31, 2012 and April 30, 2012 is allocated as follows:

| | July 31, 2012 As Restated | April 30, 2012 |
|--|--|---------------------------|
| | (In thousands) | |
| Impaired: | | |
| Notes receivable including interest and less unrecognized revenue | \$ 5,739 | \$ 6,728 |
| Accounts receivable | 3,687 | 4,375 |
| Less allowance for uncollected interest, amounts due ADs, related deferred revenue and amounts due franchisees | (1,702) | (1,704) |
| Net amount due | \$ 7,724 | \$ 9,399 |
| Allowance for doubtful accounts for impaired notes and accounts receivable | \$ 3,951 | \$ 4,488 |
| Non-impaired: | | |
| Notes receivable including interest and less unrecognized revenue | \$ 57,194 | \$ 37,936 |
| Accounts receivable | 16,526 | 35,259 |
| Less allowance for uncollected interest, amounts due ADs, related deferred revenue and amounts due franchisees | (12,027) | (17,432) |
| Net amount due | \$ 61,693 | \$ 55,763 |
| Allowance for doubtful accounts for non-impaired notes and accounts receivable | \$ 1,408 | \$ 802 |
| Total allowance for doubtful accounts | \$ 5,359 | \$ 5,290 |

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Notes to Condensed Consolidated Financial Statements

July 31, 2012 and 2011 (Unaudited)

The aging of accounts and notes receivable at July 31, 2012 is as follows:

| | Total Past Due | Allowance for Uncollected Interest | As Restated (In thousands) | Current | Total Receivables |
|--|---------------------------|---|---------------------------------------|----------------|------------------------------|
| Accounts receivable | \$ 18,693 | \$ (1,680) | \$ | 1,520 | \$ 18,533 |
| Notes receivable including interest and less unrecognized revenue (As restated) | 6,102 | (1,298) | \$ | 56,831 | 61,635 |
| Total | \$ 24,795 | \$ (2,978) | \$ | 58,351 | \$ 80,168 |

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

The Company's average investments in impaired notes receivable during the three months ended July 31, 2012 and 2011 was \$6,234,000 and \$5,322,000, respectively. Interest income related to impaired notes was \$138,000 for the three months ended July 31, 2012 and \$94,000 for the three months ended July 31, 2011. The Company's investment in notes receivable on nonaccrual status at July 31, 2012 and April 30, 2012 was \$4,804,000 and \$5,274,000, respectively.

At July 31, 2012 the Company has unfunded lending commitments for working capital loans to franchisees and area developers of \$15,482,000.

(3) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the three months ended July 31, 2012 are as follows:

| Goodwill | Accumulated impairment loss | Net |
|-----------------|--|------------|
|-----------------|--|------------|

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| | | | As Restated (In thousands) | | |
|---|----|-------|-------------------------------|-------|----------|
| Balance at April 30, 2012 | \$ | 6,157 | \$ | (757) | \$ 5,400 |
| Acquisitions of assets from franchisees | | 1,065 | | | 1,065 |
| Disposals and foreign currency changes, net | | | | | |
| Impairments | | (134) | | 19 | (115) |
| Balance at July 31, 2012 | \$ | 7,088 | \$ | (738) | \$ 6,350 |

Components of intangible assets are as follows:



| | | As Restated | | | | (In thousands) | |
|---|----------|-------------|------------|-----------|-----------|----------------|-----------|
| Amortizable other intangible assets: | | | | | | | |
| Assets acquired from franchisees: | | | | | | | |
| Customer lists and reacquired rights | 3 years | \$ 3,997 | \$ (1,530) | \$ 2,467 | \$ 3,370 | \$ (1,195) | \$ 2,175 |
| Area developer rights | 10 years | 12,578 | (2,697) | 9,881 | 10,429 | (2,290) | 8,139 |
| | | \$ 16,575 | \$ (4,227) | \$ 12,348 | \$ 13,799 | \$ (3,485) | \$ 10,314 |

During the three months ended July 31, 2012, the Company acquired the assets of various franchisees for \$1,742,000. These acquisitions were accounted for as business combinations, with the value allocated to identifiable intangible assets and goodwill. The acquired businesses are operated as Company-owned offices until a buyer is found.

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

| | Three Months Ended July 31, | |
|--------------------------------------|-------------------------------|----------|
| | 2012 | 2011 |
| | As Restated (In thousands) | |
| Customer lists and reacquired rights | \$ 677 | \$ 1,499 |
| Goodwill | 1,065 | 2,268 |
| Total | \$ 1,742 | \$ 3,767 |

(4) Leases

The Company is obligated under various operating leases for office space that expire at various dates. Total rent expense for operating leases, net of subleases, was \$642,000 for the three months ended July 31, 2012 and \$431,000 for the three months ended July 31, 2011.

(5) Debt

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The Company has a credit facility that consists of a \$25,000,000 term loan and a \$105,000,000 revolving credit facility, with an accordion feature permitting the Company to request an increase in availability of up to an additional \$70,000,000. 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 July 31, 2012, the interest rate was 1.87%. The indebtedness is collateralized by

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substantially all the assets of the Company and both loans expire 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's borrowing availability under the credit facility at July 31, 2012 was \$59,800,000. The Company was in compliance with the financial covenants of its credit facility at July 31, 2012 and April 30, 2012. Debt at July 31, 2012 and April 30, 2012 consisted of the following:

| | July 31, 2012 | April 30, 2012 |
|-----------------------|------------------|-------------------|
| | (In thousands) | |
| Credit Facility: | | |
| Revolver | \$ 11,078 | \$ 25,000 |
| Term loan | 24,688 | 25,000 |
| | 35,766 | 25,000 |
| Other debt | 4,242 | 3,985 |
| | 40,008 | 28,985 |
| Less: current portion | (3,174) | (2,736) |
| Long-term debt | \$ 36,834 | \$ 26,249 |

(6) Derivative Instruments and Hedging Activities

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

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

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

The Company assesses interest rate risk by continually identifying and monitoring changes in interest rates that may adversely impact expected future cash flows and by evaluating hedging opportunities. The Company maintains risk management control systems to monitor interest rate risk attributable to both the Company's outstanding or forecasted debt obligations and forecasted revenues, as well

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as the Company's offsetting hedge positions. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates and foreign currency rates on the Company's future cash flows.

