Liberty Tax, Inc.
Form 10-Q
December 10, 2018

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

FORM 10-Q

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

For the quarterly period ended October 31, 2018

OR

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

For the transition period from to

Commission File Number 001-35588

Liberty Tax, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-3561876
(State of incorporation)	(IRS employer identification no.)

1716 Corporate Landing Parkway
Virginia Beach, Virginia 23454
(Address of principal executive offices)
(757) 493-8855
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically Interactive Data File required to be submitted 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 such files). Yes o No ý

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	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o
			o

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 o No ý

The number of shares outstanding of the registrant's Class A common stock as of December 3, 2018 was 14,036,684 shares.

LIBERTY TAX, INC.

Form 10-Q for the Quarterly Period Ended October 31, 2018

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FINANCIAL STATEMENTS (UNAUDITED)

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LIBERTY TAX, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
October 31, 2018, April 30, 2018 and October 31, 2017
(In thousands, except share data)

Assets	October 31, 2018 (unaudited)	April 30, 2018	October 31, 2017 (unaudited)
Current assets:			
Cash and cash equivalents	$ 5,132	$ 18,522	$ 5,173
Receivables:			
Accounts receivable	40,089	52,517	41,850
Notes receivable - current	38,014	24,295	39,445
Interest receivable, net of uncollectible amounts	2,500	1,526	3,487
Allowance for doubtful accounts - current	(11,937)	(11,522)	(8,235)
Total current receivables, net	68,666	66,816	76,547
Assets held for sale	4,357	8,941	16,173
Income taxes receivable	14,890	—	14,726
Other current assets	2,928	5,429	3,909
Total current assets	95,973	99,708	116,528
Property, equipment, and software, net	36,185	38,636	39,747
Notes receivable, non-current	10,569	6,554	18,049
Allowance for doubtful accounts, non-current	(1,502)	(965)	(1,614)
Total non-current notes receivables, net	9,067	5,589	16,435
Goodwill	7,550	8,640	7,448
Other intangible assets, net	21,731	22,837	23,029
Deferred income taxes	1,441	343	177
Other assets	2,013	2,250	2,651
Total assets	$ 173,960	$ 178,003	$ 206,015
Liabilities and Stockholders’ Equity			
Current liabilities:			
Current installments of long-term obligations	$ 15,685	$ 18,113	$ 5,306
Accounts payable and accrued expenses	15,100	14,521	11,936
Due to Area Developers (ADs)	6,886	17,906	7,484
Income taxes payable	—	4,511	—
Revolving credit facility	48,275	—	—
Deferred revenue - current	3,873	2,021	2,428
Total current liabilities	89,819	57,072	27,154
Long-term obligations, excluding current installments, net	1,979	2,270	17,106
Revolving credit facility	—	—	60,950
Deferred revenue and other - non-current	6,890	4,692	5,611
Deferred income tax liability	919	1,397	3,585
Long-term income taxes payable	1,070	1,070	—
Total liabilities	100,677	66,501	114,406
Commitments and contingencies			
Stockholders’ equity:			
Special voting preferred stock, $0.01 par value per share, 0, 10 and 10 shares authorized, issued and outstanding, respectively	—	—	—

Class A common stock, $0.01 par value per share, 21,200,000 shares authorized, 14,036,684, 12,823,020 and 12,725,472 shares issued and outstanding, respectively	140	128	127
Class B common stock, $0.01 par value per share, 1,000,000 shares authorized, 0, 200,000 and 200,000 shares issued and outstanding, respectively	—	2	2
Exchangeable shares, $0.01 par value per share, 1,000,000 shares authorized, 0, 1,000,000 and 1,000,000 shares issued and outstanding, respectively	—	10	10
Additional paid-in capital	11,964	11,570	10,285
Accumulated other comprehensive loss, net of taxes	(1,654)	(1,347)	(1,393)
Retained earnings	62,833	101,139	82,578
Total stockholders' equity	73,283	111,502	91,609
Total liabilities and stockholders' equity	$ 173,960	$ 178,003	$ 206,015

