

Liberty Tax, Inc.
Form 10-K/A
October 10, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 1 to
FORM 10-K/A

✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended April 30, 2018

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

Liberty Tax, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 27-3561876 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1716 Corporate Landing Parkway, Virginia Beach, Virginia | 23454 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (757) 493-8855

Securities registered pursuant to Section 12(b) of the Act:

| | |
|----------------------------|--|
| Class A Common Stock, | The NASDAQ Stock Market LLC |
| par value \$0.01 per share | (Name of Exchange on which (Title of Class) registered) |

Securities to be registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. YES NO

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the shares of Class A common stock held by non-affiliates of the registrant computed based on the last reported sale price of \$13.05 on October 31, 2017 was \$113,476,272.

The number of shares of the registrant's Class A common stock outstanding as of October 1, 2018 was 14,036,684.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Schedule 14f-1 Information Statement, filed with the Securities and Exchange Commission on August 24, 2018, are incorporated by reference into Part III hereof.

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 10-K of Liberty Tax, Inc. (the "Company") amends the Company's Annual Report on Form 10-K for the year ended April 30, 2018, which was filed with the Securities and Exchange Commission on October 5, 2018 (the "Original Filing"). This Amendment No. 1 is being filed solely to correct the date on the Report of Independent Registered Public Accounting Firm of KPMG LLP referenced in Part II, Item 8 and included in Part IV, Item 15 of this Amendment No. 1 from "October 5, 2018" to "July 7, 2017." This change does not in any way affect the conclusions expressed by KPMG LLP in the Original Filing, or any other disclosure included in Part II, Item 8, Part II, Item 9, or Part IV, Item 15 of the Original Filing.

In accordance with applicable Securities and Exchange Commission rules and as required by rule 12b-15 under the Securities Exchange Act of 1934, as amended, Item 15 of this Amendment No. 1 reflects new consents of Cherry Bekaert LLP (Exhibit 23.1) and KPMG LLP (Exhibit 23.2), and currently dated certifications from the Company's Chief Executive Officer (Exhibits 31.1 and 32.1) and Chief Financial Officer (Exhibits 31.2 and 32.2). Except as described above, this Amendment No. 1 does not amend, update, or change any other information contained in the Original Filing. For ease of reference, the entire Annual Report on Form 10-K is included with this Amendment No. 1.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements concerning our business, operations, and financial performance and condition as well as our plans, objectives, and expectations for our business operations and financial performance and condition. Any statements contained herein that are not of historical facts may be deemed to be forward-looking statements. You can identify these statements by words such as "aim," "anticipate," "assume," "believe," "could," "due," "estimate," "expect," "goal," "intend," "may," "objective," "plan," "predict," "potential," "positioned," "should," "target," "will," "would," and other similar expressions that are predictions of or indicate future events and future trends. These forward-looking statements are based on current expectations, estimates, forecasts, and projections about our business and the industry in which we operate and our management's beliefs and assumptions. They 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 annual 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," including:

- our inability to grow on a sustainable basis;
- the seasonality of our business;
- departures of key executives or directors;
- our ability to attract additional talent to our senior management team;
- our delisting determination by Nasdaq and the risk that our appeal to Nasdaq will not be successful;
- our inability to secure reliable sources of the tax settlement products we make available to our customers;
- government regulation and oversight, including the regulation of tax preparers or settlement products such as refund transfers and loan settlement products;
- government initiatives that simplify tax return preparation, improve the timing and efficiency of processing tax returns, limit payments to tax preparers, or decrease the number of tax returns filed or the size of the refunds;
- government initiatives to pre-populate income tax returns;
- the effect of regulation of the products and services that we offer, including changes in laws and regulations;
- the possible characterization of refund transfers as a form of loan or extension of credit;
- changes in the tax settlement products offered to our customers that make our services less attractive to customers or more costly to us;
- our ability to maintain relationships with our tax settlement product service providers;
- any potential non-compliance, fraud or other misconduct by our franchisees or employees;
- our ability and the ability of our franchisees to comply with legal and regulatory requirements;
- failures by our franchisees and their employees to comply with their contractual obligations to us and with laws and regulations, to the extent these failures affect our reputation or subject us to legal risk;
- 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 Company-owned offices;
- our exposure to litigation;
- our ability and our franchisees' ability to protect customers' personal information, including from a cyber-security incident;
- the impact of identity-theft concerns on customer attitudes toward our services;
- our 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;
- the impact of the Tax Cuts and Job Act (the "Tax Act"), including, but not limited to, the effect of the lower corporate tax rate, including on the valuation of our tax assets and liabilities;

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- any future refinements to our preliminary analysis of the impact of the Tax Act;
- changes in the effect of the Tax Act due to issuance of interpretive regulatory guidance or enactment of corrective or supplement legislation;
- delays in the commencement of the tax season attributable to Congressional action affecting tax matters and the resulting inability of federal and state tax agencies to accept tax returns on a timely basis, or other changes that have the effect of delaying the tax refund cycle;
- competition in the tax preparation market;
- the effect of federal and state legislation that affects the demand for paid tax preparation, such as the Affordable Care Act and potential immigration reform;
- our reliance on technology systems and electronic communications;
- our ability to effectively deploy software in a timely manner and with all the features our customers require;
- the impact of any acquisitions or dispositions, including our ability to integrate acquisitions and capitalize on their anticipated synergies; and
- other factors, including the risk factors discussed in this annual 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 annual report. Unless required by law, we do not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. A potential investor or other vendor should, however, review the factors and risks we describe in the reports we will file from time to time with the U.S. Securities and Exchange Commission ("SEC") after the date of this annual report.

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PART I

Item 1. Business.

Company Information

We were incorporated in Delaware in September 2010 as JTH Holding, Inc. In July 2014, our corporate name was changed to Liberty Tax, Inc. in order to better reflect our primary business and to eliminate confusion among stockholders and potential investors seeking information about us. We are the holding company for JTH Tax, Inc. d/b/a Liberty Tax Service, our largest subsidiary, which was incorporated in Delaware in October 1996.

References in this report to "years" are to our fiscal years, which end on April 30 unless otherwise noted, and all references to "tax season" refer to the period between January 1 and April 30 of the referenced year. Unless the context requires otherwise, the terms "Liberty Tax," "Liberty Tax Service," "we," the "Company," "us," and "our" refer to Liberty Tax, Inc. and its consolidated subsidiaries. A complete list of our subsidiaries can be found in Exhibit 21.1 to this report.

Financial Information about Segments

The majority of our revenue is earned through our United States operations; however, during our fiscal years 2018, 2017, and 2016, we earned \$8.1 million, \$7.0 million, and \$7.0 million, respectively, from our Canadian operations. Due to the similarity in the nature of products and services, production process, type of customer, distribution methods, future prospects, and regulatory environment, we combine our United States operations and our Canadian operations into one reportable segment.

Our Business

We are one of the leading providers of tax preparation services in the United States and Canada. Although we operate a limited number of Company-owned offices each tax season, our tax preparation services and related tax settlement products are offered primarily through franchised locations. The majority of our offices are operated under the Liberty Tax Service or SiempreTax+ brands. We also provide an online digital Do-It-Yourself ("DIY") tax program in the United States.

Our business involves providing retail federal and state income tax preparation services and related tax settlement products in the United States and Canada. Our focus is on growing the number of Liberty Tax and SiempreTax+ offices, increasing the number of tax returns prepared by those offices, and enhancing profitability by offering services and products that continue to build both brands.

The tax return preparation market is divided into two primary distinct sectors: paid tax preparation and DIY preparation. Approximately 57% of U.S. e-filed returns during the 2018 tax season were prepared by paid preparers. Through our franchise and Company-owned offices, we offer tax preparation services and related financial products to our tax customers. The services and products are designed to provide streamlined tax preparation services for taxpayers who, for reasons of complexity, convenience, or the need for prompt tax refunds, seek assisted tax preparation services. In the 2018 tax season, we and our franchisees accounted for 1.5 million tax returns filed through our U.S. retail offices, 0.4 million through our Canadian retail offices, and 0.1 million through our online tax programs.

We expect to benefit from anticipated industry consolidation as we believe many independent tax preparers will look to exit the industry as they confront increased costs, regulatory requirements and demands to provide tax settlement products. We believe we will be a beneficiary of this consolidation because we are able to more efficiently address changing regulatory requirements due to our scale and also because we have succeeded in providing a fully competitive mix of financial products we believe to be attractive to our customers.

We believe the growing Hispanic population in the United States presents an opportunity for growth for tax preparers who are able to successfully target those potential customers with tax and related services that serve the unique needs of the Hispanic community. For that reason, during fiscal 2015 we launched a new franchised tax brand, SiempreTax+, which operated 77 offices during the 2018 tax season. We expect this brand to have growth potential, and we are working with our franchisees to develop additional non-tax service offerings in these offices that will attract customers to the brand. Moreover, we anticipate that any immigration reform, whether enacted through executive action or by Congress, will continue to increase the number of Hispanic filers.

Our Franchise Model

We rely on a franchise model for our growth. Although our competitors rely on a mix of franchise locations and Company-owned offices or operate a majority of Company-owned offices, we have historically operated relatively few Company-owned stores and have determined that we can best grow our Company by increasing our franchisee base, and the

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number of offices operated by franchisees. Under our franchise model, we are able to focus on marketing, franchisee coaching and support, financial product development and other initiatives that drive our overall success. In addition, our franchise model allows us to grow our tax system with minimal capital expenditures or fixed cost investments. We have included in our franchisee model the sale of area developer ("AD") areas. Under the AD model, we make large clusters of territories available to an AD who is responsible for marketing the available franchise territories within the larger AD area in order to help us fill gaps in our franchise system. As described below, when we utilize an AD to assist us in franchise sales, we receive revenue from the sale of the AD area but sacrifice a portion of the franchise fees and the royalty stream from the franchises within the AD area.

Franchise territories. We have divided the United States into approximately 10,000 potential franchise territories. We attempt to draw territory boundaries such that each territory has a target population of approximately 30,000 people. Franchisees are permitted to open more than one office in a territory.

Upon the launch of our new SiempreTax+ brand, we made clear to franchisees who owned existing territories that they could have rights to operate both brands within those territories, and that they would be permitted to open offices of both brands, in their existing territories, if they determined that the territory would support both a Liberty Tax office and a SiempreTax+ office. Our franchisees may also be permitted to sell rights to one brand in their territory while retaining rights to the other brand. During fiscal 2015, we also began to sell the rights to our two brands separately in undeveloped territories while we retained the territory boundaries that existed before the launch of our second brand.

Franchise sales process. We engage in an active marketing process, both directly and through our ADs, in order to sell additional franchise territories. Our sales process includes sales to new franchisees, as well as the sale of additional territories to existing franchisees willing to expand into additional territories. For new franchisees, the process includes multiple steps that culminate in a week-long training session that we call Effective Operations Training. In addition, from time to time, we offer special franchise purchase programs, which are designed to allow existing franchisees to acquire additional territories or to encourage independent tax preparers to become franchisees.

Our franchise agreements. Under the terms of our standard franchise agreement, each franchisee receives the right to operate a tax return preparation business under the Liberty Tax Service brand and/or SiempreTax+ brand within a designated geographic area. Similarly, our agreements with ADs permit ADs to market franchise territories within a designated multi-territory area. Franchise agreements have an initial term of five years and are renewable. The agreements impose various performance requirements on franchisees, require franchisees to use our proprietary software and equipment designated by us, and obligate our franchisees to operate in their offices in accordance with standards we establish. These standards include specified in-season and out-of-season opening hours, criteria for the location of franchise offices, requirements related to tax preparers and other office employees, and minimum performance standards. Our agreements also require our franchisees to comply with applicable state and federal legal requirements. Although we do not control and are not responsible for any compliance issues that could be caused by our franchisees or their tax preparers, we provide guidance to our franchisees regarding their compliance obligations, including the provision of standard advertising templates, training materials that include detailed compliance information, and systems that alert them to unusual activity. We also use a variety of means in an attempt to identify potential franchise and tax law compliance issues and require franchisees to address any concerns, including the continued enhancement of a Compliance Department which helps to examine and prevent non-compliance, fraud and other misconduct among our franchisees and employees.

Each year, we terminate a number of franchisees and other franchisees voluntarily relinquish their territories, sometimes in exchange for our forbearance on the remaining indebtedness owed to us in connection with the franchise territory. In order to protect our competitive position, we regularly take actions to enforce the non-competition obligations and restrictions regarding customer lists and our trademarks and service marks contained in our franchise agreements.

AD areas. We initiated our AD program in 2001 in order to accelerate the growth of our franchise system. We continue utilizing the AD program to focus on areas with large underdeveloped groups of territories we believe would benefit from the dedicated sales attention that an AD offers. 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 fee and royalties collected from franchises located in their AD areas and are required to provide marketing and operational support.

Company-owned offices. We intentionally operate relatively few Company-owned offices. During the 2018 tax season we operated 344 Company-owned offices in the U.S. and Canada, 8 of which were seasonal offices. We focus primarily on growing through the opening of new franchise locations, and most of the Company-owned offices we operate in a given tax season are offices that have been previously owned by former franchisees who have ceased operations or failed to meet our performance standards. Rather than close offices that we believe have the potential to be successful, we attempt to resell these

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offices, and when we fail to do so before the beginning of a tax season, we may operate them as Company-owned offices until we can resell them at a later time. In future periods, the number of Company-owned offices may increase if the Company reacquires more offices from existing franchisees and does not find suitable buyers to take over the office prior to the start of the tax season. For this reason, the number of offices we operate as Company-owned offices may change substantially from season to season.

Franchise fees and royalties. Franchisees presently have several options for acquiring a new undeveloped territory. The typical franchise fee for a Liberty Tax franchise is \$40,000 and the fee starts at \$25,000 for the SiempreTax+ franchise. We often offer special financing programs. 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 are also required to pay us an advertising fee of 5% of their tax preparation revenue.

Franchisee loans. We provide a substantial amount of lending to our franchisees and ADs. In addition to allowing franchisees to finance a portion of their franchise fees, which they pay over time, we also offer our franchisees working capital loans to fund their operations.

This indebtedness generally takes one of the following forms:

The unpaid portion of franchise and AD fees, which does not represent a cash advance by us to the franchisee or AD, but a financing of the franchise or AD fee, generally payable over four years for territory franchise fees and six years for AD fees.

• Amounts due to us in connection with the purchase of a Company-owned office. The notes for these amounts are generally payable over five years following the acquisition.

• Annual working capital loans made available to qualified franchisees between May 1 and January 31 each year, which are repayable to us generally by the end of February.

Fee intercept. We have the ability to collect these amounts from our franchisees through a "fee intercept" mechanism. Our franchise agreement allows us to obtain repayment of amounts due to us from our franchisees through an electronic fee intercept program before our franchisees receive the net proceeds from tax preparation and other fees they have charged to their customers who have received a tax settlement product. Therefore, we are able to reduce the nonpayment risk associated with amounts outstanding from franchisees by obtaining direct electronic payment in the ordinary course throughout the tax season. Our credit risk associated with amounts outstanding from ADs is also mitigated by our electronic fee intercept program, which enables us to obtain repayments of amounts that would otherwise flow through to ADs as their share of franchise fee and royalty payments, to the extent of an AD's indebtedness to us.

Tax software. Our current proprietary tax software programs offer an interactive question-and-answer format that is easy for our retail office tax preparers to use, facilitating tax preparer training. A substantial number of changes are made each year to federal and state tax laws, regulations, and forms that require us to expend substantial resources every year to develop and maintain tax preparation software. We also offer an online digital DIY tax software in the United States.

Franchisee support. We provide substantial support to our franchisees in a variety of ways. Our franchise agreement requires our franchisees to adhere to certain minimum standards, including the use of tax preparation software we provide, the use of computers and other equipment that we select (but that we do not sell to them), training requirements, and other criteria. We make substantial training opportunities available to our franchisees and their prospective employees, and we require each franchisee to send representatives to a week-long Effective Operations Training seminar before they are allowed to operate a franchise location. We also make intermediate and advanced training available to our franchisees, offer "Tax School" classes for franchisees and prospective tax preparers, and provide substantial phone and internet-based support, particularly during the tax season. During the tax season, we maintain a fully-staffed operations center, with extended hours, at our corporate headquarters in Virginia Beach, Virginia. During the peak tax season, we hold daily conference calls in which we share and allow other franchisees to share recommendations and techniques for improving office performance, and in which we emphasize the importance of implementing the marketing plan that we recommend as part of our franchisee training.

Our Financial Products

We expend considerable effort to ensure that our franchisees are able to offer a complete range of tax settlement products to our customers, and to provide our customers choices in these products. We offer these products because we believe that a substantial portion of our prospective customer base places significant value on the ability to monetize their expected income tax refund more quickly than they would be able to do if they were to file their tax return without utilizing the services of a paid tax preparer. We offer two types of tax settlement products: refund transfer products and refund-based loans.

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Refund transfer products. Many of our tax customers seek products that will enable them to obtain access to their tax refunds more quickly than they might otherwise be able to receive those funds. We believe that many of our customers are unbanked, in that they do not have access to a traditional banking account, and therefore, cannot make such an account available to the IRS and other tax authorities for the direct deposit of their tax refunds. Additionally, customers may have access to a traditional banking account, but for personal reasons, may prefer not to utilize that account for the deposit of their tax refunds.

A refund transfer product involves direct deposit of the customer's tax refund into a newly established temporary bank account in the customer's name that we establish with one of our banking partners that have contracted with one of our subsidiaries, JTH Financial, LLC ("JTH Financial"). The balance of the customer's refund, after payment of tax preparation and other fees will be delivered to the customer by paper check, prepaid card or a direct deposit into a customer's existing bank account. When the prepaid card option is elected, the card is issued through one of our financial product partners and is branded with the Liberty Tax logo. When we deliver a physical refund check to a customer, we are generally able to print the check in one of our retail tax offices on check stock paper within a matter of hours after the electronic deposit of the customer's refund has been made to the customer's temporary account. We also enter into check-cashing arrangements with a number of retail establishments, which facilitate the ability of our customers to monetize their check even when they do not have traditional banking relationships.

We believe the continued availability of refund transfers will enable us to continue to offer an adequate mix of tax settlement products to our customers. The number of customers in our U.S. offices receiving our refund transfer products, which we call our "attachment rate," has varied from 46.1% for the 2018 tax season compared to 47.6% for the 2017 tax season and 49.2% for the 2016 tax season.

Refund-based loans. During the past few seasons, we partnered with banks to make available a refund-based loan to customers ("Refund Advance"). Approved customers were charged no fees or interest on the Refund Advance. There were no additional requirements for the customer to pay for any additional products, such as a refund transfer, to receive a Refund Advance.

Online Tax Preparation

Although online tax preparation, through our digital online tax services, represents a small portion of tax returns prepared and associated revenue, we believe there is a market for customers who wish to prepare their own tax returns using moderately priced online tax preparation products, and the continued availability of these products may be a part of our long-term growth, particularly if we are able to successfully integrate our online and retail tax services.

Intellectual Property

We regard our intellectual property as critical to our success and we rely on trademark, copyright, and trade secret laws in the United States to protect our proprietary rights. We pursue the protection of our service mark and trademarks by applying to register key trademarks in the United States. The initial duration of federal trademark registrations is 10 years. Most registrations can be renewed perpetually at 10-year intervals. In addition, we seek to protect our proprietary rights through the use of confidentiality agreements with employees, consultants, vendors, advisors, and others. The primary marks we believe to be of material importance to our business include our Lady Liberty logo and the brands "Liberty Tax," "Liberty Tax Service," "Liberty Income Tax," "Liberty Canada," and "SiempreTax+."

Seasonality

The tax return preparation business is highly seasonal, and we historically generate most of our revenues during the period from January 1 through April 30. For example, in fiscal 2018 and 2017, we earned 28% and 28% of our revenues during our fiscal third quarter ended January 31, respectively, and 91% and 92% of our revenues during the combined fiscal third and fourth quarters of 2018 and 2017, respectively. We generally operate at a loss during the period from May 1 through December 31, during which we incur costs associated with preparing for the upcoming tax season.

Available Financing

We use our available financing to fund operations between tax seasons and have minimal outstanding indebtedness at the end of each fiscal year. At April 30, 2018 and 2017, for example, we had no outstanding balance under our revolving credit facility. Our term loan had outstanding balances of \$14.9 million and \$17.5 million at April 30, 2018

and 2017, respectively.

Competition

The paid tax preparation market is highly competitive. We compete with tens of thousands of paid tax return preparers, including H&R Block, Jackson Hewitt, regional and local tax return preparation companies, most of which are independent and

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some of which are franchised, regional and national accounting firms, and financial service institutions that prepare tax returns as part of their businesses.

We also face increased competitive challenges from the online and software self-preparer market, including the Free File Alliance ("FFA"), a consortium of the IRS and online preparation services that provides free online tax return preparation, and from volunteer and certain state organizations that prepare tax returns at no cost for low-income and other qualified taxpayers. Our ability to compete in the tax return preparation business depends on our product mix, price for services, customer service, the specific site locations of our offices, local economic conditions, quality of on-site office management, the ability to file tax returns electronically with the IRS, and the availability of tax settlement products to offer to our customers.

We also compete for the sale of tax return preparation franchises with H&R Block, Jackson Hewitt, and other regional franchisors. In addition, we compete with franchisors of other high-margin services outside of the tax preparation industry that attract entrepreneurs seeking to become franchisees. Our ability to continue to sell franchises is dependent on our brand image, the products and services to be provided through the network, the relative costs of financing and start-up costs, our reputation for quality, and our marketing and advertising support. However, we believe that there is no existing smaller competitor in the retail tax preparation market that could challenge our market position on a national scale due to the expense and length of time required to develop the infrastructure, systems and software necessary to create and support a nationwide network of tax preparation offices. As a result, we believe that it would be difficult for an additional national competitor to emerge in our market for the foreseeable future.

Our online tax business also competes with a number of companies. Intuit, Inc., the maker of Turbo Tax, is the largest supplier of tax preparation software for online tax preparation services. H&R Block and Blucora, Inc., the owner of TaxAct, also have substantial online and software-based products.

Regulation

We and our franchisees must comply with laws and regulations relating to our businesses. Regulations and related regulatory matters specific to our businesses are described below.

Federal tax return preparation regulation. Federal law requires tax preparers to, among other things, set forth their signatures and identification numbers on all tax returns prepared by them and retain for three years all tax returns prepared. Federal laws also subject tax preparers to accuracy-related penalties in connection with the preparation of tax returns. Preparers may be enjoined from further acting as tax preparers if they continually or repeatedly engage in specified misconduct. Additionally, all authorized IRS e-file providers must adhere to IRS e-file rules and requirements to continue participation in IRS e-file. Adherence to all rules and regulations is expected of all providers regardless of where published and includes, but is not limited to, those described in IRS Publication 1345, Handbook for Authorized IRS e-file Providers. Various IRS regulations also require tax return preparers to comply with certain due diligence requirements to investigate factual matters in connection with the preparation of tax returns. The IRS conducts audit examinations of authorized IRS e-file providers and tax return preparers, reviewing samples of prepared tax returns to ensure compliance with regulations in connection with tax return preparation activities. From time to time, certain of our franchisees and Company-owned offices are the subject of IRS audits to review their tax return preparation activities.

We engage in significant efforts to enhance tax compliance by our franchisees and their preparers, including the use of a franchisee alert system that identifies anomalous patterns, compliance audits of selected offices and returns, additional training requirements and actions taken against problematic preparers (including blacklisting to prevent their hiring by other franchisees and reporting to the IRS).

The IRS published final regulations in 2010 that would have imposed mandatory tax return preparer regulations, but federal courts have ruled that the IRS did not have authority to implement those regulations. The IRS has created a voluntary tax preparer certification regime.

During fiscal 2016, the United States Department of Justice ("DOJ") announced two law suits against certain of our former larger franchisees and two lawsuits against then-existing franchisees. Allegations involved claims of fraudulent tax preparation. We were not named as a defendant in these suits, which concluded in fiscal 2017. Further, in fiscal 2017, the State of Maryland, Office of the Comptroller suspended the processing of electronic and paper returns of one franchisee who owned two offices in that state. We retained outside counsel to conduct internal reviews (the

“Internal Review”) of our compliance practices, policies and procedures in connection with tax return preparation activities. The Internal Review’s examination made certain recommendations, many of which have been implemented including enhanced monitoring tools and increased training of franchisees and their preparers. We have continued to actively cooperate with the applicable government authorities in connection with their investigations and to enhance our Compliance Department to examine and prevent non-compliance, fraud and other misconduct among our franchisees and their employees. In fiscal 2018, the DOJ filed suit against one former and two

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then active franchisees in Florida based upon their alleged preparation of fraudulent tax returns. Also during fiscal 2018, the DOJ indicted four Milwaukee tax preparers based upon their alleged filing of fraudulent tax returns. State tax return preparation regulation. We are also subject to tax return preparation regulation at the state level. The scope and substance of these regulations vary from state to state, but states also conduct examinations and take enforcement action against tax return preparers. From time to time, certain of our franchisees and Company-owned offices are the subject of state-level audits to review their tax preparation activities. In addition, particularly in the absence of effective IRS regulations imposing mandatory tax return preparer requirements, several states have begun to fill this void by imposing state-level preparer regulatory requirements. We believe our in-house certification program exceeds these regulatory requirements.

Financial privacy regulation. The Gramm-Leach-Bliley Act and related FTC regulations require income tax return preparers to adopt and disclose customer privacy policies and provide customers a reasonable opportunity to opt-out of having personal information disclosed to unaffiliated third parties for marketing purposes. Some states have adopted or proposed stricter opt-in requirements in connection with use or disclosure of consumer information. Federal and state law also requires us and our franchisees to safeguard the privacy and security of our customers' data, including financial information, to prevent the compromise or breach of our security that would result in the unauthorized release of customer data. Breaches of information security that affect us or our franchisees require compliance with customer notification requirements imposed at the state and local level, and in addition, may subject us to regulatory review by the FTC and other federal and state agencies. For example, in connection with a burglary that occurred at a single franchise office, both we and the affected franchisee have been required to respond to a document request issued by the FTC. Additional restrictions on disclosure are imposed by the IRS, which prohibits the use or disclosure by tax preparers of income tax return information without the prior written consent of the taxpayer. The IRS may continue to consider further regulations concerning disclosures or uses of tax return information.

Financial product regulation. Federal and state statutes and regulations govern the facilitation of refund-based loans and other tax settlement financial products. These laws require us, among other things, to provide specific loan disclosures and advertise loans in a certain manner. In addition, we are subject to federal and state laws that prohibit deceptive claims and require that our marketing practices are fair and not misleading. Federal law also limits the annual percentage rate on loans for active duty service members and their dependents. There are also many states that have statutes regulating, through licensing and other requirements, the activities of brokering loans and offering credit repair services to consumers, as well as local usury laws which could be applicable to our business in certain circumstances. From time to time, we receive inquiries from various state regulators regarding our and our franchisees' facilitation of refund-based loans and other tax settlement products. We have in certain states paid fines, penalties, and other payments as well as agreed to injunctive relief, in connection with resolving these types of inquiries.

Potential regulation of refund transfer products or treatment of refund transfer products as loans or extensions of credit. Our refund transfer products may be subject to additional regulation because of potential regulatory changes as well as litigation asserting that refund transfer products constitute a loan or extension of credit because many customers who receive refund transfer products elect to defer paying their tax preparation fees until their tax refund is received. With respect to possible new regulation, the broad authority of the Consumer Financial Protection Bureau ("CFPB") may enable that agency to pursue initiatives that negatively impact our ability to offer tax settlement products by imposing disclosure requirements or other limitations that make the products more difficult to offer or reduce their acceptance by potential customers. See "Item 1A—Risk Factors—Risk Related to Regulation of Our Industry—Federal and state regulators may impose new regulations on non-loan tax settlement products that would make those products more expensive for us to offer or more difficult for our customers to obtain."

We have previously been subject to class action litigation asserting that the refund transfer product is a loan or extension of credit, and should therefore be subject to loan-related federal and state disclosure requirements, which litigation was settled in January 2016. We are also subject to an injunction in California that treats our refund transfer product as an extension of credit. If we are subject to an adverse decision in future litigation that affects our offering of refund transfer products in other states, our refund transfer products would be subject to additional regulatory requirements in those states, including federal truth-in-lending disclosure obligations, and possible compliance with

statutes and regulations governing refund anticipation loans that have been adopted in numerous states. This additional regulation would not prohibit us from offering refund transfer products but might require us to make interest rate and other disclosures to customers because of the characterization of the refund transfer product as a loan or extension of credit that would make it more difficult to market the refund transfer product to potential customers or reduce their acceptance by potential customers, and might adversely affect fees charged related to refund transfer products because of limitations on fees imposed by state refund anticipation loans statutes and regulations. See "Item 1A—Risk Factors—Risks Related to Regulation of Our Industry—Federal and state regulators may impose new regulations on non-loan tax settlement products that would make those products more expensive for us to offer or more difficult for our customers to obtain" and "—We may be unsuccessful in litigation that characterizes refund transfer products as loans,

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which could subject us to damages and additional regulation, and which could adversely affect our ability to offer tax settlement products and have a material adverse effect on our operations and financial results."

Franchise regulations. Our franchising activities are subject to the rules and regulations of the FTC and various state agencies regulating the offer and sale of franchises. These laws require that we furnish to prospective franchisees a franchise disclosure document describing the requirements for purchasing and operating a Liberty Tax or a SiempreTax+ franchise. In a number of states in which we are currently franchising, we are required to be registered to sell franchises. Several states also regulate the franchisor/franchisee relationship particularly with respect to the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise, and the ability of a franchisor to designate sources of supply. Bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor/franchisee relationship in certain respects. Telephone Consumer Protection Act. Maintaining contact with customers is an essential component of the efforts by our franchisees, and by us in Company-owned offices, to retain tax customers from year-to-year. In addition, we utilize a variety of contact methods to solicit new franchisees. The Telephone Consumer Protection Act ("TCPA") imposes substantial restrictions on the manner in which persons may be contacted, by telephone calls or text, on mobile telephones. We are required to comply with these restrictions in the telephone calls and text messages that we send, and we also make available tools intended to assist our franchisees in ensuring that telephone calls they make and text messages they send are compliant with the TCPA. Violations of the TCPA may result in per-call and per-message penalties of \$500 to \$1,500, and frequently result in class action litigation. The Federal Communications Commission ("FCC"), which is responsible for regulations relating to the TCPA, has been asked to clarify certain aspects of their regulations that have led to a substantial increase in TCPA litigation, but it is not clear that any significant changes to those regulations will be implemented in the foreseeable future.

Tax course regulations. Our tax courses are subject to regulation under proprietary school laws and regulations in many states. Under these regulations, our tax courses may need to be registered and may be subject to other requirements relating to facilities, instructor qualifications, contributions to tuition guaranty funds, bonding, and advertising.

Foreign regulations. We are subject to a variety of other regulations in the Canadian markets, including anti-corruption laws and regulations. Foreign regulations and laws potentially affecting our business are evolving rapidly. We rely on external counsel in Canada to advise us regarding compliance with applicable laws and regulations.

Employees

As of April 30, 2018, we employed 1,514 employees, consisting of 444 employees in our corporate operations, primarily located in Virginia Beach, Virginia and 1,070 employees at our Company-owned offices. Many of our employees are seasonal and, by contrast, we had 533 corporate employees and 1,408 employees at our Company-owned offices as of February 16, 2018. As of May 31, 2018, we employed 386 corporate employees and 643 employees at our Company-owned offices. We consider our relationships with our employees to be good.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports filed with or furnished to the SEC are available, free of charge, through our website at www.libertytax.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference room by calling the SEC at 1-800-SEC-0030. The SEC maintains a website at www.sec.gov containing reports, proxy and information statements and other information regarding issuers who file electronically with the SEC.

Item 1A. Risk Factors.

In addition to the other information contained in this annual report, the following risk factors should be considered carefully in evaluating our business. If any of the risks or uncertainties described below were to occur, our business, financial condition, and results of operations may be materially and adversely affected. Additional risks not presently

known to us or that we currently deem immaterial may also impair our business and operations.

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Risks Related to Our Business

Recent turnover in our senior management could have a material adverse effect on our business.

In September 2017, Edward Brunot, our Chief Operating Officer, was appointed as our Chief Executive Officer shortly after the termination of John T. Hewitt. In February 2018, the Board of Directors appointed Nicole Ossenfort as President and Chief Executive Officer to replace Mr. Brunot. In addition, several members of our senior management team have resigned since September 2017, including two chief financial officers, general counsel, chief information officer and other positions. Since that time, the Company made several significant hires, including the rehiring of Michael S. Piper as Chief Financial Officer; however, this turnover in senior management could cause operational disruptions and create uncertainty for management, employees, franchisees, customers and stockholders.

Senior management turnover may also disrupt our operations, our strategic focus or our ability to drive stockholder value. In addition, these changes and the failure to retain and recruit key employees, including senior management, could have a material adverse effect on our operations and ability to manage day-to-day aspects of our business, as well as our ability to continue to grow our business. Our future success will depend in part upon our ability to attract and retain senior management personnel having the experience and skills necessary to assist us. We face competition for personnel from numerous other entities, including competing tax return preparation firms, some of which have significantly greater resources than us. We can provide no assurances that turnover in senior management will not have a material adverse effect on our business.

Recent turnover with our Board of Directors may disrupt our operations, our strategic focus or our ability to drive stockholder value.

In addition to changes to our senior management, there also have been significant changes to our Board of Directors since September 2017, as reported in our periodic filings. In May 2018, four Class A directors - G. William Minner, Jr., Thomas Herskovits, Patrick A. Cozza and Lawrence Miller - were elected by our Class A stockholders to the Board of Directors. As a result of these changes, the Board of Directors appointed new independent members to its Nominating & Corporate Governance Committee and Compensation Committee to remain in compliance with our bylaws and Nasdaq listing standards.

