

JTH Holding, Inc.
Form 10-Q/A
January 31, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended January 31, 2013

OR

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

For the transition period from to .

Commission File Number 001-35588

JTH Holding, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

27-3561876
(IRS employer identification no.)

1716 Corporate Landing Parkway

Virginia Beach, Virginia 23454

(Address of principal executive offices)

(757) 493-8855

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of the registrant's Common Stock, \$0.01 par value, at the close of business on March 8, 2013 was 12,080,854 shares.

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JTH HOLDING, INC.

Form 10-Q for the Period Ended January 31, 2013

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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 January 31, 2013 originally filed with the Securities and Exchange Commission ("SEC") on March 12, 2013 (the "Original Filing") to restate our condensed consolidated financial statements as of and for the three and nine months ended January 31, 2013 and 2012. 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 January 31, 2013 and 2012:

- 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.

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Condensed Consolidated Balance Sheets

January 31, 2013 and April 30, 2012 (unaudited)

(In thousands except share data)

	January 31, 2013 As Restated(1)	April 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 849	\$ 19,848
Receivables (note 2):		
Trade accounts	31,869	38,321
Notes	96,933	30,283
Interest, net	5,433	674
Allowance for doubtful accounts	(4,649)	(4,496)
Total receivables, net	129,586	64,782
Prepaid expenses and other current assets	18,675	5,328
Income tax receivable	12,611	286
Deferred income taxes	3,144	3,901
Total current assets	164,865	94,145
Property, equipment, and software, net of accumulated depreciation of \$18,286 and \$16,682 for January 31, 2013 and April 30, 2012, respectively	31,978	23,948
Notes receivable, excluding current portion, net of allowance for uncollectible amounts of \$846 and \$794 for January 31, 2013 and April 30, 2012, respectively, (note 2)	21,356	11,711
Goodwill (note 4)	5,721	5,400
Other intangible assets, net of accumulated amortization of \$3,847 and \$3,485 for January 31, 2013 and April 30, 2012, respectively, (note 4)	11,620	10,314
Deferred income taxes		4,093
Other assets, net	5,706	2,585
Total assets	\$ 241,246	\$ 152,196
Liabilities and Stockholders Equity		
Current liabilities:		
Current installments of long-term debt (note 6)	\$ 3,488	\$ 2,736
Accounts payable and accrued expenses (notes 7 and 13)	15,260	14,170
Due to area developers (note 2)	14,955	15,956
Income taxes payable		6,689
Deferred revenue - short-term portion	6,489	6,920
Total current liabilities	40,192	46,471
Long-term debt, excluding current installments (note 6)	132,880	26,249
Deferred revenue - long-term portion	9,935	12,411
Deferred income taxes	382	
Total liabilities	183,389	85,131
Commitments and contingencies (notes 5, 6, and 13)		
Stockholders' equity (notes 7, 9, 10, and 12):		
Class A preferred stock, \$0.01 par value per share, 190,000 shares authorized, 0 and 170,320 shares issued and outstanding January 31, 2013 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, 12,078,854 and 10,343,957 shares issued and outstanding at January 31, 2013 and April 30, 2012, respectively	121	103

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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	6,752	3,182
Accumulated other comprehensive income, net of taxes	810	676
Retained earnings	50,164	60,965
Total stockholders' equity	57,857	67,065
Total liabilities and stockholders' equity	\$ 241,246	\$ 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 and nine months ended January 31, 2013 and 2012 (unaudited)

(In thousands, except per share data)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2013	2012	2013	2012
	As Restated(1)		As Restated(1)	
Revenues:				
Franchise fees	\$ 1,698	\$ 1,577	\$ 4,503	\$ 4,558
Area developer fees	1,741	1,464	5,742	4,619
Royalties and advertising fees	20,188	23,892	22,561	26,265
Financial products	8,039	11,158	8,510	11,449
Interest income (note 2)	3,140	2,653	8,339	6,548
Tax preparation fees, net of discounts	1,445	1,909	1,886	2,154
Net gain on sale of company-owned offices and other revenue	1,369	1,355	2,661	2,879
Total revenues	37,620	44,008	54,202	58,472
Operating expenses:				
Employee compensation and benefits	10,285	7,902	24,566	20,111
General and administrative expenses	7,857	9,055	19,783	18,113
Area developer expense	6,814	7,832	8,646	9,567
Advertising expense	7,687	8,770	12,786	12,389
Depreciation, amortization, and impairment charges	1,424	1,376	4,447	4,199
Total operating expenses	34,067	34,935	70,228	64,379
Income (loss) from operations	3,553	9,073	(16,026)	(5,907)
Other income (expense):				
Foreign currency transaction gains (losses)	(1)		3	(4)
Interest expense (notes 6 and 7)	(819)	(674)	(1,623)	(1,506)
Income (loss) before income taxes	2,733	8,399	(17,646)	(7,417)
Income tax expense (benefit) (note 8)	1,060	3,133	(6,845)	(2,766)
Net income (loss)	\$ 1,673	\$ 5,266	\$ (10,801)	\$ (4,651)
Net income (loss) per share of Class A and Class B common stock:				
Basic	\$ 0.12	\$ 0.38	\$ (0.85)	\$ (0.41)
Diluted	0.12	0.37	(0.85)	(0.41)

(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 Income (Loss)

Three months and nine months ended January 31, 2013 and 2012 (unaudited)

(In thousands)

	Three Months Ended January 31,			Nine Months Ended January 31,				
	2013	As Restated(1)	2012	2013	As Restated(1)	2012		
Net income (loss)	\$	1,673	\$	5,266	\$	(10,801)	\$	(4,651)
Interest rate swap agreements, net of taxes (note 7)		213		205		368		161
Unrealized gain (loss) on equity securities available for sale, net of taxes (note 3)		(42)				110		
Foreign currency translation adjustment		(197)		(43)		(390)		(460)
Forward contracts related to foreign currency exchange rates (note 7)		46		(11)		46		(11)
Comprehensive income (loss)	\$	1,693	\$	5,417	\$	(10,667)	\$	(4,961)

(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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Condensed Consolidated Statements of Cash Flows

Nine months ended January 31, 2013 and 2012 (unaudited)

(In thousands)

	2013	As Restated(1)	2012
Cash flows from operating activities:			
Net loss	\$	(10,801)	\$ (4,651)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for doubtful accounts		4,581	3,488
Depreciation and amortization		4,447	4,199
Amortization of deferred financing costs		217	253
Stock-based compensation expense		1,232	1,203
Gain on bargain purchases and sales of company-owned offices		(178)	(354)
Equity in loss of affiliate		118	54
Deferred tax expense		4,952	1,847
Changes in assets and liabilities decreasing cash flows from operating activities		(56,383)	(50,230)
Net cash used in operating activities		(51,815)	(44,191)
Cash flows from investing activities:			
Issuance of operating loans to franchisees		(60,875)	(56,920)
Payments received on operating loans from franchisees		1,536	3,720
Purchases of area developer rights and company-owned offices		(3,741)	(3,574)
Proceeds from sale of company-owned offices and area developer rights		2,252	788
Purchase of available-for-sale securities		(2,980)	
Purchase of equity method investment			(1,009)
Purchase of property and equipment		(9,177)	(7,554)
Net cash used in investing activities		(72,985)	(64,549)
Cash flows from financing activities:			
Proceeds from the exercise of stock options		1,592	37
Repurchase of common stock		(1,634)	(2,612)
Repayment of long-term debt		(2,227)	(1,532)
Borrowings under revolving credit facility		108,582	117,598
Repayments under revolving credit facility		(478)	(4,799)
Payment for debt issue costs		(281)	
Tax benefit of stock option exercises		269	458
Net cash provided by financing activities		105,823	109,150
Effect of exchange rate changes on cash, net		(22)	(94)
Net increase (decrease) in cash and cash equivalents		(18,999)	316
Cash and cash equivalents at beginning of period		19,848	1,662
Cash and cash equivalents at end of period	\$	849	\$ 1,978