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
Three and Six Months Ended October 31, 2018 (unaudited) and 2017 (unaudited)
(In thousands, except share count and per share data)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2018	2017	2018	2017
Revenue:				
Franchise fees	$449	$ 193	$1,006	$ 264
Area Developer fees	619	634	1,647	1,702
Royalties and advertising fees	1,474	1,299	3,036	2,988
Financial products	477	636	1,056	1,218
Interest income	1,549	2,101	3,205	4,398
Assisted tax preparation fees, net of discounts	1,382	1,549	2,901	3,189
Electronic filing fees	30	—	58	—
Other revenues	796	1,359	1,031	2,199
Total revenues	6,776	7,771	13,940	15,958
Operating expenses:				
Employee compensation and benefits	9,205	10,712	19,975	20,703
Selling, general, and administrative expenses	10,052	9,554	21,354	18,754
Area Developer expense	401	397	706	769
Advertising expense	1,229	1,702	2,914	4,079
Depreciation, amortization, and impairment charges	3,165	2,334	6,359	4,530
Restructuring expense	1,078	3,371	9,345	3,371
Total operating expenses	25,130	28,070	60,653	52,206
Loss from operations	(18,354)	(20,299)	(46,713)	(36,248)
Other income (expense):				
Foreign currency transaction gain (loss)	(2)	(39)	—	71
Interest expense	(547)	(508)	(1,077)	(789)
Loss before income taxes	(18,903)	(20,846)	(47,790)	(36,966)
Income tax benefit	(6,029)	(7,743)	(15,545)	(14,105)
Net loss	(12,874)	(13,103)	(32,245)	(22,861)
Net loss per share of common stock:				
Basic and diluted	$(0.92)	$ (1.02)	$(2.38)	$ (1.77)
Weighted-average shares outstanding basic and diluted	14,033,89[illegible]	12,903,626	13,555,99[illegible]	12,893,088
Dividends declared per share of common stock and common stock equivalents	$—	$ 0.16	$0.16	$ 0.32

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss
Three and Six Months Ended October 31, 2018 (unaudited) and 2017 (unaudited)
(In thousands)

	Three Months Ended October 31,		Six Months Ended October 31,	
	2018	2017	2018	2017
Net loss	$(12,874)	$(13,103)	$(32,245)	$(22,861)
Unrealized gain on interest rate swap agreement, net of taxes of $4, $9, $(1) and $9, respectively	10	26	20	11
Foreign currency translation adjustment	(125)	(354)	(327)	680
Comprehensive loss	$(12,989)	$(13,431)	$(32,552)	$(22,170)

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
Six Months Ended October 31, 2018 (unaudited) and 2017 (unaudited)
(In thousands)

	Six Months Ended October 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(32,245)	$(22,861)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	3,898	3,455
Depreciation, amortization, and impairment charges	6,359	4,530
Amortization of deferred financing costs	138	—
Loss on disposal of fixed and intangible assets	5,330	841
Stock-based compensation expense	439	1,973
Loss on bargain purchases and sales of Company-owned offices	(138)	(729)
Equity in gain of affiliate	46	—
Deferred tax income (expense)	(179)	7
Changes in accrued income taxes	(19,441)	(21,098)
Changes in other assets and liabilities	54	(5,742)
Net cash used in operating activities	(35,739)	(39,624)
Cash flows from investing activities:		
Issuance of operating loans to franchisees and ADs	(18,828)	(21,082)
Payments received on operating loans to franchisees	1,525	2,110
Purchases of AD rights, Company-owned offices and acquired customer lists	(119)	(2,112)
Proceeds from sale of Company-owned offices and AD rights	90	76
Purchases of property, equipment and software	(1,925)	(2,704)
Net cash used in investing activities	(19,257)	(23,712)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	—	95
Dividends paid	(2,244)	(4,482)
Repayment of amounts due to former ADs and franchisees	—	(2,971)
Repayment of long-term obligations	(4,280)	(1,654)
Borrowings under revolving credit facility	48,601	61,257
Repayments under revolving credit facility	(326)	(307)
Cash paid for taxes on exercises/vesting of stock-based compensation	(46)	(153)
Net cash provided by financing activities	41,705	51,785
Effect of exchange rate changes on cash, net	(99)	297
Net decrease in cash and cash equivalents	(13,390)	(11,254)
Cash and cash equivalents at beginning of period	18,522	16,427
Cash and cash equivalents at end of period	$5,132	$5,173

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
Six Months Ended October 31, 2018 (unaudited) and 2017 (unaudited)
(In thousands)

	Six Months Ended October 31,	
	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest of $16 and $305, respectively	$1,010	$761
Cash paid for taxes, net of refunds	4,030	7,011
Accrued capitalized software costs included in accounts payable	121	70
During the six months ended October 31, 2018 and 2017, the Company acquired certain assets from ADs, franchisees, and third parties as follows:		
Fair value of assets purchased	$1,748	$8,002
Receivables applied, net of amounts written off, due ADs and related deferred revenue	(117)	(4,327)
Bargain purchase gains	(48)	(674)
Long-term obligations and accounts payable issued to seller	(1,464)	(889)
Cash paid to ADs, franchisees and third parties	$119	$2,112
During the six months ended October 31, 2018 and 2017, the Company sold certain assets to ADs and franchisees as follows:		
Book value of assets sold	$726	$305
Gain on sale - revenue deferred	—	18
Loss on sale - loss recognized	(27)	(12)
Notes received	(609)	(235)
Cash received from ADs and franchisees	$90	$76

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

October 31, 2018 and 2017

(1) Organization and 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 products 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.