Additionally, in connection with the sale of his Class A and Class B common stock to unaffiliated third parties, Mr. Hewitt agreed to tender his resignation to the Company's Board of Directors and agreed to cause the five Class B directors previously appointed by Mr. Hewitt to tender their resignations, in each case, effective upon the closing of the sale. On August 9, 2018, the Company received a written consent executed by a majority of the outstanding shares of the Company's Class A common stock electing the following five persons as directors of the Company to serve until the Company's next annual meeting of stockholders and until their successors are duly elected and qualified: Brian R. Kahn, Andrew M. Laurence, Matthew Avril, Bryant R. Riley and Kenneth M. Young.

Turnover with our Board of Directors may disrupt our operations, our strategic focus or our ability to drive stockholder value. If we fail to attract and retain new skilled personnel for our Board of Directors and senior management positions, our business and growth prospects could disrupt our operations and have a material adverse effect on our operations and business.

Because much of our growth has been achieved through rapidly opening new offices, we may not achieve the same level of growth in revenues and profits in future years.

Historically our growth has been driven by selling franchises and entering into agreements with ADs who have assisted us in expanding our geographic reach. However, our success depends, in part, on retaining operational offices which contribute to our growth. Slowed growth in expanding office count and closures of company-owned and franchisee operations could adversely affect our business, our consolidated financial position, results of operation and cash flows.

Our future viability, profitability, and growth will depend upon our ability to successfully operate and continue to expand our operations in the United States and Canada. Furthermore, in prior years, our business has experienced rapid growth in the number of franchisees and office locations in large geographic markets, and our continued growth in those markets may not continue at the same pace. Our ability to continue to grow our business will be subject to a number of risks and uncertainties and will depend in large part on:

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- adding new customers and retaining existing customers;
- innovating new products and services to meet the needs of our customers;
- finding new opportunities in our existing and new markets;
- remaining competitive in the tax return preparation industry;
- our ability to offer directly and to facilitate through others the sale of tax settlement products;
- attracting and retaining capable franchisees and ADs;
- maintaining a reputation for quality tax preparation services sufficient to attract and retain customers and franchisees;
- our success in replacing independent preparers with franchisees;
- hiring, training, and retaining skilled managers and seasonal employees; and
- expanding and improving the efficiency of our operations and systems.

There can be no assurance that any of our efforts will prove successful or that we will continue to achieve growth in revenues and profits.

The highly seasonal nature of our business presents a number of financial risks and operational challenges which, if we fail to meet, could materially affect our business.

Our business is highly seasonal, with the substantial portion of our revenue earned in the January through April “tax season” in the United States and Canada each year. The concentration of our revenue-generating activity during this relatively short period presents a number of challenges for us and our franchisees, including:

- cash and resource management during the first eight months of our fiscal year, when we generally operate at a loss and incur fixed costs and costs of preparing for the upcoming tax season;
- compliance with financial covenants under our credit facility, particularly if the timing of our revenue generation deviates from our typical revenue patterns;
- the availability of seasonal employees willing to work for our franchisees for at or near the minimum wage, with minimal benefits, for periods of less than a year;
- the success of our franchisees in hiring, training, and supervising these employees and dealing with turnover rates;
- accurate forecasting of revenues and expenses because we may have little or no time to respond to changes in competitive conditions, markets, pricing, and new product offerings by competitors, which could affect our position during the tax season;
- disruptions in one tax season, including any customer dissatisfaction issues, which may not be discovered until the following tax season; and
- ensuring optimal uninterrupted operations during peak season.

If we experience significant business disruptions during the tax season or if we or our franchisees are unable to meet the challenges described above, we could experience a loss of business, which could have a material adverse effect on our business, financial condition, and results of operations.

Our future success will depend in part upon the continued success of our senior management, as well as our ability to attract and retain capable middle management.

Failure to maintain the continued services of senior management personnel or to attract and maintain capable middle management could have a material adverse effect on us. If senior management were to leave the Company, it could be difficult

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to replace them, and our operations and ability to manage day to day aspects of our business as well as our ability to continue to grow our business may be materially adversely affected. Our future success will also depend in part upon our ability to attract and retain capable middle management, such as regional directors, consultants for franchised offices, training directors, tax advisors, and computer personnel, having the specific executive skills necessary to assist us and our franchisees. We face competition for personnel from numerous other entities, including competing tax return preparation firms, some of which have significantly greater resources than we do.

Because we are not a financial institution, we can only facilitate the sale of financial products through our arrangements with financial institutions and other financial partners and, if these arrangements are terminated for any reason, we may not be able to replace them on acceptable terms or at all.

Revenue derived from our facilitation of the sale of financial products provided to our customers by financial institutions and providers is approximately 25% to 30% of our total annual revenue. Our tax return preparation business is also, to some extent, dependent on our ability to facilitate the sale of these products, because our customers are often attracted to our business by the expectation that these products will be available. Financial products that monetize future tax refunds are specialized financial products, and if our arrangements with the financial institutions and other partners that provide our tax settlement products were to terminate and we were unable to secure an alternative relationship on acceptable terms, or at all, our financial results could be materially adversely affected. In addition, any changes in our contractual terms with these financial institutions and other partners that result in a reduction in our fee income, if not offset by customer growth associated with lower fees, could adversely affect our profitability. See “-Risks Related to Regulation of Our Industry-We may be unsuccessful in litigation that characterizes refund transfer products as loans, which could subject us to damages and additional regulation, and which could adversely affect our ability to offer tax settlement products and have a material adverse effect on our operations and financial results.”

We face significant competition in the tax return preparation business and face a competitive threat from software providers and internet businesses that enable and encourage taxpayers to prepare their own tax returns.

The tax return preparation industry is characterized by intense competition. We compete with H&R Block, which is larger and more widely recognized than we are, Jackson Hewitt and with other national and regional tax services and smaller independent tax return preparation services, small franchisors, regional tax return preparation businesses, accounting firms, and financial service institutions that prepare tax returns as part of their business. Additionally, we believe that many taxpayers in our target market prepare their own returns and in light of recent tax legislation enacted by the US government and any proposed modifications to the Internal Revenue Code which simplify tax preparation, may result in even more taxpayers preparing their own returns. The availability of these alternative options may reduce demand for our products and limit the fees our franchisees can charge, and competitors may develop or offer more attractive or lower cost products and services than ours, which could erode our consumer base.

We also face increased competitive challenges from the online and software self-preparer market, including the FFA, a consortium of the IRS, online preparation services that provides free online tax return preparation, and assistance from volunteer organizations that prepare tax returns at no cost for low-income taxpayers. In addition, many of our direct competitors offer certain free online tax preparation and electronic filing options, and limited in-office promotions of free or nominal cost tax preparation services. Government tax authorities, volunteer organizations, and direct competitors may elect to expand free and reduced cost offerings in the future. Intense price competition, including offers of free service, could result in a loss of market share, lower revenues, or lower margins. Our ability to compete in the tax return preparation business depends on our product offerings, price for services, customer service, the specific site locations of our offices, local economic conditions, quality of on-site office management, the ability to file tax returns electronically with the IRS, and the availability of tax settlement products to our customers.

We rely on our own proprietary tax preparation software, and any difficulties in deploying or utilizing our software each tax season could adversely affect our business.

We utilize our own tax preparation software. However, tax changes made by the federal and state governments each year and changes in tax forms require us to make substantial changes to our software before the beginning of each tax season. See “-Risks Related to Changes in Tax Laws and Regulations-New or revised tax regulations could have a material effect on our financial results.” Although we engage in extensive testing of our software before deploying it in our franchisees' tax preparation offices and online, any delays in the availability of IRS forms or instructions or problems with the rollout of the new software each season could delay the ability to file tax returns at the beginning of the tax season and could adversely affect our business.

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Our Company-owned offices may not be as successful as our franchised offices.

Historically, almost all Liberty Tax offices have been owned by franchisees, and most of the Company-owned offices we have operated during a tax season have been offices previously operated by former franchisees. Our Company-owned offices may be less successful than our typical franchisee-owned offices because they often represent offices transitioned from a less successful franchisee. For this reason, we are not able to obtain the continuity of staffing in Company-owned offices that we expect to experience in our franchisee-owned offices. As part of our business strategy, we may also take back offices previously operated by franchisees who have elected to exit the system and these offices may face operational and financial challenges which could negatively impact the success of the offices. However, our failure to timely comply with our periodic reporting requirements has resulted in the delisting of our Class A common stock, which has affected our ability to sell franchises in our fiscal year ending April 30, 2019.

The provision of health insurance and other insurance products to customers by our franchisees and their preparers may subject us and our franchisees to additional claims from customers, as well as increased regulatory risk.

As part of our effort to make information about health insurance options available to tax office customers, we have encouraged our franchisees to make licensed insurance agents available in tax offices. A significant number of our franchisees have become or arranged for the availability of insurance agents and participated in the writing of health insurance policies for customers. The provision of these insurance services subjects our franchisees to a complex regulatory environment, and to potential claims by customers who may become dissatisfied with the insurance products they obtain. Any failure by our franchisees or their employees to comply with applicable insurance laws and regulations could have an adverse effect on our business and subject our franchisees and us to regulatory complaints, and any failure by our franchisees to provide satisfactory insurance services to customers may adversely affect our customer relationships and our business.

Our failure to protect our intellectual property rights may harm our competitive position, and litigation to protect our intellectual property rights or defend against third-party allegations of infringement may be costly.

We regard our intellectual property as critical to the success of our business. Third parties may infringe or misappropriate our trademarks or other intellectual property rights, which could have a material adverse effect on our business, financial condition, or operating results. The actions we take to protect our trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce our intellectual property rights, protect our trade secrets, or determine the validity and scope of the proprietary rights of others. There are no assurances that we will be able to prevent infringement of our intellectual property rights or misappropriation of our proprietary information. Any infringement or misappropriation could harm any competitive advantage we currently derive or may derive from our proprietary rights. In addition, third parties may assert infringement claims against us. Any claims and any resulting litigation could subject us to significant liability for damages. An adverse determination in any litigation of this type could require us to design around a third party's patent or to license alternative technology from another party. Litigation is time-consuming and expensive to defend and could result in the diversion of our time and resources. Any claims from third parties may also result in limitations on our ability to use the intellectual property subject to these claims.

Our business relies on technology systems and electronic communications, which, if disrupted, could materially affect our business.

Our ability to file tax returns electronically and to facilitate tax settlement products depends on our ability to electronically communicate with all of our offices, the IRS, state tax agencies, and the financial institutions that provide the tax settlement products. Our electronic communications network is subject to disruptions of various

magnitudes and durations, such as a data breach or server disruption. Any data breach or severe disruption of our network or electronic communications, especially during the tax season, could impair our ability to complete our customers' tax filings, to provide tax settlement products from financial institutions, or to maintain our operations, which, in turn, could have a material adverse effect on our business, financial condition, and results of operations. Additionally, in the course of our business, we collect, use, and retain large amounts of our clients' personal information, including tax return information and social security numbers. It is critical to our business strategy that our infrastructure, products and services remain secure and are perceived by customers, clients and partners to be secure. See “-If we fail to protect or fail to comply with laws and regulations related to our customers' personal information, we may face significant fines, penalties, or damages and our brand and reputation may be harmed.”

We are dependent on our financing sources and any loss of financing could materially and adversely affect our operating results and our ability to expand our business.

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We are dependent upon the continued availability of our credit facility, which consists of a term loan and a revolving loan, in order to fund our seasonal needs and for the further expansion of our business. If we were to default on our financing or otherwise lose access to our sources of credit, our ability to provide financing to our franchisees would be significantly impaired and may result in certain offices closing if our franchisees are not able to secure alternative financing for their working capital needs. In addition, our ability to expand our business would be impaired. We may need to obtain new credit arrangements and other sources of financing to continue to provide financing to our franchisees, to meet future obligations, and to fund our future growth. Our ability to maintain or refinance our debt and fund other obligations depends on our successful financial and operating performance and the availability of funds from credit markets. There is no assurance that when our credit facility matures in 2019, we will be able to renew or refinance our debt or enter into new credit arrangements on terms similar to those of our existing loans.

Our credit facility contains restrictive covenants and other requirements that may limit our business flexibility by imposing operating and financial restrictions on our operations.

Our credit facility is secured by substantially all of our assets, including the assets of our subsidiaries. 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.

• We must also maintain a minimum net worth requirement, measured at April 30 of each year.

Our credit facility also contains customary affirmative and negative covenants, including limitations on indebtedness; limitations on liens and negative pledges; delivery of financial statements and other information requirements; 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.

A breach of any of these covenants, tests, or mandatory payments could limit our ability to borrow funds under the revolving loan or result in a default under our loans. In addition, these covenants may prevent us from incurring additional indebtedness to expand our operations and execute our business strategy, including making acquisitions. We may also from time to time seek to refinance all or a portion of our debt or incur additional debt in the future. Any such future debt or other contracts could contain covenants more restrictive than those in our existing credit facility. Our ability to comply with the covenants, tests, or mandatory payments in our credit facility may be affected by events beyond our control, including prevailing economic, financial, and industry conditions or our ability to make tax settlement products available to our customers. See “Item 2-Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources-Overview of factors affecting our liquidity-Credit facility.”

We are dependent on the timing of the tax filing season, and disruptions in the opening of the tax season may have a material adverse effect on our results of operations and liquidity.

Historically, the federal tax filing season has begun in mid-January, and both we and our franchisees have begun to prepare tax returns in early January with the ability to electronically file those returns beginning in mid-January. For both the 2013 and 2014 tax seasons, the IRS postponed the first date on which it generally accepts electronic filings until the end of January, and in 2013, also delayed the availability of a significant number of tax forms. These delays at the beginning of the tax season were also replicated at the state level in 2013, because of the reliance of states on tax forms that are dependent upon or subject to changes in federal tax forms. The change in the start of the 2013 and 2014 tax filing seasons materially affected our revenue during the fiscal quarter ended January 31 of both years, and also required us to engage in additional borrowing to support both our operations and those of our franchisees because of the delay in receipt of revenue associated with tax filings. Similarly, the Protecting Americans from Tax Hikes Act of 2015 (the "PATH Act"), enacted in 2015 came into effect in 2017, in which the IRS was required to wait until at least February 15, 2017 to issue refunds to taxpayers who claim the Earned Income Tax Credit or the Additional Child Tax Credit. In addition, due to tax reform and the IRS' modification of forms such as the 1040 and attached schedules, there is the possibility that the IRS' acceptance of tax returns may face, as of now undetermined,

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delays. Substantial delays in the opening of the tax filing season or the funding of processed returns, in future years would likely have an adverse effect on our revenue and liquidity.

Our floating rate debt financing exposes us to interest rate risk.

We may borrow amounts under our credit facility that bear interest at rates that vary with prevailing market interest rates. Accordingly, if we do not adequately hedge our interest rate risk, a rise in market interest rates will adversely affect our financial results. We expect to draw most heavily on our revolving loan from July through January of each year and then repay substantially all of the borrowings by the end of each tax season. Therefore, a significant rise in interest rates during our off-season could have a disproportionate impact on our financial results during these months.

The lines of business in which we operate involve substantial litigation, and such litigation may damage our reputation or result in material liabilities and losses.

We have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with our various business activities. We are currently involved in a class action lawsuit, in which we are vigorously defending ourselves. There can be no assurance, however, that we will not have to pay significant damages or amounts in settlement above insurance coverage. Adverse outcomes related to litigation could result in substantial damages and could cause our net income to decline or may require us to alter our business operations. Negative public opinion can also result from our actual or alleged conduct in such claims, possibly damaging our reputation, which could negatively impact our financial performance and could cause the value of our stock to decline. See "Note 15 - Commitments and Contingencies" in the Notes to the Consolidated Financial Statements.

If we fail to protect or fail to comply with laws and regulations related to our customers' personal information, we may face significant fines, penalties, or damages and our brand and reputation may be harmed.

Privacy concerns relating to the disclosure of consumer financial information have drawn increased attention from federal and state governments in the United States. The IRS generally prohibits the use or disclosure by tax return preparers of taxpayers' information without the prior written consent of the taxpayer. In addition, the Gramm-Leach-Bliley Act and other Federal Trade Commission ("FTC") regulations require financial service providers, including tax return preparers, to adopt and disclose consumer privacy policies and provide consumers with a reasonable opportunity to opt out of having personal information disclosed to unaffiliated third parties for advertising purposes. We and our franchisees manage highly sensitive client information in our operations, and although we have established security procedures to protect against identity theft and require our franchisees to do the same, a security incident resulting in breaches of our customers' privacy may occur. If the measures we have taken prove to be insufficient or inadequate or if our franchisees fail to meet their obligations in this area, we and our franchisees may become subject to litigation or administrative sanctions, which could result in significant fines, penalties, or damages and harm to our brand and reputation, which in turn could negatively impact our ability to retain our customers. Moreover, although we have some insurance that may defray the cost, the cost of remediating any breach resulting from a cybersecurity incident or other breach of the privacy of customer information would likely be substantial. Furthermore, we may be required to invest additional resources to protect us against damages caused by these actual or perceived disruptions or security breaches in the future. We could also suffer harm to our reputation from a security breach or inappropriate disclosure of customer information. Changes in these federal and state regulatory requirements could result in more stringent requirements and could result in a need to change business practices, including how information is disclosed. These changes could have a material adverse effect on our business, financial condition, and results of operations. Moreover, a significant security breach or disclosure of customer information could so damage our brand and reputation that demand for the services that are provided by us and our franchisees may be reduced.

If our business or the tax industry generally is perceived as a source of identity theft, our reputation may be harmed, and our financial performance could be materially adversely affected.

Identity theft and privacy concerns relating to customer information disclosure has been the subject of attention in recent years, including the substantial publicity around identity theft problems involving at least one of our competitors. Further, in May 2015, the IRS announced a significant breach of its data security that resulted in the potential theft of personally identifiable tax information involving more than 100,000 taxpayers. If the use of electronic tax filing becomes perceived by customers as subjecting them to unacceptable identity theft risk, or if we experience a breach of security that subjects a number of our customers to potential identity theft, customers may eschew our services or assisted tax preparation generally, in favor of self-preparation and the avoidance of electronic filing. In such an event, our reputation may be harmed, and we may experience a material adverse effect on our business, financial condition and results of operation.

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If we or our franchisees fail to comply with the Telephone Consumer Protection Act, we may face significant damages.

The retention of customers by our franchisees, and our ability to attract additional franchisees, depends on the use of telephone calls and text messaging to contact customers and potential franchisees. However, the Telephone Consumer Protection Act (“TCPA”) imposes significant restrictions on the ability to utilize telephone calls and text messages to mobile telephone numbers as a means of communication, when the prior consent of the person being contacted has not been obtained. In fiscal 2015, we settled one lawsuit related to the manner in which a contractor for us previously contacted potential franchisees. Violations of the TCPA may be enforced by individual customers through class actions, and statutory penalties for TCPA violations range from \$500 to \$1,500 per violation. If we fail to ensure that our own telemarketing and telemarketing efforts are TCPA compliant, or if our franchisees fail to do so and we are held responsible for their behavior, we may incur significant damages.

If we and our franchisees are unable to attract and retain qualified employees, our financial performance could be materially adversely affected.

Both we and our franchisees depend on the ability to hire a substantial number of seasonal employees for each tax season. We require seasonal employees in order to staff our franchises and customer call centers and Company-owned offices, and our franchisees require employees to implement marketing programs, to act as tax preparers, and to otherwise staff their offices. The ability of our franchisees and us to meet our labor needs is subject to many external factors, including competition for qualified personnel, unemployment levels in each of the markets in which we have offices, prevailing wage rates, minimum wage laws, and workplace regulation. Our franchisees require a substantial number of employees who are willing to become trained as tax preparers, and who have the ability to engage in temporary, seasonal employment. Moreover, in addition to our seasonal employees, we hire a substantial number of full-time employees who are required to have the technical skills necessary to participate in software development, database management, and other highly technical tasks. If we and our franchisees are not able to hire a sufficient supply of qualified seasonal employees, or if we are not able to secure employees with the technical skills we require for other purposes, our ability to serve our customers in our offices, to deploy our marketing programs, and to maintain the services that our franchisees require may be compromised and have a material adverse effect on our business.

Failure to maintain sound business relationships with our franchisees may have a material adverse effect on our business and our consolidated financial position, results of operations, and cash flows.

Our financial success depends in significant part on our ability to maintain sound business relationships with our franchisees. The support of our franchisees is also critical for the success of our marketing programs and any new strategic initiatives we seek to undertake. Deterioration in our relationships with our franchisees or the failure of our franchisees to support our marketing programs and strategic initiatives could have a material adverse effect on our business and our consolidated financial position, results of operations, and cash flows.

An increase in the minimum wage may adversely affect the operations of our franchisees.

Many of the seasonal employees hired by our franchisees for each tax season receive compensation at or near the minimum wage. If our franchisees experience increases in payroll expenses as a result of government-mandated increases in the minimum wage or overtime requirements, their costs of operation may increase at a rate greater than their ability to raise the prices of the services they offer. If this occurs, our franchisees may not be able to maintain seasonal employment at levels that will provide an optimal level of customer service and marketing support, their marketing and advertising programs may be less effective, and their results of operations may be adversely affected,

which could, in turn, adversely affect our results of operations.

If credit market volatility affects our financial partners or franchisees, our business and financial performance could be adversely affected.

In recent years, the credit markets experienced unprecedented volatility and disruption, causing many lenders and institutional investors to cease providing funding to even the most creditworthy borrowers or to other financial institutions. If additional credit market volatility prevents our financial partners from providing tax settlement products to our customers, limits the products offered, or results in us having to incur further financial obligations to support our financial partners, our revenues or profitability could decline. The cost and availability of funds has also adversely impacted our franchisees' ability to grow and operate their businesses, which could cause our revenues or profitability to decline. In addition, future disruptions in

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the credit markets could adversely affect our ability to sell territories to new or existing franchisees, causing our revenues or profitability to decline.

Because the tax season is relatively short and straddles two quarters, our quarterly results may not be indicative of our performance.

We experience quarterly variations in revenues and operating income as a result of many factors, including the highly seasonal nature of the tax return preparation business, the timing of off-season activities, and the hiring of personnel. Due to the foregoing factors, our quarter-to-quarter results vary significantly. In addition, because our peak period straddles the third and fourth quarters, any delay or acceleration in the number of tax returns processed in January may make our year-to-year quarterly comparisons not as meaningful as year-to-year tax season comparisons. To the extent our quarterly results vary significantly from year to year, our stock value may be subject to significant volatility.

Risks Related to Our Class A Common Stock

Our corporate actions could be substantially influenced by our principal stockholders and affiliated entities.

As of August 10, 2018, our principal stockholders and their affiliated entities owned over 50% of our outstanding Class A common stock. These stockholders, acting individually or as a group, could exert substantial influence over matters, such as electing directors and approving mergers or other business combination transactions. In addition, because of the percentage of ownership and voting concentration in these principal stockholders and their affiliated entities, elections of our Board of Directors will generally be within the control of these stockholders and their affiliated entities. While all of our stockholders are entitled to vote on matters submitted to our stockholders for approval, the concentration of shares and voting control presently lies with these principal stockholders and their affiliated entities. As such, it would be difficult for stockholders to propose and have approved proposals not supported by management. There can be no assurance that matters voted upon by our principal stockholders and their affiliated entities will be viewed favorably by all stockholders of the Company. For information regarding the ownership of our outstanding stock, please see the section titled “Item 12-Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

Our Class A common stock is currently quoted on the OTC Market, which may have an unfavorable impact on our stock price and liquidity.

Effective at the open of business on August 2, 2018, our Class A common stock was suspended from trading on The Nasdaq Global Select Market. Since then, our Class A common stock has been quoted on the OTC Market. The OTC Market is a significantly more limited market than Nasdaq. The quotation of our shares on the OTC Market may result in a less liquid market available for existing and potential stockholders to trade shares of our common stock, could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future. We have appealed the delisting determination of the Nasdaq Hearings Panel and requested to maintain the listing of the Company’s Class A common stock on Nasdaq. However, we cannot assure you that the appeal will be granted, that we will be able to meet the initial listing standards of any stock exchange, or that we will be able to maintain any such listing.

Our stock price has been extremely volatile, and investors may be unable to resell their shares at or above their acquisition price or at all.

Our stock price has been, and may continue to be, subject to wide fluctuations in response to many risk factors listed in this section, and others beyond our control, including, but not limited to:

- actual or anticipated variations in our operating results from quarter to quarter;
- actual or anticipated variations in our operating results from the expectations of securities analysts and investors;
- actual or anticipated variations in our operating results from our competitors;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- sales of Class A common stock or other securities by us or our stockholders in the future;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;

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- certain non-compliance, fraud and other misconduct by our franchisees and/or employees;
- departures of key executives or directors;
- resignation of our auditors;
- delisting determination by Nasdaq;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, financing efforts or capital commitments;
- delays or other changes in our expansion plans;
- involvement in litigation or governmental investigations or enforcement activity;
- stock price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- general market conditions in our industry and the industries of our customers;
- general economic and stock market conditions;
- regulatory or political developments; and
- terrorist attacks or natural disasters.

Furthermore, the capital markets experience extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions such as recessions, interest rate changes, or international currency fluctuations may negatively impact our stock price. Trading price fluctuations may also make it more difficult for us to use our Class A common stock as a means to make acquisitions or to use options to purchase our Class A common stock to attract and retain employees. If our stock price does not exceed the price at which stockholders acquired their shares, investors may not realize any return on their investment. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We currently are, and may be in the future, the target of this type of litigation. See “-We are named in federal securities class action lawsuits and derivative complaints; if we are unable to resolve these matters favorably, then our business, operating results and financial condition may be adversely affected.”

A significant portion of our outstanding shares of Class A common stock may be sold into the market, which could adversely affect our stock price.

Although our Class A common stock is currently quoted on the OTC Market, sales of a substantial number of shares of our Class A common stock in the public market could occur at any time, subject to certain securities law restrictions. Sales of shares of our Class A common stock or the perception in the market that the holders of a large number of shares of Class A common stock intend to sell shares could reduce our stock price.

Our stock price and trading volume could decline if securities or industry analysts do not publish research or reports about our business or if they publish misleading or unfavorable research or reports about our business.

The trading market for our Class A common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. The number of securities or industry analysts that commence or maintain coverage of our Class A common stock could adversely impact the trading price and liquidity for our shares. In the event we obtain securities or industry analyst coverage, if one or more of the analysts who covers us downgrades our stock or publishes misleading or unfavorable research about our business, our stock price could decline. If one or more of these analysts ceases to cover us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

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As a public company, we are subject to reporting and other compliance requirements, which may result in increased costs and focus of our management's attention.

As a company with public equity, we incur significant legal, accounting, and other expenses. In addition, the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), as well as related rules implemented by the SEC and Nasdaq, impose various requirements on companies with public equity. As a public company, we are required to:

prepare and distribute periodic public reports and other stockholder communications in compliance with our obligations under the federal securities laws and Nasdaq rules,

create or expand the roles and duties of our Board of Directors and committees of the Board of Directors,

institute more comprehensive financial reporting and disclosure compliance functions,

supplement our internal accounting and auditing function,

enhance and formalize closing procedures at the end of our accounting periods,

enhance our investor relations function,

establish new or enhanced internal policies, including those relating to disclosure controls and procedures, and

involve and retain to a greater degree outside counsel and accountants in the activities listed above.

Our management and other personnel have devoted a substantial amount of time to these compliance matters. Also, these rules and regulations have increased our legal and financial compliance costs and have made some activities more time-consuming and costly than would be the case for a private company. For example, these rules and regulations have made it more expensive for us to maintain director and officer liability insurance. As a result, it may be more difficult for us to recruit and retain qualified individuals to serve on our Board of Directors or as our executive officers. See "-Risks Related to Our Business-Recent turnover in our senior management could have a material adverse effect on our business." and "-Risks Related to Our Business-Recent turnover with our Board of Directors may disrupt our operations, our strategic focus or our ability to drive stockholder value."

In addition, as a public company, we are subject to financial reporting, internal controls over financial reporting and other requirements, including Nasdaq continued listing requirements. Our failure to timely comply with these periodic reporting requirements has resulted in the delisting of our Class A common stock, which could adversely affect investor confidence in our Company and, as a result, the value of our common stock. A failure to maintain adequate internal controls over financial reporting could adversely affect investor confidence in the accuracy of our financial statements which may have an unfavorable impact on the value of our common stock. In addition, our failure to timely comply with reporting requirements has resulted our inability to complete franchise sales and to provide current financial information to our investors. See "-Our Class A common stock is quoted on the OTC Market, which may have an unfavorable impact on our stock price and liquidity."

We are named in federal securities class action lawsuits and derivative complaints; if we are unable to resolve these matters favorably, then our business, operating results and financial condition may be adversely affected.

We are currently involved in securities and derivative litigation in the Court of Chancery of the State of Delaware, United States District Court for the Eastern District of New York and the United States District Court in the Eastern

District of Virginia. See "Note 15 - Commitments and Contingencies" in the Notes to the Consolidated Financial Statements. We cannot at this time predict the outcome of these matters or reasonably determine the probability of a material adverse result or reasonably estimate range of potential exposure, if any, that these matters might have on us, our business, our financial condition or our results of operations, although such effects could be materially adverse. In addition, in the future, we may need to record litigation reserves with respect to these matters. Further, regardless of how these matters proceed, it could divert our management's attention and other resources away from our business.

We will no longer be an "emerging growth company," and we may no longer take advantage of certain exemptions from various reporting requirements.

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Concurrent with the filing of our Annual Report on Form 10-K for the year ended April 30, 2018, we will no longer be an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”) enacted in April 2012, and we will not be able to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are emerging growth companies. As such, we will be required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. Further, we will not be able to take advantage of the same reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements that smaller reporting companies are permitted to provide or exemptions from the requirements of holding a nonbinding advisory stockholder vote on executive compensation, frequency of approval of executive compensation, and of any golden parachute payments not previously approved. In addition, we will no longer be able to take advantage of Section 107 of the JOBS Act that provides that an emerging growth company may take advantage of the extended transition period provided in the Securities Act of 1933 (the “Securities Act”) and the Exchange Act for complying with new or revised accounting standards.

Although we may desire to continue to pay dividends in the future, our financial condition, debt covenants, or Delaware law may prohibit us from doing so.

We began declaring and paying cash dividends on our common stock in April 2015. Although we have announced a \$0.16 per share quarterly cash dividend and may continue to 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 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. In addition, applicable law requires our Board of Directors to determine that we have adequate surplus prior to the declaration of dividends. We cannot provide an assurance that we will continue to pay dividends at any specific level or at all.

Anti-takeover provisions in our charter documents, Delaware law, and our credit facility could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management, and adversely affect the value of our Class A common stock.

Provisions in our amended and restated certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and bylaws also include provisions that:

- authorize our Board of Directors to issue, without further action by the stockholders, up to approximately 3.0 million shares of undesignated preferred stock;

- specify that special meetings of our stockholders can be called only by our Board of Directors, the Chair of our Board of Directors, or holders of at least 20% of the shares that will be entitled to vote on the matters presented at such special meeting;

- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our Board of Directors; and

- do not provide for cumulative voting in the election of directors.

In addition, our credit facility contains covenants that may impede, discourage, or prevent a takeover of us. For instance, upon a change of control, we would default on our credit facility. As a result, a potential takeover may not occur unless sufficient funds are available to repay our outstanding debt.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. Any provision of our amended and restated certificate of incorporation and bylaws or our debt documents that has the effect of delaying or deterring a change of control could limit the opportunity for our stockholders to receive a premium for their shares of our Class A common stock. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect our stock value if they are viewed as discouraging takeover attempts in the future.

Risks Related to Our Franchise Business

Our success is tied to the growth and operations of our franchises, and their operations could adversely affect our business.

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Our financial success depends on our franchisees and the manner in which they operate and develop their offices. We do not exercise direct control over the day-to-day operations of our franchises, and our franchisees may not operate their offices in a manner consistent with our philosophy and standards and may not increase the level of revenues generated compared to prior tax seasons. Our growth and revenues may, therefore, be adversely affected. There can be no assurance that the training programs and quality control procedures we have established will be effective in enabling franchisees to run profitable tax preparation businesses or that we will be able to identify problems or take corrective action quickly enough. In addition, failure by a franchisee to provide service at acceptable levels may result in adverse publicity that can materially adversely affect our reputation and ability to compete in the market in which the franchisee is located. Further, franchisees are required to prepare tax returns solely through the use of our authorized software. Franchisees' failure to use the authorized software or conversely, the use of alternative software, prevents us from monitoring tax returns prepared by a franchisee for accuracy and may also prevent us from the opportunity to collect revenue such as royalties.

If our franchisees fail to open offices in new territories or if they are not successful in operating their new offices, our franchise-related revenue and results of operation will be adversely affected.

Each year, we anticipate adding offices to our franchise system, but the opening of these offices depends on the purchase of additional territories by our franchisees and on the opening of offices in territories previously purchased and newly purchased. Many factors go into opening a new office, including obtaining a suitable office location, the availability of sufficient start-up capital, and the ability to recruit tax preparers and other personnel to work in new offices. If a significant number of offices that we expect to be open in a tax season fail to open, are delayed, or open in unsuitable locations or with insufficient personnel, the revenue we expect to receive from royalty payments and the repayment of indebtedness to us by our franchisees will be adversely affected. Because we utilize an almost exclusive franchise business model, we do not have the same flexibility to open new offices as our competitors who make greater use of Company-owned offices. Additionally, our failure to timely comply with our periodic reporting requirements has resulted in the delisting of our Class A common stock, which has affected our ability to sell franchises in our fiscal year ended April 30, 2019.

Our operating results may be adversely affected by the default of our franchisees and ADs on loans made by us or third parties.

We extend financing to certain franchisees for initial franchise fees as cash advances for their working capital needs and for other purposes. The financing is in the form of promissory notes payable to us. There can be no assurance that any franchisee will generate revenue sufficient to repay any amounts due nor is there any assurance that any franchisee will be able to repay any amounts due through other means. We also extend financing to ADs from time-to-time for a portion of their area development fees. Any failure by the franchisees and ADs to pay these amounts, if the amounts are not recoverable by us through other means, could have a material adverse effect on our financial performance.