(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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Condensed Consolidated Statements of Cash Flows

Nine months ended January 31, 2013 and 2012 (unaudited)

(In thousands)

	2013	As Restated(1)	2012
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of capitalized interest	\$ 1,310	\$	1,186
Cash paid for taxes, net of refunds	6,958		7,090
Accrued capitalized software costs included in accounts payable	1,657		874
Supplemental disclosures of noncash investing and financing activities:			
During the nine months ended January 31, 2013 and 2012, the Company acquired certain assets from franchisees and area developers as follows:			
Fair value of assets purchased	\$ 9,265	\$	10,441
Receivables applied	(6,487)		(8,877)
Accounts payable canceled	2,528		2,271
Notes payable issued	(2,300)		(1,496)
Elimination of related deferred revenue	735		1,235
Cash paid to franchisees and area developers	\$ 3,741	\$	3,574
During the nine months ended January 31, 2013 and 2012, the Company sold certain assets to franchisees and area developers as follows:			
Book value of assets sold	\$ 5,601	\$	5,003
Loss on sale	(351)		(157)
Deferred gain on sale	1,252		872
Applied from acquisitions of franchise territories			(653)
Notes received	(4,250)		(4,277)
Cash received from franchisees and area developers	\$ 2,252	\$	788

(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

January 31, 2013 and 2012 (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 for its customers refund-based tax settlement financial products such as electronic refund checks, refund-based loans, 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 and nine months ended January 31, 2013 and 2012.

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

(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

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JTH HOLDING, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

January 31, 2013 and 2012 (Unaudited)

statements. The amendments in this ASU did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The Company adopted this guidance in the first quarter of fiscal 2013. Because it only affects presentation, this guidance did not have a material effect on the Company's consolidated financial statements.

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

(e) Foreign Operations

Canadian operations contributed \$328,000 and \$1,103,000 in revenues for the three and nine months ended January 31, 2013, respectively, and \$260,000 and \$1,194,000 in revenues for the three and nine months ended January 31, 2012, respectively.

(f) Supplier Concentration

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

(g) 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.

(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 nine months ended January 31, 2013 and the fiscal year ended April 30, 2012 was as follows:

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	January 31, 2013 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	4,431	8,131
Sales of certain assets to franchisees	11,073	12,554
Franchisee to franchisee note assumptions	10,303	7,439
Working capital and equipment loans to franchisees	60,875	67,969
Refinancing of accounts receivable	18,486	16,787
	105,168	112,880
Repayment of notes	(6,515)	(82,258)
Notes canceled	(18,806)	(21,188)
Foreign currency adjustment	(127)	(160)
Balance at end of period	159,558	79,838
Unrecognized revenue portion of notes receivable	(40,423)	(37,050)
Notes receivable less unrecognized revenue	\$ 119,135	\$ 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, when the franchise or area owner is an entity, is generally guaranteed by the owners of the respective entity. The franchisees' or ADs' 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.

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

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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 \$14,955,000 and \$15,956,000 at January 31, 2013 and April 30, 2012, respectively.

Activity in the allowance for doubtful accounts for the nine months ended January 31, 2013, and 2012 was as follows:

	2013	As Restated (In thousands)	2012
Beginning balance	\$ 5,290	\$ 4,827	4,827
Additions charged to expense	4,581	3,488	3,488
Write-offs	(4,345)	(4,170)	(4,170)
Foreign currency adjustment	(31)	(95)	(95)
Ending balance	\$ 5,495	\$ 4,050	4,050

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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The allowance for doubtful accounts at January 31, 2013 and April 30, 2012 was allocated as follows:

	January 31, 2013 As Restated	April 30, 2012
	(In thousands)	
Impaired:		
Notes receivable including interest and less unrecognized revenue	\$ 6,351	\$ 6,728
Accounts receivable	3,023	4,375
Less allowance for uncollected interest, amounts due ADs, related deferred revenue and amounts due franchisees	(1,678)	(1,704)
Net amount due	\$ 7,696	\$ 9,399
Allowance for doubtful accounts for impaired notes and accounts receivable	\$ 3,994	\$ 4,488
Non-impaired:		
Notes receivable including interest and less unrecognized revenue	\$ 119,787	\$ 37,936
Accounts receivable	30,659	35,259
Less allowance for uncollected interest, amounts due ADs, related deferred revenue and amounts due franchisees	(17,537)	(17,432)
Net amount due	\$ 132,909	\$ 55,763
Allowance for doubtful accounts for non-impaired notes and accounts receivable	\$ 1,501	\$ 802
Total allowance for doubtful accounts	\$ 5,495	\$ 5,290

The aging of accounts and notes receivable at January 31, 2013 was as follows:

	Total Past Due	Allowance for Uncollected Interest	As Restated (In thousands)	Current	Total Receivables
Accounts receivable	\$ 10,090	\$ (1,813)	\$	23,592	\$ 31,869
Notes receivable including interest and less unrecognized revenue	5,856	(1,570)		120,282	124,568
Total	\$ 15,946	\$ (3,383)	\$	143,874	\$ 156,437

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

The Company's average investment in impaired notes receivable during the nine months ended January 31, 2013 and 2012 was \$6,539,000 and \$5,081,000, respectively. Interest income related to impaired notes was \$107,000 and \$352,000 for the three and nine months ended January 31, 2013, respectively, and \$108,000 and \$326,000 for the three and nine months ended January 31, 2012, respectively. The Company's investment in notes receivable on nonaccrual status at January 31, 2013 and April 30, 2012 was \$4,286,000 and \$5,274,000, respectively.

Table of Contents**JTH HOLDING, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****January 31, 2013 and 2012 (Unaudited)**

At January 31, 2013 the Company had unfunded lending commitments for working capital loans to franchisees and area developers of \$19,373,000.

(3) Investments

During the nine months ended January 31, 2013, the Company purchased corporate equity securities, as a strategic investment in a business partner, for \$2,980,000. This investment is included in other assets, net in the accompanying condensed consolidated balance sheets. At January 31, 2013, the fair value of the investment was \$3,162,000. The Company classifies this investment as available-for-sale and recognizes unrealized gain on the available-for-sale securities, net of tax, in accumulated other comprehensive income in the stockholders' equity section of the balance sheets. The unrealized gain, net of tax, on the available-for-sale securities at January 31, 2013 was \$110,000.