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

Interest rate swap agreements: The Company has interest rate swap agreements with a financial institution to manage fluctuations in cash flows resulting from changes in the one-month LIBOR interest rate on its credit facility. These swaps effectively change the variable-rate of the credit facility into a fixed-rate loan. For the notional amounts, the Company receives a variable interest rate based on the one-month LIBOR and pays a fixed interest rate of 2.49% to 2.52%, depending on the agreement. The notional amounts of the interest rate swaps vary from \$10,000,000 to \$70,000,000 per month, in relation to the Company's forecasted seasonal borrowings. These interest rate swaps are designated as cash flow hedges. At July 31, 2012 and April 30, 2012, the fair value of interest rate swaps was a liability of \$647,000 and \$694,000, respectively, and was included in accounts payable and accrued expenses. During the three months ended July 31, 2012 and 2011, no amounts were recognized in the consolidated statements of income due to the ineffectiveness of these interest rate swaps.

Forward contracts related to foreign currency exchange rates: In connection with short-term advances made to its Canadian subsidiary related to personal income tax refund discounting, the Company enters into forward contracts to eliminate the exposure related to foreign currency fluctuations. Under the terms of the forward currency contracts, the exchange rate for repayments is fixed at the time an advance is made and the advances are repaid prior to April 30 of the year of the advance. These forward contracts are designated as cash flow hedges. At July 31, 2012 and April 30, 2012, there were no forward currency contracts outstanding. During the three months ended July 31, 2012 and 2011, no amounts were recognized in the consolidated statements of income due to the ineffectiveness of these foreign currency hedges.

At July 31, 2012, there are no deferred gains on derivative instruments accumulated in other comprehensive income that are expected to be reclassified to earnings during the next 12 months. There were no cash flow hedges discontinued during the three months ended July 31, 2012.

(7) Income Taxes

For the three months ended July 31, 2012 and July 31, 2011, the Company recognized income tax benefits of \$4,033,000 and \$2,707,000, respectively. The Company has determined no reserves for uncertain tax positions were required at July 31, 2012 or April 30, 2012. The

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Company computes its provision 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.

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(8) Stockholders Equity

During the three months ended July 31, 2012 and 2011, activity in stockholders equity was as follows:

| | July 31, 2012 | | July 31, 2011 |
|--|------------------|----------------|------------------|
| | | (In thousands) | |
| Class A common shares issued from the exercise of stock options | | 151 | 2 |
| Proceeds from exercise of stock options | \$ | 1,592 | \$ 21 |
| Class A common shares repurchased | | 56 | 113 |
| Payments for repurchased shares | \$ | 843 | \$ 1,654 |
| Tax benefit of stock option exercises | \$ | 269 | \$ 458 |
| Class A common shares issued upon conversion of Class A preferred shares | | 1,703 | |

(a) Loss per Share

Net loss per share of Class A and Class B common stock is computed using the two-class method. Basic net 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 as they do not meet the required criteria for such allocation. During the three months ended July 31, 2012, 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. As a result of the conversion, 861,000 additional shares are included in the weighted-average number of Class A common shares used to calculate the loss per share for the three months ended July 31, 2012. If the Class A preferred stock had not been converted, these shares would not have been included in the weighted-average number of Class A common shares used to calculate the loss per share for the three months ended July 31, 2012.

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

The rights, including liquidation and dividends rights, of the holders of Class A and Class B common stock are identical, 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 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.

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The computation of basic and diluted net loss per share for the three months ended July 31, 2012 and 2011 is as follows:

| | Three Months Ended July 31, 2012 As Restated | |
|--|---|---------------------------------|
| | Class A Common Stock | Class B 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 | \$ (5,892) | \$ (471) |
| <i>Denominator</i> | | |
| Weighted-average common shares outstanding | 11,270,977 | 900,000 |
| Basic and diluted net loss per share | \$ (0.52) | \$ (0.52) |

| | Three Months Ended July 31, 2011 As Restated | |
|--|---|---------------------------------|
| | Class A Common Stock | Class B 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 | \$ (4,190) | \$ (361) |
| <i>Denominator</i> | | |
| Weighted-average common shares outstanding | 10,461,258 | 900,000 |
| Basic and diluted net loss per share | \$ (0.40) | \$ (0.40) |

As a result of the net losses for the periods, diluted net loss per share excludes the impact of shares of potential common stock from the exercise of options to purchase 2,802,275 shares and 2,674,756 shares for the three months ended July 31, 2012 and 2011, respectively, because the effect would be antidilutive.

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JTH HOLDING, INC. AND SUBSIDIARIES

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(9) Stock Compensation Plans

(a) Stock Options

At July 31, 2012, 1,939,805 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 in the three months ended July 31, 2012:

| | 2012 |
|--|---------------|
| Weighted average fair value of options granted | \$ 1.80 |
| Dividend yield | 0.0% |
| Expected volatility | 13.0% - 14.9% |
| Expected terms | 4 - 6 years |
| Risk-free interest rates | 0.6% - 1.0% |

Stock option activity during the three months ended July 31, 2012 is as follows:

| | Number of options | Weighted average exercise price |
|-------------------------------|----------------------|---------------------------------------|
| Outstanding at April 30, 2012 | 2,729,013 | \$ 14.21 |
| Granted | 332,035 | 15.00 |
| Exercised | (150,571) | 10.57 |
| Canceled | (82,565) | 12.12 |
| Outstanding at July 31, 2012 | 2,827,912 | 14.55 |

Stock options were granted to employees of the Company except for 43,000 options granted to nonemployee directors during the three months ended July 31, 2012.