Moreover, in some cases, we may be liable for office leases or other contractual obligations that have been assumed by purchasers of Company-owned offices and acquired tax practices. If the franchisees default on third-party obligations for which we continue to have liability, our operating results will be adversely affected.

We may be held responsible by third parties, regulators, or courts for the action of, or failure to act, by our franchisees and be exposed to possible fines, other liabilities, and bad publicity.

We grant our franchisees a limited license to use our registered service marks and, accordingly, there is risk that one or more of the franchisees may be identified as being controlled by us. Third parties, regulators, or courts may seek to hold us responsible for the actions or failures to act by our franchisees. The extent to which franchisors should be held

responsible for the behavior of their franchisees has become a more significant issue in recent years, with some government agencies taking the position that the extent to which a franchise system establishes requirements for franchisees may justify treating the franchisor as if it “controls” the franchisee’s behavior. Thus, the failure of our franchisees to comply with laws and regulations may expose us to liability and damages that may have an adverse effect on our business.

The Liberty Tax brand could be impaired due to actions taken by our franchisees, their employees or otherwise.

We believe the Liberty Tax brand is one of our most valuable assets in that it provides us with a competitive advantage, particularly over our competitors that do not have a national presence. Our franchisees operate their businesses under our brand. Because our franchisees are independent third parties with their own financial objectives, actions taken by them, including breaches of their contractual obligations, and negative publicity associated with these actions, could adversely affect our reputation and brand more broadly. Any actions as a result of conduct by our franchisees, their employees or otherwise which negatively impacts our reputation and brand may result in fewer customers and lower revenues and profits for us.

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Our tax return preparation compliance program may not be successful in detecting all problems in our franchisee network, and franchisee non-compliance, fraud and other misconduct and related enforcement action may damage our reputation and adversely affect our business.

Although our tax return preparation compliance program seeks to monitor the activities of our franchisees, it is unlikely to detect every problem. While we have implemented a variety of measures to enhance tax return preparation compliance as well as our monitoring of these activities, there can be no assurance that franchisees and tax preparers will follow these procedures. From time to time, the federal and/or state authorities may take adverse action against franchisees or preparers related to tax compliance issues, seeking injunctions, damages or even criminal sanctions with respect to such behavior. Failure to detect and prevent tax return preparation compliance issues could expose us to the risk of government investigation or litigation, result in bad publicity and reputational harm, and could subject us to remedies and loss of customers that could cause our revenues or profitability to decline. See “-Risks Related to Our Business-If we fail to protect or fail to comply with laws and regulations related to our customers' personal information, we may face significant fines, penalties, or damages and our brand and reputation may be harmed.”

In fiscal 2016, the DOJ announced two lawsuits against certain of our former franchisees and two lawsuits against then-existing franchisees, which concluded in fiscal 2017. Allegations involved claims of fraudulent tax preparation. We were not named as a defendant in these suits. Further, in fiscal 2017, the state of Maryland, Office of the Comptroller suspended the processing of electronic and paper returns of one franchisee and two offices in that state. In fiscal 2018, the DOJ filed suit against one former and two then active franchisees in Florida based upon their alleged preparation of fraudulent tax returns. Also during fiscal 2018, the DOJ indicted four Milwaukee tax preparers based upon their alleged filing of fraudulent tax returns. We are cooperating with the applicable governmental authorities in connection with their investigations. We have continued to enhance our Compliance Department tasked with examining and preventing non-compliance, fraud and other misconduct among our franchisees and their employees. Nonetheless, there can be no assurance that our Compliance Department, the tax return preparation compliance program, or other efforts will be effective in eliminating non-compliance, fraud and other misconduct among our franchisees and/or employees. Accordingly, any such non-compliance, fraud or other misconduct may have a material adverse effect on our reputation, financial condition and results of operations.

Disputes with our franchisees may have a material adverse effect on our business.

From time to time, we engage in disputes with some of our franchisees, and some of these disputes result in litigation or arbitration proceedings. Disputes with our franchisees may require us to incur significant legal fees, subject us to damages, and occupy a disproportionate amount of management's time. A material increase in the number of these disputes, or unfavorable outcomes in these disputes, may have a material adverse effect on our business. To the extent we have disputes with our franchisees, our relationships with our franchisees could be negatively impacted, which could hurt our growth prospects or negatively impact our financial performance.

Our operating results depend on the effectiveness of our marketing and advertising programs and franchisee support of these programs.

Our revenues are heavily influenced by brand marketing and advertising. If our marketing and advertising programs are unsuccessful, we may fail to retain existing customers and attract new customers, which could limit the growth of our revenues or profitability or result in a decline in our revenues or profitability. Moreover, because franchisees are required to pay us marketing and advertising fees based on a percentage of their revenues, our marketing fund expenditures are dependent upon sales volumes of our franchisees.

The support of our franchisees is critical for the success of our marketing programs and any new strategic initiatives we seek to undertake. While we can mandate certain strategic initiatives through enforcement of our franchise agreements, we need the active support of our franchisees if the implementation of our marketing programs and strategic initiatives is to be successful. Although certain actions are required of our franchisees under the franchise agreements, there can be no assurance that our franchisees will continue to support our marketing programs and strategic initiatives. The failure of our franchisees to support our marketing programs and strategic initiatives would adversely affect our ability to implement our business strategy and could have a material adverse effect on our business, financial condition, and results of operations.

Our launch of a new franchise brand or other business ventures may be unsuccessful and consume significant management and financial resources.

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During fiscal 2015, we launched a new franchise brand, SiempreTax+, designed to enable our franchisees to better serve Hispanic customers and to assist us in building out our franchise network. Although franchisees opened a significant number of SiempreTax+ offices for the 2018, 2017 and 2016 tax seasons, the launch of a new nationwide brand involves substantial risks and uncertainties, and the interest of prospective franchisees and customers in the new brand may not be sufficient to permit us to grow the brand as rapidly as we hope. We expended significant management time and start-up expenses during the first year of this brand, and if the brand is not successful or falls short of anticipated growth, we may be adversely affected by continued expenses and the diversion of management time to this initiative at the expense of our core Liberty Tax brand. In the future, we may also launch additional business brands or initiatives which could negatively impact our financial performance if unsuccessful or underperforming.

Risks Related to Regulation of Our Industry

Federal and state regulators may impose new regulations on non-loan tax settlement products that would make those products more expensive for us to offer or more difficult for our customers to obtain.

Consumer advocacy organizations and some government officials have asserted that non-loan tax settlement products, such as the refund transfer products we offer, should be treated as loan products or otherwise be more heavily regulated. These groups assert that refund transfer products and similar products are loans because most customers complete the payment for their tax preparation and related fees at the time their refund is disbursed, and therefore, the customer has received an extension of credit because of a purported deferral of the tax preparation fees until the refund is received. We are subject to a judgment in the State of California that treats refund transfer product products that we provide in that state as if they were extensions of credit. In addition, certain litigation discussed below involving us and others in the tax industry include claims that refund transfer products and similar products constitute loans or extensions of credit. If other state or federal courts or agencies successfully require us to treat refund transfer products as if they are loans or extensions of credit, we may be subject to the cost of additional regulation, including disclosure requirements that could reduce the demand for these products by potential customers and may be subject to limitations on our ability to offer these products, which could materially adversely affect our operations. See "Note 15 - Commitments and Contingencies" in the Notes to the Consolidated Financial Statements.

We may be unsuccessful in litigation that characterizes refund transfer products as loans, which could subject us to damages and additional regulation, and which could adversely affect our ability to offer tax settlement products and have a material adverse effect on our operations and financial results.

We were sued in November 2011 in four states, and additional lawsuits have been filed in five other states since the initial filings. These cases have now been consolidated before a single judge in federal court in the Northern District of Illinois. The consolidated complaint alleges violations of state-specific refund anticipation loan and other consumer statutes alleging that a refund transfer product represents a form of refund anticipation loan because the taxpayer is "loaned" the tax preparation fee, and that a refund transfer product is, therefore, subject to federal truth-in-lending disclosure and state law requirements regulating refund anticipation loans. We are aware that virtually identical lawsuits were filed against three of our competitors. In June 2015, we entered into a settlement agreement in this case in order to minimize the expense of litigation and the risk attendant to the litigation. Although this case was resolved through a settlement, the underlying issue may be the subject of additional regulation and litigation. We may also become subject to existing state regulations governing refund anticipation loans (in the states that have such regulations) and the costs of additional regulation, including disclosure requirements, and we may be subject to limitations on our ability to offer these products. These additional disclosure requirements could reduce the demand for these products by potential customers, and the possible application of state lending and other refund anticipation loan-related statutes and regulations might adversely affect our fee income to the extent those statutes or regulations

impose limitations on fees that we now charge in connection with refund transfer products. If it becomes more difficult for us and our franchisees to offer these products to taxpayers, or if we are subject to damages in future litigation, it could materially and adversely affect our operations and financial results. See “Item 1-Business-Regulation-Potential regulation of refund transfer products or treatment of refund transfer products as loans or extensions of credit.”

The failure by us, our franchisees, the financial institutions, and other lenders that provide tax settlement products to our customers through us and our franchisees, to comply with legal and regulatory requirements, including with respect to tax return preparation or tax settlement products, could result in substantial sanctions against us or require changes to our business practices that could harm our profitability and reputation.

Our tax return preparation business, including our franchise operations and facilitation of tax settlement products, are subject to extensive regulation and oversight in the United States by the IRS, the FTC, and by federal and state regulatory and law enforcement agencies and similar entities in Canada. The profitability of our future operations will, therefore, depend in large part on our continued ability to comply with federal and state franchise regulations, and in Canada, on our continued

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ability to comply with Canadian and provincial franchise regulations. If governmental agencies with jurisdiction over our operations were to conclude that our business practices, the practices of our franchisees, or those of financial institutions and other lenders with which we conduct our business violate applicable laws, we could become subject to sanctions that could have a material adverse effect on our business, financial condition, and results of operations. These sanctions may include, without limitation:

- civil monetary damages and penalties,
- criminal penalties, and
- injunctions or other restrictions on the manner in which we conduct our business.

In addition, the financial institutions and other providers of tax settlement products to our customers are also subject to significant regulation and oversight by federal and state regulators, including banking regulators. The failure of these providers to comply with the regulatory requirements of federal and state government regulatory bodies, including banking and consumer protection laws, could affect their ability to continue to provide tax settlement products to our customers, which could have a material adverse effect on our business, financial condition, and results of operations.

Our customers' inability to obtain tax settlement products through our tax return preparation offices could cause our revenues or profitability to decline. We also may be required to change business practices, which could alter the way tax settlement products are facilitated and could cause our revenues or profitability to decline.

Federal and state legislators and regulators have taken an active role in regulating tax settlement products and, because our ability to offer these products in future tax seasons may be limited, demand for our services may be reduced, we may be exposed to additional credit risk, and our business may be harmed.

Financial institutions that provide or otherwise facilitate tax settlement products are subject to significant regulation and oversight by federal and state regulators, including banking regulators. Federal and state laws and regulations govern numerous matters relating to the offering of consumer loan products, such as Refund Advances and consumer deposit products such as refund transfers. From time to time, government officials at the federal and state levels may introduce and enact legislation and regulations proposing to further regulate or prevent the facilitation of refund-based loans and other tax settlement products and take other actions that have the effect of restricting the availability of these products. In July 2011, the Consumer Financial Protection Bureau (“CFPB”) was created by the Dodd-Frank Act to administer and enforce consumer protection laws and regulation in the financial sector. Certain proposed legislation, regulations, and activities by CFPB or other regulators could increase costs to us, our franchisees, the financial institutions, and other parties that provide our tax settlement products or could negatively impact or eliminate the ability of financial institutions to provide or facilitate tax settlement products through tax return preparation offices.

Even if we were to develop relationships that allow our customers to obtain refund-related loans through non-bank lenders, the laws and regulations that apply to those financial institutions and us may make these products more expensive to offer or limit their availability to our customers. In addition, many states have statutes regulating through licensing and other requirements the activities of brokering loans and providing credit services to consumers as well as payday loan laws and local usury laws. Some state regulators are interpreting these laws in a manner that could adversely affect the manner in which tax settlement products are facilitated, or permitted, or result in fines or penalties to us or our franchisees. Some states are introducing and enacting legislation that would seek to directly apply such laws to the facilitators of refund-based loans. Additional states may interpret these laws in a manner that is adverse to how we currently conduct our business or how we have conducted our business in the past, and we may be required to change business practices or otherwise comply with these statutes and could be subject to fines, penalties, or other payments related to past conduct.

If our financial product service providers become unable or unwilling to enable us to offer refund transfer products, we may be unable to offer tax settlement products to our customers.

Our ability to offer refund transfer products (as well as other tax settlement products that require the creation of a customer bank account) is dependent on the ability and willingness of our financial product service providers to make available to our customers the bank accounts into which their tax refunds are deposited. If any of the federal or state regulatory authorities with the power to regulate these service providers prevents or makes it more difficult for our service providers to make these bank accounts available to our customers or if the service providers determine that they no longer wish to participate in these transactions, we may be unable to find alternative service providers that will be willing to provide the required number of bank accounts to our customers. If we are unable to make bank accounts available for refund transfer

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products, we will not be able to enable our customers to utilize these accounts for the direct deposit of their federal and state tax returns, which would materially affect our ability to offer tax settlement products to those customers. In addition, statutes applicable to acceptable refund transfer fees are state specific which may adversely affect how we currently conduct or have conducted our business in the past and may require change to such business practices to otherwise comply with these statutes and could be subject to fines, penalties, or other payments related to past conduct.

Regulatory actions could have an adverse effect on our business and our consolidated financial position, results of operations, and cash flows.

We are subject to additional federal, state, local, and foreign laws and regulations, including, without limitation, in the areas of franchise, labor, immigration, advertising, consumer protection, financial services and products, payment processing, privacy, anti-competition, environmental, health and safety, insurance, and healthcare. There have been significant new regulations and heightened focus by the government in some of these areas, including, for example, healthcare, consumer financial services and products, and labor, including overtime and exemption regulations and state and local laws on minimum wage and other labor-related issues. There may be additional regulatory actions or enforcement priorities, or new interpretations of existing requirements that differ from ours. These developments could impose unanticipated limitations or require changes to our business, which may make elements of our business more expensive, less efficient, or impossible to conduct, and may require us to modify our current or future services or products, which effects may be heightened given the nature, broad geographic scope, and seasonality of our business.

Increased regulation of tax return preparers could make it more difficult to find qualified tax preparers and could harm our business.

From time to time, the federal government and various states consider regulations regarding the education, testing, licensing, certification, and registration of tax return preparers. Although the IRS' effort to implement a new model for tax return preparer regulation has been declared invalid by a federal appeals court, Congressional action authorizing mandatory regulation may be adopted in the future, and various states have begun to fill the void created by the absence of federal tax return preparer regulation by proposing new or enhanced regulatory requirements at the state level. Although we believe that our training for preparers already exceeds the requirements the IRS had proposed and that states have adopted or have proposed, regulation of tax return preparers could impact our ability to find an adequate number of tax return preparers to meet the demands of our customers and impose additional costs on us and our franchisees to train tax return preparers, which could cause our revenues and profitability to decline.

Immigration reform may lead our customers to seek our assistance with matters related to immigration reform and may subject us to additional regulatory risk.

We believe that any material immigration reform, whether implemented by executive action or by Congress, will necessarily involve the use of prior tax returns as a means by which undocumented immigrants may demonstrate their presence in the United States and compliance with federal and state tax laws. We anticipate that any additional customers we might obtain because of this opportunity to prepare additional tax returns may also seek our assistance in their efforts to comply with whatever processes are implemented to enable undocumented immigrants to take advantage of the benefits of any immigration reform initiatives. We and our franchisees may be subject to state restrictions on the unauthorized practice of law, and other federal and state restrictions regarding who may advise individuals with respect to immigration matters, and failure to comply with these regulatory restrictions may subject us and our franchisees to enforcement action and adversely affect our business.

Risks Related to Changes in Tax Laws and Regulations

New or revised tax regulations could have a material effect on our financial results.

The tax environment in which we operate is evolving rapidly with the recent enactment of sweeping corporate tax changes. The President of the United States signed into law tax legislation commonly known as the Tax Cuts and Jobs Act (the “Tax Act”) on December 22, 2017. The Tax Act, among other things, contains significant changes to corporate taxation, including: (1) a reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%; (2) a limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses); (3) a limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks; (4) immediate deductions for certain new investments (instead of deductions for depreciation expense over time); (5) limitations of certain executive compensation deductions; and (6) limitations or repeals of many business deductions and credits. In addition to cutting the corporate tax rate, the Tax Act also lowers individual income tax rates and increases the standard deduction, making it easier for many individuals to file their own taxes or use our online, digital “Do It Yourself” tax program.

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The effect of the Tax Act on us may also be affected by future regulations and interpretations of the IRS regarding the Tax Act and the long-term effect is difficult to predict. Additionally, we operate in many states and are subject to the tax laws of those states. We are unable to predict how we may be affected by changes, or lack of changes, to state tax laws that may be made in response to the Tax Act by the states in which we operate. Accordingly, the risk exists that the Tax Act, IRS regulations and interpretations of the Tax Act and changes in, or lack of changes in, state tax laws could materially and adversely affect our business cash flows, results of operations and financial condition.

Because demand for our products is related to the complexity of tax return preparation and the frequency of tax law changes, government initiatives that simplify tax return preparation, reduce the need for a third-party tax return preparer, or lower the number of returns required to be filed may decrease demand for our services and financial products.

Many taxpayers seek assistance from paid tax return preparers such as Liberty Tax Service because of the level of complexity involved in tax return preparation and filing and frequent changes in the tax laws. From time to time politicians and government officials propose measures seeking to simplify the preparation and filing of tax returns. The passage of any measures that significantly simplify tax return preparation or reduce the need for third-party tax return preparers may be highly detrimental to our business. In addition, any changes or other initiatives that result in a decrease in the number of tax returns filed or reduce the size of tax refunds could reduce demand for our products and services causing our revenues or profitability to decline.

For example, several members of Congress have proposed legislation that would authorize or require the IRS to allow taxpayers to access web-based tax preparation tools that would include “pre-populated” tax return forms that would presumably include data provided to the IRS from other government agencies, such as the Social Security Administration. If these or similar proposals are enacted, many tax customers might elect those services rather than paid tax preparation or the use of fee-based tax software or online tax preparation.

Initiatives that improve the timing and efficiency of processing tax returns could reduce the attractiveness of the tax settlement products offered to our customers and demand for our services.

Our performance depends on our ability to offer access to tax settlement products that increase the speed and efficiency by which our customers can receive their refunds. The federal government and various state and local municipalities have, from time to time, announced initiatives designed to modernize their operations and improve the timing and efficiency of processing tax returns. For example, during a prior tax season, the U.S. Department of Treasury introduced a prepaid debit card pilot program designed to facilitate the refund process. If tax authorities are able to significantly increase the speed and efficiency with which they process tax returns, the value and attractiveness of the tax settlement products offered to our customers and demand for our services could be reduced.

Delays in the passage of tax laws and the implementation by the federal or state governments could harm our business.

The enactment of tax legislation occurring late in the calendar year could result in the beginning of tax filing season being delayed or make it difficult for us to make necessary changes on a timely basis to the software used by our franchisees to prepare tax returns. Any such delays could impact our revenues and profitability in any given year.

Proposals to make fundamental changes in the way tax refunds are processed or to impose price limitations on tax preparation, if enacted, could result in substantial losses of customers and other risks.

Some regulators have suggested that it would be appropriate to allow taxpayers to “split” their tax refunds, in a manner that would separate the payment of tax preparation fees from the balance of a customer's refund. In describing these proposals, some advocates have called for a cap on tax preparation fees that would adversely affect the ability of tax preparers to charge market prices for tax services and could reduce income to our franchisees, and therefore, to us. Other proposals have been advanced that would attempt to reduce tax refund fraud by significantly postponing the speed with which refunds are processed, or even postponing the processing of refunds until after the April 15 federal tax filing deadline. Such a change would likely have the effect of devaluing services that allow tax customers in the early portion of the tax season to receive their refunds on a more expedited basis that is available when electronic filing is not used and could therefore reduce the demand for the services we and our franchisees provide.

There can be no assurance that these proposals will be enacted at all or in their present form but if enacted, our growth and revenues could be adversely affected.

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Our participation in government programs designed to speed access to tax refunds may result in customer loss when the IRS fails to perform.

The IRS has responded to the increase in electronic filing by developing programs designed to reduce a taxpayer's wait to receive a tax refund. In the past, we participated in some programs offered by the IRS that did not perform as expected, resulting in significant delays in processing refunds for some of our customers. Although we continue to seek to give our customers quicker access to their refunds, doing so involves the risk of customer dissatisfaction and injury to our reputation in the market if the IRS fails to perform, which is outside our control.

Item 1B. Unresolved Staff Comments.
None.

Item 2. Properties.

We own our corporate headquarters, located in four buildings, totaling approximately 96 thousand square feet. Our principal executive office is located at 1716 Corporate Landing Parkway, Virginia Beach, Virginia 23454. We also own additional properties in Ohio, New York, Tennessee, and Virginia, which are used as Company-owned offices or leased to franchisees. The remainder of our Company-owned offices are operated under leases. We believe that our offices are in good condition and sufficient to meet our present and anticipated future needs.

Item 3. Legal Proceedings.

For information regarding legal proceedings, please see "Note 15 - Commitments and Contingencies" in the Notes to the Consolidated Financial Statements, which information is incorporated herein by reference.

Item 4. Mine Safety Disclosures.
Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.

Market and Stock Information

Effective at the open of business on August 2, 2018, our Class A common stock was suspended from trading on The Nasdaq Global Select Market ("Nasdaq"). Since then, our Class A common stock has been quoted on the OTC Market and is currently traded under the symbol "TAXA." Prior to the suspension, our Class A common stock had traded on Nasdaq under the symbol "TAX" since July 2, 2012. We traded on the over-the-counter bulletin board from June 14, 2012 until July 1, 2012. Prior to that time, there was no public market for our Class A common stock. The following table sets forth for the periods indicated the high and low sale prices of our Class A common stock on Nasdaq.

| | 2018 | | 2017 | |
|----------------|-------------|----------|-------------|---------|
| | Sales Price | | Sales Price | |
| | High | Low | High | Low |
| First Quarter | \$ 15.00 | \$ 10.88 | \$ 15.14 | \$ 9.95 |
| Second Quarter | 14.70 | 11.75 | 14.51 | 11.25 |
| Third Quarter | 14.00 | 9.90 | 15.52 | 11.28 |
| Fourth Quarter | 10.80 | 7.75 | 16.20 | 13.25 |

As of April 30, 2018, our stockholders' equity consisted of the following: 12,823,020 shares of Class A common stock, 200,000 shares of Class B common stock, 10 shares of special voting preferred stock and 1,000,000 exchangeable shares which we treat as common stock equivalents. As of April 30, 2018, options to acquire 472,503 shares of Class A common stock were outstanding, 205,070 of which were immediately exercisable. Pursuant to certain transactions which occurred in July 2018, no shares of our Class B common stock, special voting preferred stock, or exchangeable shares remain outstanding.

Holders of Record

As of October 1, 2018, we had approximately 191 registered record holders of our Class A common stock. The reported closing price of our Class A common stock on October 1, 2018 was \$11.65, Wells Fargo Shareowner Services is the transfer agent and registrar for our Class A common stock.

Dividends

Until our dividend paid in April 2015, we had never declared or paid a cash dividend on our common stock. Although we have announced a \$0.16 per share quarterly cash dividend and may continue to 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 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. In addition, applicable law requires our Board of Directors to determine that we have adequate surplus prior to the declaration of dividends. We cannot provide an assurance that we will continue to pay dividends at any specific level or at all.

Share Repurchases

Our Board of Directors has authorized up to \$10.0 million for share repurchases. This authorization has no specific expiration date and cash proceeds from stock option exercises increase the amount of the authorization. In addition, the Board of Directors authorized an Area Developer repurchase program which reduces the amount of the share repurchase authorization on a dollar for dollar basis. Shares repurchased from option exercises and RSUs vesting that are net-share settled by us and shares repurchased in privately negotiated transactions are not considered share repurchases under this authorization.

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| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Remaining Maximum Value of Shares that may be Purchased Under the Plan (1) (in thousands) |
|--------------------------------------|--|------------------------------------|---|--|
| February 1 through February 28, 2018 | — | \$ — | — | \$ 5,793 |
| March 1 through March 31, 2018 | — | — | — | 4,258 |
| April 1 through April 30, 2018 | — | — | — | 4,258 |
| Total | — | — | — | |

(1) As part of the Area Developer repurchase program, the Company expended \$1.5 million during the quarter.

During fiscal 2018, we did not repurchase any shares of our Class A common stock.

Stock Performance Graph

The graph below compares the cumulative total return provided stockholders on the Company's Class A common stock relative to the cumulative total returns of the Russell 2000 index and the S&P Diversified Commercial & Professional Services index. Returns assume an initial investment of \$100 at the market close on June 14, 2012, and then for the periods ended April 30, 2013, 2014, 2015, 2016, 2017, and 2018. Dividends, if any, are assumed to have been reinvested.

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Item 6. Selected Financial Data.

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 below and our Consolidated Financial Statements and related notes included in Item 15. We derived the consolidated statements of income data for the years ended April 30, 2018, 2017, and 2016 and the consolidated balance sheet data as of April 30, 2018 and 2017 from our audited consolidated financial statements included in Item 8. The consolidated statements of income data for the years ended April 30, 2015 and 2014 and the consolidated balance sheet data as of April 30, 2016, 2015, and 2014 are derived from our audited consolidated financial statements for such periods, respectively, not included in this annual report. Our historical results are not necessarily indicative of the results that may be expected in the future.

Fiscal Years Ended and as of April 30,
2018 2017 2016 2015 2014
(amounts in thousands, except per share, franchisees,
offices, per franchisee amounts, fee per tax return, and
per office amounts)

Consolidated Statements of Income Data:

| | | | | | |
|--------------------------|------------|------------|------------|------------|------------|
| Total revenue | \$174,872 | \$173,985 | \$173,429 | \$162,172 | \$159,696 |
| Total operating expenses | (167,273) | (150,664) | (140,941) | (146,780) | (124,875) |
| Income from operations | 7,599 | 23,321 | 32,488 | 15,392 | 34,821 |
| Net income | \$135 | \$13,013 | \$19,420 | \$8,690 | \$21,982 |

Consolidated Balance Sheet Data:

| | | | | | |
|---|----------|----------|----------|----------|----------|
| Amounts due from franchisees and ADs less unrecognized revenue, net of allowances | \$72,405 | \$90,728 | \$95,226 | \$86,680 | \$81,480 |
| Property, equipment, and software, net | 38,636 | 39,789 | 40,957 | 36,232 | 38,343 |
| Total assets | 178,003 | 204,268 | 193,223 | 183,994 | 198,640 |
| Long-term obligations, including current installments | 20,383 | 26,199 | 23,440 | 25,245 | 28,365 |
| Total stockholders' equity | 111,502 | 116,455 | 111,501 | 98,862 | 110,185 |

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| | Fiscal Years Ended and as of April 30, | | | | |
|--|--|-----------|-----------|-----------|-----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (amounts in thousands, except per share, franchisees, offices, per franchisee amounts, fee per tax return, and per office amounts) | | | | |
| Other Financial and Operational Data: | | | | | |
| Adjusted EBITDA(1) | \$35,233 | \$42,404 | \$43,208 | \$42,787 | \$44,734 |
| Permanent | 3,282 | 3,710 | 3,960 | 3,764 | 3,663 |
| Seasonal | 24 | 67 | 211 | 262 | 486 |
| Processing Centers | 37 | 46 | 54 | 43 | 26 |
| Number of U.S. offices | 3,343 | 3,823 | 4,225 | 4,069 | 4,175 |
| Number of Canadian offices | 267 | 254 | 262 | 259 | 263 |
| Number of offices | 3,610 | 4,077 | 4,487 | 4,328 | 4,438 |
| Number of U.S. franchisees | 1,582 | 1,753 | 1,856 | 1,907 | 1,959 |
| Number of Canadian franchisees | 138 | 133 | 130 | 125 | 145 |
| Number of franchisees | 1,720 | 1,886 | 1,986 | 2,032 | 2,104 |
| Average number of offices per U.S. franchisee(2) | 1.93 | 2.00 | 2.14 | 2.07 | 2.04 |
| Average number of offices per Canadian franchisee(2) | 1.59 | 1.58 | 1.62 | 1.62 | 1.57 |
| Average number of offices per franchisee(2) | 1.90 | 1.97 | 2.10 | 2.04 | 2.01 |
| Number of tax returns filed in U.S. offices | 1,487 | 1,657 | 1,832 | 1,907 | 1,890 |
| Number of tax returns filed in Canadian offices | 377 | 359 | 330 | 340 | 311 |
| Number of tax returns filed online(3) | 125 | 138 | 145 | 167 | 187 |
| Number of tax returns filed | 1,989 | 2,154 | 2,307 | 2,414 | 2,388 |
| Systemwide revenue from U.S. offices(4) | \$366,900 | \$386,000 | \$417,600 | \$413,200 | \$397,300 |
| Systemwide revenue from Canadian offices (CN\$(4) | 31,000 | 28,700 | 27,400 | 26,400 | 23,900 |
| Systemwide revenue from Canadian offices (US\$(4) | 24,100 | 21,500 | 21,200 | 21,800 | 21,800 |
| Systemwide revenue per U.S. office(4)(5) | \$109,752 | \$100,968 | \$98,840 | \$101,548 | \$95,162 |
| Systemwide revenue per Canadian office (CN\$(4)(5) | 116,105 | 112,992 | 104,580 | 101,931 | 90,875 |
| Systemwide revenue per Canadian office (US\$(4)(5) | 90,262 | 84,646 | 80,916 | 84,170 | 82,890 |
| Net average fee per U.S. tax return filed(5) | \$247 | \$233 | \$228 | \$217 | \$210 |
| Net average fee per Canadian tax return filed (CN\$(5) | 82 | 80 | 83 | 78 | 77 |
| Net average fee per Canadian tax return filed (US\$(5) | 64 | 60 | 64 | 64 | 70 |

(1) Adjusted EBITDA is a non-GAAP financial measure, which we define as net income plus provision for income taxes, interest expense, certain other adjustments, depreciation, amortization, and impairment charges. Please see "Adjusted EBITDA" below for more information and for a reconciliation of Adjusted EBITDA to net income, the most directly comparable financial measure calculated and presented in accordance with GAAP.

(2) The calculation of the average number of offices per franchisee excludes Company-owned offices.

(3) Previously reported online return counts for fiscal years prior to 2015 have been restated to reflect accepted e-files only. No changes were made to previously reported returns for office counts.

(4) Our systemwide revenue represents the total tax preparation revenue generated by our franchised and Company-owned offices. It does not represent our revenue because our franchise royalties are derived from the operations of our franchisees. Because we maintain an infrastructure to support systemwide operations, we consider growth in systemwide revenue to be an important measurement.

(5) Systemwide revenue per office and the net average fee per tax return filed reflect amounts for our franchised and Company-owned offices.

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Adjusted EBITDA

To provide additional information regarding our financial results, we have disclosed in the table above and within this annual report Adjusted EBITDA. Adjusted EBITDA represents net income, before income taxes, interest expense, depreciation and amortization, and certain other items specified below. We have provided a reconciliation below of Adjusted EBITDA to net income, the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA in this annual report because we seek to manage our business to achieve higher levels of Adjusted EBITDA and to improve the level of Adjusted EBITDA as a percentage of revenue. In addition, it is a key basis upon which we assess the performance of our operations and management. We also use Adjusted EBITDA for business planning and the evaluation of acquisition opportunities. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA can provide a useful measure for period-to-period comparisons. We believe the presentation of Adjusted EBITDA enhances an overall understanding of the financial performance of and prospects for our business. Adjusted EBITDA is not a recognized financial measure under GAAP and may not be comparable to similarly titled measures used by other companies in our industry. Adjusted EBITDA should not be considered in isolation from or as an alternative to net income, operating income (loss), or any other performance measures derived in accordance with GAAP.

The following table presents a reconciliation of Adjusted EBITDA for each of the periods indicated.

| | Fiscal Years Ended April 30, | | | | |
|--|------------------------------|----------|----------|----------|----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | (dollars in thousands) | | | | |
| Reconciliation of Net Income to Adjusted EBITDA: | | | | | |
| Net income | \$135 | \$13,013 | \$19,420 | \$8,690 | \$21,982 |
| Interest expense | 3,181 | 2,557 | 2,039 | 1,889 | 1,355 |
| Income tax expense | 4,346 | 7,754 | 11,058 | 4,811 | 13,654 |
| Depreciation, amortization, and impairment charges | 14,416 | 14,356 | 10,026 | 9,900 | 9,277 |
| Impairment of online software and acquired customer lists | — | — | — | 8,392 | — |
| Net gain on available-for-sale securities | — | (50) | — | — | (2,183) |
| CEO Separation and related costs | 3,503 | — | — | — | — |
| Executive severance | 2,965 | 877 | 413 | 1,488 | 614 |
| Executive recruitment costs | 325 | — | — | — | — |
| Restatement costs | — | — | — | — | 907 |
| Restructuring charge | 4,952 | — | — | — | — |
| Accrued judgments and settlements, net of estimated recoveries | 529 | 2,700 | — | 7,617 | — |
| Compliance Task Force and related costs | 881 | 1,197 | 252 | — | — |
| Stock-based compensation expense (income) related to liability classified awards | — | — | — | — | (872) |
| Adjusted EBITDA | \$35,233 | \$42,404 | \$43,208 | \$42,787 | \$44,734 |

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are one of the leading providers of tax preparation services in the United States and Canada. Our tax preparation services and related tax settlement products are offered primarily through franchised locations, although we operate a limited number of Company-owned offices each tax season.

Our revenue primarily consists of the following components:

Franchise Fees: Our standard franchise fee per territory is \$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.