(4) Goodwill and Intangible Assets

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

	Goodwill	Accumulated impairment loss As Restated (In thousands)	Net
Balance at beginning of period	\$ 6,157	\$ (757)	\$ 5,400
Acquisitions of assets from franchisees	2,840		2,840
Disposals and foreign currency changes, net	(3,086)	567	(2,519)
Impairments			
Balance at end of period	\$ 5,911	\$ (190)	\$ 5,721

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	\$	3,178	\$	(1,287)	\$	1,891	\$	3,370	\$	(1,195)	\$	2,175
Area developer rights	10 years		10,702		(2,518)		8,184		10,429		(2,290)		8,139
Acquired customer lists	7 years		1,587		(42)		1,545						
		\$	15,467	\$	(3,847)	\$	11,620	\$	13,799	\$	(3,485)	\$	10,314

In December 2012, the Company purchased certain assets of an online tax preparation software provider for \$1,587,000, of which \$794,000 was payable at January 31, 2013. The entire purchase price has been allocated to the identifiable intangible assets.

During the nine months ended January 31, 2013, the Company acquired the assets of various franchisees for \$5,264,000. 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:

	Nine Months Ended January 31,			
	2013	2012		
	As Restated (In thousands)			
Customer lists and reacquired rights	\$	2,424	\$	3,126
Goodwill		2,840		4,137
Total	\$	5,264	\$	7,263

(5) Leases

The Company is obligated under various short-term operating leases for office space that expire at various dates. Total rent expense for operating leases, net of subleases, was \$914,000 and \$2,388,000 for the three and nine months ended January 31, 2013, respectively, and \$770,000 and \$1,808,000 for the three and nine months ended January 31, 2012, respectively.

(6) Debt

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. On December 28, 2012, the Company utilized the accordion feature to increase the borrowing limit under the revolving credit facility by \$38,350,000, increasing the maximum

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borrowings under that portion of its credit facility to \$143,350,000. Outstanding borrowings accrue interest at one-month London Inter-Bank Offered Rate (LIBOR) plus a margin ranging from 1.50% to 2.25% depending on the Company's leverage ratio. At January 31, 2013, the interest rate was 1.96%. The indebtedness is collateralized by substantially all the assets of the Company and both loans mature on April 30, 2017. The credit facility contains certain financial covenants that the Company must meet, including leverage and fixed charge coverage ratios as well as minimum net worth requirements. At January 31, 2013, the Company was not in compliance with its leverage ratio requirement due to an unprecedented delay in the start of the federal tax season attributable to the last minute fiscal cliff resolution by Congress. The Company obtained a waiver from its

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creditors for the leverage ratio covenant failure. The Company was in compliance with all of its debt covenants in prior quarters, and with all of its covenants other than the leverage ratio requirement at January 31, 2013.

Debt at January 31, 2013 and April 30, 2012 consisted of the following:

	January 31, 2013		April 30, 2012
	(In thousands)		
Credit Facility:			
Revolver	\$ 108,104	\$	
Term loan	24,064		25,000
	132,168		25,000
Other debt	4,200		3,985
	136,368		28,985
Less: current portion	(3,488)		(2,736)
Long-term debt	\$ 132,880	\$	26,249

(7) 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 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

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JTH HOLDING, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

January 31, 2013 and 2012 (Unaudited)

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 January 31, 2013 and April 30, 2012, the fair value of interest rate swaps was a liability of \$115,000 and \$694,000, respectively, and was included in accounts payable and accrued expenses. During the nine months ended January 31, 2013, no amount was recognized in the consolidated statements of operations due to the ineffectiveness of these interest rate swaps. During the nine months ended January 31, 2012, \$49,000 of income was recognized in the consolidated statements of operations due to the ineffectiveness of these interest rate swaps. The interest rate swaps will expire in March 2013.

Forward contracts related to foreign currency exchange rates: In connection with short-term advances made to its Canadian subsidiary related to personal income tax refund discounting, the Company enters into forward contracts to eliminate the exposure related to foreign currency fluctuations. Under the terms of the forward currency contracts, the exchange rate for repayments is fixed at the time 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 January 31, 2013, the fair value of foreign currency contracts was a liability of \$46,000 that was included in accounts payable and accrued expenses. The company had no outstanding forward contracts at April 30, 2012. During the nine months ended January 31, 2013 and 2012, no amounts were recognized in the consolidated statements of operations due to the ineffectiveness of these foreign currency hedges.

At January 31, 2013, there were 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 nine months ended January 31, 2013.

(8) Income Taxes

For the three and nine months ended January 31, 2013, the Company recognized income tax expense of \$1,060,000 and an income tax benefit of \$6,845,000, respectively. For the three and nine months ended January 31, 2012, the Company recognized income tax expense of \$3,133,000 and an income tax benefit of \$2,766,000, respectively. The Company has determined no reserves for uncertain tax positions were required at January 31, 2013 or April 30, 2012. The 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.

In January 2013 the American Taxpayer Relief Act of 2012 was signed into law. The Act includes a reinstatement of the Federal research and experimentation credit through December 31, 2013 that was retroactive to January 1, 2012. We recorded a discrete tax benefit of approximately \$395,000 for the retroactive effect during the three months ended January 31, 2013.

(9) Stockholders Equity

During the nine months ended January 31, 2013 and 2012, activity in stockholders equity was as follows:

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	January 31, 2013	January 31, 2012
	(In thousands)	
Class A common shares issued from the exercise of stock options	151	4
Proceeds from exercise of stock options	\$ 1,592	\$ 37
Class A common shares repurchased	119	177
Payments for repurchased shares	\$ 1,634	\$ 2,612
Tax benefit of stock option exercises	\$ 269	\$ 458
Class A common shares issued upon conversion of Class A preferred shares	1,703	

(a) Net Income (Loss) per Share

Net income (loss) per share of Class A and Class B common stock is computed using the two-class method. Basic net income (loss) per share is computed by allocating undistributed earnings to common shares and participating securities (Class A preferred stock and exchangeable shares) and using the weighted-average number of common shares outstanding during the period. Undistributed losses are not allocated to these participating securities because they do not meet the required criteria for such allocation. During the nine months ended January 31, 2013, two of the Company's major shareholders elected to convert 170,320 shares of the Class A preferred stock to 1,703,200 shares of Class A common stock. As a result of the conversion, 1,703,200 and 1,424,495 additional shares are included in the weighted-average number of Class A common shares used to calculate the income (loss) per share for the three and nine months ended January 31, 2013, respectively. 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 income (loss) per share for the three and nine months ended January 31, 2013.

Diluted net income (loss) per share is computed using the weighted-average number of common shares and, if dilutive, the potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options. The dilutive effect of outstanding stock options is reflected in diluted earnings per share by application of the treasury stock method. Additionally, the computation of the diluted net income (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 common stock as if the earnings for the year had been distributed. Participating securities have dividend rights that are identical to Class A and Class B common stock.

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The computation of basic and diluted net income (loss) per share for the three and nine months ended January 31, 2013 and 2012 was as follows:

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

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

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	Nine Months Ended January 31, 2013 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	\$ (10,037)	\$ (764)
<i>Denominator</i>		
Weighted-average common shares outstanding	11,831,496	900,000
Basic and diluted net loss per share	\$ (0.85)	\$ (0.85)

As a result of the net loss for the period, diluted net loss per share excludes the impact of shares of potential common stock from the exercise of options to purchase 2,745,000 shares for the nine months ended January 31, 2013, because the effect would be antidilutive.