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

Unless 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.

Basis of Presentation
The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Assets and liabilities of the Company's Canadian operations have been translated into U.S. dollars using the exchange rate in effect at the end of the period. Revenues and expenses have been translated using the average exchange rates in effect each month of the period. Foreign exchange transaction gains and losses are recognized when incurred. The Company reclassifies to accounts payable checks issued in excess of funds available and reports them as cash flow from operating activities. 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 interests 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 has the ability to exert significant influence over the entity, the Company applies the equity method of accounting. Intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required only in annual financial statements. The consolidated balance sheet data as of April 30, 2018 was derived from the Company's April 30, 2018 Annual Report on Form 10-K filed on October 5, 2018, as amended by Amendment No. 1 to the Annual Report on Form 10-K filed on October 10, 2018.

In the opinion of management, all adjustments necessary for a fair presentation of such condensed consolidated financial statements in accordance with GAAP have been recorded. These adjustments consisted only of normal recurring items. The accompanying condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto included in its April 30, 2018 Annual Report on Form 10-K filed on October 5, 2018, as amended by Amendment No. 1 to the Annual Report on Form 10-K filed on October 10, 2018.

Office Count

As a seasonal business, the Company works throughout the off season to open new offices, and, at the same time, some of our franchisees will choose not to reopen for the next season. Some of these decisions are not made until January of each year, and the Company expects to report office count information for the quarter ended January 31, 2019 once all offices have been opened.

Use of Estimates

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

Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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, but does not expect it to have a material impact on its consolidated statements of operations.

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 adopted 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 adopted the update for all periods beginning on or after May 1, 2018 and it does not have an impact on the Company's 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 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.

In May 2014, the FASB issued Accounting Standards Codification ("ASC") 606, “Revenues from Contracts with Customers” which amends the guidance in ASC 605, “Revenue Recognition.” The core principle of this new standard is to recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. ASC 606 also requires additional disclosures around the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The adoption of this new standard did not materially impact the Company’s recognition of revenues generated from the following:

- Assisted tax preparation fees, net of discounts, which are recorded at the time the return is filed. The related discounts are recorded as reductions to revenues.
- Financial products, which are recorded at the time the return is filed. A change to certain financial products offered in the third quarter will be disclosed at that time.
- Royalties and advertising fees, which are based on a percent of the franchisees’ sales are recognized at the time the underlying sales occur. The Company has elected to use the right to invoice practical expedient for recognition of minimum royalties.
- Interest income on notes receivable, which is recognized based on the outstanding principal note balance unless it is put on non-accrual status. Interest income on notes receivable that are placed on a non-accrual basis is recognized when cash is received. Interest income on accounts receivable is recognized based on the outstanding receivable balance over 30 days old, net of an allowance.
- Gains on sales of Company-owned offices, which are recognized when cash is received. Losses on sales of Company-owned offices are recognized immediately.

The details of the significant changes in revenue recognition and quantitative impact of the changes are discussed below.

Initial Franchise Fees

Typically, franchise rights are granted to franchisees for an initial term of five years with an option to renew at no additional cost. In exchange for initial franchise fees, 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. Under the previous revenue recognition guidance, revenues from initial franchise fees were recognized when the obligations of the Company to prepare the franchisee for operation were substantially complete, up to the amount of cash received.

Under the new guidance, the standard requires that the transaction price received from customers be allocated to each separate and distinct performance obligation. The transaction price attributable to each separate and distinct performance obligation is then recognized as the performance obligations are satisfied. The services that the Company provides related to the initial franchise fees the Company receives from franchisees do not contain separate and distinct performance obligations from the franchise right. Accordingly, under the new standard, initial franchise fees, as constrained for amounts the Company does not expect to collect, will be recognized over the initial term of the franchise agreement, which is generally five years.

AD Fees

Historically, the rights to develop a new territory were granted to an AD for an initial term of six or ten years with an option to renew at no additional cost. Under the previous revenue recognition guidance, AD fees were 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. Under the new guidance, the standard requires the Company to recognize AD fees, as constrained for amounts not expected to be collected, over the initial term of the AD agreement.