The total intrinsic value of options exercised during the three months ended July 31, 2012 was approximately \$667,000.

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Nonvested stock option (options that did not vest in the period in which granted) activity during the three months ended July 31, 2012 is as follows:

| | Nonvested options | Weighted average exercise price |
|-------------------------------|----------------------|---------------------------------------|
| Outstanding at April 30, 2012 | 452,500 | \$ 15.00 |
| Granted | 332,035 | 15.00 |
| Vested | | |
| Canceled | (1,600) | 15.00 |
| Outstanding at July 31, 2012 | 782,935 | 15.00 |

At July 31, 2012, unrecognized compensation costs related to nonvested stock options are \$1,487,000. These costs are expected to be recognized between 2013 and 2016.

The following table summarizes information about stock options outstanding and exercisable at July 31, 2012:

| Number of shares outstanding at July 31, 2012 | Range of exercise prices | Weighted average exercise price | Weighted average remaining contractual life | Number of shares exercisable at July 31, 2012 | Weighted average exercise price |
|---|--------------------------------|--|---|---|--|
| 40,000 | \$ 5.50 | \$ 5.50 | 0.7 years | 40,000 | \$ 5.50 |
| 24,902 | 8.50-9.00 | 8.63 | 0.7 years | 24,902 | 8.63 |
| 170,000 | 10.50 | 10.50 | 2.1 years | 170,000 | 10.50 |
| 2,262,575 | 14.00-16.50 | 15.02 | 3.6 years | 1,810,075 | 15.00 |
| 330,435 | 15.00 | 15.00 | 4.4 years | | |
| | | | | 2,044,977 | |

(b) *Restricted Stock Units*

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On June 1, 2012, the Company awarded 9,305 shares of restricted stock units to its non-employee directors. The fair value at grant date was \$15.00 and the vesting or service period is 18 months. Compensation costs associated with these restricted shares are amortized over the service period and recognized as an increase in additional paid-in capital.

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(10) Fair Value of Financial Instruments

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

Cash equivalents, receivables, other current assets, accounts payable and accrued expenses, and due to area developers: The carrying amounts approximate fair value because of the short maturity of these instruments. At July 31, 2012 and April 30, 2012 the Company had cash equivalents of:

| | July 31, 2012 | April 30, 2012 |
|----------------------|--------------------------|---------------------------|
| | (In thousands) | |
| Money market account | \$ | \$ 18,848 |

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.

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

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

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

The Company manages 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 July 31, 2012 and April 30, 2012, there were no significant concentrations of credit risk associated with any individual franchisee or group of franchisees. The Company maintains an allowance for potential losses based on its expected collectibility of the receivables, which the Company believes is adequate for its credit loss exposure.

The condensed consolidated financial statements include various estimated fair value information at July 31, 2012 and April 30, 2012.

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

- Level 1 quoted prices for identical assets and liabilities in active markets.

- Level 2 quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-based valuations in which all significant inputs are observable in the market.

- Level 3 unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

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At July 31, 2012 and April 30, 2012, the following tables present, for each of the fair value hierarchy levels, the assets and liabilities that are measured at fair value on a recurring and nonrecurring basis (in thousands):

| | July 31, 2012 Fair value measurements using As Restated | | | |
|--|---|---------|---------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Nonrecurring: | | | | |
| Impaired accounts and notes receivable | \$ 4,497 | \$ | \$ | \$ 4,497 |
| | \$ 4,497 | \$ | \$ | \$ 4,497 |
| Liabilities: | | | | |
| Recurring: | | | | |
| Interest rate swap agreements | 647 | | 647 | |
| | \$ 647 | \$ | \$ 647 | \$ |

| | April 30, 2012 Fair value measurements using | | | |
|--|---|-----------|---------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Recurring: | | | | |
| Cash equivalents | \$ 18,848 | \$ 18,848 | \$ | \$ |
| Nonrecurring: | | | | |
| Impaired accounts and notes receivable | \$ 5,746 | \$ | \$ | \$ 5,746 |
| Impaired goodwill | 1,477 | | | 1,477 |
| Impaired reacquired rights | 412 | | | 412 |
| Impaired customer lists | 564 | | | 564 |
| | 8,199 | | | 8,199 |
| | \$ 27,047 | \$ 18,848 | | \$ 8,199 |
| Liabilities: | | | | |
| Recurring: | | | | |
| Interest rate swap agreements | \$ 694 | \$ | \$ 694 | \$ |
| | \$ 694 | \$ | \$ 694 | \$ |

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JTH HOLDING, INC. AND SUBSIDIARIES

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The Company's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of level 1 or 2 recurring fair value measurements for the quarters ended July 31, 2012 and 2011.

Management considers accounts and notes receivable to be impaired if the amounts 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 reacquired rights, customer lists and goodwill 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.

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

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(11) Related Party Transactions

The Company considers directors and their affiliated companies, and executive officers of the Company, and members of their immediate family, to be related parties. For the three months ended July 31, 2012 and 2011, the Company repurchased common stock from related parties as follows:

| | 2012 | 2011 |
|---------------------------|------------|------------|
| Common stock repurchases: | | |
| Shares repurchased | 20,100 | 23,800 |
| Amount | \$ 301,000 | \$ 357,000 |

At July 31, 2012 and April 30, 2012, notes receivable from related parties are as follows:

| | July 31, 2012 | April 30, 2012 |
|-------------------------------------|------------------|-------------------|
| Notes receivable | \$ 20,025 | \$ 21,212 |
| Repayments received during the year | 4,200 | 971,300 |

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

(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 in Minnesota. All of the cases were consolidated before a single judge in federal court in the Northern District of Illinois, 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

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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. 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 consolidated case is at a very early stage.

