JTH TAX, INC. AND SUBSIDIARIES
(d/b/a Liberty Tax Service)

Consolidated Financial Statements

April 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2100
999 Waterside Drive
Norfolk, VA 23510

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of JTH Tax, Inc. and subsidiaries (d/b/a Liberty Tax Service) (the Company) as of April 30, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended April 30, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of JTH Tax, Inc. and subsidiaries as of April 30, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended April 30, 2009, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 23, 2009

JTH TAX, INC. AND SUBSIDIARIES
(d/b/a Liberty Tax Service)

Consolidated Balance Sheets

April 30, 2009 and 2008

(In thousands)

Assets (Notes 6 and 7)		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	1,930	2,930
Short-term investments		13,336	9,370
Receivables (note 2):			
Trade accounts		27,775	23,629
Notes		27,203	23,780
Bank product fees, net		4,652	4,333
Interest		2,919	2,507
Allowance for uncollectible amounts		(4,045)	(3,474)
Total receivables, net		58,504	50,775
Prepaid expenses and other current assets		385	642
Deferred income taxes (note 9)		407	1,753
Total current assets		74,562	65,470
Property, equipment and software, net (note 3)		17,426	18,521
Notes receivable, excluding current portion, net of allowance for uncollectible amounts of $1,949 and $2,391 for 2009 and 2008, respectively (note 2)		27,381	34,327
Goodwill		1,913	1,913
Other intangible assets, net (note 4)		10,237	5,948
Other assets, net		1,207	1,359
Total assets	$	132,726	127,538
Liabilities and Stockholders' Equity			
Current liabilities:			
Current installments of long-term debt (note 7)	$	2,710	1,922
Accounts payable and accrued expenses (note 15)		26,369	23,473
Income taxes payable (note 9)		7,045	10,005
Deferred revenue		4,571	12,611
Total current liabilities		40,695	48,011
Long-term debt, excluding current installments (note 7)		2,495	4,386
Line of credit (note 6)		10,002	9,838
Deferred income taxes (note 9)		10,041	10,605
Total liabilities		63,233	72,840
Stockholders' equity (notes 10, 11, and 13):			
Preferred stock		2,375	2,375
Special voting preferred stock		—	—
Common stock		11,860	11,522
Exchangeable shares		100	100
Additional paid-in capital		2,689	—
Accumulated other comprehensive income, net of taxes		47	358
Retained earnings		52,422	40,343
Total stockholders' equity		69,493	54,698
Commitments, contingencies and subsequent events (notes 2, 3, 5, 6, 7, 15 and 17)			
Total liabilities and stockholders' equity	$	132,726	127,538

See accompanying notes to consolidated financial statements.

JTH TAX, INC. AND SUBSIDIARIES
(d/b/a Liberty Tax Service)

Consolidated Statements of Income

Years ended April 30, 2009, 2008 and 2007

(In thousands)

		2009	2008	2007
Revenues (note 16):				
Franchise fees, net of provision for franchise fee refunds of $1,193 in 2009, $1,821 in 2008 and $1,874 in 2007	$	10,283	21,393	22,319
Royalties and advertising fees		31,639	26,341	20,798
Bank product and tax discounting income		23,868	22,546	17,992
Interest income (note 2)		8,783	7,511	6,437
Tax preparation fees, net of discounts		4,571	4,481	5,045
Gain on sale of intangibles and property and equipment, net		970	841	196
Other revenue		2,254	4,520	2,361
Total revenues		82,368	87,633	75,148
Operating expenses (note 16):				
Employee compensation and benefits		21,418	20,180	17,801
General and administrative expenses		20,352	22,459	20,944
Advertising expense		12,085	10,133	8,644
Interest expense (notes 6, 7 and 8)		1,574	2,002	2,729
Loss on extinguishment of debt (note 8)		—	—	886
Depreciation, amortization and impairment charges (notes 3 and 4)		5,508	4,975	3,163
Total operating expenses		60,937	59,749	54,167
Other, net (note 16)		(615)	96	18
Gain on deconsolidation of variable interest entities (note 16)		—	—	3,055
Income before income taxes		20,816	27,980	24,054
Income tax expense (note 16)		8,737	11,114	8,324
Net income	$	12,079	16,866	15,730

See accompanying notes to consolidated financial statements.

