Liberty Tax, Inc.
Form 10-Q
March 09, 2017

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 January 31, 2017

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 ý No o

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

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

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

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 March 2, 2017 was 12,682,550 shares.

The number of shares outstanding of the registrant's Class B common stock as of March 2, 2017 was 200,000 shares.

LIBERTY TAX, INC.

Form 10-Q for the Quarterly Period Ended January 31, 2017

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PART I. FINANCIAL INFORMATION
ITEM 1
FINANCIAL STATEMENTS
LIBERTY TAX, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
January 31, 2017, April 30, 2016 and January 31, 2016
(In thousands, except share data)

Assets	January 31, 2017 (unaudited)	April 30, 2016	January 31, 2016 (unaudited)
Current assets:			
Cash and cash equivalents	$ 3,459	$ 9,906	$ 1,787
Receivables:			
Accounts receivable	63,013	49,908	59,865
Notes receivable - current	79,122	26,710	90,858
Interest receivable, net	5,201	1,944	5,156
Allowance for doubtful accounts - current	(8,529)	(6,840)	(5,993)
Total current receivables, net	138,807	71,722	149,886
Assets held for sale	17,549	9,886	11,164
Income taxes receivable	12,827	—	16,303
Deferred income tax asset	3,881	3,496	3,354
Other current assets	23,079	5,838	21,188
Total current assets	199,602	100,848	203,682
Property, equipment, and software, net of accumulated depreciation of $25,681, $21,052 and $19,825, respectively	41,734	40,957	41,216
Notes receivable, non-current	27,455	25,514	34,374
Allowance for doubtful accounts, non-current	(1,713)	(2,010)	(1,338)
Total notes receivables, non-current, net	25,742	23,504	33,036
Goodwill	4,811	4,228	4,069
Other intangible assets, net	22,648	16,270	13,217
Other assets	3,214	7,416	8,458
Total assets	$ 297,751	$ 193,223	$ 303,678
Liabilities and Stockholders' Equity			
Current liabilities:			
Current installments of long-term obligations	$ 5,688	$ 5,947	$ 5,220
Accounts payable and accrued expenses	22,259	11,664	15,506
Due to Area Developers	13,157	24,977	16,258
Income taxes payable	—	3,581	—
Deferred revenue - current	3,436	4,682	4,413
Total current liabilities	44,540	50,851	41,397
Long-term obligations, excluding current installments, net of debt issuance costs of $70, $108 and $122, respectively	19,238	17,493	18,410
Revolving credit facility	131,215	—	150,682
Deferred revenue - non-current	5,307	7,056	7,206
Deferred income tax liability	8,203	6,322	6,049
Total liabilities	208,503	81,722	223,744
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, 12,681,245, 11,993,292 and 11,969,604 shares issued and outstanding, respectively	127	120	120
Class B common stock, $0.01 par value per share, 1,000,000 shares authorized, 200,000, 900,000 and 900,000 shares issued and outstanding, respectively	2	9	9
Exchangeable shares, $0.01 par value, 1,000,000 shares issued and outstanding	10	10	10
Additional paid-in capital	7,862	7,153	6,385
Accumulated other comprehensive loss, net of taxes	(1,673)	(1,698)	(2,430)
Retained earnings	82,920	105,907	75,840
Total stockholders' equity	89,248	111,501	79,934
Total liabilities and stockholders' equity	$ 297,751	$ 193,223	$ 303,678