AD 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 franchise fees, royalties, and a portion of the interest income derived from territories located in their area. AD fees received are recognized as revenue on a straight-line basis over the initial contract term of each AD agreement, with the cumulative amount of revenue recognized not to exceed the amount of cash received.

Royalties: Our franchise agreements require franchisees to pay us a base royalty typically equal to 14% of the franchisees' tax preparation revenue, subject to certain specified minimums.

Advertising Fees: Our franchise agreements require all franchisees to pay us an advertising fee of 5% of the franchisees' tax preparation revenue, which we use primarily to fund collective advertising efforts.

Financial Products: We offer two types of tax settlement financial products: refund transfer products, which involve providing a means by which a customer may receive his or her refund more quickly and conveniently, and refund-based loans. We earn fees from the arranging of the sale of these financial products.

Interest Income: We earn interest income from our franchisees and ADs related to both indebtedness for the unpaid portions of their franchise and AD fees, and for other loans we extend to our franchisees related to the operation of their territories. We also earn interest on our accounts receivable.

Assisted Tax Preparation Fees: We earn tax preparation fees, net of discounts, directly from both the operation of Company-owned offices in the U.S. and Canada.

Electronic Filing Fee: We earn fees for the electronic filing of federal returns prepared in U.S. franchisee owned offices. Each location determines if they want to charge an electronic filing fee.

For purposes of this section and throughout this annual report, all references to "fiscal 2018," "fiscal 2017," and "fiscal 2016" refer to our fiscal years ended April 30, 2018, 2017, and 2016, respectively. For purposes of this section and throughout this annual report, all references to "year" or "years" are the respective fiscal year or years ended April 30 unless otherwise noted in this annual report, and all references to "tax season" refer to the period between January 1 and April 30 of the referenced year.

In evaluating our performance, management focuses on several metrics that we believe are key to our success:

Net growth in permanent office locations. The change in permanent office locations from year to year is a function of the opening of new offices, offset by locations that our franchisees or we close. Opening new permanent offices can be accomplished by the sale of new territories or the opening of permanent offices in previously sold territories. As a result of a reduction in new territory sales, the closure of under-performing offices, as well as the termination of the franchise agreements with several large franchisees, the Company and its franchisees operated 428 less permanent locations during the 2018 tax season compared to 2017. In fiscal 2017, on a net basis, the company and our franchisees operated 250 less permanent offices in the U.S. compared to fiscal 2016.

We utilize our AD program to focus on areas with large underdeveloped groups of territories we believe would benefit from the dedicated sales attention that an AD brings to our franchise sales process. Although we intend to grow our franchise network through the sale of new AD areas, opportunities often arise to acquire underperforming AD areas or AD areas in mature markets at favorable terms, offering us better future profitability from the associated franchise locations.

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Potential growth of SiempreTax+ brand. During fiscal 2015, we successfully launched our second brand, SiempreTax+. Given the demographic trends in the United States and the growing consumer purchasing power of the Hispanic community, we believe serving the Hispanic community through a separate brand that engages with customers in their preferred language and provides ancillary services unique to their needs presents a significant office growth opportunity. For this reason, our ability to grow this brand further should substantially contribute to our future ability to meet our growth goals.

Number of returns prepared. We strive to provide our franchisees with the resources and training needed to grow their own revenue, which is primarily driven by the number of returns prepared. We and our franchisees prepared a total of approximately 1.5 million returns in our U.S. offices in fiscal 2018, which was a decrease of 10.3% from fiscal 2017 due to fewer offices. Our new retail offices typically experience their most rapid growth during the first five years as they develop customer loyalty, operational experience and a referral base within their community. The seasoning of our U.S. offices shown in the following table highlights the relatively young age of our offices, with 771 of 3,343 offices that were in operation for five or fewer years, including the 2018 tax season.

| | Tax Season 2018 Office Age in Years | | | | | | Total |
|--------------------------------------|-------------------------------------|-----|-----|-----|-----|-------|-------|
| | 1 | 2 | 3 | 4 | 5 | 6+ | |
| United States: | | | | | | | |
| Franchised permanent | 66 | 108 | 185 | 156 | 143 | 2,330 | 2,988 |
| Franchised seasonal | 2 | 1 | 1 | 1 | 3 | 14 | 22 |
| Total U.S. franchised offices | 68 | 109 | 186 | 157 | 146 | 2,344 | 3,010 |
| Company-owned permanent | — | 13 | 34 | 20 | 10 | 217 | 294 |
| Company-owned seasonal | — | — | 1 | — | — | 1 | 2 |
| Total U.S. Company-owned offices | — | 13 | 35 | 20 | 10 | 218 | 296 |
| Processing centers | 1 | 6 | 11 | 4 | 5 | 10 | 37 |
| Total U.S. offices | 69 | 128 | 232 | 181 | 161 | 2,572 | 3,343 |
| Canada: | | | | | | | |
| Franchised permanent | 38 | 6 | 6 | 19 | 10 | 117 | 196 |
| Franchised seasonal | 1 | — | 1 | 1 | 1 | 19 | 23 |
| Total Canadian franchised offices | 39 | 6 | 7 | 20 | 11 | 136 | 219 |
| Company-owned permanent | 3 | 2 | 1 | 1 | — | 35 | 42 |
| Company-owned seasonal | — | 1 | — | — | 1 | 4 | 6 |
| Total Canadian Company-owned offices | 3 | 3 | 1 | 1 | 1 | 39 | 48 |
| Total Canadian offices | 42 | 9 | 8 | 21 | 12 | 175 | 267 |
| Total offices | 111 | 137 | 240 | 202 | 173 | 2,747 | 3,610 |

Growth in systemwide revenue. Systemwide revenue, which is an operating measure not in accordance with GAAP, includes sales by both Company-owned and franchised offices. We believe systemwide revenue data is useful in assessing consumer demand for our services and products, the overall success of the Liberty Tax brand and, ultimately, the performance of the Company. Our royalty revenue is computed as a percentage of sales made by our franchised offices, less certain deductions. Accordingly, sales by our franchisees have a direct effect on the Company's royalty revenue and profitability. In addition, our systemwide revenue reflects the size of the Liberty Tax system, and because the size of our franchise system drives our management and infrastructure needs, systemwide revenue data helps us assess those needs in comparison to other companies in our industry and other franchise

operators.

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Our systemwide revenue in the U.S. decreased by 4.9% from fiscal 2017 to 2018 and decreased 7.6% from fiscal 2016 to fiscal 2017. We experienced a 5.9% increase in average net fee per return filed in the U.S. from \$233 in fiscal 2017 to \$247 in fiscal 2018 and a decrease of 10.3% in number of tax returns filed in the U.S. processed from 1,657,000 in fiscal 2017 to 1,487,000 in fiscal 2018.

Tax settlement products obtained by U.S. customers. The total percentage of our U.S. customers obtaining a refund transfer product decreased to 46.1% during fiscal 2018 compared to 47.6% during fiscal 2017. As we have demonstrated our ability to offer products through JTH Financial, we have been successful in obtaining more favorable terms from outside vendors. Each year we analyze available tax settlement product solutions to balance risk and maximize profit per product.

Company-owned stores. We operate Company-owned offices, substantially all of which are held for sale. If these offices remain unsold at the start of a tax season, we will operate them for the tax season with the intent of selling them to qualified franchisees the next year, and, as a result, the number of Company-owned offices will vary from year to year. Going forward the number of Company-owned offices may increase if the Company reacquires more offices from existing franchisees and does not find a suitable buyer to take over the office. During fiscal 2018, the Company closed Company-owned offices as part of its restructuring initiatives. The Company will be evaluating additional Company-owned offices after the tax season which may result in the closing of additional offices. The Company incurred approximately \$5.0 million of expenses related to restructuring initiatives in fiscal 2018. The Company expects additional charges in fiscal 2019 primarily associated with property and intangible impairments and exit costs which are estimated to range from \$10.0 million to \$12.0 million.

Results of Operations

Fiscal year 2018 compared to fiscal year 2017

Revenues. The table below sets forth the components and changes in our revenue for the years ended April 30, 2018 and 2017.

| | Fiscal Years Ended April 30, | | | |
|---|------------------------------|-----------|---------|--------|
| | 2018 | 2017 | Change | |
| | | | \$ | % |
| | (dollars in thousands) | | | |
| Franchise fees | \$1,793 | \$2,659 | \$(866) | (33)% |
| Area Developers fees | 2,751 | 4,177 | (1,426) | (34)% |
| Royalties and advertising fees | 68,559 | 74,291 | (5,732) | (8)% |
| Financial products | 47,225 | 51,829 | (4,604) | (9)% |
| Interest income | 9,895 | 12,955 | (3,060) | (24)% |
| Assisted tax preparation fees, net of discounts | 26,645 | 21,600 | 5,045 | 23 % |
| Electronic Filing Fee | 10,772 | — | 10,772 | N/A |
| Other | 7,232 | 6,474 | 758 | 12 % |
| Total revenue | \$174,872 | \$173,985 | \$887 | 1 % |

Our total revenue increased by \$0.9 million, or 1%, in fiscal 2018 over fiscal 2017. This increase was primarily due to the following:

- a \$10.8 million increase in a new optional electronic filing fee related to federal returns prepared in U.S. franchisee owned offices; and
- a \$5.0 million increase in assisted tax preparation fees driven by the year-round accounting offices we acquired in late fiscal 2017 as well as an increase in the number of returns prepared in company-owned offices.

These increases were primarily offset by the following:

- a reduction of \$5.7 million in royalty and advertising fees and a decrease of \$4.6 million in financial products both related to a decrease in the number of tax returns processed by our franchisees;

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a decline of \$3.1 million in interest income related to a reduction in working capital loans to franchisees as well a decrease in the loans due from reacquired ADs and franchisees; and

a decrease of \$1.4 million in AD fees as a result of prior year sales that have now been fully recognized over the life of the original agreements.

Operating expenses. The following table details the amounts and changes in our operating expenses in and from fiscal 2018 and fiscal 2017.

| | Fiscal Years Ended April 30, | | | |
|--|------------------------------|-----------|----------|--------|
| | 2018 | 2017 | Change | |
| | | | \$ | % |
| | (dollars in thousands) | | | |
| Employee compensation and benefits | \$50,003 | \$44,615 | \$5,388 | 12 % |
| Selling, general, and administrative expenses | 69,012 | 58,159 | 10,853 | 19 % |
| Area Developers expense | 16,564 | 22,461 | (5,897) | (26)% |
| Advertising expense | 12,326 | 11,073 | 1,253 | 11 % |
| Depreciation, amortization, and impairment charges | 14,416 | 14,356 | 60 | — % |
| Restructuring expense | 4,952 | — | 4,952 | N/A |
| Total operating expenses | \$167,273 | \$150,664 | \$16,609 | 11 % |

Total operating expenses increased \$16.6 million, or 11%, in fiscal 2018 compared to fiscal 2017. The increase was primarily attributable to the following:

a \$10.9 million increase in selling, general and administrative expenses primarily due to incentives to franchisees for electronic filing charges on U.S. federal returns, bad debt expense resulting from franchisee terminations and increased professional fees related to litigation and management turnover costs;

an increase in employee compensation and benefits of \$5.4 million primarily resulting from executive severance as well as an increase in the compensation related to operating our new year-round accounting offices;

a \$5.0 million increase in restructuring expenses primarily related to company-store exit costs and the one-time termination of a service provider contract; and

a \$1.3 million increase in advertising expense primarily related to increased franchise sales marketing costs.

These increases were partially offset by:

a decrease of \$5.9 million in AD expense resulting from acquisitions of area developers and a decrease in the number of tax returns filed.

Income Taxes. The following table sets forth certain information regarding our income taxes for the fiscal years ended April 30, 2018 and 2017.

| | Fiscal Years Ended April 30, | | | |
|----------------------------|------------------------------|----------|------------|-------|
| | 2018 | 2017 | Change | |
| | | | \$ | % |
| | (dollars in thousands) | | | |
| Income before income taxes | \$4,481 | \$20,767 | \$(16,286) | (78)% |
| Income tax expense | 4,346 | 7,754 | (3,408) | (44)% |
| Effective tax rate | 97.0 % | 37.3 % | | |

The decrease in our income tax expense in fiscal 2018 compared to fiscal 2017 relates primarily to the decrease in our income before income taxes. The increase in the effective tax rate is driven by the impact of the one-time transition tax and adjustment of deferred tax assets and liabilities from the Tax Cuts and Jobs Act.

Net income. Our net income decreased by 99% in fiscal 2018 over fiscal 2017, due primarily as a result of higher operating expenses and a higher effective tax rate as noted above.

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Fiscal year 2017 compared to fiscal year 2016

Revenues. The table below sets forth the components and changes in our revenue for the years ended April 30, 2017 and 2016.

| | Fiscal Years Ended April 30, | | | |
|---|------------------------------|-----------|-----------|-------|
| | 2017 | 2016 | Change | |
| | | | \$ | % |
| | (dollars in thousands) | | | |
| Franchise fees | \$2,659 | \$5,038 | \$(2,379) | (47)% |
| Area Developers fees | 4,177 | 6,008 | (1,831) | (30)% |
| Royalties and advertising fees | 74,291 | 80,274 | (5,983) | (7)% |
| Financial products | 51,829 | 45,327 | 6,502 | 14% |
| Interest income | 12,955 | 13,578 | (623) | (5)% |
| Assisted tax preparation fees, net of discounts | 21,600 | 15,775 | 5,825 | 37% |
| Other | 6,474 | 7,429 | (955) | (13)% |
| Total revenue | \$173,985 | \$173,429 | \$556 | —% |

Our total revenue increased by \$0.6 million, or 0.3%, in fiscal 2017 over fiscal 2016. This increase was primarily due to the following:

a \$6.5 million increase in financial products, due primarily to an increase in the volume and price of refund advance loans originated and increased pricing on our refund transfer product. These increases were partially offset by a decrease in the number of customers who obtained a refund transfer product; and

a \$5.8 million increase in assisted tax preparation fees driven by an increase in the number of Company-owned offices in fiscal 2017 as compared to fiscal 2016 as well as increased pricing. In fiscal 2017 we operated 362 Company-owned offices compared to 310 in fiscal 2016.

These increases were offset by the following:

- a reduction of \$6.0 million in royalty and advertising fees related to a decrease in the number of tax returns processed by our franchisees;

- a decline in franchise fees of \$2.4 million as a result of fewer new territory sales and lower cash payments on notes from our franchisees in fiscal 2017. Franchise fee revenue is recognized when our obligations to prepare the franchisee for operations are substantially complete and as cash is received;

- a decrease of \$1.8 million in AD fees as a result of prior year sales that have now been fully recognized over the life of the original agreements; and

- a decrease in other revenue of \$1.0 million due to a reduction in the number of tax returns processed in our online “DIY” business and less transfer fees resulting from fewer sales transactions among franchisees.

Operating expenses. The following table details the amounts and changes in our operating expenses in and from fiscal 2017 and fiscal 2016.

| | Fiscal Years Ended April 30, | | | |
|--|------------------------------|-----------|---------|-------|
| | 2017 | 2016 | Change | |
| | | | \$ | % |
| | (dollars in thousands) | | | |
| Employee compensation and benefits | \$44,615 | \$42,882 | \$1,733 | 4% |
| Selling, general, and administrative expenses | 58,159 | 43,927 | 14,232 | 32% |
| Area Developers expense | 22,461 | 27,686 | (5,225) | (19)% |
| Advertising expense | 11,073 | 16,420 | (5,347) | (33)% |
| Depreciation, amortization, and impairment charges | 14,356 | 10,026 | 4,330 | 43% |
| Total operating expenses | \$150,664 | \$140,941 | \$9,723 | 7% |

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Total operating expenses increased by \$9.7 million, or 7%, in fiscal 2017 compared to fiscal 2016. The increase was attributable to:

A \$14.2 million increase in selling, general, and administrative expenses in fiscal 2017 compared to fiscal 2016, primarily due to the following:

- a \$5.3 million increase in the costs associated with our refund advance product;
- a \$3.1 million increase in costs related to an increase in the number of U.S. Company-owned offices operated in fiscal 2017;
- an increase of \$2.9 million in bad debt expense; and
- a \$2.7 million charge, in fiscal 2017, recorded which relates to an accrued judgment where the Company intends to vigorously defend our position and pursue an appeal.
- an increase in depreciation, amortization, and impairment charges of \$4.3 million primarily due to an impairment charge driven by a decrease in the performance of our Company-owned stores; and
- an increase in employee compensation and benefits of \$1.7 million resulting from an increase in executive severance of \$0.5 million as well as an increase in the compensation related to operating a greater number of Company-owned stores.

These increases were partially offset by the following:

- a \$5.3 million decrease in advertising expense related to a reduction in the number of tax returns filed by our franchisees as well as better expense management; and
- a decrease of \$5.2 million in AD expense resulting from a decrease in the number of tax returns filed and the associated decline in royalty fees along with the Company's acquisition of several AD rights during fiscal 2017, which lowered the number of offices located within an AD's territory.

Income Taxes. The following table sets forth certain information regarding our income taxes for the fiscal years ended April 30, 2017 and 2016.

| | Fiscal Years Ended April 30, | | | |
|----------------------------|------------------------------|----------|-----------|-------|
| | 2017 | 2016 | Change | |
| | | | \$ | % |
| | (dollars in thousands) | | | |
| Income before income taxes | \$20,767 | \$30,478 | \$(9,711) | (32)% |
| Income tax expense | 7,754 | 11,058 | (3,304) | (30)% |
| Effective tax rate | 37.3 | % 36.3 | % | |

The decrease in our income tax expense in fiscal 2017 compared to fiscal 2016 relates primarily to the decrease in our income before income taxes.

Net income. Our net income decreased by 33% in fiscal 2017 over fiscal 2016, due primarily as a result of higher operating expenses as noted above.

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 late January through April 30. Following each tax season, from May 1 through late January 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 on the use of our credit facility to fund our operating expenses and invest in the future growth of our business. Our business has historically generated a strong cash flow from operations on an annual basis. We devote a significant portion of our cash resources during the off season to finance the working capital needs of our franchisees, and expenditures for property, equipment and software.

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Credit facility. Our amended credit facility consists of a \$21.2 million term loan and a revolving credit facility that currently allows borrowing of up to \$193.8 million, as of April 30, 2018, with an accordion feature that permits the Company to request an increase in availability of up to an additional \$50.0 million. Outstanding borrowings accrue interest, which is paid monthly, at a rate of the one-month London Interbank Offered Rate ("LIBOR") plus a margin ranging from 1.50% to 2.25% depending on the Company's leverage ratio. At April 30, 2018 and 2017, the interest rate was 3.64% and 2.73%, respectively, and the average interest rate paid during the fiscal year ended April 30, 2018 was 3.11%. A commitment fee that varies from 0.25% to 0.50% depending on the Company's leverage ratio on the unused portion of the credit facility is paid monthly. The indebtedness is collateralized by substantially all the assets of the Company and both loans mature on April 30, 2019 (except as to the commitments of one lender under the revolving credit facility, which matured on September 30, 2017).

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.
- We must also maintain a minimum net worth requirement, measured at April 30 of each year.

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

Franchisee lending and potential exposure to credit loss. A substantial portion of our cash flow during the year is utilized to provide funding to our franchisees. At April 30, 2018, our total balance of loans to franchisees for working capital and equipment loans, representing cash we had advanced to the franchisees, was \$9.4 million. In addition, at that date, our franchisees and ADs together owed us an additional \$75.5 million, net of unrecognized revenue of \$12.5 million, representing unpaid royalties, the unpaid purchase price for franchise territories and other amounts.

Our actual exposure to potential credit loss associated with franchisee loans is less than the aggregate amount of those loans because a significant portion of those loans are to franchisees located within AD areas, where our AD is ultimately entitled to a substantial portion of the franchise fee and royalty revenues represented by some of these loans. For this reason, the amount of indebtedness of franchisees to us is effectively offset in part by our related payable obligation to ADs in respect of franchise fees and royalties. As of April 30, 2018, the total indebtedness of franchisees to us where the franchisee is located in an AD area was \$38.3 million but \$17.9 million of that total 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 systems. 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 the net proceeds from tax preparation and other fees they have charged to their customers on tax returns associated with tax settlement products. Therefore, we are able to minimize the nonpayment risk associated with amounts outstanding from franchisees by obtaining direct electronic payment in the ordinary course throughout the tax season. Our credit risk associated with amounts outstanding 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 franchise 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, when the franchise or area owner is an entity, are generally guaranteed by the owners of the respective entity. 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 April 30, 2018, we had an investment in impaired accounts and notes receivable and related interest receivable of approximately \$25.5 million. We consider accounts and notes receivable to be impaired if the amounts due exceed the fair value of the underlying franchise and estimate an allowance for doubtful accounts based on that excess. Amounts due include the recorded value of the accounts and

notes receivable reduced by the allowance for uncollected interest, amounts due to ADs for their portion of franchisee receivables, any related unrecognized revenue and amounts owed to the franchisee or AD by us. In establishing the fair

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value of the underlying franchise, we consider net fees of open territories and the number of unopened territories. At April 30, 2018, our allowance for doubtful accounts for impaired accounts and notes receivable was \$10.3 million. There were no significant concentrations of credit risk with any individual franchisee or AD as of April 30, 2018, and we believe that our allowance for doubtful accounts as of April 30, 2018 is adequate for our existing loss exposure. We closely monitor the performance of our franchisees and ADs, and will adjust our allowances as appropriate if we determine that the existing allowances are inadequate to cover estimated losses.

Dividends. See "Item 5—Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities."

Sources and uses of cash

Operating activities

In fiscal 2018, our cash provided from operating activities decreased \$4.8 million from the cash provided in fiscal 2017. This decrease was primarily driven by:

- a \$4.2 million increase in executive severance and recruitment payments in fiscal 2018 compared to fiscal 2017; and
- an increase in cash tax payments of \$2.3 million in fiscal 2018 compared to fiscal 2017.

In fiscal 2017, our cash provided from operating activities increased \$2.6 million from the cash provided in fiscal 2016. This increase was driven by:

- an \$8.3 million decrease in payments related to the class action litigation cases paid in fiscal 2016 that did not recur in fiscal 2017, partially offset by;
- an increase in cash tax payments of \$4.0 million in fiscal 2017 compared to fiscal 2016.

Investing activities

In fiscal 2018, we used \$4.2 million less in investing activities than in fiscal 2017 due to:

- a \$3.4 million decrease in net cash used in operating loans to franchisees resulting from an decrease in lending of \$20.3 million as well as better collections of operating loans;
- a \$6.2 million decrease in net cash used to acquire Company-owned offices, Area Developer rights and customer lists, net of sales, partially offset by; and
- a \$5.0 million increase in net cash used resulting from the sale of available-for-sale securities during fiscal 2017.

In fiscal 2017, we used \$16.1 million less in investing activities than in fiscal 2016 due to:

- a \$7.2 million decrease in net cash used in operating loans to franchisees resulting from a decrease in lending of \$7.4 million as well as better collections of operating loans;
- a \$10.0 million decrease in net cash used resulting from the sale of available-for-sale securities during fiscal 2017 and the purchase of those securities in fiscal 2016;
- a \$5.7 million decrease in net cash used resulting primarily from lower development costs associated with internal use software, offset by;
- a \$5.7 million increase in net cash used to acquire Company-owned offices, Area Developer rights and customer lists, net of sales.

Financing activities

In fiscal 2018, we used \$4.5 million more cash for financing activities compared to fiscal 2017 primarily due to a decrease of \$2.2 million in cash received for mortgage debt and \$2.1 million increase in cash paid for repayment of long-term obligations related to AD and franchisee acquisitions.

In fiscal 2017, we used \$0.6 million more cash for financing activities compared to fiscal 2016 largely due to decrease of \$2.3 million in cash received for stock option exercises, partially offset by a \$1.6 million decrease in cash paid for the repurchase of common stock.

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Future cash needs and capital requirements

Operating cash flow needs. We believe that our credit facility entered into on April 30, 2012 as amended, will be sufficient to support our cash flow needs for the foreseeable future.

The maximum balance of our revolving credit facility during fiscal 2018 was \$139.3 million on February 4, 2018. By April 5, 2018, we paid the entire balance of our revolving credit facility. At April 30, 2018, using the leverage ratio applicable under our loan covenants. Our maximum unused borrowing capacity was \$173.4 million.

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 beginning and end 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. As of June 14, 2018, we had maintained a zero balance on our revolver for the required 45 days and thus have already met the requirement for fiscal 2019.

Several factors could affect our cash flow in future periods, including the following:

- A continued delay by the IRS until at least mid-February to issue refunds to taxpayers who claim the Earned Income Tax Credit or the Child Tax Credit.

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

- The extent and timing of capital expenditures.

- The cash flow effect of stock option exercises and the extent to which we engage in stock repurchases.

- Our ability to generate fee and other income related to tax settlement products in light of regulatory pressures on us and our business partners.

- The extent to which we repurchase AD areas, which will involve the use of cash in the short-term, but improve cash receipts in future periods from what would have been the ADs' share of royalties and franchise fees.

- The extent, if any, to which our Board of Directors elects to continue 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, 2019, imposes several restrictive covenants, including a covenant that requires us to maintain a "leverage ratio" of not more than 5.5:1 at the end of each fiscal quarter ending January 31 and a ratio of not more than 3:1 at the end of each other fiscal quarter. The higher permitted leverage ratio at the end of the January 31 quarter reflects the fact that as of that date, we have typically extended significant credit to our franchisees for working capital and other needs that is not reflected in revenue that we receive from our franchisees until the period beginning in February each year. At January 31, 2018 and April 30, 2018, we had a leverage ratio of 3.4:1 and 0.53:1, respectively.

Our leverage ratio at April 30, 2018 reflected the fact that we had no balance outstanding on our revolving credit facility at that date and a \$14.9 million balance under our term loan. The leverage ratio is measured only at the end of each fiscal quarter, and so there may be times at which we exceed the quarter-end leverage ratio during the quarter, which we are permitted to do provided that our leverage ratio is within the allowable ratio at quarter-end.

We continue to be obligated under our credit facility to satisfy a fixed charge coverage ratio test which requires that ratio to be not less than 1.5:1 at the end of every fiscal quarter. At January 31, 2018 and April 30, 2018, our fixed charge coverage ratios were 3.9:1 and 2.4:1, respectively.

We were in compliance with the ratio tests described in this section as of April 30, 2018. We expect to be able to manage our cash flow and our operating activities in such a manner that we will continue to be able to satisfy our obligations under the credit facility for the remainder of the term of that facility.

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. For example, in fiscal 2018 and fiscal 2017, we earned 28% and 28% of our revenues during our fiscal third quarter ended January 31, respectively, and 91% and 92% of our revenues during the combined fiscal third and fourth quarters, respectively. We historically

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operate at a loss through the first eight months of each fiscal year, during which we incur costs associated with preparing for the upcoming tax season.

Off Balance Sheet Arrangements

From time to time, we have been party to interest rate swap agreements. These swaps effectively changed the variable-rate of our credit facility into a fixed rate credit facility. Under the swaps, we received a variable interest rate based on the one month LIBOR and paid a fixed interest rate. We entered into an interest rate swap agreement in relation to our mortgage payable to a bank, during fiscal 2017. See "Note 8. Derivative Instruments and Hedging Activities" for more information.

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 April 30, 2018 and 2017, there were no forward contracts outstanding, but we expect to enter into forward contracts in the future during the Canadian tax season.

Commitments and Contingencies

The following table sets forth certain of our contractual obligations as of April 30, 2018.

| | Contractual Obligations | | | | |
|--------------------------------------|-------------------------|------------------------|----------------|----------------|-------------------------|
| | Total | Less than 1 Year | 1 - 3 Years | 3 - 5 Years | More than 5 Years |
| | (dollars in thousands) | | | | |
| Long-term debt obligations(1) | \$21,196 | \$18,485 | \$764 | \$423 | \$1,524 |
| Operating lease obligations(2) | 12,726 | 6,208 | 5,562 | 875 | 81 |
| Purchase obligations(3) | 9,627 | 6,232 | 3,395 | — | — |
| Net lease payments on closed offices | 366 | 235 | 131 | — | — |
| Total contractual obligations | \$43,915 | \$31,160 | \$9,852 | \$1,298 | \$1,605 |

(1) Amounts include mandatory principal payments on long-term debt as well as estimated interest of \$372, \$149, \$126, and \$166 for less than 1 year, 1-3 years, 3-5 years, and more than 5 years, respectively. Interest calculated for future periods was based on the interest rate at April 30, 2018. The actual interest rate will vary based on LIBOR and our leverage ratio.

(2) We sublease most of the office spaces represented by this line item and anticipate sublease receipts from franchisees of \$3,009, \$2,933, \$619, and \$0 for less than 1 year, 1-3 years, 3-5 years, and more than 5 years, respectively.

(3) Amounts are primarily for advertising expense and for software licenses, maintenance, and development.

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Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. The following critical accounting policies may affect reported results.

Revenue Recognition. We recognize franchise fees when our obligations to prepare the franchise for operation have been substantially completed and cash has been received. To the extent we finance sales of franchises, we collect those fees for a period of up to five years.

AD rights have historically been granted for a term of ten years. We have changed future terms of new and renewal AD contracts to six years. AD fees are recognized as revenue on a straight-line basis over the initial contract term of each AD agreement with the cumulative amount of revenue recognized not to exceed the amount of cash received. Amounts due to ADs for their services under an area development agreement are expensed as the related franchise fees and royalty revenues are recognized.

Royalties and advertising fees are recognized as franchise territories generate sales.

Tax return preparation fees, financial products, and electronic filing fees revenue are recognized as revenue in the period the related tax return is filed for the customer. Discounts for promotional programs are recorded at the time the return is filed and are recorded as reductions to revenues.

Interest income on notes receivable is recognized based on the outstanding principal note balance less unrecognized revenue unless it is put on non-accrual status. Interest income on the unrecognized revenue portion of notes receivable is recognized when received. For accounts receivable, interest income is recognized based on the outstanding receivable balance over 30 days old, net of an allowance.

Gains on sales of Company-owned offices are recognized when cash is received. Losses on sales of Company-owned offices are recognized immediately.

Long-Lived Assets. We review our long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We measure recoverability by comparison of the carrying value of an asset to its estimated undiscounted future cash flows expected to be generated by the asset. We recognize and measure potential impairment at the lowest level where cash flows are individually identifiable. If the carrying amount of an asset exceeds its estimated future cash flows, we recognize an impairment charge equal to the amount by which the carrying value of the asset exceeds the fair value of the asset. We determine fair value through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals. If assets are to be disposed of, we separately present these assets in the balance sheet and report them at the lower of the carrying amount or fair value less selling costs, and no longer depreciate them. When we have assets classified as held for sale, we present them separately in the appropriate asset section of the balance sheet.

Allowance for Doubtful Accounts. Our allowance for doubtful accounts represents our best estimate of the amount of probable credit losses in our existing accounts receivable and notes receivable. Because the repayment of accounts receivable and notes receivable are dependent on the performance of the underlying franchises, at the end of each reporting period we estimate the amount of the allowance for uncollectible accounts based on a comparison of amounts due to the estimated fair value of the underlying franchise which collateralize such receivables.

Office Closing Costs. We provide for closed office liabilities on the basis of the present value of estimated remaining non-cancellable lease payments, net of estimated subtenant income. We estimate the net lease liability using a discount rate to calculate the present value of the remaining net rent payments on closed offices. We usually pay closed office lease liabilities over the lease terms associated with the closed offices, which generally have remaining terms ranging from one to seven years.

Stock Compensation Expense. For equity classified employee stock-based compensation, we record costs of our employee stock-based compensation based on the grant-date fair value of awards using the Black-Scholes-Merton option pricing model. For liability classified awards we record costs based on the fair value at the reporting date. We recognize compensation costs for an award that has a graded vesting schedule on a straight-line basis over the service period for the entire length of the stock option award.

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Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of our financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and the related disclosures. We base our assumptions, estimates, and judgments on historical experience, current trends, and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates, and judgments to ensure that our financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material. Our significant accounting policies are discussed in Note 1 of the Notes to our Consolidated Financial Statements. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective, or complex judgments resulting from the need to make estimates about the effect of matters that are inherently uncertain. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee of our Board of Directors.

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| Description | Judgments and Uncertainties | Effect if Actual Results Differ From Assumptions |
|--|---|---|
| <p>Allowance for doubtful accounts</p> <p>We establish our allowance for doubtful accounts for our trade accounts receivable and notes receivable based on a comparison of the amount due to the estimated fair value of the underlying franchise. In establishing the fair value of the underlying franchise, management considers net fees of open offices and the number of unopened offices.</p> | <p>Our calculation of the allowance requires management to make assumptions regarding the fair value of the franchise to which the account relates.</p> | <p>A 10% decrease in the fair value of franchise territories at April 30, 2018 would have increased our allowance for doubtful accounts by approximately \$1.5 million at that date.</p> |
| <p>Long-lived assets</p> <p>Long-lived assets other than goodwill and indefinite-lived intangible assets, which are separately tested for impairment, are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When evaluating long-lived assets for potential impairment, we first compare the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying value of the asset, we calculate an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based on estimated future cash flows (discounted and with interest charges). We recognize an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If we recognize an impairment loss, the adjusted carrying amount of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.</p> | <p>Our calculation of impairment, if any, requires management to make assumptions regarding the fair value of the long-lived asset.</p> | <p>We have not made any material changes in the accounting methodology we use to assess impairment loss during the past three fiscal years. We do not believe there is a reasonable likelihood that there will be a material change in the estimates or assumptions we use to calculate long-lived asset impairment losses. However, if actual results are not consistent with our estimates and assumptions used in estimating future cash flows and asset fair values, we may be exposed to losses that could be material. For AD rights, a 10% decrease in the estimated future cash flows would not result in any incremental loss. For assets acquired from franchisees, and held for sale, a 10% decrease in the fair value would increase our impairment by approximately \$0.6 million.</p> |
| <p>Recently Issued Accounting Standards</p> <p>Refer to "Note 1 - Description of Business and Summary of Significant Accounting Policies", in our consolidated financial statements.</p> | | |
| <p>Item 7A. Quantitative and Qualitative Disclosures About Market Risk.</p> | | |
| <p>Foreign exchange risk</p> <p>We are subject to inherent risks attributed to operating in more than one country. Most of our revenues, expenses, and borrowings are denominated in U.S. dollars. Our operations in Canada, including the advances we make to our Canadian subsidiary, are denominated in Canadian dollars, and are, therefore, subject to foreign currency fluctuations. For fiscal 2018, a 5% change in the exchange rate of the Canadian dollar relative to the U.S. dollar would have had less than a \$0.1 million impact on our net income and a \$0.6 million impact on our total assets at April 30, 2018. We use, and may continue to use in the future, derivative financial instruments, such as forward contracts, to manage foreign currency exchange rate risks. See</p> | | |

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"Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Off Balance Sheet Arrangements."