The Company also sells a developed territory and simultaneously grants the right to operate as the exclusive AD in such developed territory to a new AD for an initial term of six years or ten years. Under the previous revenue recognition guidance, gains on sales of developed territories were recognized as revenues over the initial term, with the cumulative amount of revenues recognized not to exceed the amount of cash received. Losses on sales of developed territories were recognized immediately. Such gains and losses represented the difference between the transaction price and the net book value of the intangible asset recorded upon the Company's reacquisition of the developed territory as of the date of the sale. Under the new guidance, the transaction price, as constrained for amounts the Company does not expect to collect, is recognized as revenues over the initial term of the AD agreement. The net book value of the intangible asset is written-off to operating expenses at the date of the sale.

Electronic Filing Fees

Electronic filing fees are recorded in the period the tax return is electronically filed. Under the previous revenue recognition guidance, the electronic filing fees and the franchisees' share in such fees were recorded as revenues and expense in the consolidated income statement, respectively. Under the new guidance, the electronic filing fees, net of the franchisees' share in such fees, will be recorded as revenues in the consolidated statements of operations.

Transition Method

The Company applied the new guidance on all contracts that were not completed as of May 1, 2018 using the modified retrospective method, whereby the cumulative effect of initially adopting the guidance was recognized as an adjustment to the opening balance of retained earnings at May 1, 2018 in the amount of $3.8 million, net of tax, with corresponding increases in deferred revenue and notes receivable. Therefore, the results of operations from the comparative period have not been adjusted and continue to be reported under the previous revenue recognition guidance.

Impacts on the Condensed Consolidated Financial Statements

The following tables summarize the impacts of adopting ASC 606 on the Company's condensed consolidated financial statements as of and for the six months ended October 31, 2018:

Condensed Consolidated Balance Sheet	As Reported	ASC 606 Adjustment	Balances Without Adoption of ASC 606
	(In thousands)		
Notes receivable, current	$38,014	$ 851	$37,163
Allowance for doubtful accounts - current	(11,937)	331	(12,268)
Income taxes receivable	14,890	(627)	15,517
Notes receivable, non-current	10,569	425	10,144
Other intangible assets, net	21,731	(169)	21,900
Deferred income taxes	1,441	1,111	330
Total assets	173,960	1,924	172,036
Deferred revenue, current	3,873	2,093	1,780
Deferred revenue and other, non-current	6,890	3,127	3,763
Deferred income tax liability	919	(456)	1,375
Total liabilities	100,677	2,270	98,407
Retained earnings	62,833	(346)	63,179
Total stockholders' equity	73,283	(346)	73,629
Total liabilities and stockholders' equity	$173,960	$ 1,924	$172,036

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Condensed Consolidated Statement of Operations	As Reported	ASC 606 Adjustment	Balances Without Adoption of ASC 606
	(In thousands)		
Franchise fees	$1,006	$ 683	$323
Area Developer fees	1,647	601	1,046
Electronic filing fees	58	(231)	289
Other revenues	1,031	132	899
Total revenues	13,940	1,186	12,754
Selling, general, and administrative expenses	21,354	(232)	21,586
Total operating expenses	60,653	1,247	59,406
Loss from operations	(46,713)	(61)	(46,652)
Loss before income taxes	(47,790)	1,417	(49,207)
Income tax benefit	(15,545)	462	(16,007)
Net loss	$(32,245)	$ 955	$(33,200)

There have been no other significant changes in the Company's condensed consolidated balance sheets or statements of operations and cash flows as a result of the adoption of ASC 606.

Contract Balances

The following table provides information about receivables and contract liabilities (deferred revenue) from contracts with customers:

	October 31, 2018	April 30, 2018
	(In thousands)	
Notes receivable (1)	$48,583	$30,849
Deferred revenue (2)	10,149	5,667

(1) Notes receivable increased by $1.7 million as of May 1, 2018 due to the change in the Company's revenue recognition policy for initial franchise and AD fees upon adoption of ASC 606.

(2) Deferred revenue increased $6.9 million as of May 1, 2018 due to the cumulative effect of adopting ASC 606.

Significant changes in deferred franchise and AD fees are as follows:

	Six Months Ended October 31, 2018 (In thousands)
Deferred franchise and AD fees at beginning of period	$ 5,667
ASC 606 deferred franchise and AD fees adoption	6,940
Revenue recognized during the period	(2,652)

New deferrals of franchise and AD fees	194
Deferred franchise and AD fees at end of period	$ 10,149

Anticipated Future Recognition of Deferred Franchise and AD Fees

The following table reflects the estimated franchise and AD fees expected to be recognized in the future related to performance obligations that are unsatisfied at the end of the period:

	Estimate for Fiscal Year (In thousands)
2019 (1)	$ 1,905
2020	3,413
2021	2,485
2022	1,473
2023	624
Thereafter	249
Total	$ 10,149

(1) Represents franchise and AD fees expected to be recognized for the remainder of fiscal 2019. The amount does not include $2.7million of franchise and AD fee revenues recognized for the six months ended October 31, 2018.