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	Three Months Ended January 31, 2012 As Restated	
	Class A Common Stock	Class B Common Stock
	(in thousands, except for share and per share amounts)	
Basic net income per share:		
<i>Numerator</i>		
Allocation of undistributed earnings	\$ 4,845	\$ 421
Amounts allocated to participating securities:		
Class A preferred stock	(591)	(51)
Exchangeable shares	(347)	(30)
Net income attributable to common stockholders	\$ 3,907	\$ 340
<i>Denominator</i>		
Weighted-average common shares outstanding	10,362,397	900,000
Basic net income per share	\$ 0.38	\$ 0.38
Diluted net income per share:		
<i>Numerator</i>		
Allocation of undistributed earnings for basic computation	\$ 3,907	\$ 340
Reallocation of undistributed earnings as a result of assumed conversion of:		
Class B common stock to Class A common stock	340	
Class A preferred stock to Class A common stock	642	
Exchangeable shares to Class A common stock	377	
	\$ 5,266	\$ 340
<i>Denominator</i>		
Number of shares used in basic computation	10,362,397	900,000
Weighted-average effect of dilutive securities:		
Class B common stock to Class A common stock	900,000	
Class A preferred stock to Class A common stock	1,703,200	
Exchangeable shares to Class A common stock	1,000,000	
Employee stock options	184,247	11,874
	14,149,844	911,874
Diluted net income per share	\$ 0.37	\$ 0.37

Diluted net income per share excludes the impact of common stock from the exercise of options to purchase 2,282,000 shares for the three months ended January 31, 2012 because the effect would be antidilutive.

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	Nine Months Ended January 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	\$ (4,281)	\$ (370)
<i>Denominator</i>		
Weighted-average common shares outstanding	10,403,374	900,000
Basic and diluted net loss per share	\$ (0.41)	\$ (0.41)

As a result of the net loss for the period, diluted net loss per share excludes the impact of shares of potential common stock from the exercise of options to purchase 2,657,000 shares for the nine months ended January 31, 2012, because the effect would be antidilutive.

(10) Stock Compensation Plans**(a) Stock Options**

At January 31, 2013, 1,965,539 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 nine months ended January 31, 2013:

Weighted average fair value of options granted	\$	1.80
Dividend yield		0.0%

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Expected volatility	13.0% - 14.9%
Expected terms	4 - 6 years
Risk-free interest rates	0.6% - 1.0%

Stock option activity during the nine months ended January 31, 2013 was as follows:

	Number of options	Weighted average exercise price
Outstanding at beginning of period	2,729,013	\$ 14.21
Granted	332,035	15.00
Exercised	(150,571)	10.57
Canceled	(114,965)	12.93
Outstanding at end of period	2,795,512	14.55

All of the stock options granted during the nine months ended January 31, 2013 were granted to employees of the Company, except for 43,000 options granted to nonemployee directors.

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The total intrinsic value of options exercised during the nine months ended January 31, 2013 was approximately \$667,000.

Nonvested stock option (options that did not vest in the period in which granted) activity during the nine months ended January 31, 2013 was as follows:

	Nonvested options	Weighted average exercise price
Outstanding at beginning of period	452,500	\$ 15.00
Granted	332,035	15.00
Vested	(286,935)	15.00
Canceled	(5,100)	15.00
Outstanding at end of period	492,500	15.00

At January 31, 2013, unrecognized compensation costs related to nonvested stock options were \$721,000. These costs are expected to be recognized between 2013 and 2016.

The following table summarizes information about stock options outstanding and exercisable at January 31, 2013:

Number of shares outstanding at January 31, 2013	Range of exercise prices	Weighted average exercise price	Weighted average remaining contractual life	Number of shares exercisable at January 31, 2013	Weighted average exercise price
40,000	\$ 5.50	\$ 5.50	0.2 years	40,000	\$ 5.50
24,902	8.50 - 9.00	8.63	0.2 years	24,902	8.63
170,000	10.50	10.50	1.5 years	170,000	10.50
2,234,175	14.00 - 16.50	15.02	3.1 years	1,791,675	15.02
326,435	15.00	15.00	3.9 years	276,435	15.00
				2,303,012	

(b) Restricted Stock Units

During the nine months ended January 31, 2013, the Company awarded 15,971 shares of restricted stock units to its non-employee directors. The weighted average fair value at grant date was \$13.50 and the vesting or service period is between 16-18 months. Compensation costs associated with these restricted shares are amortized over the service period and recognized as an increase in additional paid-in capital.

(11) 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 January 31, 2013 and April 30, 2012 the Company had cash equivalents of:

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	January 31, 2013	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 January 31, 2013 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 collectability of the receivables, which the Company believes is adequate for its credit loss exposure.

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The condensed consolidated financial statements include various estimated fair value information at January 31, 2013 and April 30, 2012.

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

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

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

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

At January 31, 2013 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):

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

	Total	Level 1	April 30, 2012 Fair value measurements using		Level 3
				Level 2	
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
Total nonrecurring assets	\$ 8,199	\$	\$		\$ 8,199
Liabilities:					
Recurring:					
Interest rate swap agreements	\$ 694	\$	\$ 694		\$

The Company's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of level 1 or 2 requiring fair value measurements for the nine months ended January 31, 2013.

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Management considers accounts and notes receivable to be impaired if the amount due exceeds the fair value of the underlying franchise. In establishing the estimated fair value of the underlying franchise, consideration is given to the net fees of open offices earned during the most recently completed tax season and the number of unopened offices.

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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.

(12) 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 nine months ended January 31, 2013 and 2012, the Company repurchased common stock from related parties as follows:

	2013	2012
Common stock repurchases:		
Shares repurchased	20,077	29,000
Amount	\$ 301,155	\$ 435,000

At January 31, 2013 and April 30, 2012, notes receivable from related parties are as follows:

	January 31 2013	April 30, 2012
Notes receivable	\$ 21,219	\$ 21,000
Repayments received during the year	1,800	971,000

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

(13) 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 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 believes at this time a loss related to this matter is not probable; consequently the Company has not recorded 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.

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

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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, but in February 2013, the court issued a ruling denying certification of the case as a class action. The Company believes at this time a loss related to this matter is not probable; 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.

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(14) Restatement of Previously Issued Financial Statements

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 consolidated financial statements for the fiscal quarters ended January 31, 2013 and 2012.

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 sheet:

	As Reported	January 31, 2013 Adjustments (in thousands)	As Restated
Receivables:			
Notes	\$ 106,031	\$ (9,098)	\$ 96,933
Interest	8,018	(2,585)	5,433
Allowance for doubtful accounts	(5,228)	579	(4,649)
Total receivables, net	140,690	(11,104)	129,586
Income tax receivable	12,579	32	12,611
Deferred income taxes	76	3,068	3,144
Total current assets	172,869	(8,004)	164,865
Notes receivable, excluding current portion	53,527	(31,325)	22,202
Allowance for uncollectible amounts for long-term notes receivable	(2,082)	1,236	(846)
Goodwill	1,913	3,808	5,721
Other intangibles	30,817	(15,350)	15,467
Accumulated amortization of intangible assets	(6,256)	2,409	(3,847)
Total assets	288,472	(47,226)	241,246
Due to area developers	21,727	(6,772)	14,955
Deferred income taxes	6	(6)	
Deferred revenue - short-term portion	6,855	(366)	6,489
Total current liabilities	47,336	(7,144)	40,192
Deferred revenue - long-term portion		9,935	9,935
Deferred income taxes	18,199	(17,817)	382
Total liabilities	198,415	(15,026)	183,389
Retained earnings	82,364	(32,200)	50,164
Total stockholders' equity	90,057	(32,200)	57,857
Total liabilities and stockholders' equity	288,472	(47,226)	241,246