Interest rate risk

We are subject to interest rate risk in connection with our credit facility, which provides for borrowings of up to a total of \$215.0 million and bears interest at variable rates. Assuming our revolving loan is fully drawn and including the full balance of our term loan, each eighth of a percentage point change in interest rates would result in a \$0.3 million change in annual interest expense on our credit facility. From time to time, we have entered into hedging instruments involving the exchange of floating for fixed rate interest payments to reduce interest rate volatility. See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Off Balance Sheet Arrangements."

Item 8. Financial Statements and Supplementary Data.

Our financial statements and supplementary financial information required by this Item 8 are contained in this report in "Item 15. Exhibits and Financial Statements."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

On December 8, 2017, KPMG LLP ("KPMG") resigned as the independent registered public accounting firm of the Company, effective immediately, and KPMG's resignation was accepted and approved by the Audit Committee of the Board of Directors of the Company (the "Board"). KPMG's reports on the Company's financial statements for the fiscal years ended April 30, 2017 and April 30, 2016 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. In addition, there were no disagreements between the Company and KPMG on accounting principles or practices, financial statement disclosure or auditing scope or procedure, which, if not resolved to the satisfaction of KPMG, would have caused them to make reference to the disagreement in their reports for such periods, or any subsequent interim period preceding KPMG's resignation. KPMG informed the Audit Committee and management that Mr. Hewitt's past and continued involvement in the Company's business and operations, including his continued interactions with franchisees and area developers of the Company, has led it to no longer be able to rely on management's representations, and therefore has caused KPMG to be unwilling to be associated with the Company's consolidated financial statements.

On June 5, 2018, Carr, Riggs & Ingram, LLC ("CRI") provided notice of its resignation as the independent registered public accounting firm of the Company, effective as of the same date. CRI's decision to resign was not recommended or approved by either the Audit Committee or the Board of Directors of the Company. CRI did not complete any audits of the Company's financial statements, and, therefore, CRI did not issue an adverse opinion or disclaimer of opinion, and no report was qualified or modified as to uncertainty, audit scope or accounting principles.

Item 9A. Controls and Procedures.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, including, without limitation, that such information is accumulated and communicated to Company management, including the Company's principal executive and financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of April 30, 2018. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of April 30, 2018, the Company's disclosure controls and procedures were not effective due to a material weakness in the Company's internal control over financial reporting as described below.

The Company concluded that, notwithstanding the material weakness in the Company's internal control over financial reporting, the consolidated financial statements included in this report fairly present, in all material respects, the Company's

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financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of April 30, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (2013). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. In connection with management's assessment of our internal control over financial reporting described above, management has identified the following deficiencies that constituted individually, or in the aggregate, a material weakness in our internal control over financial reporting as of April 30, 2018.

The control environment, risk assessment, control activities, information and communication, and monitoring controls were not effective. "Tone at the top" issues contributed to an ineffective control environment. The deficiencies aggregating to this material weakness are set forth below.

Control Environment - control deficiencies contributing to the material weakness relating to: (i) commitment to integrity and ethical values, (ii) the ability of the board of directors to effectively exercise oversight of the development and performance of internal control, as a result of failure to communicate relevant information within the organization and, in some cases, withholding information, (iii) appropriate organizational structure, reporting lines, and authority and responsibilities in pursuit of objectives, (iv) commitment to attract, develop, and retain competent individuals, and (v) holding individuals accountable for their internal control related responsibilities.

Risk Assessment - control deficiencies contributing to the material weakness relating to: (i) identifying, assessing, and communicating appropriate objectives, (ii) identifying and analyzing risks to achieve these objectives, (iii) contemplating fraud risks, and (iv) identifying and assessing changes in the business that could impact the system of internal controls.

Control Activities - control deficiencies contributing to the material weakness relating to: (i) selecting and developing control activities and information technology that contribute to the mitigation of risks and support achievement of objectives and (ii) deploying control activities through policies that establish what is expected and procedures that put policies into action.

Information and Communication - control deficiencies contributing to the material weakness relating to: (i) obtaining, generating, and using relevant quality information to support the function of internal control, and (ii) communicating accurate information internally and externally, including providing information pursuant to objectives, responsibilities, and functions of internal control.

Monitoring - control deficiencies contributing to the material weakness relating to: (i) selecting, developing, and performing ongoing evaluation to ascertain whether the components of internal controls are present and functioning, and (ii) evaluating and communicating internal control deficiencies in a timely manner to those parties responsible for taking corrective action.

Because of this material weakness, management has concluded that the Company did not maintain effective internal control over financial reporting as of April 30, 2018.

The effectiveness of the Company's internal control over financial reporting as of April 30, 2018 has been audited by Cherry Bekaert LLP, an independent registered public accounting firm, and an adverse opinion was issued as stated in their report which appears herein.

Remediation Efforts to Address Material Weakness

The Company's management has worked, and continues to work, to strengthen the internal control over financial reporting. The Company is committed to ensuring that such controls are designed and operating effectively. Since identifying the material weakness in the internal controls over financial reporting relating to the Company's former CEO and Chairman of the Board and his control of the Board of Directors through his ownership of Class B common stock, the Company has

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developed and subsequent to year end implemented remediation plans to address these control failures. The Company's Board of Directors and management take internal controls over financial reporting and the integrity of the Company's financial statements seriously and believe that the remediation steps described below, including with respect to personnel changes, were and are essential steps to maintaining strong and effective internal controls over financial reporting and a strong internal control environment.

The Company has taken significant steps to address the material weaknesses set forth above. The Company believes that making the following changes are critical steps toward addressing the "tone at the top" concerns that contributed to the material weakness it has identified. The following steps are among the measures that have been implemented or will be implemented as soon as practicable after the date of this filing:

On July 24, 2018, the Company's former President and Chief Executive Officer and Chairman of the Board of Directors, entered into a stock purchase agreement to sell all of his shares of the Company's Class A common stock and Class B common stock owned directly and indirectly by him. As a result of this transaction, Mr. Hewitt resigned as Chairman of the Board.

In addition to the resignation of Mr. Hewitt as Chairman of the Board, all remaining Class B directors previously appointed by our former Chairman tendered their resignation to the Board.

In February 2018, the Board of Directors appointed Nicole Ossenfort as the Company's new President and Chief Executive Officer. Ms. Ossenfort has brought expertise and leadership to the Company and has helped establish open lines of communication with her internal business unit leaders and the finance and accounting team.

In June 2018, the Company hired a new Chief Financial Officer, Michael S. Piper, who has brought expertise and leadership to the Company and our finance and accounting team.

Most recently, the Company elected five new Class A directors through written consent executed by stockholders representing a majority of the outstanding shares of the Company's Class A common stock that are "independent" for purposes of the Nasdaq Listing Rules.

The Board of Directors has elected Andrew M. Laurence as the Chairman of our Board of Directors.

The Company hired Ernst & Young to conduct a review of its corporate governance practices.

The Company is committed to maintaining a strong internal control environment, and believe that these remediation actions represent significant improvements in its controls. Additional remediation measures continue to be considered and will be implemented as appropriate. The Company will continue to assess the effectiveness of our remediation efforts in connection with its evaluations of internal control over financial reporting.

Changes in Internal Control over Financial Reporting

Other than the ongoing remediation efforts of the material weakness disclosed above, there were no changes in our internal control over financial reporting during the quarter ended April 30, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers, and Corporate Governance.

This information is incorporated by reference from the Company's Schedule 14f-1 Information Statement, filed with the SEC on August 24, 2018 (the "Schedule 14f-1"), under the captions "Directors and Executive Officers" and "Committees of the Board of Directors and Corporate Governance." Information on Section 16(a) beneficial ownership reporting compliance for the directors and executive officers of the Company is incorporated by reference from the Schedule 14f-1 under the caption "Section 16(a) Beneficial Ownership Reporting Compliance." The Company has adopted a Code of Conduct applicable to all employees and directors, which may be found at <https://www.libertytax.com>. In addition, a copy of the Code may be obtained without charge upon written request to the Company's Corporate Secretary.

Item 11. Executive Compensation.

This information is incorporated by reference from the Schedule 14f-1 under the captions "Compensation Committee Interlocks and Participation," "Non-Employee Director Compensation," and "Compensation Discussion and Analysis."

Item 12. Security Ownership of Certain Beneficial Owners and Management And Related Stockholder Matters.

This information is incorporated by reference from the Schedule 14f-1 under the caption "Security Ownership of Certain Beneficial Owners and Management."

The following table sets forth information about our outstanding stock grants and remaining shares available as of April 30, 2018 under the Company's 2011 Equity and Cash Incentive Plan:

| Plan Category | Number of Securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|--|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 613,602 | \$ 16.37 | 1,836,173 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 613,602 | \$ 16.37 | 1,836,173 |

Item 13. Certain Relationships and Related Transactions, and Director Independence.

This information is incorporated by reference from the Schedule 14f-1 under the captions "Director Independence and Board Structure" and "Certain Relationships and Related Transactions."

Item 14. Principal Accounting Fees and Services.

The following table presents fees for professional services rendered by Cherry Bekaert, CRI and KPMG for the audit of our annual financial statements for the fiscal years ended April 30, 2018 and 2017, and fees billed for other services

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rendered by Cherry Bekaert and KPMG for those years. Fees disclosed below include fees actually billed and expected to be billed for services relating to the applicable fiscal year.

| Fiscal Year | 2018 | 2017 |
|--------------------|-------------|-----------|
| Audit fees (1) | 1,791,381 | 761,486 |
| Tax fees (2) | 30,000 | 144,917 |
| All other fees (3) | 67,660 | 1,650 |
| Total fees | \$1,889,041 | \$908,053 |

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(1) Audit fees consist of fees for professional services rendered for the audit of the Company's financial statements and review of financial statements included in our quarterly reports and services typically provided by the independent auditor in connection with statutory and regulatory filings or engagements.

(2) Tax fees consist of fees for services related to tax compliance, tax planning, tax consultation and tax advice. The amounts included in the table above consist of fees incurred relating to tax compliance, tax credit studies and other tax advisory services.

(3) All other fees consist of license fees for accounting research software and information technology infrastructure.

The Audit Committee has adopted policies and procedures for pre-approving audit and non-audit services performed by the independent auditor so that the provision of such services does not impair the auditor's independence. Under the Audit Committee's pre-approval policy, the terms and fees of all engagements require specific Audit Committee approval.

In determining whether to pre-approve audit or non-audit services, the Audit Committee considers whether such services are consistent with the SEC's rules on auditor independence. The Audit Committee also considers whether the independent auditor is best positioned to provide the most effective and efficient service and whether the service might enhance our ability to manage or control risk or improve audit quality. These factors are considered as a whole and no one factor is necessarily determinative. The Audit Committee considers the relationship between fees for audit and non-audit services in deciding whether to pre-approve any such services. The Audit Committee may determine for each fiscal year the appropriate ratio between fees for audit services and fees for audit-related services, tax services and all other services.

The Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated are required to report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

The Audit Committee has concluded that the provision of non-audit services provided to the Company by its independent accountant during the 2018 fiscal year was compatible with maintaining the independent accountant's independence.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements.

The following financial statements of the Company are included in Item 8 of this Annual Report on Form 10-K:
Audited Financial Statements for the Years Ended April 30, 2018, 2017, and 2016

| | Page |
|--|-------------|
| <u>Reports of Independent Registered Public Accounting Firms</u> | <u>F-1</u> |
| <u>Consolidated Balance Sheets as of April 30, 2018 and 2017</u> | <u>F-5</u> |
| <u>Consolidated Statements of Income for the Years Ended April 30, 2018, 2017 and 2016</u> | <u>F-6</u> |
| <u>Consolidated Statements of Comprehensive Income for the Years Ended April 30, 2018, 2017 and 2016</u> | <u>F-7</u> |
| <u>Consolidated Statements of Stockholders' Equity for the Years Ended April 30, 2018, 2017 and 2016</u> | <u>F-8</u> |
| <u>Consolidated Statements of Cash Flows for the Years Ended April 30, 2018, 2017 and 2016</u> | <u>F-11</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>F-13</u> |

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(b)Exhibits.

| Exhibit Number | Exhibit Description |
|-------------------|--|
| <u>3.1</u> | <u>Amended and Restated Certificate of Incorporation of JTH Holding, Inc. (incorporated by reference to Exhibit 3.1 to Form S-1, File No. 333-176655 filed on September 2, 2011).</u> |
| <u>3.2</u> | <u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of JTH Holding, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K, File No. 001-35588 filed on July 15, 2014).</u> |
| <u>3.3</u> | <u>Second Amended and Restated Bylaws of Liberty Tax, Inc. (incorporated by reference to Exhibit 3.2 to Form 8-K, File No. 001-35588 filed on July 15, 2014).</u> |
| <u>4.1</u> | <u>Specimen Common Stock Certificate of Liberty Tax, Inc. (incorporated by reference to Exhibit 4.6 to Form 8-K, File No. 001-35588 filed on September 3, 2014).</u> |
| <u>4.2</u> | <u>Form of Indenture with respect to Senior Debt Securities (incorporated by reference to Exhibit 4.2 to Form S-3, File No. 333-199579 filed on October 23, 2014).</u> |
| <u>4.3</u> | <u>Form of Indenture with respect to Subordinated Debt Securities (incorporated by reference to Exhibit 4.4 to Form S-3, File No. 333-199579 filed on October 23, 2014).</u> |
| <u>10.1#</u> | <u>JTH Holding, Inc. 2011 Equity and Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to Amendment No. 3 to Form S-1, File No. 333-176655 filed on February 3, 2012).</u> |
| <u>10.2#</u> | <u>JTH Tax, Inc. Stock Option Plan dated as of May 1, 1998 (incorporated by reference to Exhibit 10.2 to Form S-1, File No. 333-176655 filed on September 2, 2011).</u> |
| <u>10.3#</u> | <u>Form of Stock Option Agreement under Stock Option Plan (incorporated by reference to Exhibit 10.3 to Form S-1, File No. 333-176655 filed on September 2, 2011).</u> |
| <u>10.4#</u> | <u>Form of Incentive Stock Option Agreement for Employees via JTH Holding, Inc. 2011 Equity and Cash Incentive Plan (incorporated by reference to Exhibit 10.7 to Amendment No. 5 to Form S-1, File No. 333-176655 filed on October 15, 2012).</u> |
| <u>10.5#</u> | <u>Form of Restricted Stock Unit Agreement for Employees via JTH Holding, Inc. 2011 Equity and Cash Incentive Plan (incorporated by reference to Exhibit 10.5 to Form 10-K, File No. 001-35588 filed on October 1, 2013).</u> |
| <u>10.6</u> | <u>Revolving Credit and Term Loan Agreement dated as of April 30, 2012 among JTH Holding, Inc. and SunTrust Bank (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to Form 10, File No. 000-54660 filed on May 18, 2012).</u> |
| <u>10.7</u> | <u>Security Agreement among JTH Holding, Inc. and certain of its subsidiaries and SunTrust Bank dated as of April 30, 2012 (incorporated by reference to Exhibit 10.8 to Amendment No. 1 to Form 10, File No. 000-54660 filed on May 18, 2012).</u> |
| <u>10.8</u> | <u>Pledge Agreement among JTH Holding, Inc. and certain of its subsidiaries and SunTrust Bank dated as of April 30, 2012 (incorporated by reference to Exhibit 10.9 to Amendment No. 1 to Form 10, File No. 000-54660 filed on May 18, 2012).</u> |
| <u>10.9</u> | <u>Subsidiary Guaranty Agreement among certain subsidiaries of JTH Holding, Inc. and SunTrust Bank dated April 30, 2012 (incorporated by reference to Exhibit 10.10 to Amendment No. 1 to Form 10, File No. 000-54660 filed on May 18, 2012).</u> |
| <u>10.10</u> | <u>Waiver and Amendment to Revolving Credit and Term Loan Agreement dated as of December 19, 2012 among JTH Holding, Inc., SunTrust Bank and other parties thereto (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on December 26, 2012).</u> |
| <u>10.11</u> | <u>Supplement and Joinder Agreement dated as of December 28, 2012 among JTH Holding, Inc., SunTrust Bank and other parties thereto (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on December 28, 2012).</u> |
| <u>10.12</u> | <u>Waiver to Revolving Credit and Term Loan Agreement dated March 8, 2013 among JTH Holding, Inc., SunTrust Bank as Administrative Agent and other parties thereto (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on March 12, 2013).</u> |
| <u>10.13</u> | |

Waiver to Revolving Credit and Term Loan Agreement among Liberty Tax, Inc., SunTrust Bank as Administrative Agent and other parties thereto dated as of August 29, 2013 (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on August 29, 2013).

10.14 Second Amendment to Revolving Credit and Term Loan Agreement among Liberty Tax, Inc., SunTrust Bank and other parties thereto dated October 3, 2014 (incorporated by reference to Exhibit 10.2 to Form 8-K, File No. 001-35588 filed on October 6, 2014).

10.15 Third Amendment to Revolving Credit and Term Loan Agreement dated as of September 2, 2015 among Liberty Tax, Inc. SunTrust Bank and other parties thereto (incorporated by reference to Exhibit 10.1 to Form 10-Q, File No. 001-35588 filed on September 3, 2015).

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| Exhibit Number | Exhibit Description |
|-------------------|--|
| 10.16 | <u>Fourth Amendment to Revolving Credit and Term Loan Agreement dated as of August 18, 2016 among Liberty Tax, Inc., SunTrust Bank and other parties thereto (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on August 24, 2016).</u> |
| 10.17 | <u>Supplement and Joinder Agreement among Liberty Tax, Inc., SunTrust Bank and other parties thereto dated October 3, 2014 (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on October 6, 2014).</u> |
| 10.18 | <u>Form of Franchise Agreement for United States Franchisees (incorporated by reference to Exhibit 10.17 to Form 10-K, File No. 001-35588 filed on July 1, 2015).</u> |
| 10.19 | <u>Form of Area Developer Agreement for United States Area Developers (incorporated by reference to Exhibit 10.18 to Form 10-K, File No. 001-35588 filed on July 1, 2015).</u> |
| 10.20# | <u>Second Amended and Restated Employment Agreement for John T. Hewitt dated July 1, 2016 (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on July 8, 2016).</u> |
| 10.21# | <u>Employment Agreement for Edward L. Brunot dated April 30, 2017 (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on May 25, 2017).</u> |
| 10.22# | <u>Retention Bonus and Restricted Stock Unit Agreement via 2011 Equity and Cash Incentive Plan for Kathleen Donovan dated September 6, 2017 (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on September 6, 2017).</u> |
| 10.23# | <u>Retention Bonus and Restricted Stock Unit Agreement via 2011 Equity and Cash Incentive Plan for Vanessa Szajnoga dated September 6, 2017 (incorporated by reference to Exhibit 10.2 to Form 8-K File No. 001-35588 filed on September 6, 2017).</u> |
| 10.24# | <u>Retention Bonus and Restricted Stock Unit Agreement via 2011 Equity and Cash Incentive Plan for Richard Artese dated September 6, 2017 (incorporated by reference to Exhibit 10.3 to Form 8-K, File No. 001-35588 filed on September 6, 2017).</u> |
| 10.25# | <u>Employment Agreement for Nicholas Bates dated December 12, 2017 (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on December 14, 2017).</u> |
| 10.26# | <u>Employment Agreement for Vanessa M. Szajnoga dated December 12, 2017 (incorporated by reference to Exhibit 10.2 to Form 8-K, File No. 001-35588 filed on December 14, 2017).</u> |
| 10.27# | <u>Employment Agreement for Richard Artese dated December 12, 2017 (incorporated by reference to Exhibit 10.3 to Form 8-K, File No. 001-35588 filed on December 14, 2017).</u> |
| 10.28# | <u>Independent Contractor Consultant Agreement for Kathleen E. Donovan dated December 12, 2017 (incorporated by reference to Exhibit 10.4 to Form 8-K, File No. 001-35588 filed on December 14, 2017).</u> |
| 10.29# | <u>Release Agreement for Kathleen E. Donovan dated December 12, 2017 (incorporated by reference to Exhibit 10.5 to Form 8-K, File No. 001-35588 filed on December 14, 2017).</u> |
| 10.30# | |

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Employment Agreement for Nicole Ossenfort dated June 1, 2018 (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on June 6, 2018).

10.31# Employment Agreement for Shaun York dated June 1, 2018 (incorporated by reference to Exhibit 10.2 to Form 8-K, File No. 001-35588 filed on June 6, 2018).

10.32# Employment Agreement for Ryan Dodson dated June 1, 2018 (incorporated by reference to Exhibit 10.3 to Form 8-K, File No. 001-35588 filed on June 6, 2018).

10.33# Employment Agreement for Michael S. Piper dated June 15, 2018 (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on June 18, 2018).

10.34# Consent Sixth Amendment to Revolving Credit and Term Loan Agreement dated as of July 18, 2018 among Liberty Tax, Inc. SunTrust Bank and other parties thereto (incorporated by reference to Exhibit 10.1 to Form 8-K, File No. 001-35588 filed on July 24, 2018).

21.1* Subsidiaries of Liberty Tax, Inc.

23.1* Consent of Cherry Bekaert LLP

23.2* Consent of KPMG LLP

24.1 Power of Attorney (included on signature page of the Original Filing)

31.1** Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002

31.2** Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002

32.1** Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002

32.2** Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002

99.1 Information Statement on Schedule 14f-1 (incorporated by reference to Information Statement on Schedule 14f-1, File No. 005-87322, filed on August 24, 2018).

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Exhibit
Number Exhibit Description

101 The following materials from the Registrant's Annual Report on Form 10-K for the year ended April 30, 2018, are formatted in XBRL (eXtensible Business Reporting Language):(i) Consolidated Balance Sheets at April 30, 2018 and 2017, (ii) Consolidated Statements of Income for the years ended April 30, 2018, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Income for the years ended April 30, 2018, 2017 and 2016, (iv) Consolidated Statement of Stockholders' Equity for the years ended April 30, 2018, 2017 and 2016, (v) Consolidated Statements of Cash Flows for the years ended April 30, 2018, 2017 and 2016, and (vi) Notes to Audited Consolidated Financial Statements.

* Filed herewith.

** Furnished herewith.

Indicates management contract or compensatory plan

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Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

LIBERTY TAX, INC.

(Registrant)

Date: October 10, 2018 By: /s/ NICOLE OSSENFORT

Nicole Ossenfort

President and Chief Executive Officer

(Principal Executive Officer)

Date: October 10, 2018 By: /s/ MICHAEL S. PIPER

Michael S. Piper

Chief Financial Officer

(Principal Financial and Accounting Officer)

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LIBERTY TAX, INC. AND SUBSIDIARIES

Consolidated Financial Statements

As of April 30, 2018 and 2017 and for the fiscal years ended April 30, 2018, 2017, and 2016
(With Reports of Independent Registered Public Accounting Firms Thereon)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and
Stockholders of Liberty Tax, Inc.:
Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Liberty Tax, Inc. and Subsidiaries (the Company) as of April 30, 2018, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of April 30, 2018, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of April 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organization of the Treadway Commission (COSO), and our report dated October 5, 2018, expressed an adverse opinion.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ CHERRY BEKAERT LLP

We have served as the Company's auditor since 2018.

Virginia Beach, Virginia

October 5, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and
Stockholders of Liberty Tax, Inc.:

Adverse Opinion on Internal Control over Financial Reporting

We have audited Liberty Tax, Inc. and Subsidiaries (the Company's) internal control over financial reporting as of April 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, because of the effect of the material weakness described in the following paragraph on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of April 30, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

A material weakness is a control deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The control environment, risk assessment, control activities, information and communication, and monitoring controls were not effective. "Tone at the top" issues contributed to an ineffective control environment. The deficiencies aggregating to this material weakness are set forth below.

Control Environment - control deficiencies contributing to the material weakness relating to: (i) commitment to integrity and ethical values, (ii) the ability of the board of directors to effectively exercise oversight of the development and performance of internal control, as a result of failure to communicate relevant information within the organization and, in some cases, withholding information, (iii) appropriate organizational structure, reporting lines, and authority and responsibilities in pursuit of objectives, (iv) commitment to attract, develop, and retain competent individuals, and (v) holding individuals accountable for their internal control related responsibilities.

Risk Assessment - control deficiencies contributing to the material weakness relating to: (i) identifying, assessing, and communicating appropriate objectives, (ii) identifying and analyzing risks to achieve these objectives, (iii) contemplating fraud risks, and (iv) identifying and assessing changes in the business that could impact the system of internal controls.

Control Activities - control deficiencies contributing to the material weakness relating to: (i) selecting and developing control activities and information technology that contribute to the mitigation of risks and support achievement of objectives and (ii) deploying control activities through policies that establish what is expected and procedures that put policies into action.

Information and Communication - control deficiencies contributing to the material weakness relating to: (i) obtaining, generating, and using relevant quality information to support the function of internal control, and (ii) communicating accurate information internally and externally, including providing information pursuant to objectives, responsibilities, and functions of internal control.

Monitoring - control deficiencies contributing to the material weakness relating to: (i) selecting, developing, and performing ongoing evaluation to ascertain whether the components of internal controls are present and functioning, and (ii) evaluating and communicating internal control deficiencies in a timely manner to those parties responsible for taking corrective action.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and this report does not affect our report dated October 5, 2018, on those consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheet and the related statements of income, comprehensive income, stockholders’ equity, and cash flows of the Company, and our report dated October 5, 2018, expressed an unqualified opinion.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report of Internal

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Control over Financial Reporting included in Item 9A - Controls and Procedures in the Company's 2018 Annual Report on Form 10-K. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Disclaimer on Additional Information in Management's Report

We do not express an opinion or any other form of assurance on management's statements, included in the accompanying Management's Report on Internal Control over Financial Reporting, referring to corrective actions taken after April 30, 2018, relative to the aforementioned material weakness in internal control over financial reporting.

/s/ CHERRY BEKAERT LLP

We have served as the Company's auditor since 2018.

Virginia Beach, Virginia

October 5, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Liberty Tax, Inc.:

We have audited the accompanying consolidated balance sheet of Liberty Tax, Inc. and subsidiaries (the Company) as of April 30, 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two year period ended April 30, 2017. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Liberty Tax, Inc. and subsidiaries as of April 30, 2017, and the results of their operations and their cash flows for each of the years in the two year period ended April 30, 2017, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
Norfolk, Virginia
July 7, 2017

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LIBERTY TAX, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

As of April 30, 2018 and 2017

(In thousands, except share data)

| | 2018 | 2017 |
|--|------------|------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 18,522 | \$ 16,427 |
| Receivables: | | |
| Accounts receivable | 52,517 | 54,723 |
| Notes receivable - current | 24,295 | 27,845 |
| Interest receivable, net of uncollectible amounts | 1,526 | 1,967 |
| Allowance for doubtful accounts - current | (11,522) | (10,052) |
| Total current receivables, net | 66,816 | 74,483 |
| Assets held for sale | 8,941 | 11,989 |
| Deferred income tax asset | — | 6,956 |
| Other current assets | 5,429 | 5,812 |
| Total current assets | 99,708 | 115,667 |
| Property, equipment, and software, net | 38,636 | 39,789 |
| Notes receivable - non-current | 6,554 | 18,213 |
| Allowance for doubtful accounts - non-current | (965) | (1,968) |
| Total non-current notes receivables, net | 5,589 | 16,245 |
| Goodwill | 8,640 | 8,576 |
| Other intangible assets, net | 22,837 | 21,224 |
| Deferred income taxes | 343 | — |
| Other assets | 2,250 | 2,767 |
| Total assets | \$ 178,003 | \$ 204,268 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Current installments of long-term obligations | \$ 18,113 | \$ 7,738 |
| Accounts payable and accrued expenses | 14,521 | 12,953 |
| Due to Area Developers (ADs) | 17,906 | 23,143 |
| Income taxes payable | 4,511 | 6,442 |
| Deferred revenue - current | 2,021 | 2,892 |
| Total current liabilities | 57,072 | 53,168 |
| Long-term obligations, excluding current installments, net | 2,270 | 18,461 |
| Deferred revenue and other - non-current | 4,692 | 5,817 |
| Deferred income tax liability | 1,397 | 10,367 |
| Long-term income taxes payable | 1,070 | — |
| Total liabilities | 66,501 | 87,813 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| 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, 12,823,020 and 12,682,550 shares issued and outstanding at April 30, 2018 and 2017, respectively | 128 | 127 |
| Class B common stock, \$0.01 par value per share, 1,000,000 shares authorized, 200,000 and 200,000 shares issued and outstanding at April 30, 2018 and 2017, respectively | 2 | 2 |
| Exchangeable shares, \$0.01 par value, 1,000,000 shares authorized, issued and outstanding | 10 | 10 |

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| | | |
|--|-----------|-----------|
| Additional paid-in capital | 11,570 | 8,371 |
| Accumulated other comprehensive loss, net of taxes | (1,347) | (2,084) |
| Retained earnings | 101,139 | 110,029 |
| Total stockholders' equity | 111,502 | 116,455 |
| Total liabilities and stockholders' equity | \$178,003 | \$204,268 |

See accompanying notes to consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Consolidated Statements of Income

Years ended April 30, 2018, 2017, and 2016

(In thousands, except per share data)

| | 2018 | 2017 | 2016 |
|---|------------|------------|------------|
| Revenues: | | | |
| Franchise fees | \$ 1,793 | \$ 2,659 | \$ 5,038 |
| Area Developer fees | 2,751 | 4,177 | 6,008 |
| Royalties and advertising fees | 68,559 | 74,291 | 80,274 |
| Financial products | 47,225 | 51,829 | 45,327 |
| Interest income | 9,895 | 12,955 | 13,578 |
| Assisted tax preparation fees, net of discounts | 26,645 | 21,600 | 15,775 |
| Electronic Filing Fee | 10,772 | — | — |
| Other revenue | 7,232 | 6,474 | 7,429 |
| Total revenues | 174,872 | 173,985 | 173,429 |
| Operating expenses: | | | |
| Employee compensation and benefits | 50,003 | 44,615 | 42,882 |
| Selling, general, and administrative expenses | 69,012 | 58,159 | 43,927 |
| Area Developer expense | 16,564 | 22,461 | 27,686 |
| Advertising expense | 12,326 | 11,073 | 16,420 |
| Depreciation, amortization, and impairment charges | 14,416 | 14,356 | 10,026 |
| Restructuring expense | 4,952 | — | — |
| Total operating expenses | 167,273 | 150,664 | 140,941 |
| Income from operations | 7,599 | 23,321 | 32,488 |
| Other income (expense): | | | |
| Foreign currency transaction gain (loss) | 63 | (47 |) 29 |
| Gain on sale of available-for-sale securities | — | 50 | — |
| Interest expense | (3,181 |) (2,557 |) (2,039 |
| Income before income taxes | 4,481 | 20,767 | 30,478 |
| Income tax expense | 4,346 | 7,754 | 11,058 |
| Net income | 135 | 13,013 | 19,420 |
| Less: Net income attributable to participating securities | (10 |) (936 |) (1,406 |
| Net income attributable to Class A and Class B common stockholders | \$ 125 | \$ 12,077 | \$ 18,014 |
| Net income per share attributable to Class A and Class B common stockholders: | | | |
| Basic | \$ 0.01 | \$ 0.94 | \$ 1.41 |
| Diluted | 0.01 | 0.94 | 1.38 |
| Weighted-average shares used to compute net income per share attributable to Class A and Class B common stockholders: | | | |
| Basic | 12,928,762 | 12,895,561 | 12,814,774 |
| Diluted | 13,977,748 | 13,916,908 | 14,024,671 |
| Cash dividends declared per share of common stock and common stock equivalents | \$ 0.64 | \$ 0.64 | \$ 0.64 |

See accompanying notes to consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

Years ended April 30, 2018, 2017, and 2016

(In thousands)

| | 2018 | 2017 | 2016 |
|---|-------|----------|----------|
| Net income | \$135 | \$13,013 | \$19,420 |
| Unrealized gain (loss) on available-for-sale securities, net of taxes of \$0, \$345, and \$326, respectively | — | 580 | (550) |
| Reclassified loss on sale of available-for-sale securities included in income, net of taxes of \$0, \$20, and \$0, respectively | — | (30) | — |
| Foreign currency translation adjustment | 679 | (911) | (451) |
| Unrealized gain (loss) on interest rate swap agreement, net of taxes of \$22, \$16, and \$0, respectively | 58 | (25) | — |
| Comprehensive income | \$872 | \$12,627 | \$18,419 |

See accompanying notes to consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES
 Consolidated Statement of Stockholders' Equity
 Year ended April 30, 2018
 (In thousands)

| | Class A | | Class B | | Special voting preferred stock | |
|-----------------------------|---------|--------|---------|--------|--------------------------------|--------|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Balance at May 1, 2017 | 12,683 | \$ 127 | 200 | \$ 2 | — | \$ — |
| Exercise of stock options | 9 | — | — | — | — | — |
| Vesting of restricted stock | 131 | 1 | — | — | — | — |
| Balance at April 30, 2018 | 12,823 | \$ 128 | 200 | \$ 2 | — | \$ — |

| | Exchangeable shares | | Additional paid-in capital | Accumulated other comprehensive loss, net | Retained earnings | Total |
|---|---------------------|--------|----------------------------|---|-------------------|------------|
| | Shares | Amount | | | | |
| Balance at May 1, 2017 | 1,000 | \$ 10 | \$ 8,371 | \$ (2,084) | \$ 110,029 | \$ 116,455 |
| Exercise of stock options | — | — | 95 | — | — | 95 |
| Repurchase of common stock | — | — | (576) | — | — | (575) |
| Stock-based compensation expense | — | — | 3,680 | — | — | 3,680 |
| Net income | — | — | — | — | 135 | 135 |
| Cash dividends (\$0.64 per share) | — | — | — | — | (9,025) | (9,025) |
| Foreign currency translation adjustment | — | — | — | 679 | — | 679 |
| Unrealized gain on interest rate swap agreement, net of taxes | — | — | — | 58 | — | 58 |
| Balance at April 30, 2018 | 1,000 | \$ 10 | \$ 11,570 | \$ (1,347) | \$ 101,139 | \$ 111,502 |