The Company has applied the optional exemption, as provided for under ASC 606, which allows the Company not to disclose the transaction price allocated to unsatisfied performance obligations when the transaction price is a sales-based royalty.

Foreign Operations

Canadian operations contributed $0.4 million and $0.4 million in revenues for the three months ended October 31, 2018 and 2017, respectively, and $1.2 million and $1.4 million in revenues for the six months ended October 31, 2018 and 2017, respectively.

The Company may have exposure to foreign currency fluctuations due to transactions between its U.S. and Canadian subsidiaries.

(2) Accounts and Notes Receivable

The Company provides select financing to ADs and franchisees for the purchase of franchises, areas, 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 an annual rate of 12%.

Most of the notes receivable are due from the Company's ADs and franchisees and are collateralized by the underlying franchise and, when the AD or franchise 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 franchise or AD areas.

At October 31, 2018, the Company had unfunded lending commitments for working capital loans to franchisees and ADs of $13.5 million through the end of the current fiscal year.

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 fair value of the franchises and AD areas collateralizing the receivables. Any adverse change in the tax preparation industry or the individual franchise or AD areas could affect the Company's estimate of the allowance.

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Activity in the allowance for doubtful accounts for the three and six months ended October 31, 2018 and 2017 was as follows:

	Three Months Ended October 31,		Six Months Ended October 31,	
	2018	2017	2018	2017
	(In thousands)			
Balance at beginning of period	$13,559	$10,625	$12,487	$12,020
Provision for doubtful accounts	1,931	2,047	3,870	3,455
Write-offs	(2,040)	(2,773)	(2,880)	(5,723)
Foreign currency adjustment	(11)	(50)	(38)	97
Balance at end of period	$13,439	$9,849	$13,439	$9,849

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 performed as of April 30 of each year, 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 between franchisees, sales of Company-owned stores, net fees of open offices earned during the most recently completed tax season, and the number of unopened offices. The Company performs its impairment analysis annually due to the seasonal nature of its operations. At the end of each fiscal quarter, the Company considers the activity during the period for accounts and notes receivable impaired at each prior fiscal year end and adjusts the allowance for doubtful accounts accordingly. While not specifically identifiable as of the balance sheet date, the Company's analysis of its experience also indicates that a portion of other accounts and notes receivable may not be collectible. Net amounts due include contractually obligated accounts and notes receivable plus accrued interest, reduced by unrecognized revenue, the allowance for uncollected interest, amounts due ADs, and amounts owed to the franchisee by the Company.

The allowance for doubtful accounts at October 31, 2018, April 30, 2018 and October 31, 2017, was allocated as follows:

	October 31, 2018	April 30, 2018	October 31, 2017
	(In thousands)		
Impaired:			
Notes and interest receivable, net of unrecognized revenue	$11,734	$11,654	$13,778
Accounts receivable	12,412	13,891	10,026
Less amounts due to ADs and franchisees	(1,604)	(1,907)	(1,010)
Amounts receivable less amounts due to ADs and franchisees	$22,542	$23,638	$22,794
Allowance for doubtful accounts for impaired notes and accounts receivable	$9,526	$10,322	$8,109
Non-impaired:			
Notes and interest receivable, net of unrecognized revenue	$39,349	$20,721	$47,203
Accounts receivable	27,677	38,626	31,824
Less amounts due to ADs and franchisees	(5,476)	(11,722)	(7,024)
Amounts receivable less amounts due to ADs and franchisees	$61,550	$47,625	$72,003
Allowance for doubtful accounts for non-impaired notes and accounts receivable	$3,913	$2,165	$1,740
Total:			
Notes and interest receivable, net of unrecognized revenue	$51,083	$32,375	$60,981
Accounts receivable	40,089	52,517	41,850
Less amounts due to ADs and franchisees	(7,080)	(13,629)	(8,034)
Amounts receivable less amounts due to ADs and franchisees	$84,092	$71,263	$94,797
Total allowance for doubtful accounts	$13,439	$12,487	$9,849

The Company’s average investment in impaired receivables during the six months ended October 31, 2018 and 2017 was $23.1 million and $23.5 million, respectively.

Analysis of Past Due Receivables

The breakdown of accounts and notes receivable past due at October 31, 2018 was as follows:

	Past due	Current	Interest receivable, net	Total receivables
	(In thousands)			
Accounts receivable	$34,732	$5,357	$ —	$ 40,089
Notes and interest receivable, net (1)	12,109	36,474	2,500	51,083
Total accounts, notes and interest receivable	$46,841	$41,831	$ 2,500	$ 91,172

(1) Interest receivable is shown net of an allowance for uncollectible interest of $3.0 million.