The adjustments reflected in the table above include:

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

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- 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 to 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 and nine months ended January 31, 2013 and 2012:

	As Reported	Three Months Ended January 31, 2013		As Restated
		Adjustments (in thousands except per share data)		
Franchise fees	\$ 1,992	\$ (294)	\$	1,698
Provision for refunds	232	(232)		
Area developer fees		1,741		1,741
Royalties and advertising fees	14,204	5,984		20,188
Interest income	3,544	(404)		3,140
Net gain on sale of company-owned offices and other revenue	1,546	(177)		1,369
Total revenues	30,538	7,082		37,620
Area developer expense		6,814		6,814
Depreciation, amortization, and impairment charges	1,728	(304)		1,424
Total operating expenses	27,557	6,510		34,067
Income from operations	2,981	572		3,553
Income before income taxes	2,161	572		2,733
Income tax expense	1,049	11		1,060
Net income	1,112	561		1,673
Net income per share of Class A and Class B common stock:				
Basic and diluted	\$ 0.08	\$ 0.04	\$	0.12

	As Reported	Nine Months Ended January 31, 2013		As Restated
		Adjustments (in thousands except per share data)		
Franchise fees	\$ 7,041	\$ (2,538)	\$	4,503
Provision for refunds	619	(619)		
Area developer fees		5,742		5,742
Royalties and advertising fees	15,973	6,588		22,561
Interest income	9,169	(830)		8,339
Net gain on sale of company-owned offices and other revenue	2,653	8		2,661
Total revenues	44,613	9,589		54,202
General and administrative expenses	19,433	350		19,783
Area developer expense		8,646		8,646
Depreciation, amortization, and impairment charges	5,357	(910)		4,447
Total operating expenses	62,142	8,086		70,228
Loss from operations	(17,529)	1,503		(16,026)
Loss before income taxes	(19,149)	1,503		(17,646)
Income tax benefit	(7,411)	566		(6,845)
Net loss	(11,738)	937		(10,801)
Net loss per share of Class A and Class B common stock:				
Basic and diluted	\$ (0.92)	\$ 0.07	\$	(0.85)

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	Three Months Ended January 31, 2012		
	As Reported	Adjustments (in thousands except per share data)	As Restated
Franchise fees	\$ 1,727	\$ (150)	\$ 1,577
Provision for refunds	198	(198)	
Area developer fees		1,464	1,464
Royalties and advertising fees	16,789	7,103	23,892
Interest income	3,016	(363)	2,653
Net gain on sale of company-owned offices and other revenue	1,249	106	1,355
Total revenues	35,650	8,358	44,008
General and administrative expenses	8,655	400	9,055
Area developer expense		7,832	7,832
Depreciation, amortization, and impairment charges	1,647	(271)	1,376
Total operating expenses	26,974	7,961	34,935
Income from operations	8,676	397	9,073
Income before income taxes	8,002	397	8,399
Income tax expense	3,325	(192)	3,133
Net income	4,677	589	5,266
Net income per share of Class A and Class B common stock:			
Basic	\$ 0.33	\$ 0.05	\$ 0.38
Diluted	\$ 0.33	\$ 0.04	\$ 0.37

Franchise fees	\$ 7,633	\$ (3,075)	\$ 4,558
Area developer fees		4,619	4,619
Interest income	7,623	(1,075)	6,548
Total revenues	49,311	9,161	58,472
Area developer expense		9,567	9,567
Total operating expenses	55,178	9,201	64,379
Loss before income taxes	(7,377)	(40)	(7,417)
Net loss	(4,628)	(23)	(4,651)

The adjustments reflected in the tables above include:

- 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

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- 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 (loss) for the three and nine months ended January 31, 2013 and 2012.

	As Reported	Three Months Ended January 31, 2013		As Restated
		Adjustments		
		(in thousands)		
Net income	\$ 1,112	\$ 561		\$ 1,673
Comprehensive income	1,132	561		1,693

	As Reported	Nine Months Ended January 31, 2013		As Restated
		Adjustments		
		(in thousands)		
Net loss	\$ (11,738)	\$ 937		\$ (10,801)
Comprehensive loss	(11,604)	937		(10,667)

	As Reported	Three Months Ended January 31, 2012		As Restated
		Adjustments		
		(in thousands)		
Net income	\$ 4,677	\$ 589		\$ 5,266
Comprehensive income	4,828	589		5,417

	As Reported	Nine Months Ended January 31, 2012		As Restated
		Adjustments		
		(in thousands)		

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Net loss	\$	(4,628)	\$	(23)	\$	(4,651)
Comprehensive loss		(4,938)		(23)		(4,961)

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, may, 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 and risks described in all other filings with the Securities and Exchange Commission, including:

- our possible inability to sustain growth at our historical pace;

- the seasonality of our business;

- our inability to secure reliable sources of the tax settlement products we make available to our customers;

- the continued service of our senior management team and our ability to attract additional talent;

- government regulation and oversight, including the regulation of our tax settlement products such as 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;
- 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;

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- 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;

- 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 periods at and prior to January 31, 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 January 31, 2012 and January 31, 2013 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 Income (Loss) and the Condensed Consolidated Statements of Cash Flows for the three and nine months ended January 31, 2013 and January 31, 2012 and the Condensed Consolidated Balance Sheet at January 31, 2013, 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 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 limited number of company-owned offices each tax season. All of the offices are operated under the Liberty Tax Service brand.

From 2001 through 2013, we grew our number of tax offices from 508 to more than 4,500. For the 2013 tax season, we and our franchisees operated 4,262 offices in the United States, a 8.7% increase over the 2012 tax season, when we operated 3,920 offices, which was itself a 9.2% increase over the number of offices operated in the 2011 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.

Historically, most income tax filings in the United States take place between January and mid-April, our results of operation are highly seasonal, with most revenues generated in our fiscal fourth quarter beginning February 1 each year but with significant revenue also earned during the second half of January during our fiscal third quarter, after the tax season begins in mid-January. As described further in this report, our fiscal 2013 third quarter was materially adversely affected by the significant delay in the 2013 tax filing season attributable to the delays in Congress adoption of the fiscal cliff legislation, which in turn resulted in an IRS announcement on January 8, 2013 that the IRS would not begin allowing tax filings until January 30, 2013, and that because of the unavailability of certain tax forms, the ability to file many tax returns would be delayed even further into February and March. In addition, many of the changes required to be made in state tax forms because of changes in federal tax law and forms caused additional delays in the commencement of tax filings in many states. As described in this report, these delays are expected to shift a significant portion of our royalty income and other revenue from our fiscal third quarter into our fiscal fourth quarter and

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affected our utilization of cash during the fiscal third quarter as we assisted our franchisees with their liquidity issues caused by the delay of their receipt of tax preparation revenue.

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.