JTH TAX, INC. AND SUBSIDIARIES
(d/b/a Liberty Tax Service)

Consolidated Statement of Stockholders' Equity and Comprehensive Income

Year ended April 30, 2009

(In thousands)

	Common stock, Class A			Common stock, Class B			Preferred stock, Class A			Special voting preferred stock		
	Shares		Amount	Shares		Amount	Shares		Amount	Shares		Amount
Balance at May 1, 2008	10,622	$	10,622	900	$	900	190	$	2,375	—	$	—
Issuance of common stock in connection with purchase of customer lists (note 10)	42		42	—		—	—		—	—		—
Exercise of stock options (note 11)	443		443	—		—	—		—	—		—
Issuance of common stock (note 13)	424		424	—		—	—		—	—		—
Repurchase of outstanding stock	(571)		(571)	—		—	—		—	—		—
Balance at April 30, 2009	10,960	$	10,960	900	$	900	190	$	2,375	—	$	—

	Exchangeable shares			Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
	Shares		Amount				
Balance at May 1, 2008	100	$	100	—	358	40,343	54,698
Issuance of common stock in connection with purchase of customer lists (note 10)	—		—	587	—	—	629
Exercise of stock options (note 11)	—		—	1,856	—	—	2,299
Stock-based compensation expense (note 11)	—		—	1,055	—	—	1,055
Stock option income tax benefit (note 9)	—		—	506	—	—	506
Issuance of common stock (note 13)	—		—	6,663	—	—	7,087
Repurchase of outstanding stock	—		—	(7,978)	—	—	(8,549)
Net income	—		—	—	—	12,079	12,079
Foreign currency translation adjustment, net of taxes	—		—	—	(311)	—	(311)
Comprehensive income							11,768
Balance at April 30, 2009	100	$	100	2,689	47	52,422	69,493

See accompanying notes to consolidated financial statements.

JTH TAX, INC. AND SUBSIDIARIES
(d/b/a Liberty Tax Service)

Consolidated Statement of Stockholders' Equity and Comprehensive Income

Year ended April 30, 2008

(In thousands)

	Common stock, Class A		Common stock, Class B		Preferred stock, Class A		Preferred stock, Class B	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance at May 1, 2007	11,361	$ 11,361	900	$ 900	190	$ 2,375	25	$ 498
Issuance of common stock in connection with purchase of customer lists (note 10)	4	4	—	—	—	—	—	—
Exercise of stock options (note 11)	374	374	—	—	—	—	—	—
Repurchase of outstanding stock	(1,117)	(1,117)	—	—	—	—	(25)	(498)
Balance at April 30, 2008	10,622	$ 10,622	900	$ 900	190	$ 2,375	—	$ —

	Special voting preferred stock		Exchangeable shares		Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
	Shares	Amount	Shares	Amount				
Balance at May 1, 2007	—	$ —	100	$ 100	4,389	374	37,725	57,722
Issuance of common stock in connection with purchase of customer lists (note 10)	—	—	—	—	52	—	—	56
Exercise of stock options (note 11)	—	—	—	—	945	—	—	1,319
Stock-based compensation expense (note 11)	—	—	—	—	869	—	—	869
Stock option income tax benefit (note 9)	—	—	—	—	541	—	—	541
Repurchase of outstanding stock and stock options	—	—	—	—	(6,796)	—	(14,248)	(22,659)
Net income	—	—	—	—	—	—	16,866	16,866
Foreign currency translation adjustment, net of taxes	—	—	—	—	—	(16)	—	(16)
Comprehensive income								16,850
Balance at April 30, 2008	—	$ —	100	$ 100	—	358	40,343	54,698

See accompanying notes to consolidated financial statements.

JTH TAX, INC. AND SUBSIDIARIES
(d/b/a Liberty Tax Service)

Consolidated Statement of Stockholders' Equity and Comprehensive Income

Year ended April 30, 2007

(In thousands)

	Common stock, Class A			Common stock, Class B			Preferred stock, Class A			Preferred stock, Class B		
	Shares		Amount	Shares		Amount	Shares		Amount	Shares		Amount
Balance at May 1, 2006	10,882	$	10,882	900	$	900	190	$	2,375	25	$	498
Issuance of common stock in connection with purchase of customer lists (note 10)	10		10	—		—	—		—	—		—
Exercise of warrants (note 10)	463		463	—		—	—		—	—		—
Exercise of stock options (note 11)	165		165	—		—	—		—	—		—
Repurchase of outstanding stock	(159)		(159)	—		—	—		—	—		—
Balance at April 30, 2007	11,361	$	11,361	900	$	900	190	$	2,375	25	$	498

	Special voting preferred stock			Exchangeable shares			Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Total
	Shares		Amount	Shares		Amount				
Balance at May 1, 2006	—	$	—	100	$	100	5,498	339	21,995	42,587
Issuance of common stock and common stock committed to be issued in connection with purchase of customer lists (note 10)	—		—	—		—	90	—	—	100
Exercise of warrants (note 10)	—		—	—		—	(463)	—	—	—
Exercise of stock options (note 11)	—		—	—		—	143	—	—	308
Stock-based compensation expense (note 11)	—		—	—		—	251	—	—	251
Stock option income tax benefit (note 9)	—		—	—		—	242	—	—	242
Repurchase of outstanding stock	—		—	—		—	(1,372)	—	—	(1,531)
Net income	—		—	—		—	—	—	15,730	15,730
Foreign currency translation adjustment, net of taxes	—		—	—		—	—	35	—	35
Comprehensive income										15,765
Balance at April 30, 2007	—	$	—	100	$	100	4,389	374	37,725	57,722

See accompanying notes to consolidated financial statements.