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South Carolina litigation. In November 2010, several former customers of one of the Company's South Carolina franchisees initiated a purported class action against the Company, its Chief Executive Officer and another of the Company's employees in the United States District Court for the District of South Carolina, in a case styled *Martin v. JTH Tax, Inc.* In this case, the plaintiffs allege that the employees of the Company's franchisees fraudulently increased customer tax refunds, and that this behavior was pursuant to a plan or scheme in which the Company and its employees were involved. In this case, the plaintiffs seek damages in excess of \$5 million, certification of class action status, treble damages under a claim pursuant to The Racketeer Influenced and Corrupt Organizations Act of 1970, punitive damages, and other damages. This case is in the early stages of the proceeding. The Company believes that the probability of a loss related to this matter is remote; consequently the Company has not recorded a loss contingency related to this matter. The Company intends to defend this 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 Company is also party to claims and lawsuits that are considered to be ordinary, routine litigation and investigations 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.

(13) Subsequent Event

The Company uses a third-party financial institution to provide certain financial products to its customers, pursuant to an agreement that expires on October 16, 2014. For the year ended April 30, 2012, a significant portion of the Company's customer's financial products were provided by this financial institution. On August 27, 2012, the Company delivered a termination notice with respect to that agreement. This notice provides for an effective date of termination of September 16, 2012, but under the terms of the agreement, the Company will continue to work with the financial institution to modify the terms of the agreement in a way that may avert the termination. If the agreement is terminated, the Company believes there will be little impact on its customers because the Company can offer similar financial products through its contractual relationship with another third-party and internal capabilities.

(14) Restatement of Previously Issued Financial Statements

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As disclosed in our Form 10-K for the year ended April 30, 2013, on August 1, 2013, the Company concluded that previously issued consolidated financial statements should not be relied upon due to certain revenue recognition adjustments. The Company's decision to restate its consolidated financial statements was based upon the results of an internal review of the Company's historical revenue recognition policies and their application. The Company has restated its condensed consolidated financial statements for the fiscal quarters ended July 31, 2012 and 2011 and October 31, 2012 and 2011. Restated condensed consolidated financial statements for the fiscal quarters ended January 31, 2013 and 2012 will be included in an amended filing at a later date.

Impact of Corrections on Previously Issued Consolidated Financial Statements

Adjustments were made for the following items:

- The Company determined that its area developer agreements do not constitute a franchise relationship for accounting purposes. Therefore, instead of recording revenue at the inception of the area developer relationship under franchise accounting, the Company now records these fees over the life of the area developer contract, which is typically 10 years. Additionally, our financial statements now show the portion of franchise fees, interest and royalties that the AD is entitled to receive from us in our revenue captions, with an equal amount of expense shown in a new operating expense caption, area developer expense. These amounts were previously presented on a net basis.
- The Company changed its revenue recognition policy for franchise fees to record revenue as amounts are received from the franchisee. Previously, the Company generally recorded such revenues at the time of sale, net of expected note cancellations related to the amount financed. Therefore, under the new revenue recognition policy any portion of franchise fees that is financed is only reflected as revenue as the note payments are made.
- The Company also revised its methodology for the allocation of the purchase price associated with the acquisitions of businesses from franchisees. Historically, the Company allocated the entire purchase price to an identifiable intangible asset, customer list. The new methodology allocates the purchase price to all identifiable intangible assets, which consist of reacquired rights and customer list. Any unallocated purchase price is recorded as goodwill.

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

| | As Reported | July 31, 2012 Adjustments (in thousands) | As Restated |
|--|-------------|--|-------------|
| Receivables: | | | |
| Notes | \$ 56,730 | \$ (9,814) | \$ 46,916 |
| Interest | 2,818 | (1,298) | 1,520 |
| Allowance for doubtful accounts | (4,952) | 478 | (4,474) |
| Total receivables, net | 73,129 | (10,634) | 62,495 |
| Income tax receivable | 6,204 | (109) | 6,095 |
| Deferred income taxes | 64 | 3,255 | 3,319 |
| Total current assets | 83,750 | (7,488) | 76,262 |
| Notes receivable, excluding current portion | 39,626 | (26,427) | 13,199 |
| Allowance for uncollectible amounts for long-term notes receivable | (2,082) | 1,197 | (885) |
| Goodwill | 1,913 | 4,437 | 6,350 |
| Other intangibles | 31,676 | (15,101) | 16,575 |
| Accumulated amortization of intangible assets | (6,193) | 1,966 | (4,227) |
| Deferred income taxes | | 2,845 | 2,845 |
| Other assets, net | 2,589 | 1 | 2,590 |
| Total assets | 176,741 | (38,570) | 138,171 |
| Due to area developers | 15,859 | (5,872) | 9,987 |
| Deferred income taxes | 1,607 | (1,607) | |
| Deferred revenue - short-term portion | 2,845 | 4,480 | 7,325 |
| Total current liabilities | 30,786 | (2,999) | 27,787 |
| Deferred revenue - long-term portion | | 11,616 | 11,616 |
| Deferred income taxes | 13,839 | (13,839) | |
| Total liabilities | 81,459 | (5,222) | 76,237 |
| Retained earnings | 87,950 | (33,348) | 54,602 |
| Total stockholders' equity | 95,282 | (33,348) | 61,934 |
| Total liabilities and stockholders' equity | 176,741 | (38,570) | 138,171 |

The adjustments reflected in the table above include:

- Adjustments to notes receivable to present the balance net of the unrecognized revenue portion of notes
- Adjustments to interest receivable to convert from accrual basis to cash basis for notes related to unrecognized revenue
- Adjustments to allowance for doubtful accounts includes the impact of the change in our franchise fee revenue recognition policy
- Adjustments to deferred income taxes, long-term portion shown in other assets, net and income taxes payable reflect the impact of the restatement adjustments
- Adjustments to goodwill and a portion of the other intangibles, net relate to the revised purchase price allocation methodology for businesses acquired from franchisees

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- Adjustments to other intangibles includes the net impact of the elimination of the deferred revenue balance of repurchased area developer areas
- Adjustments to due to area developer to conform to net presentation for notes related to unrecognized revenue
- Adjustments to deferred revenue to reflect the recognition of area developer fees over the life of their agreement
- Adjustments to stockholders' equity reflect the cumulative impact of all of the restatement adjustments

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The following table summarizes the effects of the restatement on the condensed consolidated financial statements of operations for the three months ended July 31, 2012:

| | As Reported | July 31, 2012 Adjustments (in thousands) | As Restated |
|---|-------------|--|-------------|
| Franchise fees | \$ 2,486 | \$ (1,820) | \$ 666 |
| Provision for refunds | 75 | (75) | |
| Area developer fees | | 1,923 | 1,923 |
| Royalties and advertising fees | 1,007 | 317 | 1,324 |
| Interest income | 2,659 | (111) | 2,548 |
| Net gain on sale of company-owned offices and other revenue | 191 | 74 | 265 |
| Total revenues | 6,786 | 458 | 7,244 |
| General and administrative expenses | 5,616 | 200 | 5,816 |
| Area developer expense | | 717 | 717 |
| Depreciation, amortization, and impairment charges | 1,891 | (300) | 1,591 |
| Total operating expenses | 16,733 | 617 | 17,350 |
| Loss from operations | (9,947) | (159) | (10,106) |
| Loss before income taxes | (10,237) | (159) | (10,396) |
| Income tax benefit | (4,085) | 52 | (4,033) |
| Net loss | \$ (6,152) | \$ (211) | \$ (6,363) |
| Net loss per share of Class A and Class B common stock: | | | |
| Basic and Diluted | \$ (0.51) | \$ (0.01) | \$ (0.52) |

The following table summarizes the effects of the restatement on the condensed consolidated financial statements of operations for the three months ended July 31, 2011:

| | As Reported | Three Months Ended July 31, 2011 Adjustments (in thousands) | As Restated |
|---|-------------|---|-------------|
| Franchise fees | \$ 1,362 | \$ (562) | \$ 800 |
| Provision for refunds | 159 | (159) | |
| Area developer fees | | 1,683 | 1,683 |
| Royalties and advertising fees | 1,018 | 291 | 1,309 |
| Interest income | 2,021 | (223) | 1,798 |
| Net gain on sale of company-owned offices and other revenue | 311 | 116 | 427 |
| Total revenues | 4,868 | 1,464 | 6,332 |
| Area developer expense | | 622 | 622 |
| Depreciation, amortization, and impairment charges | 1,622 | (248) | 1,374 |
| Total operating expenses | 12,906 | 374 | 13,280 |
| Loss from operations | (8,038) | 1,090 | (6,948) |
| Loss before income taxes | (8,348) | 1,090 | (7,258) |
| Income tax benefit | (3,369) | 662 | (2,707) |
| Net loss | \$ (4,979) | \$ 428 | \$ (4,551) |
| Net loss per share of Class A and Class B common stock: | | | |
| Basic and diluted | \$ (0.44) | \$ 0.04 | \$ (0.40) |

The adjustments reflected in the tables above include:

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- Adjustments to franchise fees include the reclassification of area developer fees to a separate caption, the net impact of changing our franchise fee recognition policy to receipt of funds and the change to gross presentation for the area developer portion
- Adjustments to provision for refunds are due to the change in our franchise fee recognition policy
- Adjustments to area developer fees are the net effect of reclassifying AD fees out of franchisee fees and the impact of recognizing revenue over the life of the agreement
- Adjustments to royalties and advertising reflect the change to gross presentation for the area developer portion of royalties
- Adjustments to interest income reflect the change to gross presentation for the area developer portion of interest and the conversion to cash basis from accrual basis for interest on notes related to unrecognized revenue
- Adjustments to general and administrative expense reflect the increase in the provision for bad debts due to the elimination of the provision for refunds
- Adjustments to area developer expense reflect the change to a gross presentation for franchise fees, royalties and interest owed to area developers
- Adjustments to amortization and impairment charges are the net effect of the change in purchase price allocation for company-owned offices acquired from franchisees and the impact of a smaller balance of area developer rights due to the netting of deferred revenue upon reacquisition
- Adjustments to the provision for income taxes reflect the impact of the restatement adjustments

The following table presents the effect of the restatement adjustments on the condensed consolidated statements of comprehensive income for the three months ended July 31, 2012:

| | As Reported | July 31, 2012 Adjustments (in thousands) | As Restated |
|--------------------|-------------|--|-------------|
| Net loss | \$ (6,152) | \$ (211) | \$ (6,363) |
| Comprehensive loss | (6,335) | (211) | (6,546) |

The following table presents the effect of the restatement adjustments on the condensed consolidated statements of comprehensive income for the three months ended July 31, 2011:

| | As Reported | Three Months Ended July 31, 2011 Adjustments (in thousands) | As Restated |
|--------------------|-------------|---|-------------|
| Net loss | \$ (4,979) | \$ 428 | \$ (4,551) |
| Comprehensive loss | (5,262) | 428 | (4,834) |

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

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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, possible, could be, might, 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 year ended April 30, 2013, 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 electronic refund checks (ERCs) 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;

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- government initiatives to pre-populate income tax returns;
- increased regulation of the products and services that we offer;
- the possible characterization of ERCs 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;

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- 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 time for the 2014 tax season;
- the impact of any acquisitions or dispositions, including our ability to integrate acquisitions and capitalize on their anticipated synergies;

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- 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, as of April 30, 2013 and July 13, 2013; 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 Securities and Exchange Commission, or SEC, after the date of this quarterly report.