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
Three and Nine Months Ended January 31, 2017 and 2016 (unaudited)
(In thousands, except share count and per share data)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2017	2016	2017	2016
Revenue:				
Franchise fees	$522	$ 1,011	$1,126	$2,526
Area Developer fees	1,001	1,363	3,118	4,491
Royalties and advertising fees	19,078	25,571	21,862	28,589
Financial products	18,745	17,266	19,528	17,781
Interest income	3,246	3,188	8,500	7,503
Tax preparation fees, net of discounts	3,883	3,843	5,803	4,805
Other revenue	1,948	1,379	2,869	3,320
Total revenue	48,423	53,621	62,806	69,015
Operating expenses:				
Employee compensation and benefits	11,240	11,638	29,836	28,454
Selling, general, and administrative expenses	18,193	12,585	35,679	29,097
Area Developer expense	5,958	9,340	6,979	10,722
Advertising expense	5,424	8,972	8,838	14,072
Depreciation, amortization, and impairment charges	2,503	2,118	6,330	5,626
Total operating expenses	43,318	44,653	87,662	87,971
Income (loss) from operations	5,105	8,968	(24,856)	(18,956)
Other income (expense):				
Foreign currency transaction gain (loss)	15	(14)	(10)	(39)
Gain on sale of available-for-sale securities	—	—	50	—
Interest expense	(977)	(705)	(2,053)	(1,592)
Income (loss) before income taxes	4,143	8,249	(26,869)	(20,587)
Income tax expense (benefit)	1,688	3,511	(10,552)	(7,717)
Net income (loss)	2,455	4,738	(16,317)	(12,870)
Less: Net income attributable to participating securities	(177)	(343)	—	—
Net income (loss) attributable to Class A and Class B common stockholders	$2,278	$ 4,395	$(16,317)	$(12,870)
Basic	$0.18	$ 0.34	$(1.26)	$(1.01)
Diluted	$0.18	$ 0.34	$(1.26)	$(1.01)
Weighted-average shares outstanding basic	12,902,577	12,795,367	12,899,757	12,794,185
Weighted-average shares outstanding diluted	13,924,210	14,002,356	12,899,757	12,794,185
Dividends declared per share of common stock and common stock equivalents	$0.16	$ 0.16	$0.48	$0.48

See accompanying notes to condensed consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Loss)
Three and Nine Months Ended January 31, 2017 and 2016 (unaudited)
(In thousands)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2017	2016	2017	2016
Net income (loss)	$2,455	$4,738	$(16,317)	$(12,870)
Unrealized loss on interest rate swap agreement, net of taxes of $14, $-, $14, and $-, respectively	(22)	—	(22)	—
Unrealized (loss) gain on available-for-sale securities, net of taxes of $-, $208, $345 and $208, respectively	—	(347)	580	(347)
Reclassified gain on sale of available-for-sale securities included in income, net of taxes of $-, $-, $20 and $-, respectively	—	—	(30)	—
Foreign currency translation adjustment	189	(488)	(513)	(1,362)
Forward contracts related to foreign currency exchange rates	9	(23)	9	(23)
Comprehensive income (loss)	$2,631	$3,880	$(16,293)	$(14,602)

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Nine Months Ended January 31, 2017 and 2016 (unaudited)
(In thousands)

	Nine Months Ended January 31,	
	2017	2016
Cash flows from operating activities:		
Net loss	$(16,317)	$(12,870)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	6,482	4,589
Depreciation, amortization, and impairment charges	6,330	5,626
Stock-based compensation expense	1,520	1,348
Gain on sale of available-for-sale securities	(50)	—
Gain on bargain purchases and sales of Company-owned offices	(634)	(470)
Deferred tax expense	1,046	7,253
Changes in accrued income taxes	(16,728)	(18,283)
Changes in other assets and liabilities	(43,694)	(55,476)
Net cash used in operating activities	(62,045)	(68,283)
Cash flows from investing activities:		
Issuance of operating loans to franchisees	(63,670)	(81,364)
Payments received on operating loans to franchisees	4,065	3,077
Purchases of AD rights and Company-owned offices	(8,141)	(3,713)
Proceeds from sale of Company-owned offices and AD rights	1,291	2,851
Purchase of available-for-sale securities	—	(4,999)
Proceeds from sale of available-for-sale securities	5,049	—
Purchases of property, equipment and software	(4,303)	(8,685)
Net cash used in investing activities	(65,709)	(92,833)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	—	1,998
Repurchase of common stock	(417)	(1,977)
Dividends paid	(6,670)	(6,629)
Repayment of amounts due to former ADs and franchisees	(1,204)	(2,429)
Repayment of long-term obligations	(3,710)	(726)
Borrowings under revolving credit facility	132,531	151,225
Repayments under revolving credit facility	(1,316)	(543)
Proceeds from mortgage debt	2,200	—
Payment for debt issue costs	(35)	—
Tax benefit of stock option exercises	60	933
Net cash provided by financing activities	121,439	141,852
Effect of exchange rate changes on cash, net	(132)	(336)
Net decrease in cash and cash equivalents	(6,447)	(19,600)
Cash and cash equivalents at beginning of period	9,906	21,387
Cash and cash equivalents at end of period	$3,459	$1,787

See accompanying notes to condensed consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Nine Months Ended January 31, 2017 and 2016 (unaudited)
(In thousands)