See accompanying notes to consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES
 Consolidated Statement of Stockholders' Equity
 Year ended April 30, 2017
 (In thousands)

| | Class A | | Class B | | Special voting preferred stock | |
|--|---------|--------|---------|--------|--------------------------------|--------|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| Balance at May 1, 2016 | 11,993 | \$ 120 | 900 | \$ 9 | — | \$ — |
| Shares issued | 6 | — | — | — | — | — |
| Repurchase of common stock | (33) |) — | — | — | — | — |
| Vesting of restricted stock | 17 | — | — | — | — | — |
| Converted Class B shares to Class A shares | 700 | 7 | (700) | (7) | — | — |
| Balance at April 30, 2017 | 12,683 | \$ 127 | 200 | \$ 2 | — | \$ — |

| | Exchangeable shares | | Additional paid-in capital | Accumulated other comprehensive loss, net | Retained earnings | Total |
|---|---------------------|--------|----------------------------|---|-------------------|------------|
| | Shares | Amount | | | | |
| Balance at May 1, 2016 | 1,000 | \$ 10 | \$ 7,153 | \$ (1,698) |) \$ 105,907 | \$ 111,501 |
| Exercise of stock options | — | — | — | — | — | — |
| Repurchase of common stock | — | — | (420) |) — | — | (420) |
| Stock-based compensation expense | — | — | 2,016 | — | — | 2,016 |
| Tax impact of stock option activity | — | — | (378) |) — | — | (378) |
| Net income | — | — | — | — | 13,013 | 13,013 |
| Cash dividends (\$0.64 per share) | — | — | — | — | (8,891) |) (8,891) |
| Foreign currency translation adjustment | — | — | — | (911) |) — | (911) |
| Unrealized gain on available-for-sale securities, net of taxes | — | — | — | 580 | — | 580 |
| Reclassified loss on sale of available-for-sale securities included in income, net of taxes | — | — | — | (30) |) — | (30) |
| Unrealized loss on interest rate swap agreement, net of taxes | — | — | — | (25) |) — | (25) |
| Balance at April 30, 2017 | 1,000 | \$ 10 | \$ 8,371 | \$ (2,084) |) \$ 110,029 | \$ 116,455 |

See accompanying notes to consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES
 Consolidated Statement of Stockholders' Equity
 Year ended April 30, 2016
 (In thousands)

| | Class A | | Class B | | Special voting preferred stock | | | | |
|--|--------------|--------|---------------------|--------|--------------------------------|-------------|--|------------|-------|
| | Common stock | | Common stock | | | | | | |
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balance at May 1, 2015 | 11,905 | \$ 119 | 900 | \$ 9 | — | \$ — | | | |
| Exercise of stock options | 155 | 2 | — | — | — | — | | | |
| Shares issued | 2 | — | — | — | — | — | | | |
| Repurchase of common stock | (82) | (1) | — | — | — | — | | | |
| Vesting of restricted stock | 13 | — | — | — | — | — | | | |
| Balance at April 30, 2016 | 11,993 | \$ 120 | 900 | \$ 9 | — | \$ — | | | |
| | | | Exchangeable shares | | Additional paid-in capital | | Accumulated other comprehensive earnings | | Total |
| | | | Shares | Amount | capital | | loss, net | | |
| Balance at May 1, 2015 | | | 1,000 | \$ 10 | \$ 4,082 | \$ (697) | \$ 95,339 | \$ 98,862 | |
| Exercise of stock options | | | — | — | 2,284 | — | — | 2,286 | |
| Repurchase of common stock | | | — | — | (1,976) | — | — | (1,977) | |
| Stock-based compensation expense | | | — | — | 1,863 | — | — | 1,863 | |
| Tax impact of stock option activity | | | — | — | 900 | — | — | 900 | |
| Net income | | | — | — | — | — | 19,420 | 19,420 | |
| Cash dividends (\$0.64 per share) | | | — | — | — | — | (8,852) | (8,852) | |
| Foreign currency translation adjustment | | | — | — | — | (451) | — | (451) | |
| Unrealized loss on available-for-sale securities, net of taxes | | | — | — | — | (550) | — | (550) | |
| Balance at April 30, 2016 | | | 1,000 | \$ 10 | \$ 7,153 | \$ (1,698) | \$ 105,907 | \$ 111,501 | |

See accompanying notes to consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended April 30, 2018, 2017, and 2016

(In thousands)

| | 2018 | 2017 | 2016 |
|---|-----------|-----------|-----------|
| Cash flows from operating activities: | | | |
| Net income | \$ 135 | \$ 13,013 | \$ 19,420 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for doubtful accounts | 12,396 | 10,378 | 7,282 |
| Depreciation and amortization | 11,454 | 8,325 | 6,872 |
| Amortization of deferred financing costs | 155 | 526 | 477 |
| Impairment of goodwill and other assets | 2,962 | 6,031 | 3,154 |
| Other (gain) loss including sale of property, equipment, and software | 5,261 | (387) | 14 |
| Stock-based compensation expense related to equity classified awards | 3,680 | 2,016 | 1,863 |
| Gain on bargain purchases and sales of Company-owned offices | (2,401) | (1,100) | (855) |
| Gain on sale of available-for-sale securities | — | (50) | — |
| Equity in (gain) loss of affiliate | (71) | (11) | 73 |
| Deferred tax expense (benefit) | (2,369) | 129 | 7,384 |
| Changes in: | | | |
| Accounts, notes, and interest receivable and deferred revenue | (3,360) | (10,437) | (14,228) |
| Prepaid expenses and other assets | 553 | 125 | 210 |
| Accounts payable and accrued expenses | 1,494 | 556 | (6,238) |
| Due to ADs | (1,446) | 845 | 2,631 |
| Income taxes payable (receivable) | (798) | 2,487 | 1,758 |
| Net cash provided by operating activities | 27,645 | 32,446 | 29,817 |
| Cash flows from investing activities: | | | |
| Issuance of operating loans to franchisees and ADs | (73,796) | (94,133) | (101,552) |
| Payments received on operating loans to franchisees and ADs | 72,647 | 89,562 | 89,786 |
| Purchases of Company-owned offices, AD rights, and acquired customer lists | (2,926) | (10,049) | (4,787) |
| Proceeds from sale of Company-owned offices and AD rights | 451 | 1,339 | 2,934 |
| Purchase of available-for-sale securities | — | — | (4,999) |
| Proceeds from sale of available-for-sale securities | — | 5,049 | — |
| Purchases of property, equipment, and software | (5,388) | (5,022) | (10,692) |
| Net cash used in investing activities | (9,012) | (13,254) | (29,310) |
| Cash flows from financing activities: | | | |
| Proceeds from the exercise of stock options | 95 | — | 2,286 |
| Repurchase of common stock and tax impact of stock compensation | 1 | (420) | (1,977) |
| Dividends paid | (8,922) | (8,891) | (8,852) |
| Repayment of other long term-obligations | (7,432) | (1,541) | (2,429) |
| Repayment of mortgages and term loan | — | (3,740) | (1,742) |
| Borrowings under revolving credit facility | 178,251 | 151,400 | 166,232 |
| Repayments under revolving credit facility | (178,251) | (151,400) | (166,232) |
| Proceeds from mortgage debt | — | 2,200 | — |
| Payment for debt issue costs | — | (35) | — |
| Tax impact of stock option activity | — | 60 | 900 |
| Cash paid for taxes on exercises/vesting of stock-based compensation | (576) | — | — |
| Net cash used in financing activities | (16,834) | (12,367) | (11,814) |
| Effect of exchange rate changes on cash, net | 296 | (304) | (174) |

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| | | | |
|--|----------|----------|-----------|
| Net increase (decrease) in cash and cash equivalents | 2,095 | 6,521 | (11,481) |
| Cash and cash equivalents at beginning of year | 16,427 | 9,906 | 21,387 |
| Cash and cash equivalents at end of year | \$18,522 | \$16,427 | \$9,906 |

See accompanying notes to consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)

Years ended April 30, 2018, 2017, and 2016

(In thousands)

| | 2018 | 2017 | 2016 |
|---|----------|-----------|-----------|
| Cash paid for interest, net of capitalized interest of \$443, \$235, and \$325 | \$3,383 | \$2,187 | \$1,628 |
| Cash paid for taxes, net of refunds | 7,393 | 5,058 | 1,025 |
| Accrued capitalized software costs included in accounts payable | — | 55 | 407 |
| During the years ended April 30, 2018, 2017, and 2016, the Company acquired certain assets from franchisees, ADs, and third parties as follows: | | | |
| Fair value of assets purchased | \$12,428 | \$29,732 | \$19,726 |
| Receivables applied, net of amounts written-off, due ADs and related deferred revenue | (6,229) | (10,465) | (12,050) |
| Bargain purchase gains | (1,350) | (809) | (552) |
| Long-term obligations and accounts payable issued | (1,923) | (8,409) | (2,337) |
| Cash paid to franchisees, ADs, and third parties | \$2,926 | \$10,049 | \$4,787 |
| During the years ended April 30, 2018, 2017, and 2016, the Company sold certain assets to franchisees and ADs as follows: | | | |
| Book value of assets sold | \$1,127 | \$7,555 | \$9,585 |
| Gain (loss) on sale - gain (loss) recognized | 88 | (107) | (131) |
| Gain on sale - revenue deferred | 18 | 618 | 1,688 |
| Notes received | (782) | (6,727) | (8,208) |
| Cash received from franchisees and ADs | \$451 | \$1,339 | \$2,934 |

See accompanying notes to consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

(1) Description of Business and Summary of Significant Accounting Policies

Description of Business

Liberty Tax, Inc. (the "Company"), a Delaware corporation, is a holding company engaged through its subsidiaries as a franchisor and, to a lesser degree, an operator of a system of income tax preparation offices located in the United States of America (the "U.S.") and Canada. The Company's principal operations are conducted through JTH Tax, Inc. (d/b/a Liberty Tax Service), the Company's largest subsidiary. Through this system of income tax preparation offices, the Company also facilitates refund-based tax settlement financial products, such as Refund Transfer products in the U.S. and personal income tax refund discounting in Canada. The Company also offers online tax preparation services. In fiscal 2015, the Company changed its name from JTH Holding, Inc. to Liberty Tax, Inc.

The Company provides a substantial amount of lending to its franchisees and area developers ("ADs"). The Company allows franchisees and ADs to defer a portion of the franchise fee and AD fee, which are paid over time. The Company also offers its franchisees working capital loans to assist in funding their operations between tax seasons.

Basis of Presentation

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

The audited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"). In the opinion of management, all adjustments necessary for a fair presentation of such financial statements in accordance with GAAP have been recorded.

LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

Office Count

The following table shows the U.S. office activity, the number of processing centers and Canadian offices, and a breakdown of Company-owned and franchised offices for the 2018, 2017, and 2016 tax seasons.

| | Tax Season | | |
|--|------------|--------|--------|
| | 2018 | 2017 | 2016 |
| U.S. Office Locations: | | | |
| Permanent Office Locations: | | | |
| Operated during the prior tax season | 3,710 | 3,960 | 3,764 |
| Offices opened | 65 | 172 | 453 |
| Offices closed | (493) | (422) | (257) |
| Operated during the current tax season | 3,282 | 3,710 | 3,960 |
| Seasonal Office Locations: | | | |
| Operated during the prior tax season | 67 | 211 | 262 |
| Offices opened | 2 | 37 | 127 |
| Offices closed | (45) | (181) | (178) |
| Operated during the current tax season | 24 | 67 | 211 |
| Processing Centers | 37 | 46 | 54 |
| Total U.S. Office Locations | 3,343 | 3,823 | 4,225 |
| Canada Office Locations | 267 | 254 | 262 |
| Total Office Locations | 3,610 | 4,077 | 4,487 |
| Additional Office Information: | | | |
| Company-owned offices | 344 | 362 | 310 |
| Franchised offices | 3,266 | 3,715 | 4,177 |
| Total office locations | 3,610 | 4,077 | 4,487 |

SiempreTax+, operated 77 offices during the 2018 tax season compared to 159 during the 2017 season and 144 in the 2016 season. These offices consist of second offices opened by current franchisees in territories they already owned, conversions of existing Liberty Tax offices, and offices opened in new territories.

Territory Sales

The Company sold 61, 73, and 184 new territories during fiscal 2018, 2017 and 2016, respectively. New territories include territories sold to new franchisees and additional territories sold to existing franchisees.

Significant Accounting Policies

Cash and Cash Equivalents - The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents are maintained in bank deposit accounts, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents balances.

Accounts Receivable - Accounts receivable are recorded at the invoiced amount net of an allowance for doubtful accounts and accrue finance charges at a 12% annual rate, compounded monthly, if unpaid after 30 days. Account balances are charged off against the allowance after all possible means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its accounts receivable.

LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

Notes Receivable - Notes receivable are recorded less unrecognized revenue, net of an allowance for doubtful accounts. Unrecognized revenue relates to the financed portion of franchise fees and AD fees and, in the case of sales of Company-owned offices, the financed portion of gains related to such sales in each case where revenue has not yet been recognized. Interest income is accrued on the unpaid principal balance. The Company puts notes receivable on non-accrual status and provides an allowance against accrued interest if it is determined the likelihood of collecting substantially all of the note and accrued interest is not probable. Generally, payments received on notes receivable on non-accrual status are applied to the principal note balance until the note is current and then to interest income. Notes are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

Concentrations of Credit Risk - Financial instruments that could potentially subject the Company to concentrations of credit risk consist of accounts and notes receivable with its franchisees. The Company manages such risk by evaluating the financial position and value of the franchisees as well as obtaining the personal guarantee of the individual franchisees. At April 30, 2018 and 2017, there were no significant concentrations of credit risk associated with any individual franchisee or group of franchisees.

Allowance for Doubtful Accounts - The allowance for doubtful accounts includes the Company's best estimate of the amount of probable credit losses in the Company's existing accounts and notes receivable. Because the repayment of accounts and notes receivable is dependent on the performance of the underlying franchises, management estimates the amount of the allowance for doubtful accounts based on a comparison of amounts due to the estimated fair value of the underlying franchises which collateralize such receivables. Management believes the allowance is adequate to cover the Company's credit loss exposure. If the carrying amount exceeds the fair value, the receivable is considered impaired.

Available-for-sale Securities - From time to time, the Company purchases corporate equity securities that are classified as available-for-sale; changes in fair value of such securities are recognized, net of tax, in accumulated other comprehensive loss in the stockholders' equity section of the balance sheet. Cash flows for the purchase and sale of these investments are classified as investing activities.

Assets Held for Sale - Assets held for sale consist of Company-owned offices that the Company intends to sell to a new or existing franchisee within one year. Assets held for sale are recorded at the lower of the carrying value or the estimated sales price, less costs to sell, and are evaluated for impairment at least annually. If in the opinion of management, the Company will not be able to sell such offices, within two years from their acquisition dates, the carrying amount is reclassified to held for use and a cumulative adjustment is recorded to depreciation and amortization expense.

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

Goodwill - Goodwill represents the excess of costs over fair value of assets of businesses acquired. The reporting unit for the acquisition of assets from various franchisees is considered to be the franchise territory, and these assets are operated as Company-owned offices. Goodwill is not amortized, but instead tested for impairment at least annually. Goodwill is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. The Company performed its annual impairment testing as of April 30, 2018.

Revenue Recognition - The Company earns revenue from the sales of franchises and granting of AD rights.

Additionally, the Company earns revenue from royalties and advertising fees and other products and services.

Typically, franchise rights are granted to franchisees for a term of five years with an option to renew at no additional cost. In exchange for franchise fees and royalties and advertising fees, the Company is obligated by its franchise

agreements to provide training, an operations manual, site selection guidance, tax preparation software, operational assistance, tax and technical support, the ability to perform electronic filing, and marketing and advertising. Franchise fee revenue for the sales of individual territories is recognized when the obligations of the Company to prepare the franchisee for operation are substantially complete, up to the amount of cash received.

AD rights have historically been granted for a term of ten years. The Company changed the term of new AD contracts to six years in fiscal 2015. AD fees are recognized as revenue on a straight-line basis over the initial contract term of each AD

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

agreement with the cumulative amount of revenue recognized not to exceed the amount of cash received. Amounts due to ADs for their services under an AD agreement are expensed as the related franchise fees and royalty revenues are recognized.

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

Interest income on notes receivable is recognized based on the outstanding principal note balance less unrecognized revenue unless it is put on non-accrual status. Interest income on the unrecognized revenue portion of notes receivable is recognized when received. For accounts receivable, interest income is recognized based on the outstanding receivable balance over 30 days old, net of an allowance.

Gains on sales of Company-owned offices are recognized when cash is received. Losses on sales of Company-owned offices are recognized immediately.

Deferred Revenue - Deferred revenue represents the amount of cash received for AD fees in excess of the revenue recognized.

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

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

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

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

Please see "Note 8 - Derivative Instruments and Hedging Activities" for a description of the cash flow hedge the Company entered into during fiscal 2017.

Deferred Income Taxes - In December 2017, the U.S. enacted the Tax Cuts & Jobs Act, which made significant changes to U.S. federal income tax law, including a reduction of the statutory federal corporate income tax rate from 35.0% to 21.0% and changes or limitations to certain deductions. Income taxes are accounted for under the asset and

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

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

elected to classify interest charged on a tax settlement in interest expense, and accrued penalties, if any, in selling, general, and administrative expenses.

The determination of the Company's provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. The Company records unrecognized tax benefit liabilities for known or anticipated tax issues based on an analysis of whether, and the extent to which, additional taxes will be due.

Intangible Assets and Asset Impairment - Amortization of intangible assets is calculated using the straight-line method over the estimated useful lives of the assets, generally from two to ten years. Long-lived assets, such as property, equipment, and software, and other purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. Recognition and measurement of a potential impairment is performed for these assets at the lowest level where cash flows are individually identifiable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. Assets expected to be sold within one year are no longer depreciated or amortized. These assets are classified as held-for-sale and are presented separately in the appropriate section of the consolidated balance sheets at the lower of their carrying amount or fair value less estimated cost to sell.

Comprehensive Income - Comprehensive income consists of net income, foreign currency translation adjustments, reclassified gain on sale of available-for-sale securities, net of taxes, and the unrealized gains or losses on equity securities available for sale and derivatives determined to be cash flow hedges, net of taxes.

Advertising Expenses - Advertising costs, which consists primarily of direct mail, radio, print media and online advertisements intended to attract new franchisees and customers, are expensed in the period incurred.

Office Closing Costs - Closed office liabilities are provided on the basis of the present value of estimated remaining non-cancellable lease payments, net of estimated subtenant income. The Company estimates the net lease liability using a discount rate to calculate the present value of the remaining net rent payments on closed offices. Closed office lease liabilities are paid over the lease terms associated with the closed offices, which generally have remaining terms ranging from one to seven years.

Stock-Based Compensation - The Company records the cost of its employee stock-based compensation as compensation expense in its consolidated statements of income. Compensation costs related to stock options are based on the grant-date fair value of awards using the Black-Scholes-Merton option pricing model and considering forfeitures. Compensation costs related to restricted stock units are based on the grant-date fair value and are amortized on a straight-line basis over the vesting period. For liability classified awards the Company records costs based on the fair value at the reporting date. The Company recognizes compensation costs for an equity-classified award that has a graded vesting schedule on a straight-line basis over the requisite service period for the entire award; changes in the fair value of liability-classified awards are recognized as they occur. The Company reflects the excess tax benefits related to stock option exercises as additional paid-in capital on its consolidated balance sheets and as financing cash flows on its consolidated statements of cash flows.

Lease Accounting - The Company leases its store locations under operating leases. The Company recognizes minimum rent expense beginning when possession of the property is taken from the landlord. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts payable under the lease as deferred rent.

Use of Estimates

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

amounts of revenues and expenses during the reporting period to prepare these consolidated financial statements and accompanying notes in conformity with GAAP. Actual results could differ from those estimates.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

Accounting Pronouncements

On May 1, 2017, the Company adopted Accounting Standards Update ("ASU") No. 2016-09, "Compensation-Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting." This update provides for simplification of the accounting for share-based payment transactions, including the income tax consequences and classification on the statement of cash flows. Under the update, the excess tax benefits and deficiencies that result from the difference between the deduction for tax purposes and the compensation cost recognized for financial reporting purposes should be recognized as income tax expense or benefit in the reporting period in which they occur. Previously, the excess tax benefits were recognized in additional paid-in capital and tax deficiencies were recognized either as an offset to accumulated excess tax benefits, if any, or in the consolidated statements of income. The update also provides that excess tax benefits should be classified along with other income tax cash flows as an operating activity on the consolidated statement of cash flows. Prior to the update, excess tax benefits were separated from other income tax cash flows and classified as a financing activity. These amendments have been adopted by the Company on a prospective transition method basis. Additionally, cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the consolidated statement of cash flows. Previously, no guidance was provided for cash flow classification of cash paid for tax-withholding purposes for shares withheld for tax purposes. This amendment has been adopted by the Company on a retrospective basis. There were no reclassifications of prior periods required as a result of the retrospective adoption of this amendment. Under the update, an entity can elect to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. The Company has elected to account for forfeitures when they occur. The impact to retained earnings as a result of the adoption was immaterial. All amendments of the update have been adopted for all periods beginning on or after May 1, 2017.

On May 1, 2017, the Company adopted ASU 2015-17, "Income Taxes (Topic 740)," which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as non-current. The update has been adopted prospectively to all deferred tax liabilities and assets and prior periods have not been retrospectively adjusted.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 replaces existing revenue recognition guidance and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 is effective for the Company in fiscal year 2019, which began on May 1, 2018. The Company is in the process of implementing ASU 2014-09, and has made significant progress with its implementation plan. The Company expects ASU 2014-09 will have an impact on the Company's financial statements, including the balance sheet, the statement of income, the statement of comprehensive income, the statement of stockholder's equity, the statement of cash flows, and disclosures. However, the Company has not completed its assessment or quantified the impact. The Company's preliminary conclusion is ASU 2014-09 will change the timing of revenue recognition of initial franchise fees and area developer fees. Currently, franchise fees are recognized when the Company's obligations to prepare the franchise for operations have been substantially completed and cash has been received. AD fees are recognized on a straight-line basis over the contract term not to exceed the amount of cash received. The Company's preliminary conclusion is those fees will be recognized over the term of the related franchise or AD agreements under ASU 2014-09. The amount recognized for those fees will reflect the Company's estimates of the amount of consideration to which it expects to be entitled, which may be lower than the contractual amounts of the fees. The Company's preliminary conclusion is ASU 2014-09 will not materially impact the timing of revenue recognition of royalty and advertising fees, financial products revenue, or tax preparation fees. The Company plans to adopt ASU 2014-09 using the modified retrospective method. The Company will record a cumulative effective adjustment to retained earnings as of May 1, 2018. Results for reporting periods beginning after May 1, 2018 will be presented under the new guidance issued in ASU 2014-09. Prior period amounts will not be adjusted and will continue to be reported under the previous accounting standards.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This update will replace existing lease guidance in GAAP and will require lessees to recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements, such as information about variable lease payments and options to renew and terminate leases. When implemented, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The update is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently finalizing its implementation plan and evaluating the impact of the new pronouncement on its consolidated financial statements. The Company expects the adoption of this pronouncement to result in a material increase in the assets and liabilities on its consolidated balance sheets and to not have a material impact on its consolidated statements of income.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)", which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The update is intended to reduce the existing diversity in practice and is effective for the Company beginning with its first quarterly filing in fiscal year 2019. The Company will adopt the update for all periods beginning on or after May 1, 2018.

In June 2016, the FASB issued ASU No. 2016-13, "Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which changes how companies will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard replaces the "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost (which generally will result in the earlier recognition of allowances for losses) and requires companies to record allowances for available-for-sale debt securities, rather than reduce the carrying amount. In addition, companies will have to disclose significantly more information, including information used to track credit quality by year of origination, for most financing receivables. The ASU should be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the standard is effective. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. The ASU is effective for the Company beginning in the first quarter of fiscal year 2021. The Company is currently evaluating the impact of the adoption of this newly issued standard to its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business", which clarifies the definition of a business with the objection of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The ASU is effective for the Company beginning in the first quarter of fiscal year 2019. The Company will adopt the update for all periods beginning on or after May 1, 2018 and does not believe it will have an impact on its current accounting for business combinations.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." This new standard eliminates Step 2 from the goodwill impairment test. Instead, an entity should compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The standard will be effective for the Company in the first quarter of our fiscal year 2021. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this newly issued standard to its consolidated financial statements.

Segment Reporting

Management has identified two operating segments, U.S. operations and Canadian operations. Although there are two operating segments, each segment is engaged in providing tax return preparation and related services and products. These two operating segments, which have similar gross margin and sales trends, have been aggregated into a single reporting segment because both segments are similar in the nature of services offered, production process, type of customer, the distribution methods, and the regulatory environment in which they operate. Canadian operations contributed \$8.1 million, \$7.0 million, and \$7.0 million in revenues for the years ended April 30, 2018, 2017, and 2016, respectively.

(2) Notes and Accounts Receivable

The Company provides select financing to franchisees and ADs for the purchase of franchises, areas and Company-owned offices, and operating loans for working capital and equipment needs. The franchise-related notes

generally are payable over five years and the operating loans generally are due within one year. Most notes bear interest at 12%.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

Notes and interest receivable, net of unrecognized revenue, as of April 30, 2018 and 2017 are presented in the consolidated balance sheets as follows:

| | 2018 | 2017 |
|--|----------------|----------|
| | (In thousands) | |
| Notes receivable - current | \$24,295 | \$27,845 |
| Notes receivable - non-current | 6,554 | 18,213 |
| Interest receivable, net of uncollectible amounts | 1,526 | 1,967 |
| Total notes and interest receivable, net of unrecognized revenue | \$32,375 | \$48,025 |

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

The table above does not include unrecognized revenue. Unrecognized revenue relates to the financed portion of franchise fees and AD fees and, in the case of sales of Company-owned offices, the financed portion of gains related to these sales in each case where revenue has not yet been recognized. For franchise fees and gains related to the sale of Company-owned offices, revenue is recorded as note payments are received by the Company. Payments on AD fee notes receivable generate a corresponding increase in deferred revenue, which is amortized into revenue over the life of the AD contract. In fiscal 2015 the Company changed the term of new AD contracts to six years from ten years and the revenue for these contracts will be recognized over that period, subject to the receipt of cash. Unrecognized revenue was \$12.5 million and \$29.4 million at April 30, 2018 and 2017, respectively.

Allowance for Doubtful Accounts

The adequacy of the allowance for doubtful accounts is assessed on a quarterly basis and adjusted as deemed necessary. Management believes the recorded allowance is adequate based upon its consideration of the estimated value of the franchises and AD areas, which collateralize the receivables. Any adverse change in the tax preparation industry or the individual franchisees' or ADs' areas could affect the Company's estimate of the allowance.

Activity in the allowance for doubtful accounts for the years ended April 30, 2018, 2017, and 2016 was as follows.

| | 2018 | 2017 | 2016 |
|---------------------------------|----------------|----------|----------|
| | (In thousands) | | |
| Balance at beginning of year | \$12,020 | \$8,850 | \$7,355 |
| Provision for doubtful accounts | 12,396 | 10,378 | 7,282 |
| Write-offs | (12,024) | (7,119) | (5,737) |
| Foreign currency adjustment | 95 | (89) | (50) |
| Balance at end of year | \$12,487 | \$12,020 | \$8,850 |

Management considers specific accounts and notes receivable to be impaired if the net amounts due exceed the fair value of the underlying franchise at the time of the annual valuation and estimates an allowance for doubtful accounts based on that excess. In establishing the fair value of the underlying franchise, management considers a variety of factors including recent sales of Company-owned stores, recent sales between franchisees, net fees of open offices earned during the most recently completed tax season, and the number of unopened offices. While not specifically identifiable as of the balance sheet date, the Company's experience also indicates that a portion of other accounts and notes receivable are also impaired, because management does not expect to collect all principal and interest due under the current contractual terms. Net amounts due include contractually obligated accounts and notes receivable plus accrued interest, net of unrecognized revenue, reduced by the allowance for uncollected interest, amounts due to ADs, related deferred revenue, and amounts owed to the franchisee by the Company.

LIBERTY TAX, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
April 30, 2018 and 2017

The allowance for doubtful accounts at April 30, 2018 and 2017 was allocated as follows.

| | 2018 | 2017 |
|--|----------------|-----------|
| | (In thousands) | |
| Impaired: | | |
| Accounts receivable | \$13,891 | \$11,396 |
| Notes and interest receivable, net of unrecognized revenue | 11,654 | 14,646 |
| Less amounts due to ADs and franchisees | (1,907) | (1,834) |
| Amounts receivable less amounts due to ADs and franchisees | \$23,638 | \$24,208 |
| Allowance for doubtful accounts for impaired accounts and notes receivable | \$10,322 | \$9,542 |
| Non-impaired: | | |
| Accounts receivable | \$38,626 | \$43,327 |
| Notes and interest receivable, net of unrecognized revenue | 20,721 | 33,379 |
| Less amounts due to ADs and franchisees | (11,722) | (23,119) |
| Amounts receivable less amounts due to ADs and franchisees | \$47,625 | \$53,587 |
| Allowance for doubtful accounts for non-impaired accounts and notes receivable | \$2,165 | \$2,478 |
| Total: | | |
| Accounts receivable | \$52,517 | \$54,723 |
| Notes and interest receivable, net of unrecognized revenue | 32,375 | 48,025 |
| Less amounts due to ADs and franchisees | (13,629) | (24,953) |
| Amounts receivable less amounts due to ADs and franchisees | \$71,263 | \$77,795 |
| Total allowance for doubtful accounts | \$12,487 | \$12,020 |

The Company's average investment in impaired notes receivable during the fiscal years ended April 30, 2018, 2017, and 2016 was \$13.2 million, \$11.3 million, and \$9.0 million, respectively. Interest income recognized related to performing impaired notes was \$5.7 million, \$1.2 million, and \$0.9 million for the fiscal years ended April 30, 2018, 2017, and 2016, respectively.

LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

Analysis of Past Due Receivables

The breakdown of accounts and notes receivable past due at April 30, 2018 and 2017 was as follows.

| | 2018 | | Interest | Total |
|---|----------------|----------|--------------------|-------------|
| | Past due | Current | receivable, net | receivables |
| | (In thousands) | | | |
| Accounts receivable | \$24,477 | \$28,040 | \$ — | \$ 52,517 |
| Notes and interest receivable, net | 13,647 | 17,202 | 1,526 | 32,375 |
| Total accounts, notes, and interest receivable, net | \$38,124 | \$45,242 | \$ 1,526 | \$ 84,892 |
| | 2017 | | Interest | Total |
| | Past due | Current | receivable, net | receivables |
| | (In thousands) | | | |
| Accounts receivable | \$28,892 | \$25,831 | \$ — | \$ 54,723 |
| Notes and interest receivable, net | 7,034 | 39,024 | 1,967 | 48,025 |
| Total accounts, notes, and interest receivable, net | \$35,926 | \$64,855 | \$ 1,967 | \$ 102,748 |

Accounts receivable are considered to be past due if unpaid 30 days after billing and notes receivable are considered past due if unpaid 90 days after due date. If it is determined the likelihood of collecting substantially all of the note and accrued interest is not probable the notes are put on non-accrual status. The Company's investment in notes receivable on nonaccrual status at April 30, 2018 and 2017 was \$13.6 million and \$7.0 million, respectively. Payments received on notes in nonaccrual status are applied to the principal note balance until the note is current and then to interest income. Nonaccrual notes that are paid current are moved back into accrual status during the next annual review.

(3) Restructuring Expense

In 2018, the Company began restructuring initiatives involving a review of Company-owned stores and service providers to improve the Company's overall long-term profitability. The Company incurred approximately \$5.0 million of expenses in fiscal 2018 related to these initiatives. The expenses incurred are presented in the Restructuring expense line item in the accompanying consolidated statements of income. The composition of the restructuring expenses incurred for fiscal 2018 were as follows (in thousands):

| Expense | Cash | Accrued Expenses | Non-cash | Total Expense |
|--|---------|---------------------|----------|------------------|
| Contract termination costs - maintenance | \$715 | \$ 1,359 | \$ — | \$ 2,074 |
| Contract termination costs - impairment | — | — | 549 | 549 |
| Property and intangible impairments and exit costs | 254 | — | 1,866 | 2,120 |
| Employee termination costs | 209 | — | — | 209 |
| Other | — | — | — | — |
| Total | \$1,178 | \$ 1,359 | \$ 2,415 | \$ 4,952 |

The Company has incurred additional expenses and charges in fiscal 2019 comprised of expenses related to lease obligations and non-cash charges associated with intangible write-downs. The restructuring initiatives are expected to be completed by October 2018.