See Note 19 to our Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended April 30, 2013 for a description of the restatement of our financial statements and a summary of the impact of the restatement on the applicable unaudited quarterly financial information for the three months ended July 31, 2011 and July 31, 2012 presented in this Quarterly Report (See Note 14).

Restatement

As described in our Annual Report on Form 10-K for the fiscal year ended April 30, 2013, we have restated our financial statements and other information. For further discussion of the effects of the restatement, see Part 1, Item 1 Financial Statements, Note 14 Restatement of Previously Issued Financial Statements to our Condensed Consolidated Financial Statements and Part 1, Item 4 Controls and Procedures.

The restatement has had the following effect applicable to this report:

- The Condensed Consolidated Statements of Operations, Statements of Comprehensive Loss and the Condensed Consolidated Statements of Cash Flows for the three months ended July 31, 2011 and the Condensed Consolidated Balance Sheet at July 31, 2012, have been restated.

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

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tax returns in the United States and the second largest retail preparer of individual tax returns in Canada. From 2001 through 2012, we have grown the number of U.S. tax returns prepared in our offices from approximately 137,000 to nearly 1.8 million. Our tax preparation services and related financial products are offered primarily through franchised locations, although we operate a very limited number of company-owned offices each tax season. All of the offices are operated under the Liberty Tax Service brand.

From 2001 through 2012, we grew our number of tax offices from 508 to nearly 4,200. We and our franchisees operated 3,920 offices in the United States during the 2012 tax season, a 9.2% increase over the 2011 tax season, when we operated 3,590 offices, which was itself a 9.3% increase over the number of offices operated in the 2010 tax season. Approximately 65% of our revenue for fiscal year 2012 was derived from franchise fees, area developer fees, royalties and advertising fees, and for this reason, continued growth in 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.

- **Area Developer Fees:** Our fees for AD areas vary based on our assessment of the revenue potential of each AD area, and also depend on the performance of any existing franchisees within the AD area being sold. Our ADs generally receive 50% of both the franchise fees and royalties derived from territories located in their area. 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.

As with our franchise sales, we have recently revised our policies for the way in which we account for the sales of area developer territories. Because we have determined that area developer agreements are not franchise transactions for accounting purposes, we amortize our revenue from area developer sales over the length of our area developer agreements, which are typically ten years. For this reason, significant year-to-year trends in our area developer 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.

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

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- **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 revenue includes 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.

- **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.
- **Financial Products:** We offer two types of financial products: refund transfer products, such as ERCs, 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 refund anticipation loans (RALs) and instant cash advances (ICAs). We earn fees from the use of these financial products. Because the remaining bank that offered RALs ceased to do so after the end of the 2012 tax season, we no longer expect to be able to offer RALs through banks and other federally-insured financial institutions, and our ability to offer refund-based loans may therefore be more limited than in the past.

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- **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 eSmartTax online product.

For purposes of this section and throughout this quarterly report, all references to fiscal 2013, fiscal 2012, and fiscal 2011 refer to our fiscal years ended April 30, 2013, 2012, and 2011, 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.

| | 2012 | | Three Months Ended July 31, 2011 | | Change | % | |
|------------------------------|------|----------|-------------------------------------|---------|--------|---------|-------|
| | | | | | | | |
| | | | (in thousands) | | | | |
| Results of Operations | | | | | | | |
| Total revenues | \$ | 7,244 | \$ | 6,332 | \$ | 912 | 14% |
| Loss from operations | | (10,106) | | (6,948) | | (3,158) | (45)% |
| Net loss | | (6,363) | | (4,551) | | (1,812) | (40)% |

Results of Operations

Three months ended July 31, 2012 compared to three months ended July 31, 2011

Revenues. The table below sets forth the components and changes in our revenue for the three-month periods ended July 31, 2012 and July 31, 2011.

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| | Three Months Ended July 31, | | | | |
|---|-----------------------------|----------|----|--------|-------|
| | 2012 | 2011 | | Change | % |
| | (in thousands) | | | \$ | |
| Results of Operations | | | | | |
| Franchise fees | \$ 666 | \$ 800 | \$ | (134) | (17)% |
| Area developer fees | 1,923 | 1,683 | | 240 | 14% |
| Royalties | 1,005 | 991 | | 14 | 1% |
| Advertising fees | 319 | 318 | | 1 | 0% |
| Financial products | 302 | 159 | | 143 | 90% |
| Interest income | 2,548 | 1,798 | | 750 | 42% |
| Tax preparation fees, net of discounts | 216 | 156 | | 60 | 38% |
| Net gain on sale of company-owned offices and other revenue | 265 | 427 | | (162) | (38)% |
| Total revenues | \$ 7,244 | \$ 6,332 | \$ | 912 | 14% |

Total revenues increased by 14% in the three months ended July 31, 2012, compared to the same quarter in fiscal 2012, due to the following factors:

- A 42% increase in interest income, reflecting additional lending we made to our franchisees and ADs for the acquisition of territories and areas and to our franchisees for working capital purposes and the additional payments received on those loans.
- A 14% increase in area developer fees, reflecting increased area developer sales in 2012 for which we recognized fee revenue, as well as the fact that because we recognize our area developer fee revenue over ten years, earlier years in that ten-year period had fewer area developer sales than the most recent year that replaced the oldest year in the prior year's ten-year period.
- A 90% increase in financial products revenue during the 2013 quarter, attributable to originating more financial products through our subsidiary, JTH Financial, rather than through third parties.