	Nine Months Ended January 31, 2017	2016
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest of $106 and $225, respectively	$1,702	$974
Cash paid for taxes, net of refunds	5,062	2,374
Accrued capitalized software costs included in accounts payable	7	292
During the nine months ended January 31, 2017 and 2016, the Company acquired certain assets from ADs, franchisees, and third parties as follows:		
Fair value of assets purchased	$27,016	$15,087
Receivables applied, net of amounts due ADs and related deferred revenue	(11,656)	(9,391)
Bargain purchase gains	(513)	(451)
Notes and accounts payable issued	(6,706)	(1,532)
Cash paid to ADs, franchisees and third parties	$8,141	$3,713
During the nine months ended January 31, 2017 and 2016, the Company sold certain assets to ADs and franchisees as follows:		
Book value of assets sold	$9,287	$8,505
Gain on sale - revenue deferred	617	1,688
Loss on sale - loss recognized	(98)	(156)
Notes received	(6,552)	(7,186)
Notes and accounts payable assumed	(1,963)	—
Cash received from ADs and franchisees	$1,291	$2,851

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

January 31, 2017 and 2016 (Unaudited)

(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 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 and personal income tax refund discounting in Canada. The Company also offers online tax preparation services. All of the offices are operated under the Liberty Tax Service and SiempreTax+ brands.

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 fund 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 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 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 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 exerts significant influence over the entity, the Company applies the equity method of accounting. All intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("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. Consolidated balance sheet data as of April 30, 2016 was derived from the Company's April 30, 2016 Annual Report on Form 10-K filed on June 29, 2016.

In the opinion of management, all adjustments necessary for a fair presentation of such financial statements in accordance with GAAP have been recorded. These adjustments consisted only of normal recurring items. The accompanying consolidated financial statements should be read in conjunction with the Company's financial statements and notes thereto included in its April 30, 2016 Annual Report on Form 10-K filed on June 29, 2016.

Office Count

The following table shows the U.S. office activity and the number of Canadian and Company-owned offices for the 2017, 2016 and 2015 tax seasons:

	Tax Season		
	2017	2016	2015
U.S. Office Locations:			
Permanent Office Locations:			
Operated during the prior tax season	3,960	3,764	3,663
Offices opened	172	453	397
Offices closed	(422)	(257)	(296)
Operated during the current tax season	3,710	3,960	3,764
Seasonal Office Locations:			
Operated during the prior tax season	211	262	486
Offices opened	37	127	118
Offices closed	(181)	(178)	(342)
Operated during the current tax season	67	211	262
Processing Centers	46	54	43
Total U.S. Office Locations	3,823	4,225	4,069
Canada Office Locations	254	262	259
Total Office Locations	4,077	4,487	4,328
Additional Office Information:			
Company-owned offices	362	310	182
Franchised offices	3,715	4,177	4,146
Total Office Locations	4,077	4,487	4,328

SiempreTax+ is operating 159 offices during the 2017 tax season compared to 144 during the 2016 season and 57 during the 2015 season. These offices include second locations opened by current franchisees in existing territories, conversions of existing Liberty Tax offices and offices opened in new territories.

Territory Sales

During the first nine months of fiscal 2017, we sold approximately 85 new territories, compared to approximately 180 during the same period in fiscal 2016 and 160 in fiscal 2015.

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 May 2016, the Company adopted Accounting Standards Update ("ASU") 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires that debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt premiums and discounts, and ASU 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements", which further clarifies the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. ASU 2015-03 and ASU 2015-15 applies retrospectively and does not change the recognition and measurement requirements for debt issuance costs. The adoption of ASU 2015-03 and ASU 2015-15 resulted in the reclassification of $0.1 million of unamortized debt issuance costs related to the Company's borrowings from other assets to long-term obligations within our consolidated balance sheet as of January 31, 2017, April 30, 2016 and January 31, 2016, respectively.

In May 2016, the Company adopted ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis", which effectively eliminates the presumption that a general partner should consolidate a limited partnership, modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIE"s) or voting interest entities, and affects the consolidation analysis of reporting entities that are involved with VIEs (particularly those that have fee arrangements and related party relationships). The Company has completed its evaluation and has concluded there is no material impact from the adoption of the new standard on its consolidated financial statements.