The accrued restructuring expenses of \$1.4 million are related to maintenance contract termination costs. \$0.7 million is included in "Accounts payable and accrued expenses" and \$0.7 million is included in "Deferred revenue and other - non-current" lines in the accompanying consolidated balance sheets.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

(4) Property, Equipment, and Software, Net

Property, equipment, and software at April 30, 2018 and 2017 was as follows:

| | 2018 | 2017 |
|--|----------------|----------|
| | (In thousands) | |
| Land and land improvements | \$1,464 | \$1,464 |
| Buildings and building improvements | 8,142 | 7,964 |
| Leasehold improvements | 124 | 132 |
| Furniture, fixtures, and equipment | 6,171 | 5,788 |
| Software | 54,274 | 50,413 |
| Property, equipment, and software, gross | 70,175 | 65,761 |
| Less accumulated depreciation and amortization | 31,539 | 25,972 |
| Property, equipment, and software, net | \$38,636 | \$39,789 |

The software included above includes both internally developed software and purchased software. Included in software are \$0.1 million and \$20.2 million of assets that had not been placed into service at April 30, 2018 and 2017, respectively.

Total depreciation and amortization expense on property, equipment, and software was \$5.6 million, \$4.2 million, and \$4.7 million for the years ended April 30, 2018, 2017, and 2016, respectively.

The Company is obligated under various operating leases for office space that expire at various dates. At April 30, 2018, future minimum lease payments under non-cancelable operating leases with initial or remaining lease terms in excess of one year, together with amounts due from franchisees under subleases, were as follows:

| | Lease payments | Sublease receipts |
|------------------------------|-------------------|----------------------|
| | (In thousands) | |
| Year ending April 30: | | |
| 2019 | \$6,208 | \$3,009 |
| 2020 | 3,860 | 2,007 |
| 2021 | 1,702 | 926 |
| 2022 | 661 | 505 |
| 2023 | 214 | 114 |
| Thereafter | 81 | — |
| Total minimum lease payments | \$12,726 | \$6,561 |

Total rent expense for operating leases, net of subleases, was \$8.4 million, \$7.7 million, and \$4.7 million for the years ended April 30, 2018, 2017, and 2016, respectively.

LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

(5) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the years ended April 30, 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|----------------|---------|
| | (In thousands) | |
| Balance at beginning of year | \$8,576 | \$4,228 |
| Acquisitions of assets from franchisees and third parties | 1,846 | 3,649 |
| Disposals and foreign currency changes, net | (641) | (226) |
| Impairments | (109) | (184) |
| Purchase price reallocation | (1,032) | 1,109 |
| Balance at end of year | \$8,640 | \$8,576 |

The Company performed its annual impairment review of goodwill and recorded impairment of \$0.1 million and \$0.2 million for the years ended April 30, 2018 and 2017, respectively.

The impairment recorded above was determined using the fair value of the underlying franchise, and where appropriate a discounted cash flow model, and is included in the depreciation, amortization and impairment charges in the accompanying consolidated statements of income.

Components of amortizable intangible assets as of April 30, 2018 and 2017 were as follows:

| | April 30, 2018 | | | |
|--|--------------------------------------|-----------------------|--------------------------|---------------------|
| | Weighted average amortization period | Gross carrying amount | Accumulated amortization | Net carrying amount |
| | (In thousands) | | | |
| Customer lists acquired from unrelated third parties | 5 years | \$3,187 | \$ (1,555) | \$ 1,632 |
| Tradenames | 3 years | 431 | (172) | 259 |
| Non-compete agreements | 2 years | 241 | (145) | 96 |
| Assets acquired from franchisees: | | | | |
| Customer lists | 4 years | 1,842 | (1,427) | 415 |
| Reacquired rights | 2 years | 1,436 | (1,393) | 43 |
| AD rights | 9 years | 30,907 | (10,515) | 20,392 |
| Total intangible assets | | \$38,044 | \$ (15,207) | \$22,837 |
| | April 30, 2017 | | | |
| | Weighted average amortization period | Gross carrying amount | Accumulated amortization | Net carrying amount |
| | (In thousands) | | | |
| Customer lists acquired from unrelated third parties | 4 years | \$2,827 | \$ (899) | \$ 1,928 |
| Assets acquired from franchisees: | | | | |
| Customer lists | 4 years | 1,189 | (908) | 281 |
| Reacquired rights | 2 years | 935 | (919) | 16 |
| AD rights | 10 years | 26,427 | (7,428) | 18,999 |
| Total intangible assets | | \$31,378 | \$ (10,154) | \$21,224 |

For the years ended April 30, 2018 and 2017 the Company recorded intangible assets of less than \$0.3 million, and \$0.1 million, respectively, from acquisitions of various franchises and third parties. During fiscal 2018 and fiscal 2017, the majority of assets acquired in the U.S. were recorded as assets held for sale, while assets acquired in Canada were recorded as intangible assets. All franchise acquisitions were accounted for as business combinations.

LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

The purchase price of assets acquired from franchisees and third parties and recorded as customer lists, reacquired rights, and goodwill and held for use during fiscal 2018 and 2017, was allocated as follows.

| | 2018 | 2017 |
|---|----------------|-------|
| | (In thousands) | |
| Customer lists | \$ 65 | \$ 13 |
| Reacquired rights | 52 | 11 |
| Goodwill | 119 | 25 |
| Purchase price of assets acquired from franchisees, not held for sale | \$ 236 | \$ 49 |

During the third and fourth quarters of fiscal 2017, the Company acquired the assets of six unrelated offices of smaller regional or local accounting firms for cash of \$2.3 million and \$2.7 million of contingent consideration of which \$1.4 million is still owed and included in long-term obligations. These offices perform year-round accounting services. The following table summarizes the preliminary estimates of the fair values of the identifiable assets acquired and liabilities assumed as of the acquisition dates. The preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed were subject to revisions, which resulted in adjustments to the values presented below. The changes are due to continued refinement of management's appraisals and estimates. In conjunction with the change in the preliminary estimate, the estimated life of customer lists was revised from four years to six years. We did not record an impairment related to the business in fiscal 2018.

| | Previous Reported 4/30/2017 | As Revised 4/30/2018 | Adjustments |
|---------------------------------------|-----------------------------------|----------------------------|-------------|
| | (In thousands) | | |
| Accounts receivable | \$261 | \$ 261 | \$ — |
| Property, equipment and software, net | 55 | 55 | — |
| Customer lists | 1,120 | 1,480 | 360 |
| Tradenames | — | 431 | 431 |
| Non-compete agreements | — | 241 | 241 |
| Goodwill | 3,624 | 2,592 | (1,032) |
| Total purchase price | \$5,060 | \$ 5,060 | \$ — |

During the years ended April 30, 2018 and 2017, an impairment analysis was performed for amortizable intangible assets. Write-downs of assets acquired from franchisees relate to Company-owned offices that were subsequently closed and impairment of the fair value of existing assets of Company-owned offices. As a result, the carrying values of assets acquired from franchisees were reduced by less than \$0.1 million for the fiscal years ended April 30, 2018, 2017, and 2016. These amounts were included in depreciation, amortization and impairment charges, in the accompanying consolidated statements of income. The Company estimated the fair value of assets associated with Company-owned offices based on various models.

For the years ended April 30, 2018, 2017, and 2016, amortization expense was \$5.7 million, \$4.1 million, and \$2.3 million, respectively. Annual amortization expense for the next five years is estimated to be as follows (in thousands):

Year ending April 30:

| | |
|--------------------------------------|-----------|
| 2019 | \$4,269 |
| 2020 | 3,820 |
| 2021 | 3,572 |
| 2022 | 3,210 |
| 2023 | 2,629 |
| Total estimated amortization expense | \$ 17,500 |

LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

(6) Assets Held for Sale

During fiscal 2018, the Company acquired \$7.1 million in assets from U.S. franchisees and third parties that were first accounted for as business combinations, comprised of customer lists and reacquired rights of \$3.6 million and goodwill of \$3.5 million which are recorded as assets held for sale. During fiscal 2017, the Company acquired \$16.6 million in assets from U.S. franchisees and third parties that were first accounted for as business combinations, with the value allocated to customer lists and reacquired rights of \$8.3 million and goodwill of \$8.3 million prior to being recorded as assets held for sale. The Company intends to sell the majority of assets associated with Company-owned offices within one year. The acquired businesses are operated as Company-owned offices until a buyer is located and a new franchise agreement is entered into.

Changes in the carrying amounts of assets held for sale for the fiscal years ended April 30, 2018 and 2017 were as follows:

| | 2018 | 2017 |
|--|----------------|----------|
| | (In thousands) | |
| Balance at beginning of year | \$11,989 | \$9,886 |
| Reacquired, acquired from third parties, and other | 7,102 | 16,600 |
| Sold or terminated | (3,394) | (7,994) |
| Impairment | (3,246) | (5,663) |
| Transferred to assets held for use | (3,510) | (2,428) |
| Transferred from property and equipment | — | 1,588 |
| Balance at end of year | \$8,941 | \$11,989 |

During fiscal 2018, the Company reviewed assets held for sale for assets that were deemed unlikely to be sold in the next 12 months. Assets totaling \$3.5 million, comprised of \$1.0 million of customer lists, \$0.8 million of reacquired rights and \$1.7 million of goodwill, were identified and transferred to assets held for use. Amortization expense was recorded on a cumulative basis for customer lists and reacquired rights for \$0.8 million and less than \$0.1 million, respectively.

During fiscal 2017, the Company transferred a building it had previously been using and was classified as fixed assets to assets held for sale.

(7) Long-Term Obligations

The Company has an amended credit facility that consists of a term loan with original principal of \$21.2 million and a revolving credit facility that currently allows borrowing of up to \$193.8 million with an accordion feature that permits the Company to request an increase in availability of up to an additional \$50.0 million. Outstanding borrowings accrue interest, which is paid monthly, at a rate of the one-month London Interbank Offered Rate ("LIBOR") plus a margin ranging from 1.50% to 2.25% depending on the Company's leverage ratio. At April 30, 2018 and 2017, the interest rate was 3.64% and 2.73%, respectively, and the average interest rate paid during the fiscal year ended April 30, 2018 was 3.11%. A commitment fee is paid monthly that varies from 0.25% to 0.50% depending on the Company's leverage ratio on the unused portion of the credit facility. The indebtedness is collateralized by substantially all the assets of the Company and both loans mature on April 30, 2019 (except as to the commitments of one smaller lender under the revolving credit facility, which matured on September 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. In addition, the Company must reduce the outstanding balance under its revolving loan to zero for a period of at least 45 consecutive days each fiscal year. The Company's borrowing availability on the credit facility at April 30, 2018 was \$173.4 million. At April 30, 2018 and 2017, the Company had no outstanding borrowings under its revolving credit facility. The Company was in compliance with the financial covenants of its credit facility at April 30, 2018.

The credit facility also contains certain events of default that may cause the bank syndicate to terminate the credit facility and declare amounts owed to become immediately payable if they occur. At April 30, 2018, the Company had

not incurred an event of default.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

Debt at April 30, 2018 and 2017 was as follows:

| | 2018 | 2017 |
|--|----------------|-----------|
| | (In thousands) | |
| Term loan payable in quarterly principal installments of 2.50%, and 3.13% of the original amount borrowed for the years ending April 30, 2018 and 2019, respectively; on April 30, 2019 a balloon payment of \$13,016 is payable. | \$ 14,855 | \$ 17,471 |
| Mortgage note payable to a bank in monthly installments ranging from \$10 to \$14 including interest at LIBOR plus 1.85%, which was 3.75% at April 30, 2018, through December 1, 2026; at that time a balloon payment of \$779 is payable; subject to a prepayment penalty; collateralized by land and building. | 2,038 | 2,160 |
| Amounts due to former ADs, franchisees and third parties at zero percent interest; due May 2018 through May 2022. | 3,490 | 6,568 |
| Total long-term obligations | 20,383 | 26,199 |
| Less current installments | 18,113 | 7,738 |
| Total long-term obligations, less current installments | \$ 2,270 | \$ 18,461 |
| Aggregate maturities of long-term debt at April 30, 2018 were as follows (in thousands): | | |
| Year ending April 30: | | |
| 2019 | \$ 18,113 | |
| 2020 | 474 | |
| 2021 | 141 | |
| 2022 | 146 | |
| 2023 | 151 | |
| Thereafter | 1,358 | |
| Total long-term debt | \$ 20,383 | |

(8) Derivative Instruments and Hedging Activities

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

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

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

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

expected impact of changes in interest rates and foreign currency rates on the Company's future cash flows.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

Interest rate swap agreements. In December 2016, in connection with obtaining a mortgage payable to a bank, the Company entered into an interest rate swap agreement, with a notional amount of \$2.2 million, equal to the mortgage amount, which allows it to manage fluctuations in cash flow resulting from changes in the interest rate on the mortgage. This swap effectively changes the variable-rate of the Company's mortgage into a fixed rate of 4.12%. The Company has designated this swap agreement as a cash flow hedge. At April 30, 2018, the fair value of the interest rate swap is less than \$0.1 million and is included in "Accounts payable and accrued expenses" on the accompanying consolidated balance sheets. The interest rate swap expires in December 2026.

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 entered into forward contracts to eliminate the exposure related to foreign currency fluctuations. Under the terms of the forward currency contracts, the exchange rate for repayments is fixed at the time advance is made and the advances are repaid prior to April 30 of each year. These forward contracts are designated as cash flow hedges. At April 30, 2018 and 2017, there were no remaining forward contracts outstanding. During the years ended April 30, 2018, 2017, and 2016, these foreign currency hedges were effective and, therefore, no amounts were recognized in the consolidated statements of income. At April 30, 2018, there were no deferred gains related to forward contracts for foreign currency exchange rates accumulated in other comprehensive income.

(9) Stockholders' Equity

Preferred Stock and Exchangeable Shares

The Company has 190,000 shares of authorized Class A preferred stock with a par value of \$0.01, of which none were issued and outstanding at April 30, 2018 and 2017.

The Company also has 10 shares of special voting preferred stock authorized, issued and outstanding with a par value of \$0.01 and no liquidation value. Each share of special voting preferred stock entitles the holder to vote as if it represents 100,000 shares of Class A common stock. In conjunction with the special voting preferred stock, there are 1,000,000 exchangeable shares with a par value of \$0.01 that are exchangeable at any time into an equal number of shares of Class A common stock of the Company. The special voting preferred stock will be canceled at the time the holder exchanges the exchangeable shares.

Common Stock

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

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss at April 30, 2018 and 2017 are as follows.

| | 2018 | 2017 |
|---|----------------|-----------|
| | (In thousands) | |
| Foreign currency adjustment | \$(1,381) | \$(2,059) |
| Unrealized loss on equity securities available for sale, net of taxes | — | 30 |
| Gain on sale of available-for-sale securities, net of taxes | — | (30) |
| Interest rate swap agreements, net of tax | 34 | (25) |
| Total accumulated other comprehensive loss | \$(1,347) | \$(2,084) |

Net Income per Share

Net income per share of Class A and Class B common stock is computed using the two-class method. Basic net income per share is computed by allocating undistributed earnings to common shares and participating securities

(Class A preferred

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

April 30, 2018 and 2017

stock and exchangeable shares) and using the weighted-average number of common shares outstanding during the period. Undistributed losses are not allocated to participating securities because they do not meet the required criteria for such allocation.

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

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

The computation of basic and diluted net income per share for the years ended April 30, 2018, 2017, and 2016 is as follows.

| | 2018 | |
|--|--|----------------------|
| | Class A common stock | Class B common stock |
| | (In thousands, except for share and per share amounts) | |
| Basic net income per share: | | |
| Numerator: | | |
| Allocation of undistributed earnings | \$ 133 | \$ 2 |
| Amounts allocated to participating securities: | | |
| Exchangeable shares | (10) | — |
| Net income attributable to common stockholders | \$ 123 | \$ 2 |
| Denominator: | | |
| Weighted-average common shares outstanding | 12,728,762 | 200,000 |
| Basic net income per share | \$ 0.01 | \$ 0.01 |
| Diluted net income per share: | | |
| Numerator: | | |
| Allocation of undistributed earnings for basic computation | \$ 123 | \$ 2 |
| Reallocation of undistributed earnings as a result of assumed conversion of: | | |

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| | | |
|---|------------|---------|
| Class B common stock to Class A common stock | 2 | — |
| Exchangeable shares to Class A common stock | 10 | — |
| Net income attributable to stockholders | \$ 135 | \$ 2 |
| Denominator: | | |
| Number of shares used in basic computation | 12,728,762 | 200,000 |
| Weighted-average effect of dilutive securities: | | |
| Class B common stock to Class A common stock | 200,000 | — |
| Exchangeable shares to Class A common stock | 1,000,000 | — |
| Employee stock options and restricted stock units | 48,986 | 703 |
| Weighted-average diluted shares outstanding | 13,977,748 | 200,703 |
| Diluted net income per share | \$ 0.01 | \$ 0.01 |

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LIBERTY TAX, INC. AND SUBSIDIARIES

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| | 2017 | |
|--|---|----------------------------|
| | Class A common stock | Class B common stock |
| | (In thousands, except for share and per share amounts) | |
| Basic net income per share: | | |
| Numerator: | | |
| Allocation of undistributed earnings | \$ 12,745 | \$ 268 |
| Amounts allocated to participating securities: | | |
| Exchangeable shares | (917) | (19) |
| Net income attributable to common stockholders | \$ 11,828 | \$ 249 |
| Denominator: | | |
| Weighted-average common shares outstanding | 12,630,350 | 265,205 |
| Basic net income per share | \$ 0.94 | \$ 0.94 |
| Diluted net income per share: | | |
| Numerator: | | |
| Allocation of undistributed earnings for basic computation | \$ 11,828 | \$ 249 |
| Reallocation of undistributed earnings as a result of assumed conversion of: | | |
| Class B common stock to Class A common stock | 249 | — |
| Exchangeable shares to Class A common stock | 936 | — |
| Net income attributable to stockholders | \$ 13,013 | \$ 249 |
| Denominator: | | |
| Number of shares used in basic computation | 12,630,350 | 265,205 |
| Weighted-average effect of dilutive securities: | | |
| Class B common stock to Class A common stock | 265,205 | — |
| Exchangeable shares to Class A common stock | 1,000,000 | — |
| Employee stock options and restricted stock units | 21,347 | 407 |
| Weighted-average diluted shares outstanding | 13,916,902 | 265,612 |
| Diluted net income per share | \$ 0.94 | \$ 0.94 |

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| | 2016 | |
|--|---|----------------------------|
| | Class A common stock | Class B common stock |
| | (In thousands, except for share and per share amounts) | |
| Basic net income per share: | | |
| Numerator: | | |
| Allocation of undistributed earnings | \$ 18,056 | \$ 1,364 |
| Amounts allocated to participating securities: | | |
| Exchangeable shares | (1,307) | (99) |
| Net income attributable to common stockholders | \$ 16,749 | \$ 1,265 |
| Denominator: | | |
| Weighted-average common shares outstanding | 11,914,779 | 900,000 |
| Basic net income per share | \$ 1.41 | \$ 1.41 |
| Diluted net income per share: | | |
| Numerator: | | |
| Allocation of undistributed earnings for basic computation | \$ 16,749 | \$ 1,265 |
| Reallocation of undistributed earnings as a result of assumed conversion of: | | |
| Class B common stock to Class A common stock | 1,265 | — |
| Exchangeable shares to Class A common stock | 1,406 | — |
| Net income attributable to stockholders | \$ 19,420 | \$ 1,265 |
| Denominator: | | |
| Number of shares used in basic computation | 11,914,779 | 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 and restricted stock units | 209,896 | 13,674 |
| Weighted-average diluted shares outstanding | 14,024,674 | 913,674 |
| Diluted net income per share | \$ 1.38 | \$ 1.38 |
| Diluted net income per share excludes the impact of shares of potential common stock from the exercise of options and vesting of restricted stock units to purchase 1,213,252, 1,320,162 and 429,644 shares for the years ended April 30, 2018, 2017, and 2016, respectively, because the effect would be anti-dilutive. | | |

(10) Stock Compensation Plan

Stock Options

In August 2011, the Board of Directors approved the JTH Holding, Inc. 2011 Equity and Cash Incentive Plan. Employees and outside directors are eligible to receive awards and a total of 2,500,000 shares of Class A common stock were authorized for grant under the plan. At April 30, 2018, 1,836,173 shares of Class A common stock remained available for grant.

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The following table summarizes the information for options granted in the years ended April 30, 2018, 2017, and 2016.

| | 2018 | 2017 | 2016 |
|--|---------------|---------------|---------------|
| Weighted-average fair value of options granted | \$3.16 | \$2.45 | \$5.05 |
| Dividend yield | 4.5% - 5.9% | 5.0% - 6.1% | 2.8% - 3.7% |
| Expected volatility | 36.8% - 51.3% | 32.8% - 35.4% | 32.4% - 35.6% |
| Expected terms | 5 - 6 years | 5 - 6 years | 4 - 6 years |
| Risk-free interest rates | 1.9% - 2.1% | 1.2% - 2.1% | 1.4% - 1.7% |

Stock option activity during the years ended April 30, 2018, 2017, and 2016 was as follows:

| | Number of options | Weighted average exercise price |
|-------------------------------|-------------------|---------------------------------|
| Outstanding at April 30, 2015 | 1,343,559 | \$ 19.28 |
| Granted | 227,387 | 22.30 |
| Exercised | (154,594) | 14.79 |
| Forfeited or expired | (151,790) | 24.31 |
| Outstanding at April 30, 2016 | 1,264,562 | 19.77 |
| Granted | 512,119 | 12.61 |
| Exercised | — | — |
| Forfeited or expired | (389,350) | 16.59 |
| Outstanding at April 30, 2017 | 1,387,331 | 18.02 |
| Granted | 272,502 | 13.25 |
| Exercised | (9,000) | 10.51 |
| Forfeited or expired | (1,178,330) | 17.22 |
| Outstanding at April 30, 2018 | 472,503 | \$ 17.41 |

Intrinsic value is defined as the fair value of the stock less the cost to exercise. The total intrinsic value of options exercised in fiscal 2018 was less than \$0.1 million. The total intrinsic value of options exercised was \$0.0 million and \$0.9 million during the years ended April 30, 2017 and 2016, respectively. The total intrinsic value of stock options outstanding at April 30, 2018 was \$0.0 million. Outstanding options have vesting terms that range from one to six years from the date of grant and expire from four to five years after the vesting date.

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Nonvested stock options (options that had not vested in the period reported) activity during the years ended April 30, 2018, 2017, and 2016 was as follows:

| | Nonvested options | Weighted average exercise price |
|-------------------------------|-------------------|---------------------------------|
| Outstanding at April 30, 2015 | 385,416 | \$ 27.56 |
| Granted | 227,387 | 22.30 |
| Vested | (173,750) | 25.16 |
| Forfeited | (50,000) | 33.79 |
| Outstanding at April 30, 2016 | 389,053 | 24.76 |
| Granted | 512,119 | 12.61 |
| Vested | (223,054) | 23.88 |
| Forfeited | — | — |
| Outstanding at April 30, 2017 | 678,118 | 15.88 |
| Granted | 272,502 | 13.25 |
| Vested | (563,118) | 14.61 |
| Forfeited | (120,069) | 20.73 |
| Outstanding at April 30, 2018 | 267,433 | \$ 14.27 |

At April 30, 2018, unrecognized compensation cost related to non-vested stock options was \$0.1 million. These costs are expected to be expensed through fiscal 2021.

The following table summarizes information about stock options outstanding and exercisable at April 30, 2018.

| Range of Exercise Prices | Options outstanding | | | Options exercisable | |
|--------------------------|-------------------------------|---------------------------------|--|-------------------------------|---------------------------------|
| | Number of options outstanding | Weighted average exercise price | Weighted average remaining contractual life (in years) | Number of options exercisable | Weighted average exercise price |
| 10.90 - 12.79 | 124,738 | \$ 11.72 | 4.1 | 54,393 | \$ 12.79 |
| 12.80 - 16.38 | 189,986 | 14.32 | 6.0 | 1,898 | 16.38 |
| 16.39 - 26.17 | 105,071 | 21.75 | 3.4 | 96,071 | 21.64 |
| 26.18 - 33.38 | 52,708 | 33.38 | 4.0 | 52,708 | 33.38 |
| | 472,503 | \$ 17.41 | | 205,070 | \$ 22.26 |

Restricted Stock Units

The Company has awarded restricted stock units to its non-employee directors and certain employees. Restricted stock units are valued at the closing stock price the day preceding the grant date. Compensation costs associated with these restricted shares are amortized on a straight-line basis over the vesting period and recognized as an increase in additional paid-in capital. At April 30, 2018, unrecognized compensation cost related to restricted stock units was \$1.0 million. These costs are expected to be recognized through fiscal 2021.

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Restricted stock activity during the years ended April 30, 2018, 2017 and 2016 was as follows.

| | Number of RSUs | Weighted Average Fair Value at Grant Date |
|---------------------------|-------------------|--|
| Balance at April 30, 2015 | 28,929 | \$ 30.63 |
| Granted | 32,056 | 23.06 |
| Vested | (13,394) | 27.99 |
| Forfeited | (4,799) | 27.89 |
| Balance at April 30, 2016 | 42,792 | 26.10 |
| Granted | 165,454 | 12.62 |
| Vested | (17,118) | 24.58 |
| Forfeited | (14,732) | 25.94 |
| Balance at April 30, 2017 | 176,396 | 13.61 |
| Granted | 192,560 | 12.21 |
| Vested | (187,364) | 13.04 |
| Forfeited | (54,562) | 13.34 |
| Balance at April 30, 2018 | 127,030 | \$ 12.48 |

(11) Fair Value of Financial Instruments

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 are classified according to a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Valuation methodologies for the fair value hierarchy are as follows.

Level 1—Quoted prices for identical assets and liabilities in active markets.

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

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

The Company measures or monitors certain of its assets and liabilities on a fair value basis. Fair value is used on a recurring basis for those assets and liabilities for which fair value is the primary basis of accounting. Other assets and liabilities are measured at fair value on a nonrecurring basis; that is, they are subject to fair value adjustment in certain circumstances, such as when there is evidence of impairment.

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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 at April 30, 2018 and 2017.

| | April 30, 2018 Fair value measurements using | | | |
|---|--|----------|---------|----------|
| | Total | Level 1 | Level 2 | Level 3 |
| | (In thousands) | | | |
| Recurring assets: | | | | |
| Cash equivalents | \$12,056 | \$12,056 | \$ — | \$— |
| Interest rate swap agreement | 57 | — | 57 | — |
| Total recurring assets | 12,113 | 12,056 | 57 | — |
| Nonrecurring assets: | | | | |
| Impaired accounts and notes receivable, net of unearned revenue | 15,223 | — | — | 15,223 |
| Impaired goodwill | 109 | — | — | 109 |
| Impaired customer lists | 4 | — | — | 4 |
| Assets held for sale | 8,941 | — | — | 8,941 |
| Total nonrecurring assets | 24,277 | — | — | 24,277 |
| Total recurring and nonrecurring assets | \$36,390 | \$12,056 | \$ 57 | \$24,277 |

Recurring liabilities

| | | | | |
|---|---------|-----|------|---------|
| Contingent consideration included in obligations due former ADs, franchisees and others | \$1,545 | \$— | \$ — | \$1,545 |
| Total recurring liabilities | \$1,545 | \$— | \$ — | \$1,545 |

| | April 30, 2017 Fair value measurements using | | | |
|---|--|----------|---------|-----------|
| | Total | Level 1 | Level 2 | Level 3 |
| | (In thousands) | | | |
| Recurring assets: | | | | |
| Cash equivalents | \$10,393 | \$10,393 | \$ — | \$— |
| Total recurring assets | 10,393 | 10,393 | — | — |
| Nonrecurring assets: | | | | |
| Impaired accounts and notes receivable, net of unearned revenue | 16,500 | — | — | 16,500 |
| Impaired goodwill | 94 | — | — | 94 |
| Impaired customer lists | 18 | — | — | 18 |
| Assets held for sale | 11,989 | — | — | 11,989 |
| Total nonrecurring assets | 28,601 | — | — | 28,601 |
| Total recurring and nonrecurring assets | \$38,994 | \$10,393 | \$ — | —\$28,601 |

Recurring liabilities

| | | | | |
|---|---------|-----|------|----------|
| Contingent consideration included in obligations due former ADs, franchisees and others | \$3,215 | \$— | \$ — | —\$3,215 |
| Total recurring liabilities | \$3,215 | \$— | \$ — | —\$3,215 |

The Company's policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1 or 2 recurring fair value measurements for the years ended April 30, 2018 and 2017.

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The following methods and assumptions are used to estimate the fair value of our financial instruments.

Cash equivalents: The carrying amounts approximate fair value because of the short maturity of these instruments.

Cash equivalent financial instruments consist of money market accounts.

Impaired accounts and notes receivable: Accounts and notes receivable are considered to be impaired if the net amounts due exceed the fair value of the underlying franchise or if management considers it probable that all principal and interest will not be collected when contractually due. In establishing the estimated fair value of the underlying franchise, consideration is given to a variety of factors, including, recent comparable sales of Company-owned stores, sales between franchisees, the net fees of open offices, and the number of unopened offices.

Impaired goodwill, reacquired rights, and customer lists: Goodwill, reacquired rights, and customer lists associated with a Company-owned office are considered to be impaired if the net carrying amount exceeds the fair value of the underlying office. In establishing the fair value of the underlying office, consideration is given to the related net fees, subjected to a floor of the value of a new franchise.

Assets held for sale: Assets held for sale are recorded at the lower of the carrying value or the expected sales price, less costs to sell, which approximates fair value. The expected sales price is generally calculated as a percentage of the prior year's net fees.

Contingent consideration included in long-term obligations: Contingent consideration is carried at fair value. The fair value of these obligations was determined based upon the estimated future net revenues of the acquired businesses.

Other Fair Value Measurements

Accounting standards require the disclosure of the estimated fair value of financial instruments that are not recorded at fair value. For the financial instruments not recorded at fair value, estimates of fair value are made at a point in time based on relevant market data and information about the financial instrument. No readily available market exists for a significant portion of the Company's financial instruments. Fair value estimates for these instruments are based on current economic conditions, interest rate risk characteristics, and other factors. Many of these estimates involve uncertainties and matters of significant judgment and cannot be determined with precision. Therefore, the calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the instrument. In addition, changes in assumptions could significantly affect these fair value estimates. The following methods and assumptions were used by the Company in estimating the fair value of these financial instruments.

Receivables other than notes, other current assets, accounts payable and accrued expenses, and due to ADs: The carrying amounts approximate fair value because of the short maturity of these instruments (Level 1).

Notes receivable: The carrying amount approximates fair value because the interest rate charged by the Company on these notes approximates rates currently offered by local lending institutions for loans of similar terms to individuals/entities with comparable credit risk (Level 3).

Long-term debt: The carrying amount approximates fair value because the interest rate paid has a variable component (Level 2).

(12) Employee 401(k) Plan

The Company sponsors a defined-contribution 401(k) profit sharing plan. Under the plan, employees who are 18 years of age and have completed 90 days of service are eligible to make voluntary contributions to the plan. The Company matches 50% of each employee's contribution up to 3% of the employee's salary. Total compensation expense related to these contributions was \$0.5 million for each of the three years ended April 30, 2018, 2017, and 2016.

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(13) Income Taxes

On December 20, 2017, the United States Congress passed legislation making significant changes to income taxation at the federal level for individuals, pass-through entities, and corporations. The legislation, known as the Tax Cuts and Jobs Act, was signed into law by the President on December 22, 2017. For corporations, the changes include a reduction in the statutory rate on taxable income from 35% to 21%, and a move from a worldwide tax system to a modified territorial tax system for companies with foreign operations. Under the territorial system, except in certain situations or for certain types of income, earnings from foreign operations will generally no longer be subject to U.S. taxation. The law accommodates the move from the previous worldwide tax system by providing for a one-time transition tax on the undistributed post-1986 earnings of foreign subsidiaries as of either November 2, 2017 or December 31, 2017, whichever undistributed earnings amount is greater. Other provisions of the Tax Act allow for immediate expensing of investments in property, plant, and equipment, and impose limitations on the deductibility of interest, executive compensation, meals and entertainment, and lobbying expenses.

Under the applicable accounting guidance, corporations are required to account for the effects of changes in income tax law on their financial statements as a component of taxes provided on income from continuing operations in the period those changes are enacted, which for the Company is the fiscal quarter and nine-month period ended January 31, 2018. Due to the complexities associated with understanding and applying various aspects of the Tax Act and quantifying or estimating amounts upon which calculations required to account for the Tax Act are based, the SEC recognized that it may be difficult for many companies to complete the determination of all accounting effects of the Tax Act within the available timeframe for issuing their financial statements for the period of enactment. As a result, the SEC provided guidance under Staff Accounting Bulletin 118, permitting corporations to record and report specific items impacted by the new law on the basis of reasonable estimates if final amounts have not been determined and designate them as provisional amounts, or to continue to account for specific items under the previous law if it is not possible to develop reasonable estimates within the timeframe for issuance of the financial statements. In subsequent reporting periods, as the accounting for those items is finalized, companies are expected to record the appropriate adjustments to the initial accounting, removing the provisional designation on an item in the period that the accounting for that item is completed. A measurement period of no more than one year from the date of enactment of the Tax Act is provided under the SEC guidance to complete all such adjustments.

In determining the recorded effect of the Tax Act presented above, the Company developed reasonable estimates and made reasonable interpretations with respect to the application of the law in areas that will likely receive future clarification. The primary effects of the Tax Act on the Company's financial statements for the current reporting periods, as reflected in the below table, are considered provisional at this time in order to allow additional time to complete the accounting. The Company continues to analyze the Tax Act, and future treasury regulations, technical corrections, notices, rulings, and other guidance issued by the government that could result in changes or refinements to amounts recorded in the current reporting period.

The most significant effects of the Tax Act on the Company's financial statements for the current reporting period are:

- (1) an adjustment of recorded deferred tax assets and liabilities to the tax rates at which they are expected to reverse in the future, and
- (2) a liability recorded for U.S. income taxes on undistributed foreign earnings expected to be paid under the one-time transition tax provisions of the Tax Act.