JTH TAX, INC. AND SUBSIDIARIES
(d/b/a Liberty Tax Service)

Consolidated Statements of Cash Flows

Years ended April 30, 2009, 2008 and 2007

(In thousands)

	2009	2008	2007
Cash flows from operating activities:			
Net income	$ 12,079	16,866	15,730
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,368	4,788	2,945
Write-down of impaired customer lists	140	187	218
Amortization of deferred financing costs and original issue discount	—	—	113
Stock-based compensation	1,055	869	251
Provision for doubtful accounts and franchise fee refunds	5,459	5,374	6,346
Gain on sale of intangible assets and property and equipment, net	(970)	(841)	(196)
Loss on early extinguishment of debt	—	—	886
Accrued interest on subordinated debt	—	—	321
Deferred tax expense	988	379	373
Unrealized loss on short-term investments	702	19	—
Realized gain on short-term investments	(1,464)	(23)	—
Changes in assets and liabilities increasing (decreasing) cash flows from operating activities:			
Trade accounts receivable	(13,305)	(12,133)	(9,870)
Notes receivable	8,084	(1,357)	(2,370)
Bank product fees	(955)	536	(1,236)
Interest receivable	(1,396)	(819)	(1,203)
Prepaid expenses and other current assets	257	(188)	1,004
Other assets	22	(108)	143
Accounts payable and accrued expenses	2,174	3,600	3,220
Dividend receivable	51	(51)	—
Income taxes payable	(2,865)	3,211	3,149
Deferred revenue	(3,148)	4,327	897
Net cash provided by operating activities	12,276	24,636	20,721
Cash flows from investing activities:			
Issuance of operating loans to franchisees	(23,977)	(13,710)	(12,457)
Payments received on operating loans from franchisees	20,243	12,232	9,789
Purchases of customer lists and other assets	(4,223)	(2,368)	(1,374)
Proceeds from sale of customer lists and other assets	424	879	546
Proceeds from sale of short-term investments	36,149	806	69
Purchases of short-term investments	(38,442)	(10,121)	—
Purchases of property and equipment	(2,866)	(1,737)	(6,196)
Decrease in cash from deconsolidation of VIEs	—	—	(174)
Net cash used in investing activities	(12,692)	(14,019)	(9,797)
Cash flows from financing activities:			
Proceeds from the exercise of stock options and warrants	2,299	1,319	308
Proceeds from issuance of long-term debt	—	—	17,600
Repayment of long-term debt	(2,706)	(16,286)	(20,050)
Repurchase of outstanding stock and stock options	(8,549)	(22,659)	(1,531)
Proceeds from the issuance of common stock	7,087	—	—
Net borrowings under lines of credit	164	9,838	—
Payment for debt issuance costs	(70)	(861)	—
Tax benefit of stock option exercises	506	541	242
Net cash used in financing activities	(1,269)	(28,108)	(3,431)
Effect of exchange rate changes on cash, net	685	(493)	(1)
Net increase (decrease) in cash and cash equivalents	(1,000)	(17,984)	7,492
Cash and cash equivalents at beginning of year	2,930	20,914	13,422
Cash and cash equivalents at end of year	$ 1,930	2,930	20,914

(Continued)

JTH TAX, INC. AND SUBSIDIARIES
(d/b/a Liberty Tax Service)

Consolidated Statements of Cash Flows

Years ended April 30, 2009, 2008 and 2007

(In thousands)