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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 the due date. If it is determined the likelihood of collecting substantially all of the notes and accrued interest is not probable, the notes are put on non-accrual status. The Company’s investment in notes receivable on non-accrual status was $12.1 million, $13.6 million and $11.3 million at October 31, 2018, April 30, 2018, and October 31, 2017, respectively. Payments received on notes in non-accrual status are applied to the principal until the note is current and then to interest income. Non-accrual notes that are paid current and expected to remain current are moved back into accrual status during the next annual review.

(3) Restructuring Expense

In the six months ended October 31, 2017, 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 $9.3 million of expenses in the six months ended October 31, 2018 related to these initiatives. The expenses incurred are presented in the Restructuring expense line item in the consolidated statements of operations. The composition of the restructuring expenses incurred for the six months ended October 31, 2018 were as follows:

Expense	Cash	Accrued Expenses	Non-cash	Total Expense
	(In thousands)			
Contract termination costs - maintenance	$37	$ —	$ —	$ 37
Property and intangible impairments and exit costs	1,031	2,718	5,559	9,308
Total	$1,068	$ 2,718	$ 5,559	$ 9,345

The property and intangible impairments and exit costs, which were primarily recorded in assets held for sale, were comprised of expenses related to lease obligations and non-cash charges associated with intangible write-downs. The accrued restructuring expenses of $2.7 million are included in "Accounts payable and accrued expenses" in the accompanying consolidated balance sheets.

A summary of the activity in accrued expenses related to restructuring initiatives for the six months ended October 31, 2018 is as follows:

	Contract termination costs - maintenance	Property and intangible impairments and exit costs	Total accrued expenses
	(In thousands)		
Balance at beginning of period	$1,359	$ —	$ 1,359
Additions accrued against the liability	—	3,749	3,749
Cash payments	—	(1,031)	(1,031)
Balance at end of period	$1,359	2,718	$ 4,077

(4) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the six months ended October 31, 2018 and 2017 were as follows:

	October 31, 2018	October 31, 2017
	(In thousands)	

Balance at beginning of period	$8,640	$ 8,576
Acquisitions of assets from franchisees and others	118	29
Disposals and foreign currency changes, net	(1,208)	(125)
Purchase price reallocation	—	(1,032)
Balance at end of period	$7,550	$ 7,448

Components of intangible assets were as follows as of October 31, 2018, April 30, 2018 and October 31, 2017:

	October 31, 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	$ (1,846)	$ 1,341
Tradenames	3 years	539	(291)	248
Non-compete agreements	2 years	241	(205)	36
Assets acquired from franchisees:				
Customer lists	4 years	1,235	(1,015)	220
Reacquired rights	2 years	977	(898)	79
AD rights	9 years	32,002	(12,195)	19,807
Total intangible assets		$ 38,181	$ (16,450)	$ 21,731

	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

	October 31, 2017			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	(In thousands)			
Customer lists acquired from unrelated third parties	5 years	$ 3,188	$ (1,224)	$ 1,964
Tradenames	3 years	431	(100)	331
Non-compete agreements	2 years	241	(85)	156
Assets acquired from franchisees:				
Customer lists	4 years	1,212	(1,011)	201
Reacquired rights	2 years	946	(926)	20
AD rights	9 years	29,260	(8,903)	20,357
Total intangible assets		$ 35,278	$ (12,249)	$ 23,029

The Company acquired $1.3 million and $2.8 million of AD rights during the six months ended October 31, 2018 and 2017, respectively.

During the six months ended October 31, 2018 and 2017, the Company did not acquire any assets of U.S. or Canadian franchisees, or third parties that were not classified as assets held for sale.

(5) Assets Held For Sale

At the end of the second quarter of fiscal 2019 and 2018, assets acquired from U.S. franchisees were classified as assets held for sale. During the six months ended October 31, 2018, the Company acquired $0.3 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 less than $0.2 million and goodwill of less than $0.2 million prior to being recorded as assets held for sale. During the six months ended October 31, 2017, the Company acquired $5.2 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 $2.6 million and goodwill of $2.6 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. During the six months ended October 31, 2018, the Company sold, terminated, or impaired $4.9 million in assets from U.S. franchisees, of which $3.8 million was included in the Company's restructuring initiative.

Changes in the carrying amount of assets held for sale for the six months ended October 31, 2018 and 2017 were as follows:

	Six Months Ended October 31,	
	2018	2017
	(In thousands)	
Balance at beginning of period	$8,941	$11,989
Reacquired and acquired from third parties	302	5,231
Sold or terminated, impairments and other	(4,886)	(1,047)
Balance at end of period	$4,357	$16,173

During fiscal 2018, the Company reviewed assets held for sale that were deemed unlikely to be sold in the preceding 12 months. Those identified were transferred to assets held for use and amortization expense was recorded on a cumulative basis for customer lists and reacquired rights.