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In October 2012, we announced that we would have the opportunity to offer tax preparation services in more than 300 Walmart stores beginning in the 2013 tax season. Many of our expanding franchisees chose our rent to own option for Walmart locations, and we expect this trend to delay the recognition of these territory sales to the fourth quarter of fiscal 2013, if the franchisee elects to purchase the territory at that time. Moreover, because many of the Walmart stores were in rural areas that were more difficult to sell, we operated more company offices in the 2013 tax season than in prior years. Of the 264 company offices we operated in the United States and Canada at January 31, 2013, 154 were tax kiosks located in Walmart stores. However, from a longer term perspective, we believe that opening and operating these Walmart stores in hard to sell areas will give us the opportunity to sell these territories earlier than would otherwise have been possible and allow us to expand our footprint into these rural areas more quickly.

- **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.

- **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.

The delay in the opening of the 2013 tax filing season and the additional delay of certain forms as described above adversely affected our revenue during our third fiscal quarter because the royalty income we receive is based on our franchisees' tax preparation revenue. Because our franchisees do not earn their tax preparation revenue until returns are filed with the IRS (and often do not receive the related cash until the refund is processed, for which the IRS establishes a typical timeframe of 8-21 days following filing), a significant portion of our royalty income and related cash flow has been deferred from our fiscal third quarter to our fiscal fourth quarter because the IRS filing system was open for only two days in January 2013.

- **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. As noted above with respect to royalty income, the delay in electronic filing for the 2013 tax season has affected the timing of our income and cash flow from advertising fees, deferring a significant portion of that revenue from the fiscal third quarter to the fiscal fourth quarter.
- **Financial Products:** We offer two types of financial products: refund transfer products, such as electronic refund checks (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 offer refund-based loans through banks and other federally-insured financial institutions, and our ability to offer refund-based loans is therefore more limited than in the past. However, we believe the negative effect of fewer refund-based loans will be offset by three factors. First, we offered our ICA loan in 27 states during the 2013 tax season. Second, we believe that most customers who previously would have obtained loans will elect to purchase an ERC, and that the continued availability of these products will enable us to experience similar financial product attachment rates as in prior years. Third, as we continue to offer more of our financial products through our JTH Financial subsidiary, we expect to be able to realize more of the fee income associated with financial products (although we will also incur greater expenses in connection with offering these products). As with our royalty and advertising fee revenue, a substantial portion of our income and cash flow associated with the offering of financial products was delayed to our fiscal fourth quarter because of the delay in the tax filing season.
- **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.

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For purposes of this section and throughout this quarterly report, all references to fiscal 2013 and fiscal 2012 refer to our fiscal years ended April 30, 2013 and 2012, respectively, and corresponding references to fiscal quarters are references to quarters within those fiscal years. For purposes of this section and throughout this quarterly report, all references to year or years are the respective fiscal year or years ended April 30 unless otherwise noted in this quarterly report, and all references to tax season refer to the period between January 1 and April 30 of the referenced year.

Results of Operations

The table below shows results of operations for the three and nine months ended January 31, 2013 and 2012.

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2013	2012	Change \$	%	2013	2012	Change \$	%
	(dollars in thousands)							
Results of Operations								
Total revenues	\$ 37,620	\$ 44,008	\$ (6,388)	-15%	\$ 54,202	\$ 58,472	\$ (4,270)	-7%
Income (loss) from operations	3,553	9,073	(5,520)	-61%	(16,026)	(5,907)	(10,119)	171%
Net income (loss)	1,673	5,266	(3,593)	-68%	(10,801)	(4,651)	(6,150)	132%

Revenues. The table below sets forth the components and changes in our revenues for the three and nine months ended January 31, 2013 and 2012.

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2013	2012	Change \$	%	2013	2012	Change \$	%
	(dollars in thousands)							
Franchise fees	\$ 1,698	\$ 1,577	\$ 121	8%	\$ 4,503	\$ 4,558	\$ (55)	-1%
Area developer fees	1,741	1,464	277	19%	5,742	4,619	1,123	24%
Royalties	15,660	18,175	(2,515)	-14%	17,457	19,977	(2,520)	-13%
Advertising fees	4,528	5,717	(1,189)	-21%	5,104	6,288	(1,184)	-19%
Financial products	8,039	11,158	(3,119)	-28%	8,510	11,449	(2,939)	-26%
Interest income	3,140	2,653	487	18%	8,339	6,548	1,791	27%
Tax preparation fees, net of discounts	1,445	1,909	(464)	-24%	1,886	2,154	(268)	-12%
Net gain on sale of company-owned offices and other revenue	1,369	1,355	14	1%	2,661	2,879	(218)	-8%
Total revenues	\$ 37,620	\$ 44,008	\$ (6,388)	-15%	\$ 54,202	\$ 58,472	\$ (4,270)	-7%

Our total revenues decreased by 15% and 7% in the first three months and nine months of fiscal 2013, respectively, compared to fiscal 2012, due to the following factors:

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- A 28% and 26% decrease, respectively, in financial products revenue primarily attributable to the delay in the IRS acceptance of tax returns. However, the effect of the decrease in volume of ERCs due to the IRS delays was offset in part by increased revenue per product because we processed more ERCs through JTH Financial rather than through third-party partners, and because we shared fee revenue with the ERCs for which we used third-party partners. Additionally, due to a difference in this year's contract with the non-bank lender for the ICA program, the program is accounted for on a net basis instead of on a gross basis, as in prior years.
- A 14% and 13% decrease, respectively, in royalties and a 21% and 19% decrease, respectively, in advertising fees, primarily due to the delay in the tax filing season.
- A 24% and 12% decrease, respectively, in tax preparation fees primarily due to the delay in the 2013 tax filing season, offset in part by an increase in the number of company-owned offices, including tax kiosks in Walmart stores. At January 31, 2013, we operated 264 company offices, an increase from 93 company offices operated at the same date in 2012. Of these company-owned offices, 154 were kiosks located at Walmart stores.

The decreases in financial products revenue, royalties, advertising fees, and tax preparation fees were partially offset by:

- A 19% and 24% increase, respectively, in area developer fees reflecting increased area developer sales in fiscal 2013 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.
- An 18% and 27% increase, respectively, 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.

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Operating expenses. The table below details the amounts and changes in our operating expenses for the three and nine months ended January 31, 2013 and 2012.

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2013	2012	Change		2013	2012	Change	
			\$	%			\$	%
	(dollars in thousands)							
Employee compensation and benefits	\$ 10,285	\$ 7,902	\$ 2,383	30%	\$ 24,566	\$ 20,111	\$ 4,455	22%
General and administrative	7,857	9,055	(1,198)	-13%	19,783	18,113	1,670	9%
Area developer expense	6,814	7,832	(1,018)	-13%	8,646	9,567	(921)	-10%
Advertising	7,687	8,770	(1,083)	-12%	12,786	12,389	397	3%
Depreciation, amortization and impairment charges	1,424	1,376	48	3%	4,447	4,199	248	6%
Total operating expenses	\$ 34,067	\$ 34,935	\$ (868)	-2%	\$ 70,228	\$ 64,379	\$ 5,849	9%

Our total operating expenses decreased by 2% in the three months ended January 31, 2013. The largest components of this decrease were:

- A 13% decrease in general and administrative expenses, caused primarily by a decrease of \$2.4 million in expense because we restructured our financial products program for the 2013 tax season to eliminate a franchisee rebate on ERCs (rebate expense was recorded in fiscal 2012) and because of a difference in the 2013 tax season contract with the non-bank lender for the ICA program, the program is accounted for on a net basis instead of on a gross basis, as in prior years, offset in part by:
 - A \$422,000 increase in rent and utilities expense, due to an increase in the number of company-owned offices.
 - A \$220,000 increase in bad debt expense based on our assessment of the appropriate level of allowance for doubtful accounts.
 - A \$215,000 increase in travel and entertainment expense for costs primarily related to attracting new franchisees and training existing and new franchisees as well as travel to support the increased number of company-owned offices.
 - A \$203,000 increase in computer supply and software expense for subscriptions to software as a service related to the use of electronic signatures for customer documents and due to outfitting an additional 171 company-owned offices with the required supplies.
- A 13% decrease in area developer expense primarily caused by the decline in the ADs portion of royalties, which declined because of our decrease in royalties revenue described above.
- A 12% decrease in advertising because we incurred a larger part of our advertising spending during the first two quarters of fiscal 2013, as compared to fiscal 2012.