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-09, "Improvements to Employee Share Based Payment Accounting (Topic 718)", to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard will be effective for the Company beginning with its first quarterly filing in fiscal year 2018. Early adoption is permitted, including adoption in an interim period prior to fiscal 2018. The Company is currently evaluating the impact of the adoption of this newly issued standard to its consolidated financial statements.

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 is currently evaluating the impact of the adoption of this newly issued standard to its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "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 2017-04, “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.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business.” This new standard clarifies the definition of a business in order to allow for the evaluation of whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard will be effective for the Company in the first quarter of our fiscal year 2019. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this newly issued standard to its consolidated financial statements.

Foreign Operations

Canadian operations contributed $0.5 million and $0.3 million in revenues for the three months ended January 31, 2017 and 2016, respectively and $1.7 million and $1.6 million in revenues for the nine months ended January 31, 2017 and 2016.

(2) Accounts and Notes Receivable

The Company provides 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 AD or 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.
Accounts and notes receivable include royalties billed that relate to territories operated by franchisees located in AD territories and a portion of those accounts and notes receivable are payable to the AD. The Company has recorded amounts payable to ADs for their share of these receivables of $13.2 million, $25.0 million, and $16.3 million at January 31, 2017, April 30, 2016 and January 31, 2016, respectively.
At January 31, 2017, the Company had unfunded lending commitments for working capital loans to franchisees and ADs of $22.3 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.
Activity in the allowance for doubtful accounts for the three and nine months ended January 31, 2017 and 2016 was as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2017	2016	2017	2016
	(In thousands)			
Balance at beginning of period	$8,991	$8,075	$8,850	$7,355
Provision for doubtful accounts	3,195	1,192	6,482	4,589
Write-offs	(1,967)	(1,883)	(5,051)	(4,461)
Foreign currency adjustment	23	(53)	(39)	(152)

Balance at end of period	$10,242	$7,331	$10,242	$7,331

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

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allowance for doubtful accounts based on that excess. 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 past 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. 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 allowance for doubtful accounts at January 31, 2017, April 30, 2016 and January 31, 2016, was allocated as follows:

	January 31, 2017	April 30, 2016	January 31, 2016
	(In thousands)		
Impaired:			
Notes and interest receivable, net of unrecognized revenue	$10,012	$12,960	$6,466
Accounts receivable	6,341	7,083	4,274
Less amounts due to ADs and franchisees	(589)	(1,426)	(727)
Amounts receivable less amounts due to ADs and franchisees	$15,764	$18,617	$10,013
Allowance for doubtful accounts for impaired notes and accounts receivable	$6,814	$7,787	$3,693
Non-impaired:			
Notes and interest receivable, net of unrecognized revenue	$101,766	$41,208	$123,922
Accounts receivable	56,672	42,825	55,591
Less amounts due to ADs and franchisees	(12,994)	(26,183)	(16,170)
Amounts receivable less amounts due to ADs and franchisees	$145,444	$57,850	$163,343
Allowance for doubtful accounts for non-impaired notes and accounts receivable	$3,428	$1,063	$3,638
Total:			
Notes and interest receivable, net of unrecognized revenue	$111,778	$54,168	$130,388
Accounts receivable	63,013	49,908	59,865
Less amounts due to ADs and franchisees	(13,583)	(27,609)	(16,897)
Amounts receivable less amounts due to ADs and franchisees	$161,208	$76,467	$173,356
Total allowance for doubtful accounts	$10,242	$8,850	$7,331

The Company’s average investment in impaired notes receivable during the nine months ended January 31, 2017 and 2016 was $11.5 million and $8.7 million, respectively.

Analysis of Past Due Receivables

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 note and accrued interest is not probable the notes are put on non-accrual status. Accounts receivables unpaid as of April 30 each year often remain unpaid until the following tax season due to the seasonal nature of the Company's operations and franchisees' cash flows. Non-accrual notes that are paid current and expected to remain current are moved back into accrual status during the next annual review.

The breakdown of accounts and notes receivable past due at January 31, 2017 was as follows:

	Past due	Current	Interest receivable, net	Total receivables
	(In thousands)			
Accounts receivable	$34,288	$28,725	$ —	$ 63,013
Notes and interest receivable, net of unrecognized revenue (1)	10,253	96,324	5,201	111,778
Total accounts, notes and interest receivable	$44,541	$125,049	$ 5,201	$ 174,791

(1) Interest receivable is shown net of an allowance for uncollectible interest of $1.8 million.