Operating expenses. The following table details the amounts and changes in our operating expenses in and from the first quarter of fiscal 2013 and the same period in fiscal 2012.

| | Three Months Ended July 31, | | | | |
|---|-----------------------------|----------|----|--------|-----|
| | 2012 | 2011 | | Change | % |
| | (in thousands) | | | \$ | |
| Operating expenses | | | | | |
| Employee compensation and benefits | \$ 6,666 | \$ 5,650 | \$ | 1,016 | 18% |
| General and administrative expenses | 5,816 | 3,844 | | 1,972 | 51% |
| Area developer expense | 717 | 622 | | 95 | 15% |
| Advertising expense | 2,560 | 1,790 | | 770 | 43% |
| Depreciation, amortization and impairment charges | 1,591 | 1,374 | | 217 | 16% |

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| | | | | | | | |
|--------------------------|----|--------|----|--------|----|-------|-----|
| Total operating expenses | \$ | 17,350 | \$ | 13,280 | \$ | 4,070 | 31% |
|--------------------------|----|--------|----|--------|----|-------|-----|

Our total operating expenses increased by \$4.1 million in the three months ended July 31, 2012 compared to the same period of fiscal 2012, representing a 31% increase. The largest components of this increase were:

- A 51% increase in general and administrative expenses caused primarily by the following:
 - A \$544,000 increase in professional fees due to increased litigation costs related to pending lawsuits and additional costs associated with becoming a public company.
 - A \$538,000 increase in bad debt expense based on our assessment of the appropriate level of the allowance for doubtful accounts.
 - A \$300,000 increase in travel and entertainment expense for costs primarily related to attracting new franchisees.
 - A \$238,000 increase in rent, largely related to an increase in the number of company-owned offices.
- An 18% increase in employee compensation and benefits attributable to the addition of corporate personnel to support the anticipated growth in the number of offices and our becoming a public company, and to operating a greater number of company-owned offices.

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- A 43% increase in advertising expenses as we increased our advertising spending in order to target new franchisees, as well as the timing of our consumer advertising as we strive to maintain contact with our customers in the off-season.

Other Items. There were no material changes in our other income between the first quarter of fiscal 2013 and the first quarter of fiscal 2012. We recorded income tax benefits in the first quarters of fiscal 2013 and 2012 (effective rates of 38.8% and 37.3%, respectively). However, because of the seasonal nature of our business, we expect that the losses we incur for the first three quarters of a fiscal year will be more than offset by the results of our fiscal fourth quarter.

Net loss. Our net loss increased by 40% from the first quarter of fiscal 2012 to the first quarter of 2013, reflecting an increase in operating expenses of 31%, which more than offset our increase in revenues of 14%.

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 early February 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, from 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 operating 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 been incurring significant expenditures in the development of our NextGen project.

Credit facility. Our credit facility entered into effective April 30, 2012 consists of a \$25 million term loan and a \$105 million revolving credit facility. The term loan amortizes on a quarterly basis and matures on April 30, 2017, and the revolving loan also expires on April 30, 2017. The outstanding borrowings on both loans accrue interest at an adjusted one month LIBOR rate plus a margin that varies from 1.50% to 2.25% (an increase of 25 basis points from our previous revolving credit facility), depending on our leverage ratio. The interest rate at July 31, 2012 and April 30, 2012 was 1.87%. 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.

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- We must satisfy a fixed charge coverage ratio test at the end of each fiscal quarter.
- We must reduce the outstanding balance under our revolving loan to zero for a period of at least 45 consecutive days each fiscal year.

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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.

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 July 31, 2012, 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 \$21.1 million. In addition, at that date, our franchisees and ADs together owed us an additional \$59.1 million for unpaid amounts owed to us, typically representing the unpaid purchase price of new territories (in the case of franchisees) and areas comprising clusters of territories (in the case of ADs), 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 AD 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 in respect of franchise fees and royalties. As of July 31, 2012, the total indebtedness of franchisees to us where the franchisee is located in an AD area was \$46.4 million, but \$10.0 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 facilities. 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 to franchisees by obtaining direct electronic payment in the ordinary course throughout the tax season. Our credit risk associated with amounts outstanding to 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 July 31, 2012, we had an investment in impaired accounts and notes receivable and related interest receivable of approximately \$7.7 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 July 31, 2012, we have recorded an allowance for doubtful accounts for impaired accounts and notes receivable of \$4.0 million. There were no significant concentrations of credit risk with any individual franchisee or AD as of July 31, 2012, and we believe that our allowance for doubtful accounts as of July 31, 2012 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 that the existing allowances are inadequate to cover estimated losses.

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ICA guarantees. During the 2012 tax season, we continued a relationship with a non-bank lender to offer ICAs to customers in a limited number of our offices. We expect further expansion of this program in subsequent tax seasons. In exchange for the payment of a fee, we guaranteed any loan losses incurred by the third party lender from the loans to our customers. These loans were typically made with the expectation that they will only be outstanding for a few weeks. We were obligated to repurchase these loans if they were not repaid within 60 days. We expected the number of these loans made and the balance outstanding to peak early in the tax season, but

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significantly decrease by the end of February. In addition, we may subsequently collect a portion of the loan balances. During the 2012 tax season, we incurred \$1.1 million in losses related to those loans, which represented 2.4% of the ICA loans made during the 2012 tax season.