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The decreases in general and administrative expenses, area developer expense, and advertising were partially offset by a 30% increase in employee compensation and benefits primarily attributable to the addition of corporate personnel to support the anticipated growth in the number of offices and our becoming a public company.

Our total operating expenses increased by 9% in the nine months ended January 31, 2013, compared to the same period of fiscal 2012. The largest components of this increase were:

- A 22% increase in employee compensation and benefits primarily attributable to the addition of corporate personnel to support the anticipated growth in the number of offices and our becoming a public company, as well as the additional personnel hired to run 171 additional company-owned offices.
- A 9% increase in general and administrative expenses, caused primarily by the following:
 - A \$1.1 million increase in bad debt expense based on our assessment of the appropriate level of allowance for doubtful accounts. The percentage of note balances reserved was 5% at January 31, 2013, compared to 4% at January 31, 2012.
 - A \$1.0 million increase in rent and utilities expense, largely related to an increase in the number of company-owned offices.
 - A \$647,000 increase in professional fees due to additional costs associated with becoming a public company and increased litigation costs related to current litigation.
 - A \$515,000 increase in travel and entertainment expense for costs primarily related to attracting new franchisees and training existing and new franchisees as well as travel to support the increased number of company-owned offices.
 - A \$455,000 increase in computer supply and software expense for subscriptions to software as a service related to the use of electronic signatures for customer documents.

The increases in bad debt expense, rent and utilities costs, professional fees, travel and entertainment, and computer supply and software costs were partially offset by a decrease of \$2.6 million because we restructured our financial products program for the 2013 tax season to eliminate a franchisee rebate on ERCs (rebate expense was recorded in fiscal 2012) and because of a difference in the 2013 tax season contract with the non-bank lender for the ICA program. The program is accounted for on a net basis instead of on a gross basis, as in prior years.

The increases in employee compensation and benefits, and general and administrative expenses were offset in part by a 10% decrease in area developer expense primarily caused by the decline in the ADs portion of royalties, which declined because of our decrease in royalties revenue described above.

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Other Items. There were no material changes in other income between the first nine months and third quarter of fiscal 2013 and the respective periods of fiscal 2012. We recorded income tax benefits for the nine month periods of fiscal 2013 and 2012 and income tax expense for the three month periods ended January 31, 2013 and 2012 (effective rates of 38.8% and 37.3%, respectively). However, because of the seasonal nature of our business, we expect the losses we incur through the first three quarters of a fiscal year will be more than offset by the results of our fiscal fourth quarter.

Net loss. For the first nine months of fiscal 2013, as compared to 2012, our net loss increased by 132%, reflecting an increase in operating expenses of 9%, coupled with a 7% decrease in revenues. For the third quarter of fiscal 2013, as compared to 2012, our net income decreased by 68%, reflecting a decrease in operating expenses of 2% and a decrease in revenues of 15%.

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, originally consisted 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. On December 28, 2012, the Company utilized the accordion feature of the revolving loan, increasing the maximum borrowings under that portion of our credit facility by \$38,350,000 to \$143,350,000. 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 January 31, 2013 was 1.96% as compared to 1.87% at April 30, 2012. This indebtedness is collateralized by substantially all of our assets, including the assets of our subsidiaries.

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

- We must satisfy a leverage ratio test that is based on our outstanding indebtedness at the end of each fiscal quarter,
- We must satisfy a fixed charge coverage ratio test at the end of each fiscal quarter,

- We must reduce the outstanding balance under our revolving loan to zero for a period of at least 45 consecutive days each fiscal year.

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

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

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We were not in compliance with our leverage ratio requirement as of January 31, 2013 because of the unprecedented delay in the IRS commencement of the tax filing season. That delay affected both the income and debt components of our leverage ratio requirement. Our adjusted EBITDA used to compute our leverage ratio was adversely affected by reduced franchise royalties, advertising fees, tax preparation revenues and financial products revenue attributable to the fact that the tax filing season began only two days before the end of the fiscal quarter. In addition, the indebtedness portion of our leverage ratio calculation was adversely affected by increased borrowings needed in order for us to provide assistance to our franchisees, in order to help them meet their payroll and other cash flow needs at the end of January, when they would normally have begun receiving tax preparation revenue but experienced a significant delay in that source of cash flow because of the delay in the tax filing season. This short-term financing of our franchisees is expected to be recovered through repayments in February and March 2013. We have obtained a waiver of this failure from our bank syndicate, and we do not anticipate the issue recurring in the future. We were in compliance with all of our debt covenants other than the leverage ratio requirement at January 31, 2013. At February 28, 2013, our outstanding debt was \$89.4 million, which would have been sufficient for compliance at January 31, 2013.

Franchisee lending and potential exposure to credit loss. A substantial portion of our cash flow during the year is utilized to provide funding to our franchisees and ADs. At January 31, 2013, 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 \$67.4 million. In addition, at that date, our franchisees and ADs together owed us an additional \$89.0 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. The amounts advanced by us to franchisees at January 31, 2013 were higher than expected because of the postponement of the tax filing season by the Internal Revenue Service. At the end of the third quarter, we elected to utilize funds available under our revolving credit facility to make additional cash available to our franchisees for working capital purposes, but expect to recover those additional franchisee borrowings early in our fiscal fourth quarter as the backlog of tax filings created by the IRS delay is dissipated.

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 with respect to franchise fees and royalties. As of January 31, 2013, the total indebtedness of franchisees to us where the franchisee is located in an AD area was 101.3 million, but \$15.0 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 January 31, 2013, 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

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January 31, 2013, 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 January 31, 2013, and we believe that our allowance for doubtful accounts as of January 31, 2013 is adequate for our existing loss exposure. We closely monitor the performance of our franchisees and ADs and will adjust our allowances as appropriate if we determine the existing allowances are inadequate to cover estimated losses.

ICA repurchase obligation. During the 2013 tax season, we continued a relationship with a non-bank lender to offer ICAs to customers in a limited number of our offices. In exchange for a share in the profits of the program we have agreed to repurchase delinquent loans from the third party lender. These loans are typically made with the expectation that they will only be outstanding for a few weeks. We are

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obligated to repurchase these loans if they are not repaid within 60 days. We expect the number of these loans made and the balance outstanding to peak early in the tax filing season, but significantly decrease by the end of February. As of January 31, 2013, \$28.2 million in loans were originated, of which we estimate 2.25% will become delinquent and need to be repurchased from the third party lender. We believe the profit of the program should be sufficient to cover these repurchases. In some cases, subsequent to the repurchase of these loans, we may recover a portion of the loan balance.