The Company’s investment in notes receivable on non-accrual status was $11.6 million, $5.5 million and $6.0 million at January 31, 2017, April 30, 2016, and January 31, 2016, respectively. Payments received on notes in non-accrual status are applied to the principal until the note is current then to interest income.

(3) Other Assets - Current and Non-current

Other current assets at January 31, 2017, April 30, 2016 and January 31, 2016 consists of the following:

	January 31, 2017	April 30, 2016	January 31, 2016
	(In thousands)		
Financial products receivable	$12,991	$ 677	$ 14,483
Other current assets	10,088	5,161	6,705
Total	$23,079	$ 5,838	$ 21,188

During fiscal 2016, the Company purchased a corporate equity security for $5.0 million, which was classified as available-for-sale and reported in other non-current assets. The security was sold during the first half of fiscal 2017. A gain on the sale of $50,000 was recognized and reclassified out of accumulated other comprehensive income, net of taxes and recorded as other income.

(4) Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the nine months ended January 31, 2017 and 2016 were as follows:

	January 31, 2017	January 31, 2016
	(In thousands)	
Balance at beginning of period	$4,228	$ 3,377
Acquisitions of assets from franchisees and others	858	975
Disposals and foreign currency changes, net	(185)	(283)
Impairments	(90)	—
Balance at end of period	$4,811	$ 4,069

The impairment recorded for the nine months ended January 31, 2017 was determined using a discounted cash flow analysis.

Components of intangible assets were as follows as of January 31, 2017, April 30, 2016 and January 31, 2016:

	January 31, 2017			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	(In thousands)			
Amortizable intangible assets:				
Customer lists acquired from unrelated third parties	4 years	$1,027	$(546)	$481
Assets acquired from franchisees:				
Customer lists	4 years	1,555	(667)	888
Reacquired rights	2 years	430	(422)	8
AD rights	10 years	26,521	(6,741)	19,780
Acquired assets pending final allocation (1)	-	1,491	—	1,491
Total intangible assets		$31,024	$(8,376)	$22,648

(1) Represents recent business acquisitions for which final purchase price allocations have not yet been determined.

	April 30, 2016			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	(In thousands)			
Amortizable intangible assets:				
Customer lists acquired from unrelated third parties	4 years	$1,027	$(339)	$688
Assets acquired from franchisees:				
Customer lists	4 years	1,380	(500)	880
Reacquired rights	2 years	511	(482)	29
AD rights	10 years	20,218	(5,545)	14,673
Total intangible assets		$23,136	$(6,866)	$16,270

	January 31, 2016			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	(In thousands)			
Amortizable intangible assets:				
Customer lists acquired from unrelated third parties	4 years	$1,027	$(254)	$773
Assets acquired from franchisees:				
Customer lists	4 years	1,394	(634)	760
Reacquired rights	2 years	441	(407)	34
AD rights	10 years	16,694	(5,044)	11,650
Total intangible assets		$19,556	$(6,339)	$13,217

The Company acquired $8.1 million, and $1.9 million of AD rights during the nine months ended January 31, 2017 and 2016, respectively.

During the nine months ended January 31, 2017, the Company acquired the assets of U.S. or Canadian franchisees, or third parties for $2.6 million. During the nine months ended January 31, 2016, the Company acquired the assets of U.S. and Canadian franchisees for $2.2 million. The allocation of the purchase price of assets acquired from franchisees and third parties is as follows:

	Nine Months Ended January 31,	
	2017	2016
	(In thousands)	
Customer lists and reacquired rights	$277	$822
Accounts receivable	—	320
Property, equipment, and software	20	40
Reacquired rights	—	—
Goodwill	858	975
Acquired assets pending final allocation	1,491	—
Total	$2,646	$2,157

(5) Assets Held For Sale

At the end of the third quarter of fiscal 2017 and 2016, assets acquired from U.S. franchisees were classified as assets held for sale. During the nine months ended January 31, 2017, the Company acquired $16.3 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 $8.1 million and goodwill of $8.2 million prior to being recorded as assets held for sale. The value of assets acquired includes $2.1 million of estimated contingent consideration that is included in long-term obligations as due to former ADs and franchisees. During the nine months ended January 31, 2016, the Company acquired $11.8 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 $5.2 million and goodwill of $6.3 million prior to being recorded as assets held for sale. 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 amount of assets held for sale for the nine months ended January 31, 2017 and 2016 were as follows:

	Nine Months Ended January 31,	
	2017	2016
	(In thousands)	
Balance at beginning of period	$9,886	$5,160
Reacquired, acquired from third parties, and other	16,334	11,820
Dispositions and impairments	(8,671)	(5,816)
Balance at end of period	$17,549	$11,164

(6) Long-Term Obligations

The Company has a credit facility that consists of a $21.2 million term loan and a revolving credit facility that currently allows borrowing of up to $203.8 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. On August 18, 2016, the Company amended its credit facility, to provide for a modification of certain loan covenants to increase the Company’s leverage ratio during the third quarter of each fiscal year. The amendment makes available additional funds due to an expected delay in our cash flows from the Internal Revenue Service until at least February 15, 2017 for taxpayers who claim certain refundable tax credits.

The average interest rate paid during the nine months ended January 31, 2017 and 2016 was 2.23% and 1.84%, respectively. 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 that has a small balance under the revolving credit facility, which mature 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 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 January 31, 2017.

In December 2016, the Company obtained a mortgage payable to a bank in monthly installments of principle 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 building.
Long-term obligations at January 31, 2017, April 30, 2016, and January 31, 2016 consisted of the following:

	January 31, 2017	April 30, 2016	January 31, 2016
	(In thousands)		
Credit Facility:			
Revolver	$131,215	$—	$150,682
Term loan, net of debt issuance costs	17,391	18,884	19,667
	148,606	18,884	170,349
Due former ADs, franchisees and third parties	5,345	2,317	1,720
Mortgages	2,190	2,239	2,243
	156,141	23,440	174,312
Less: current installments	(5,688)	(5,947)	(5,220)
Long-term obligations	$150,453	$17,493	$169,092

As discussed in Note 1, the adoption of ASU 2015-03 and ASU 2015-15 resulted in the reclassification of $0.1 million of unamortized debt issuance costs related to the Company's borrowings from other assets to long-term obligations within our consolidated balance sheet for each period ended January 31, 2017, April 30, 2016 and January 31, 2016, respectively.

(7) Forward Contracts Related to Foreign Currency Exchange Rates and Cash Flow Hedge

The Company periodically enters into forward contracts to eliminate the exposure related to foreign currency fluctuations in connection with short-term advances made to its Canadian subsidiary. Foreign currency contracts with a fair value of $9,000 are included in other current assets at January 31, 2017. Foreign currency contracts with a fair value of $23,000 are included in accounts payable and accrued expenses at January 31, 2016.

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 January 31, 2017, the fair value of the interest rate swap is less than $0.1 million and is included in accounts payable and accrued expenses. The interest rate swap expires in December 2026.

(8) Income Taxes

The Company computes its provision for, or benefit from, income taxes by applying the estimated annual effective tax rate to income or loss from recurring operations and adjusting for the effects of any discrete income tax items specific to the period.

(9) Stockholders' Equity

Stockholders' Equity Activity

During the nine months ended January 31, 2017 and 2016, activity in stockholders' equity was as follows:

	Nine Months Ended January 31,	
	2017	2016
	(in thousands, except for share amounts)	
Class A common stock issued from the exercise of stock options	—	132,510
Class A common stock issued from the vesting of restricted stock and as director compensation	20,725	14,293
Class B common stock converted to Class A common shares	700,000	—
Class A common stock repurchased	33,153	82,355
Proceeds from exercise of stock options	$ —	$ 1,998
Stock-based compensation expense	1,520	1,348
Repurchase of common stock	417	1,977
Tax effect of stock option exercises	(394)	933
Dividends declared	6,670	6,629

During the nine months ended January 31, 2017, the sole holder of the Company's Class B common stock converted 700,000 of those shares to the Company's Class A common stock on a one-for-one basis and for no additional consideration.

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss at January 31, 2017, April 30, 2016 and January 31, 2016 were as follows.

	January 31, 2017	April 30, 2016	January 31, 2016
	(In thousands)		
Foreign currency adjustment	$(1,660)	$(1,148)	$ (2,060)
Unrealized loss on available-for-sale securities, net of taxes of $-, $324, and $208, respectively	—	(550)	(347)
Forward contracts related to foreign currency exchange rates	9	—	(23)
Unrealized loss on interest rate swap agreement, net of taxes	(22)	—	—
Total accumulated other comprehensive loss	$(1,673)	$(1,698)	$ (2,430)

Net Income (Loss) per Share

Net income (loss) per share of Class A and Class B common stock is computed using