(6) Long-Term Obligations

The Company has a credit facility that consists of a term loan with an original principal amount of $21.2 million and a revolving credit facility that currently allows borrowing of up to $170.0 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.

The average interest rate paid during the six months ended October 31, 2018 and 2017 was 3.78% and 2.91%, respectively. The indebtedness is collateralized by substantially all the assets of the Company, and both loans mature on April 30, 2019.

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 credit facility to zero for a period of at least 45 consecutive days each fiscal year. The Company was in compliance with the financial covenants at October 31, 2018.

In December 2016, the Company obtained a mortgage payable to a bank in monthly installments of principal payments plus interest at the one-month LIBOR plus 1.85% through December 2026 with a balloon payment of $0.8

million due at maturity. The mortgage is collateralized by land and buildings.

In December 2016, in connection with obtaining a mortgage payable to a bank, the Company entered into an interest rate swap agreement that 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 October 31, 2018, the fair value of the interest rate swap is less than $0.1 million and is included in other current assets. The interest rate swap expires in December 2026.

Long-term obligations at October 31, 2018, April 30, 2018, and October 31, 2017 consisted of the following:

	October 31, 2018	April 30, 2018	October 31, 2017
	(In thousands)		
Credit Facility:			
Revolver	$48,275	$—	$60,950
Term loan, net of debt issuance costs	13,680	14,855	15,898
Total credit facility	61,955	14,855	76,848
Long-Term Obligations			
Term loan, net of debt issuance costs	13,680	14,855	15,898
Due former ADs, franchisees and third parties	2,008	3,490	4,414
Mortgages	1,976	2,038	2,100
	17,664	20,383	22,412
Less: current installments	(15,685)	(18,113)	(5,306)
Long-term obligations, excluding current installments, net	$1,979	$2,270	$17,106

(7) Income Taxes

During the second quarter of fiscal 2019, the Company continued its assessment of the corporate income tax impacts expected to result from the Tax Cuts and Jobs Act (the “Tax Act”). During the six months ended October 31, 2018, the Company did not adjust its provisional amounts recorded as of April 30, 2018. The Company is finalizing its assessment of the impact of the Tax Act and the provisional estimates may change because of additional analysis of the underlying calculations or additional regulatory guidance.

Similar to prior years, pre-tax book income estimated in the fourth quarter of fiscal 2019 is expected to offset pre-tax book loss for the six months ended October 31, 2018 due to the established pattern of seasonality in the Company's primary business operations. Management has determined it is at least more-likely-than-not that realization of tax benefits recorded in the Company's financial statements will occur during fiscal 2019. The amount of tax benefit recorded for the six months ended October 31, 2018 reflects the Company’s estimated annual effective tax rate applied to the year-to-date loss from continuing operations adjusted for the tax impact of discrete items.

The Company's effective tax rate from continuing operations, including discrete income tax items, was 31.9% and 32.5% for the three and six months ended October 31, 2018, respectively and 37.1% and 38.2% for the three and six months ended October 31, 2017, respectively. The reduced effective tax rate results primarily from the decrease in the U.S. federal corporate income tax rate from 35% to 21%, effective after December 31, 2017.

(8) Stockholders’ Equity

Stockholders' Equity Activity

During the six months ended October 31, 2018 and 2017, activity in stockholders’ equity was as follows:

	Six Months Ended October 31,	
	2018	2017
	(In thousands, except for share amounts)	
Class A common stock issued from the vesting of restricted stock and as director compensation	13,664	33,922
Class B common stock converted to Class A common stock	200,000	—
Exchangeable shares exchanged for Class A common stock	1,000,000	—
Proceeds from exercise of stock options	$ —	$ 95
Stock-based compensation expense	$ 439	$ 1,973
Dividends declared	$ 2,267	$ 4,590

In July 2018, the sole holder of the Company's Class B common stock entered into a stock purchase agreement to sell all of their outstanding shares of the Company's Class A common stock and Class B common stock owned directly and indirectly by them. 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 on a one-for-one basis and for no additional consideration. As of October 31, 2018, no shares of the Company’s Class B common stock remained outstanding. In addition, the sole holder of the Company’s exchangeable shares elected to exchange all of the exchangeable shares held by it for shares of the Company’s Class A common stock on a one-for-one basis and for no additional consideration. In connection with such exchange, the Company redeemed all ten of its outstanding shares of special voting preferred stock for a price of $1.00 per share. As of October 31, 2018, no shares of the Company’s exchangeable shares or special voting preferred stock remained outstanding or authorized to issue.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss at October 31, 2018, April 30, 2018 and October 31, 2017 were as follows.