The net impact of accounting for these and other less significant effects of the Tax Act was an increase in consolidated income tax expense for fiscal year 2018 of approximately \$0.5 million. Upon enactment of the Tax Act in the third

quarter of the year, the Company recorded an income tax benefit of approximately \$0.4 million under the provisional accounting guidance; however, that amount was adjusted by an approximate increase of \$0.9 million in income tax expense in the fourth quarter, reflecting the revised remeasurement of deferreds based on year-end amounts versus estimates projected at January 31, 2018. Specifically, the remeasurement of the Company's deferreds based on year-end amounts equated to a tax benefit of \$0.7 million due to the reduced corporate tax rate of 21%.

Also included in the \$0.5 million increase in fiscal year 2018 income tax expense for the effect of the Tax Act is a \$1.2 million transition tax related to the undistributed earnings of its Canadian controlled foreign corporation ("CFC") Liberty Tax Services. Prior to the enactment of the Tax Act, under its accounting for income taxes, the Company had undistributed earnings of its foreign subsidiary, Liberty Tax Services, that were classified as permanently reinvested. The Tax Act replaces the U.S. income tax that would have been paid on those earnings in the future (if remitted back to the U.S. from Canada) with the one-

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time transition tax, which is allowed to be paid over an eight year period. The total liability recorded by the Company for this transition tax is approximately \$1.2 million.

The Company continues to analyze certain aspects of the Tax Act, and future treasury regulations, tax law technical corrections, notices, rulings, and other guidance issued by the government could result in changes or refinements to the amounts currently recorded. These include potential refinements of the Company's calculations of the adjustments to deferred tax assets and liabilities and the U.S. tax liability for undistributed foreign earnings, which could be adjusted based on continuing review of the Company's calculation of the one-time transition tax, including further analysis of the undistributed earnings amounts represented by cash and other specified assets held by its foreign subsidiaries. As a result, those amounts continue to be classified as provisional, and additional adjustments, which could be material, may be recorded in future reporting periods within the allowed one-year measurement period as the final accounting is completed.

Components of income tax expense for the fiscal years ended April 30, 2018, 2017, and 2016 were as follows:

| | 2018 | 2017 | 2016 |
|--------------------------------|----------------|--------|--------|
| | (In thousands) | | |
| Current: | | | |
| Federal | 4,895 | 6,125 | 2,748 |
| State | 1,097 | 1,160 | 598 |
| Foreign | 723 | 293 | 328 |
| Current Tax expense | 6,715 | 7,578 | 3,674 |
| Deferred: | | | |
| Federal | (2,125) | 315 | 6,079 |
| State | (69) | (183) | 1,322 |
| Foreign | (175) | 44 | (17) |
| Deferred tax expense (benefit) | (2,369) | 176 | 7,384 |
| Total income tax expense | 4,346 | 7,754 | 11,058 |

For the years ended April 30, 2018, 2017, and 2016, income before taxes consisted of the following:

| | 2018 | 2017 | 2016 |
|----------------------------|----------------|----------|----------|
| | (In thousands) | | |
| U.S. operations | \$3,176 | \$19,558 | \$28,954 |
| Foreign operations | 1,305 | 1,209 | 1,524 |
| Income before income taxes | \$4,481 | \$20,767 | \$30,478 |

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 30.4% to pre-tax income from continuing operations as a result of the following for years ended April 30, 2018, 2017 and 2016 are as follows:

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| | 2018 | 2017 | 2016 |
|---|----------------|---------|----------|
| | (In thousands) | | |
| Computed "expected" income tax expense | \$1,362 | \$7,269 | \$10,667 |
| Increase (decrease) in income taxes resulting from: | | | |
| State income taxes, net of federal benefit | 66 | 634 | 1,126 |
| Nondeductible expenses | 367 | 211 | 246 |
| Tax credits | — | (140) | (370) |
| Domestic production deduction | (133) | (158) | (538) |
| Stock compensation expense | 2,060 | 58 | 31 |
| Foreign tax rate differential | (50) | (86) | (222) |
| Rate change | — | (64) | — |
| Remeasurement of deferreds | (695) | — | — |
| Transition tax | 1,223 | — | — |
| FIN48 (uncertain tax position) | 153 | — | — |
| Other | (7) | 30 | 118 |
| Total income tax expense | \$4,346 | \$7,754 | \$11,058 |

The tax effect of temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities that give rise to significant portions of deferred tax assets and liabilities as of April 30, 2018 and 2017 are as follows:

| | 2018 | 2017 |
|--|----------------|-----------|
| | (In thousands) | |
| Deferred tax assets: | | |
| Unexercised nonqualified stock options | \$259 | \$2,260 |
| Goodwill, intangible assets, and assets held for sale | 3,773 | 3,140 |
| Allowance for doubtful accounts | 4,149 | 5,136 |
| Deferred revenue | 4,493 | 11,286 |
| Accounts payable and accrued expense | 968 | 1,954 |
| Net operating loss | 203 | 148 |
| Property, equipment and software (Canada) | 133 | — |
| Unvested restricted stock units | 167 | — |
| Unrealized gain/loss | 173 | — |
| Total deferred tax assets | 14,318 | 23,924 |
| Deferred tax liabilities | | |
| Property, equipment and software (U.S.) | (9,128) | (12,916) |
| Deferred contingencies | (99) | (137) |
| Other current assets | (350) | (505) |
| Section 481 (a) adjustment - change in accounting method | (5,663) | (11,729) |
| Intangible assets | (132) | (2,048) |
| Total deferred tax liabilities | (15,372) | (27,335) |
| Net deferred tax liability | \$(1,054) | \$(3,411) |

In assessing the realizability of the gross deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning

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strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the benefits of these deductible differences will be realized. The tax credits, carry-forwards, and net operating losses expire from 2018 to 2036. In fiscal 2018, the Company offset \$1.5 million of net operating losses for state taxes.

The Company adopted the accounting and disclosure requirements for uncertain tax positions, which require a two-step approach to evaluate tax positions. This approach involves recognizing any tax positions that are more likely than not to occur and then measuring those positions to determine the amounts to be recognized in the financial statements. The Company determined no reserves for uncertain tax positions were required as of April 30, 2018 or 2017 for the U.S. However, the Company did record an uncertain tax position of \$0.2 million (in USD) related to its Canadian entity's treatment of franchise losses.

A reconciliation of the beginning and ending balance of the gross liability for uncertain tax positions for the fiscal years ended April 30, 2018, 2017 and 2016, is as follows:

| | 2018 | 2017 | 2016 |
|---|----------------|------|------|
| | (In thousands) | | |
| Liability for uncertain tax positions, beginning of year | \$ — | \$ — | \$ — |
| Addition: related to Canadian tax positions for fiscal 2015 through fiscal 2017 | 153 | — | — |
| Liability for uncertain tax positions, end of year | \$ 153 | \$ — | \$ — |

The Company and its subsidiaries file a U.S. federal consolidated income tax return, as well as returns in several U.S. states and Canada. As of April 30, 2018, the Company's earliest open tax year for U.S. federal income tax purposes was its fiscal year ended April 30, 2015.

(14) Related Party Transactions

The Company considers directors and their affiliated companies as well as executive officers and their immediate family to be related parties. For the years ended April 30, 2018, 2017, and 2016, the Company repurchased common stock from related parties as follows.

2018 2017 2016
(In thousands)

Common stock:

| | | | |
|--------------------|-----|-------|------|
| Shares repurchased | — | 30 | — |
| Amount | \$— | \$378 | \$ — |

During fiscal 2015, the Company entered into a multi-year contract to purchase a license for the use of Canadian tax software at a price of \$0.7 million from a company in which it has an investment accounted for under the equity method. One of the members of the Company's Board of Directors is affiliated with the company providing this service. This contract expired during the second quarter of fiscal 2017. At that same time, the Company entered into a new three-year contract with the same company at a price of \$0.9 million.

Nicole Ossenfort's (Chief Executive Officer) franchise and AD agreements

The Company is or was a participant in the following related party transactions with Ms. Ossenfort since the beginning of fiscal 2018:

Ossenfort Franchise. Ms. Ossenfort, together with her husband, Scott Ossenfort (together, with Ms. Ossenfort, the “Ossenforts”), jointly own a Company franchise through JL Enterprises. JL Enterprises borrows operating funds for working capital to operate the franchises each year. During fiscal 2018, JL Enterprises borrowed operating funds for working capital to operate the franchises in the amount of \$243,888, of which \$0 remained outstanding and payable to the Company as of April

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30, 2018. In fiscal 2018, the Company has recorded \$224,970 of accounts receivable from the Ossenforts for royalties, advertising and financial product charges, of which a balance of \$1,857 remained outstanding and payable to the Company as of April 30, 2018.

Ossenfort AD. In January 2012, the Ossenforts acquired AD territories covering Western South Dakota and Western Nebraska from the Company. A note of \$429,246 was issued by the Company, and the outstanding principal balance was \$208,266 as of the end of fiscal 2017. On September 6, 2017, the Company entered into an agreement to re-acquire the AD territories from the Ossenforts for \$268,000 of which \$198,000 consisted of debt forgiveness on the note, with a balance of \$34,852 payable to the Ossenforts on July 1, 2018.

In fiscal 2018, the Company recorded \$166 of accounts receivable from the Ossenforts for new franchise leads and interest, which along with prior year accounts receivable balances were forgiven as a part of the agreement to re-acquire the AD territories. The Ossenforts earned \$10,814 for their portion of franchise fees, royalties and interest in fiscal 2018.

Shaun York's (Chief Operating Officer) franchises and AD agreements

The Company is or was a participant in the following related party transactions with Mr. York since the beginning of fiscal 2018:

York Franchises. Mr. York operates eleven Company franchises through Yorkompany LLC, S&P Holding Group LLC, My Business Group LLC and Core Fitness Partners LLC (the "York Franchise Entities"). The York Franchise Entities borrow operating funds from the Company for working capital to operate the franchises each year.

During fiscal 2018, the York Franchise Entities borrowed operating funds in the amount of \$285,670, of which \$0 remained outstanding and payable to the Company as of April 30, 2018. In addition, during fiscal 2018 the Company recorded \$307,752 of accounts receivable from the York Franchise Entities for royalties, advertising and financial product charges, of which \$76,417 remained outstanding and payable to the Company as of April 30, 2018.

York AD. Mr. York has Area Development arrangements with the Company that are conducted through Yorkompany LLC, S&P Holding Group LLC and TNT Florida Investments LLC (the "York AD Entities"). The York AD Entities were acquired by Mr. York through various transactions with the Company and through third party agreements with AD sellers. In connection with those transactions, the York AD Entities financed a total of \$4,059,460 through the Company to acquire the Area Development territories and associated rights. The loans are payable by the York AD Entities in annual installments at 12% interest. As of April 30, 2018, the aggregate outstanding principal balance owed by the York AD Entities on the notes was \$1,886,093.

In fiscal 2018, the Company recorded \$18,104 of accounts receivable from the York AD Entities for new franchise leads and interest, of which \$1,916 remains unpaid as of April 30, 2018. The York AD Entities earned \$578,344 for their portion of franchise fees, royalties and interest in fiscal 2018.

York Debt Guarantees. Mr. York also has entered into multiple guarantee agreements with the Company whereby Mr. York has guaranteed all or a portion of the indebtedness owed by other franchisees and ADs to the Company as related to certain financial transactions for which Mr. York had an interest. The indebtedness owed by these franchisees and ADs as of April 30, 2018 is approximately \$2,930,814.

John Seal's (Director) AD agreement

The Company is or was a participant in the following related party transactions with Mr. Seal since the beginning of fiscal 2018:

JMS Tax, an entity controlled by John Seal, a former director of the Company, owns an AD territory in Texas which a portion of the purchase price was financed through a note issued by the Company. The outstanding principal balance on the note was \$170,013 as of April 30, 2018.

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In fiscal 2018, the Company recorded \$19,026 of accounts receivable from JMS Tax for new franchise leads and interest of which \$9,354 remains unpaid as of April 30, 2018. JMS Tax earned \$131,269 for their portion of franchise fees, royalties and interest in fiscal 2018.

(15) Commitments and Contingencies

In the ordinary course of operations, the Company may become a party to legal proceedings. Based upon information currently available, management believes that such legal proceedings, individually or in the aggregate, will not have a material adverse effect on the Company's business, financial condition, cash flows, or results of operations except as provided below.

Delaware Derivative Litigation

Asbestos Workers' Philadelphia Pension Fund, derivatively on behalf of Liberty Tax, Inc., v. John Hewitt, Defendant, and Liberty Tax, Inc., Nominal Defendant, Case No. 2017-0883, filed in the Court of Chancery of the State of Delaware on December 12, 2017. Plaintiff alleges that the Company's former CEO, John T. Hewitt ("Hewitt"), breached his fiduciary duties as an officer based upon certain allegations of misconduct on his part. The Plaintiff also alleges breach of fiduciary duty against Hewitt in his capacity as a director of LT, Inc. The Complaint seeks compensatory damages and attorney's fees. No claim or relief is asserted against the Company, which is named solely as a Nominal Defendant.

Erie County Employees Retirement System, derivatively on behalf of Liberty Tax, Inc., v. John T. Hewitt, Defendant, and Liberty Tax, Inc., Nominal Defendant, Case No. 2017-0914, brought a second derivative suit filed in the Court of Chancery of the State of Delaware on December 22, 2017. Plaintiff also alleges that Hewitt breached his fiduciary duties as an officer based upon certain allegations of misconduct on his part. The Plaintiff also alleges breach of fiduciary duty against Hewitt in his capacity as a director of the Company. The Complaint seeks to enjoin Hewitt from managing our business operations, and seeks compensatory damages and attorney's fees.

On December 27, 2017, the two above-referenced shareholder matters were consolidated into the case with the caption In Re: Liberty Tax, Inc. Stockholder Litigation, C.A. No. 2017-0883. On April 17, 2018, Plaintiffs filed an amended complaint (the "Amended Complaint"). The Amended Complaint added Gordon D'Angelo, Ellen McDowell, Nicole Ossenfort, and John Seal, with Hewitt as individual defendants (the "Individual Defendants") and asserted class action allegations. Plaintiff seeks (i) a declaration that the Individual Defendants have breached the Company's Nominating Charter; (ii) a declaration that the Individual Defendants have breached their fiduciary duties; (iii) an award to the Plaintiffs and the Class in the amount of damages sustained as a result of the Individual breaches; (iv) certification of the action as a class action; (v) an award to the Company in the amount of damages sustained as a result of the Individual Defendants' breaches of their fiduciary duties; (vi) a grant of further appropriate equitable relief to remedy the Individual Defendants' breaches, including injunctive relief; (vii) an award to Plaintiffs of the costs and disbursements of this action, including reasonable attorneys' fees, accountants' and experts' fees, costs and expenses; and (viii) such further relief as the Court deems just and proper. The Company has answered the Amended Complaint and discovery is underway. The individuals have filed a notice of motion to dismiss. No briefing schedule has been set on the motion. A scheduling order has been entered which currently schedules trial in this matter to begin on March 18, 2019.

Eastern District of New York Securities Litigation

Rose Mauro, individually and on behalf of all others similarly situated v. Liberty Tax, Inc., Edward L. Brunot, John T. Hewitt, and Kathleen E. Donovan, filed in the United States District Court for the Eastern District of New York on

January 12, 2018, Case No. 18 CV 245. Plaintiff filed a securities class action asserting violations of Section 10(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 10b-5 against all defendants and a second count for violations of Section 20(a) of the Exchange Act against the individual defendants. According to the complaint, throughout the class period, LT, Inc. allegedly issued materially false and misleading statements and/or failed to disclose that: (1) Hewitt created an inappropriate tone at the top; (2) the inappropriate tone at the top led to ineffective entity level controls over the organization; and (3) as a result, defendants' statements about the operations and prospects were materially false and misleading and/or lacked a reasonable basis at all relevant times.

Patrick Beland, individually and on behalf of all others similarly situated vs. Liberty Tax, Inc., Edward L. Brunot, John T. Hewitt, and Kathleen E. Donovan, filed in the United States District Court for the Eastern District of New York on December 15, 2017, case number 17 CV 7327. Plaintiff filed a securities class action asserting violations of Section 10(b) of the Exchange

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Act and Rule 10b-5 against all defendants and a second count for violations of Section 20(a) of the Exchange Act against the individual defendants. According to the complaint, throughout the class period, LT, Inc. allegedly issued materially false and misleading statements and/or failed to disclose that: (1) Hewitt created an inappropriate tone at the top; (2) the inappropriate tone at the top led to ineffective entity level controls over the organization; and (3) as a result, defendants' statements about the business, operations and prospects were materially false and misleading and/or lacked a reasonable basis at all relevant times.

These actions were consolidated with the caption In Re Liberty Tax, Inc. Securities Litigation, Case No. 27 CV 07327 and IBEW Local 98 Pension Fund was appointed the Lead Plaintiff ("Lead Plaintiff"). On June 12, 2018, Lead Plaintiff filed its Consolidated Amended Class Action Complaint, which removed Brunot as a defendant, and added additional securities claim based on Section 14(a) of the Exchange Act and Rules 14-a3 and 14-a9. The Consolidated Amended Class Action Complaint, among other things, asserts that the Company's SEC filings over a multi-year period failed to disclose the alleged misconduct of the individual defendants and that disclosure of the alleged misconduct caused the Company's stock price to drop and, thereby harm the purported class of shareholders. The Class Period is alleged to be October 1, 2013 through February 23, 2018. Defendants filed a joint motion to dismiss the Consolidated Amended Class Action Complaint on September 17, 2018. Lead Plaintiff will file its opposition within forty-five (45) days thereafter, and Defendants will have twenty-one (21) days to file their reply brief(s).

Eastern District of Virginia Securities and Derivative Litigation

RSL Senior Partners LLC, derivatively and on behalf of Liberty Tax, Inc. v. Edward L. Brunot, John T. Hewitt, Kathleen E. Donovan, Gordon D'Angelo, John Garel, Thomas Herskovits, Robert M. Howard, Ross N. Longfield, Steven Ibbotson, Ellen M. McDowell, Nicole Ossenfort, George Robson and John Seal and Liberty Tax, Inc. (Nominal Defendant), Case No. 18 cv 127, filed on March 7, 2018 in the United States District Court for the Eastern District of Virginia. This shareholder derivative action was filed on behalf of the Company seeking to address the alleged wrongs of the Company's directors and officers. The complaint alleges that certain conduct created an inappropriate tone at the top, which resulted in the loss of key executives, employees, directors and otherwise harmed the Company. The complaint asserts claims under Section 14(a) of the Exchange Act, 10b and 10b-5 and 20(a) of the Exchange Act, breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. The Complaint seeks the following relief: (a) declaring that Plaintiff may maintain this action on behalf of the Company, and that Plaintiff is an adequate representative of the Company; (b) declaring that the Individual Defendants have breached and/or aided and abetted the breach of their fiduciary duties to the Company; (c) determining and awarding to the Company the damages sustained by it as a result of the violations set forth above from each of the Individual Defendants, jointly and severally, together with pre-judgment and post-judgment interest thereon; (d) directing the Company and the Individual Defendants to take all necessary actions to reform and improve its corporate governance and internal procedures to comply with applicable laws and to protect the Company and its shareholders from a repeat of the damaging events described herein, including, but not limited to, putting forward for shareholder vote the following resolutions for amendments to the Company's Bylaws or Articles of Incorporation and the following actions as may be necessary to ensure proper corporate governance policies: (1) a proposal to strengthen the Board's supervision of operations and develop and implement procedures for greater shareholder input into the policies and guidelines of the board; (2) a provision to permit the Class A shareholders of the Company to nominate at least five candidates for election to the board; (3) a proposal to ensure the establishment of effective oversight of compliance with applicable laws, rules, and regulations; (4) a proposal to revise the Code of Conduct to include provisions prohibiting sexual harassment and discrimination, and governing the maintenance and disclosure of sexual and romantic relationships between individuals associated with the Company. (e) awarding the Company restitution from Individual Defendants, and each of them; (f) awarding Plaintiff the costs and disbursements of this action, including reasonable attorneys' and experts' fees, costs, and expenses; and (g) granting such other and further relief as the Court may deem just and proper.

No claim or relief is asserted against the Company, which is named solely as a Nominal Defendant. On July 30, 2018, various motions were filed: (i) Defendants Hewitt, McDowell, Ossenfort and Seal collectively moved to dismiss the Complaint; (ii) Defendants Garel, Herskovits, Howard, Ibbotson, Longfield, and Robson collectively moved to dismiss the Complaint; (iii) Defendants Brunot and Donovan collectively moved to dismiss the Complaint; (iv) Company moved to stay the action pending resolution of parallel state (Delaware) and/or federal (New York) proceedings. Plaintiff's oppositions are due by August 31, 2018. Defendants' replies to Plaintiff's oppositions were filed on September 10, 2018.

Franchise Litigation

JTH Tax, Inc. and SiempreTax LLC v. Gregory Aime, Aime Consulting, LLC, Aime Consulting, Inc. and Wolf Ventures, Inc. The Company filed suit in the United States District Court for the Eastern District of Virginia against the defendants, former

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Company franchisees, on June 9, 2016, as amended on June 22, 2016, claiming the defendants breached the purchase and sale agreement (the "PSA") entered between the parties on January 21, 2016 and that the defendants had failed to comply with the post termination obligations of the franchise agreements (together with the PSA, the "Aime Agreements"). The Company sought damages in an amount equal to three times the defendants' earnings and profits, as well as injunctive relief to enforce the defendants to comply with the post termination obligations of the Aime Agreements, to be determined by the trier of fact. The Company specifically sought, in part, to enjoin the defendants from continued operation of a tax preparation business using the Company's protected trademarks, enforcement of the non-compete provision of the Aime Agreements, and an order that the defendants assign all of the leases related to the franchised businesses to the Company. On July 1, 2016, the Magistrate Judge issued a report and recommendation finding a likelihood of success on the merits and recommending entry of the requested temporary restraining order (the "TRO") in favor of the Company, which was adopted in part on August 3, 2016. On September 9, 2016, the defendants filed an answer and counterclaim against the Company, alleging breach of the PSA, breach of the implied covenant of good faith and fair dealing and fraud and seeking approximately \$2.4 million in damages, plus future loss profits, punitive damages and other expenses. After a three-day bench trial, on January 13, 2017, the court vacated the TRO, finding in favor of the defendants. On February 15, 2017, the court issued its written opinion and order granting the defendants' breach of contract and breach of the implied covenant of good faith and fair dealing claims, denying the Company's claims against the defendants and finding certain post termination obligations to be unenforceable. Judgment was entered in favor of the defendants for approximately \$2.7 million. The Company has accrued \$2.7 million as of the fourth quarter of fiscal 2017 in connection with the judgment, which is recorded in "Accounts payable and accrued expense" in the accompanying consolidated balance sheets. The Company has filed an appeal of the judgment with the Fourth Circuit Court of Appeals.

On August 8, 2018, the Fourth Circuit Court of Appeals issued an unpublished opinion affirming in part, vacating in part, and remanding to the District Court with instructions via the opinion. The Court of Appeals affirmed the District Courts finding that the Company breached the PSA first, however, the Court of Appeals concluded the District Court erred as a matter of law when it determined that Aime was entitled to lost profits based on the purported extension of the PSA buyback deadline. The Court of Appeals held the alleged extension was not supported by independent consideration and thus not enforceable. It remanded the case for the District Court to recalculate damages consistent with said opinion.

On August 23, 2018, the defendants filed a petition for rehearing of the Fourth Circuit's decision. On September 5, 2018 the Fourth Circuit issued an order denying the petition for rehearing. On September 13, 2018 the Fourth Circuit issued a mandate that the judgment of the Fourth Circuit entered August 8, 2018 takes effect as of the same date of said filing. The matter has now officially be sent back to the District Court to recalculate damages consistent with the Fourth Circuit's decision. The ultimate outcome of this action and the timing of such outcome is uncertain and there can be no assurance that the Company will benefit financially from such litigation.

Class Action Litigation

Broward Psychology P.A., v. JTH Tax, Inc. (Case 0:18-cv-60412). On February 26, 2018, a class action complaint was filed in the U.S. District Court for the Southern District of Florida by an individual plaintiff for itself and on behalf of all other "similarly situated" persons. The Complaint alleges, among other things, that from March 10, 2014 to 2018, the Company allegedly violated the Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005 (collectively, the "TCPA"), by sending a facsimile advertisement to plaintiff and other putative class members that either were unsolicited and/or did not contain a valid opt-out notice. The complaint seeks certification of the lawsuit as a class action and the award to class members of the greater of actual damages or the sum of \$500 for each violation and injunctive and other relief. Under the TCPA, the statutory remedy of \$500 per violation may be trebled (i.e., \$1,500 per violation) if the court finds the violations to be willful or knowing. On March 30, 2018 the Company filed a dispositive motion arguing that Plaintiff lacked Article III standing to sue

Company. By Order dated August 21, 2018, the Court denied the Company's motion. The Company plans on filing a motion for reconsideration of the Court's August 21, 2018 Order. Discovery in the case is proceeding. A mediation was held on September 20, 2018 and the case was settled.

Rene Labrado v. JTH Tax, Inc. (Case BC 715076). On July 3, 2018, a class action complaint was filed in the Superior Court of California, County of Los Angeles by a former employee for herself and on behalf of all other "similarly situated" persons. The Complaint alleges, among other things, that the Company allegedly violated various provisions of the California Labor Code, including: unpaid overtime, unpaid meal period premiums, unpaid rest premiums, unpaid minimum wages, final wages not timely paid, wages not timely paid, non-compliant wage statements, failure to keep pay records, unreimbursed business expenses and violation of California Business and Profession Code Section 17200. The Complaint seeks actual, consequential and incidental

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losses and damages, injunctive relief and other damages. The Company highly contest the allegations set forth in the Complaint and plans on filing a dispositive motion. The Company intends to defend the case vigorously.

The Company is also party to claims and lawsuits that are considered to be ordinary, routine litigation incidental to the business, including claims and lawsuits concerning the preparation of customers' income tax returns, the fees charged to customers for various products and services, relationships with franchisees, intellectual property disputes, employment matters, and contract disputes. Although the Company cannot provide assurance that it will ultimately prevail in each instance, it 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, financial position, or cash flows.

(16) Quarterly Financial Data (Unaudited)

| | Three Months Ended | | | |
|--|--|---------------------|---------------------|------------------|
| | April 30, 2018 | January 31, 2018 | October 31, 2017 | July 31, 2017 |
| | (In thousands, except per share amounts) | | | |
| Revenue | \$ 110,669 | \$ 48,244 | \$ 7,771 | \$ 8,188 |
| Net income (loss) | \$ 24,518 | \$ (1,522) | \$ (13,103) | \$ (9,758) |
| Weighted-average basic shares outstanding | 12,996,125 | 12,934,941 | 12,903,626 | 12,882,550 |
| Weighted-average dilutive shares outstanding | 14,015,096 | 12,934,941 | 12,903,626 | 12,882,550 |
| Net income (loss) per share of Class A and Class B common stock: | | | | |
| Basic | \$ 1.75 | \$ (0.11) | \$ (1.02) | \$ (0.76) |
| Diluted | \$ 1.75 | \$ (0.11) | \$ (1.02) | \$ (0.76) |
| Cash dividends declared per share of common stock and common stock equivalents | \$ 0.16 | \$ 0.16 | \$ 0.16 | \$ 0.16 |

| | Three Months Ended | | | |
|--|--|---------------------|---------------------|------------------|
| | April 30, 2017 | January 31, 2017 | October 31, 2016 | July 31, 2016 |
| | (In thousands, except per share amounts) | | | |
| Revenue | \$ 111,179 | \$ 48,423 | \$ 7,234 | \$ 7,149 |
| Net income (loss) | \$ 29,330 | \$ 2,455 | \$ (9,342) | \$ (9,430) |
| Weighted-average basic shares outstanding | 12,882,550 | 12,902,577 | 12,901,955 | 12,894,740 |
| Weighted-average dilutive shares outstanding | 13,934,941 | 13,924,210 | 12,901,955 | 12,894,740 |
| Net income (loss) per share of Class A and Class B common stock: | | | | |
| Basic | \$ 2.11 | \$ 0.18 | \$ (0.72) | \$ (0.73) |
| Diluted | \$ 2.10 | \$ 0.18 | \$ (0.72) | \$ (0.73) |
| Cash dividends declared per share of common stock and common stock equivalents | \$ 0.16 | \$ 0.16 | \$ 0.16 | \$ 0.16 |

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

(17) Subsequent Events

On May 9, 2018, Nicholas Bates, Vice President and Chief Financial Officer of the Company, provided notice of his resignation which was effective on June 15, 2018. On June 15, 2018, the Company hired Michael S. Piper as Chief Financial Officer.

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On May 29, 2018, the Company held a special meeting of stockholders whereby G. William Minner, Jr., Thomas Herskovits, Patrick A. Cozza and Lawrence Miller were elected as Class A Directors to the Company's Board of Directors. The Board appointed Mr. Minner to serve as a member of each of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee of the Board, and designated him as Chairman of the Audit Committee. The Board appointed Mr. Herskovits to serve as a member of each of the Audit Committee, the Nominating and Corporate Governance Committee, and the Strategic Planning Committee of the Board, and designated him as Chairman of the Nominating and Corporate Governance Committee and Strategic Planning Committee. The Board appointed Mr. Cozza to serve as a member of the Audit Committee and the Compensation Committee of the Board, and designated him as Chairman of the Compensation Committee. The Board appointed Mr. Miller to serve as a member of each of the Nominating and Corporate Governance Committee, the Compensation Committee and the Risk Committee of the Board, and designated him as Chairman of the Risk Committee.

On May 29, 2018, Mr. Hewitt, the Chairman of the Board and the sole holder of the Company's Class B common stock, elected Nicole Ossenfort to serve on the Board. The appointment of Ms. Ossenfort by Mr. Hewitt filled a vacancy created by the Board's reduction of the total number of directors constituting the entire Board of Directors from eleven to nine and the subsequent election of two former Class B Director designees as Class A Directors. The Amended and Restated Certificate of Incorporation of the Company permitted Mr. Hewitt, as the sole owner of all of the Class B common stock, to elect the Class B Director designees. The Board appointed Ms. Ossenfort to serve as a member of the Risk Committee and Strategic Planning Committee of the Board.

On June 5, 2018, CRI provided notice of its resignation as the independent registered public accounting firm of the Company, effective as of the same date. CRI's decision to resign was not recommended or approved by either the Audit Committee or the Board of Directors of the Company. CRI did not complete any audits of the Company's financial statements, and, therefore, CRI did not issue an adverse opinion or disclaimer of opinion, and no report was qualified or modified as to uncertainty, audit scope or accounting principles.

On June 28, 2018, the Audit Committee of the Board of Directors of the Company engaged Cherry Bekaert LLP as its independent registered public accounting firm for the fiscal year ended April 30, 2018.

On July 5, 2018, the Company's Board of Directors approved a cash dividend of \$0.16 per share payable on August 10, 2018 to holders of record of common stock and common stock equivalents on July 27, 2018.

On July 18, 2018, the Company entered into a Sixth Amendment to the Revolving Credit and Term Loan Agreement with the lenders and SunTrust Bank, as administrative agent, dated as of April 30, 2012. The Sixth Amendment reduces the Aggregate Revolving Commitment Amount from \$193,750,000 to \$170,000,000.

On July 24, 2018, the Company announced that Mr. Hewitt entered into a stock purchase agreement, dated July 19, 2018, to sell all of the shares of the Company's Class A common stock and Class B common stock owned directly and indirectly by him to Vintage Tributum LP, an affiliate of Vintage Capital Management, LLC ("Vintage"), as an unaffiliated third party (the "Sale"). In connection with the Sale, the shares of the Company's Class B common stock converted into shares of the Company's Class A common stock, and no shares of the Company's Class B common stock remained outstanding. In addition to the stock purchase agreement with Mr. Hewitt, Vintage also entered into a stock purchase agreement with other stockholders of the Company to purchase additional shares of Class A common stock of the Company.

On July 31, 2018, the Company received formal notice from the Nasdaq indicating that the Nasdaq Hearings Panel (the "Panel") had determined to delist the Company's securities from Nasdaq based upon the Company's

non-compliance with the filing requirements set forth in Nasdaq Listing Rule 5250(c)(1). As a result of the Panel's decision, Nasdaq suspended trading in the Company's securities effective at the open of business on Thursday, August 2, 2018, and indicated that it intended to file a Form 25 NSE Notification of Delisting with the SEC once all applicable appeal and review periods have expired in order to effect the formal delisting of the Company's securities from Nasdaq.

On August 3, 2018, in connection with the Sale, Mr. Hewitt agreed to tender his resignation to the Board and agreed to cause the following members of the Board previously elected to the Board by Mr. Hewitt to tender their resignations to the Board, in each case, effective upon the closing of the Sale: Gordon D'Angelo, Ellen M. McDowell, Nicole Ossenfort and John Seal. Ms. Ossenfort continues to serve as the Company's President and Chief Executive Officer following her resignation from the Board. Following the Sale, the Company decreased the size of the Board to five members with one vacancy. Also in

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connection with the Sale and at the request of Vintage, the Company agreed that the Board would take all necessary action to increase the size of the Board to nine directors, resulting in five vacancies. Vintage indicated to the Company its intent to fill the five vacancies in the near term by the written consent of at least a majority of the outstanding shares of the Company's Class A common stock (the "Written Consent") and agreed that at least three of the individuals elected to fill the vacancies would, in Vintage's reasonable judgment, meet the standards necessary for the Board to reasonably determine they are "independent" for purposes of the Nasdaq Listing Rules. The Company's action to increase the size of the Board to nine directors would become effective on the date immediately prior to the effective date of the Written Consent.

On August 9, 2018, the Company received the Written Consent executed by stockholders representing a majority of the outstanding shares of the Company's Class A common stock electing Brian R. Kahn, Andrew M. Laurence, Matthew Avril, Bryant R. Riley, and Kenneth M. Young as directors of the Company to serve until the Company's next annual meeting of stockholders and until their successors are duly elected and qualified.

On September 5, 2018, the Company submitted its appeal of the Panel's determination to delist the Company's Class A common stock to the Nasdaq Listing and Review Council. Pending the outcome of the appeal, the Company's Class A common stock will continue to be quoted on the OTC Market under the symbol "TAXA".