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

Sources and uses of cash

Operating activities. In the first nine months of fiscal 2013, we used \$7.6 million more cash in our operating activities compared to the first nine months of fiscal 2012. Some of the items that contributed to the increase in our negative operating cash flow for the first nine months of fiscal 2013 compared to the prior year include:

- Higher payroll related payments of \$4.4 million primarily attributable to the addition of corporate personnel to support the anticipated growth in the number of offices and our becoming a public company.
- Lower franchise fee and royalty and advertising royalty receipts of \$2.2 million. Franchise fee receipts are less due to fewer sales in fiscal 2013 than 2012 and royalty and advertising royalty receipts are less due to the delay in the tax filing season.
- Lower cash receipts of \$1.0 million for financial products due to the delay in the start of the tax season.
- Higher general and administrative payments of \$0.5 million in the first nine months of fiscal 2013 as compared to fiscal 2012 due to:
- Increased payments for prepaid and other assets of \$1.8 million primarily related to advances to the ICA program of \$1.2 million,
- Due to timing, during the first nine months of fiscal 2013 we made \$1.3 million less in payments related to general and administrative expenses than we did in the first nine months of fiscal 2012.
- Lower payments of \$550,000 for financial product rebates paid during fiscal 2013 as compared to the previous year.

Investing activities. In the first nine months of fiscal 2013, we utilized an additional \$8.4 million in cash from investing activities compared to the same period in fiscal 2012. The increase was largely attributable to the following factors:

- An increase of \$6.1 million for the issuance of operating loans to our franchisees (including ADs), net of payments received on operating loans,
- An increase of \$3.0 million for the purchase of equity securities in a strategic partner,
- An increase in purchases of property and equipment of \$1.6 million, primarily related to the purchase of additional office space to support the expansion of JTH Financial.

The above uses of cash were offset partially by an increase of \$1.5 million in the proceeds from the sale of company-owned offices and area developer rights and other assets, which was due to AD sales that occurred in the first nine months of fiscal 2013, but not fiscal 2012. Additionally, there was an \$1.0 million equity investment in a software company that occurred in fiscal 2012 that did not recur in fiscal 2013.

Financing activities. In the first nine months of fiscal 2013, we generated \$3.3 million less cash from financing activities compared to the same period of fiscal 2012, because our net borrowings under our revolving credit facility decreased \$4.7 million. This was primarily because our new \$25 million term loan was outstanding at April 30, 2012 and the proceeds from the term loan reduced our need to draw on the line of credit in the first nine months of fiscal 2013 to the same extent as in the period of fiscal 2012. In addition to this decrease in borrowings, we received \$1.6 million more in proceeds from the exercise of stock options than in the

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previous fiscal year and engaged in \$1.0 million less in stock repurchases because we stopped our repurchase program during the period before we became a public company. We resumed our repurchase program in September 2012.

Future cash needs and capital requirements

Operating cash flow needs. We believe our credit facility entered into on April 30, 2012 and amended in December 2012 will be sufficient to support our cash flow needs. As noted above, on December 28, 2012, we increased the maximum borrowings under the revolving credit facility to \$143,350,000.

At January 31, 2013, using the leverage ratio applicable under our loan covenants at the end of that quarter, we had no unused borrowing capacity because we were not in compliance with our leverage ratio requirements at that date. 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. The circumstances and effect of that failure are discussed further below.

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

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

- The extent to which we extend additional financing to our franchisees and ADs, beyond the levels of prior periods,

- The extent to which we finance any tax settlement products offered by JTH Financial in the future.

- The extent and timing of our expenditures related to our NextGen project. Our NextGen project is an integral part of our determination to deliver an improved level of service to our franchisees. In addition to integrating our online and retail-based tax preparation software, we expect the NextGen project, when fully deployed, to improve the ability of our franchisees to comply with financial information protection requirements by moving most tax preparation information to a secure centralized platform, and to provide web-based support services in a way that will be both more accessible to our franchisees and their employees and less expensive for us to provide,

- The cash flow effect of selling franchises under our new 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,

- The extent to which we engage in stock repurchases. In August 2012, our Board of Directors approved an increase in our authorization to repurchase shares, permitting repurchases 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. As of January 31, 2013, we had utilized \$791,021 of this authorization,

- 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, and

- The extent, if any, to which our Board of Directors elects to declare dividends on our common stock,

Effect of our credit facility covenants on our future performance. Our credit facility, which matures on April 30, 2017, imposes several restrictive covenants, 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 the fiscal quarter ending January 31, and a ratio of not more than 3:1 at the end of each other fiscal quarter. The higher permitted leverage ratio at the end of the January 31 quarter reflects the fact that as of that date, we have typically extended significant credit to our franchisees for

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working capital and other needs that is not reflected in revenue that we receive from our franchisees until the period beginning in February each year.

At January 31, 2013 our leverage ratio was 5.12:1. We did not have any available borrowing capacity under the revolving credit facility at January 31, 2013 because we were not in compliance with our leverage ratio covenant of 4:1. 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.

Our non-compliance with the leverage ratio covenant as of January 31, 2013 was caused by an unprecedented delay in the start of the federal tax filing season attributable to the delays in the fiscal cliff resolution. This delay adversely affected revenue for the quarter ended January 31, 2013 and total borrowings at that date. The delay in the filing season and consequently in the processing of tax refunds shifted tax preparation revenue to our fiscal fourth quarter and required us to make additional short-term loans to our franchisees so that they could sustain operations through the month of January. We have obtained a waiver from our bank syndicate for the leverage ratio covenant failure and do not anticipate the issue recurring in the future.

We are also obligated to satisfy a fixed charge coverage ratio test which requires that ratio to be not less than 1.50:1 at the end of every fiscal quarter. At January 31, 2013, our fixed charge coverage ratio was 1.60:1.

Notwithstanding the non-compliance issue at January 31, 2013 attributable to the delay in the tax filing season, we expect to be able to manage our cash flow and our operating activities in such a manner that we will be able to satisfy our obligations under the revolving credit facility for the remainder of the term of that facility.

As noted above, although we are subject under our credit facility to a requirement that we reduce the balance of our revolving loan to zero for a period of at least 45 consecutive days each fiscal year, because of the addition of a term loan into our credit facility, we do not believe that 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 January 31, 2013, the fair value of our interest rate swaps was a liability of \$115,000 and was included in accounts payable and accrued expenses. The interest rate swaps expire in March 2013.

We also enter into forward contracts to eliminate exposure related to foreign currency fluctuations in connection with the short-term advances we make to our Canadian subsidiary in order to fund personal income tax refund discounting for our Canadian operations. At January 31, 2013, the fair value of forward contracts outstanding was a liability of \$46,000 and was included in accounts payable and accrued expenses.

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 January 31, 2013, 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.

Table of Contents**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	
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.

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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: January 31, 2014

By:

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

Dated: January 31, 2014

By:

/s/ Mark F. Baumgartner
Mark F. Baumgartner
Chief Financial Officer
(Principal Financial Officer)

Table of Contents**EXHIBIT INDEX**

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference
31.1	Certification of Chief Executive Officer	X	
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32.1(1)	Section 1350 Certification (Chief Executive Officer)	X	
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101.CAL(2)	XBRL Taxonomy Extension Calculation Linkbase	X	
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