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 quarter of fiscal 2013, we used \$4.8 million more cash from operating activities compared to the first quarter of fiscal 2012. Some of the items that contributed to the increase in our negative cash flow for the first quarter of fiscal 2013 compared to the prior year include:

- Higher general and administrative payments of \$4.4 million due to an increase of \$1.5 million for increased travel, professional fees, insurance and rent expense, as well as the prepayment of \$1.7 million more of expenses in the first quarter of fiscal 2013 as compared to fiscal 2012. Due to timing, during the first quarter of fiscal 2012 we made \$1.2 million less payments related to general and administrative expenses than we did for the first quarter of fiscal 2013.
- Higher payroll related payments of \$1.6 million attributable to the addition of corporate personnel to support the anticipated growth in the number of offices and our becoming a public company, and to operating a greater number of company-owned offices. At April 30, 2012, accrued salaries and wages were \$709,000 higher than amounts accrued at April 30, 2011. Substantially all the amounts accrued at April 30, 2012 were paid in the first quarter of fiscal 2013.
- Higher advertising payments of \$573,000 as we increased our advertising targeting new franchisees and altered the timing of our consumer advertising to better maintain contact with our customers in the off-season.
- Higher financial product rebates payments of \$479,000 because we paid a larger portion of our rebates due in the first quarter fiscal 2013 as compared to fiscal 2012.

Some factors that partially offset the uses of cash discussed above were:

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- Higher financial product fees of \$602,000 due to the timing of collections of amounts accrued at each fiscal year end and a greater percentage of product originations through our JTH Financial subsidiary.
- Higher interest income of \$381,000 associated with an increase in amounts loaned to our franchisees for working capital needs and to purchase company-owned stores.
- Lower tax payments of \$793,000 because in the first quarter of fiscal 2013 only a portion of the taxes owed at April 30, 2012 were paid. In the first quarter of fiscal 2012 substantially all taxes owed at April 30, 2011 were paid.

Investing activities. In the first quarter of fiscal 2013, we utilized \$1.6 million more cash from investing activities compared to the same quarter in fiscal 2012. The increase was largely attributable to the following factors:

- An increase of \$2.1 million in the issuance of operating loans to our franchisees (including ADs), net of payments received on operating loans.

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- An increase of \$1.0 million in the purchase of assets from franchisees and ADs mainly attributable to the repurchase of six AD territories during the first quarter 2013 compared to only one AD repurchase in the same quarter of fiscal 2012 .

The above uses of cash were offset partially by a decrease in purchases of property and equipment of \$1.3 million, attributable to the timing of payments for software development costs.

Financing activities. In the first quarter of fiscal 2013, we generated \$12.0 million less cash from financing activities compared to the first quarter of fiscal 2012, primarily because our net borrowings under our revolving credit facility decreased \$13.4 million. This is primarily due to the fact because our new \$25 million term loan was outstanding at April 30, 2012, the proceeds from the term loan reduced our need to draw on the line of credit in the first quarter of fiscal 2013 to the same extent as in the same 2012 quarter. In addition to this decrease in borrowings, we received \$1.6 million more in proceeds from the exercise of stock options than in the previous fiscal year, and engaged in \$811,000 less in stock repurchases as we deferred our repurchase program as we prepared to become a public company.

Future cash needs and capital requirements

Operating cash flow needs. We believe that our credit facility entered into on April 30, 2012 will be sufficient to support our cash flow needs.

At July 31, 2012, using the leverage ratio applicable under our loan covenants at the end of that quarter, our maximum unused borrowing capacity was \$59.8 million. Under our credit facility, our leverage ratio requirement at the end of each fiscal quarter is 3:1, except at January 31, 2013, when it increases to 4:1.

Our credit facility also contains a new 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 and at the 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 2013 during the fiscal quarter ended July 31, 2012.

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.

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- 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 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 no down payment plan.

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- The extent to which we engage in stock repurchases. In fiscal 2012 and in prior years, we had engaged in significant stock repurchases, both to reduce our stockholder base and to provide stockholder liquidity. We have not engaged in such repurchases since becoming a public company, but in August 2012, our Board of Directors approved an increase in our authorization to repurchase shares, permitting repurchases of up to \$5.0 million of our Class A common stock without an expiration date on the authorization. These repurchases may be conducted through open market transactions or as privately negotiated transactions. However, because of our trading volume and limitations on our ability to engage in repurchases under applicable SEC rules, we do not anticipate significant repurchases in the near term.
- Our ability to generate fee and other income related to financial 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.
- 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, consistent with the covenants that applied under the revolving credit facility it replaced. The credit facility contains a covenant that requires us to maintain a leverage ratio of not more than 4:1 at the end of each 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 July 31, 2012 our leverage ratio was 1.21:1. Using the 3:1 test, our available borrowing capacity under the revolving credit facility at July 31, 2012 was \$59.8 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 also are 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 July 31, 2012, our fixed charge coverage ratio was 3.72:1.

We were in compliance with all of our debt covenants as of July 31, 2012. We expect to be able to manage our cash flow and our operating activities in such a manner that we will continue to 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 new 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 2012 we earned 34% of our revenues during our fiscal third quarter ended January 31, 2012, and earned 89% of our revenues 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

We are a 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. Under the swaps, we receive a variable interest rate based on the one month LIBOR and pay a fixed interest rate of 2.49% or 2.52% under the different swaps. The notional amounts of the swaps vary from \$10 million to \$70 million per month, depending on our forecasted seasonal borrowings. At July 31, 2012, the fair value of our interest rate swaps was a liability of \$647,000 and was included in accounts payable and accrued expenses.

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 July 31, 2012, there were no forward contracts outstanding, but we expect to enter into forward contracts in the future during the Canadian tax season.

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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, existed throughout the fiscal year ended April 30, 2013, 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 the fiscal quarter ended July 31, 2012, no change in our internal control over financial reporting that materially affected, or was reasonably likely to materially affect, our internal control over financial reporting, occurred. However, as described in *Plan for Remediation of Material Weakness* on Form 10-K for the fiscal 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.

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PART II

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 | |

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| | | |
|------------|--|---|
| 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: December 20, 2013

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

Dated: December 20, 2013

By: /s/ MARK F. BAUMGARTNER
 Mark F. Baumgartner
 Chief Financial Officer
 (Principal Financial Officer)

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