	October 31, 2018	April 30, 2018	October 31, 2017
	(In thousands)		
Foreign currency adjustment	$(1,708)	$(1,381)	$ (1,380)
Unrealized gain on interest rate swap agreement, net of taxes	54	34	(13)
Total accumulated other comprehensive loss	$(1,654)	$(1,347)	$ (1,393)

Net Loss per Share

Net income (loss) per share of Class A and Class B common stock is computed using the two-class method. Basic net income (loss) per share is computed by allocating undistributed earnings to common stock and participating securities (exchangeable shares) and using the weighted-average number of common stock 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 (loss) per share is computed using the weighted-average number of common stock and, if dilutive, the potential common stock outstanding during the period. Potential common stock consists of the incremental common stock 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 diluted earnings per share by application of the treasury stock method. Additionally, the computation of the diluted net income (loss) per share of Class A common stock assumes the conversion of Class B common stock and exchangeable shares, if dilutive, while the diluted net loss per share of Class B common stock does not assume conversion of those shares.

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

The computation of basic and diluted net loss per share for the six months ended October 31, 2018 and 2017 is as follows:

	Three Months Ended October 31, 2018		Three Months Ended October 31, 2017	
	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock
	(In thousands, except for share and per share amounts)			
Basic and diluted net loss per share:				
Numerator				
Allocation of undistributed losses	$ (12,874)	$ —	$ (12,900)	$ (203)
Denominator				
Weighted-average common stock outstanding	14,033,895	—	12,703,626	200,000
Basic and diluted net loss per share	$ (0.92)	$ —	$ (1.02)	$ (1.02)

As a result of the net losses for the periods shown, diluted net loss per share excludes the impact of shares of potential common stock from the exercise of options to purchase 417,083 and 1,067,327 shares for the three months ended October 31, 2018 and 2017, respectively, because the effect would be anti-dilutive.

	Six Months Ended October 31, 2018		Six Months Ended October 31, 2017	
	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock
	(In thousands, except for share and per share amounts)			
Basic and diluted net loss per share:				
Numerator				
Allocation of undistributed losses	$(32,012)	$ (233)	$(22,506)	$ (355)
Denominator				
Weighted-average common shares outstanding	13,458,167	97,826	12,693,088	200,000
Basic and diluted net loss per share	$(2.38)	$ (2.38)	$(1.77)	$ (1.77)

As a result of the net losses for the periods shown, diluted net loss per share excludes the impact of shares of potential common stock from the exercise of options to purchase 634,498 and 1,362,807 shares for the six months ended October 31, 2018 and 2017, respectively, because the effect would be anti-dilutive.

(9) Stock Compensation Plans

Stock Options

The Company has an equity and cash incentive plan, for the issuance of up to 2,500,000 shares of Class A common stock in which employees and outside directors are eligible to receive awards. At October 31, 2018, 1,609,224 shares of Class A common stock remain available for grant.

Stock option activity during the six months ended October 31, 2018 was as follows:

	Number of options	Weighted average exercise price
Balance at beginning of period	472,503	$ 17.41
Granted	572,569	9.78
Expired or forfeited	(366,704)	17.99
Balance at end of period	678,368	$ 10.66

Intrinsic value is defined as the fair value of the stock less the cost to exercise. No options were exercised during the six months ended October 31, 2018. The total intrinsic value of stock options outstanding at October 31, 2018 was $0.6 million. Stock options vest from the date of grant to five years after the date of grant and expire from four to seven years after the vesting date.

Nonvested stock options activity during the six months ended October 31, 2018 was as follows:

	Nonvested options	Weighted average exercise price
Balance at beginning of period	267,433	$ 14.27
Granted	572,569	9.78
Vested	(92,207)	9.49
Forfeited	(225,226)	14.22
Balance at end of period	522,569	$ 9.93

At October 31, 2018, unrecognized compensation costs related to nonvested stock options were $0.9 million. These costs are expected to be recognized through fiscal 2022.

The following table summarizes information about stock options outstanding and exercisable at October 31, 2018:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number of shares outstanding	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of options exercisable	Weighted average exercise price
$0.00 - $10.89	572,569	$ 9.78	6.4	50,000	$ 8.30
$10.90 - $16.38	78,469	11.77	3.5	78,469	11.77
$16.39 - $26.17	18,858	22.57	1.8	18,858	22.57
$26.18 - $33.38	8,472	33.38	0.9	8,472	33.38
	678,368	$ 10.66		155,799	$ 13.14