		2009	2008	2007
Supplemental disclosures of cash flow information:				
Cash paid for interest	$	1,694	2,357	3,869
Cash paid for taxes		10,217	6,958	4,565
Supplemental disclosures of noncash investing and financing activities:				
During the years ended April 30, 2009, 2008 and 2007, the Company acquired certain assets from franchisees as follows:				
Fair value of assets purchased	$	9,316	6,412	6,909
Receivables applied		(10,491)	(6,132)	(9,620)
Accounts payable canceled		1,535	1,449	775
Liabilities assumed		(4)	(47)	(66)
Notes payable issued		(1,603)	—	(120)
Deferred revenue recognized		5,110	682	3,373
Common stock issued		(629)	(30)	(100)
Applied from sales of franchise territories		989	34	223
Cash paid to franchisees	$	4,223	2,368	1,374
During the year ended April 30, 2009, 2008 and 2007, the Company sold certain assets to franchisees as follows:				
Book value of assets sold	$	3,761	4,162	5,618
Gain (loss) on sale		1,899	476	(152)
Deferred gain on sale		662	1,218	2,145
Applied from acquisitions of franchise territories		(56)	(248)	98
Notes received		(5,842)	(4,729)	(7,163)
Cash received from franchisees	$	424	879	546

In 2007, the Company purchased an online tax preparation software application for $9,406, including direct costs of the acquisition. The purchase price was paid as follows: $2,748 in cash and $6,597 through the issuance of a term note payable.

See accompanying notes to consolidated financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

JTH Tax, Inc. and subsidiaries (d/b/a Liberty Tax Service) (the Company) is a franchisor and operator of a system of offices in the United States and Canada engaged in the preparation of personal income tax returns. Through this system of offices, the Company also facilitates to its customers refund-based financial products such as refund anticipation loans, electronic refund checks and personal income tax refund discounting. The Company operates under the trade name "Liberty Tax Service." The Company also offers online tax preparation services. The Company was formed in October 1996 as a Delaware corporation.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of JTH Tax, Inc. and its wholly owned subsidiaries. Assets and liabilities of the Canadian subsidiary have been translated into U.S. dollars using the exchange rate in effect at the end of the year. The revenues and expenses have been translated using the average exchange rates in effect each month of the year. Transaction gains and losses are recognized in income when incurred. In accordance with the Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 46(R), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, the Company also consolidates any variable interest entities (VIEs) of which it is the primary beneficiary, as defined. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(d) Short-Term Investments

Short-term investments consist of equity securities and related dividends receivable. The Company has classified these investments as trading securities in accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Trading securities are recorded at fair value with changes in fair value reported within the consolidated statements of income. Fair value of all short-term investments is based on Level 1 inputs (note 12).

(e) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and bear interest at 18% annually once they have aged greater than 30 days. Finance charges are fully reserved and are only recognized in income when they have been paid. The allowance for doubtful accounts includes the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Because the repayment of accounts receivable is dependent on the performance of the underlying franchisees, management estimates the amount of the allowance for doubtful accounts based on a comparison of amounts due to the estimated fair value of the underlying franchise. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its accounts receivable.

(f) Notes Receivable

Notes receivable are recorded at cost, less the related allowance for doubtful accounts. Because the repayment of the notes receivable is dependent on the performance of the underlying franchise that collateralizes the note, management estimates the amount of the allowance for doubtful accounts based on a comparison of amounts due to the estimated fair value of the underlying franchise. The Company provides an allowance against accrued interest on a delinquent note when a scheduled payment becomes 90 days past due or the recorded value of the note receivable exceeds the value of the underlying franchise. Loans are written off against the allowance when all possible means of collection have been exhausted and the potential for recovery is considered remote.

(g) Property, Equipment and Software

Property, equipment and software are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the depreciable assets, generally three to five years for computer equipment, three to seven years for software, seven years for furniture and fixtures and twenty to thirty-five years for buildings. Leasehold improvements are amortized over the lesser of the lease term or the estimated useful lives of the assets.

(h) Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill is not amortized, but instead tested for impairment at least annually in accordance with the provisions of FASB Statement No. 142, *Goodwill and Other Intangible Assets*. Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstance indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it with its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with FASB Statement No. 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

During 2009, 2008 and 2007, the Company performed its annual impairment review of goodwill and concluded that there was no impairment.

(i) Deferred Revenue

The Company may receive all or part of the initial franchise fee or proceeds from the gain on sale of Company-owned stores prior to the execution of the franchise agreement or completion of the earnings process. These amounts are classified as deferred revenue until the franchise fee or gain qualifies to be recognized as revenue or is refunded.

(j) Revenue Recognition

Franchise fee revenue, net of a provision for franchise fee refunds, is recognized when obligations of the Company to prepare the franchisee for operation have been substantially completed. Franchise fees are also recognized from area developer sales wherein the Company sells a cluster of territories to an individual. Franchise fees that are financed by the Company are recorded as deferred revenue until such time as the unit franchisee or area developer has made a significant financial commitment (20% of the franchise fee).

Royalties and advertising fees are recognized currently as the franchised territory generates sales. Tax return preparation fees, bank product and tax discounting fees are recognized as revenue in the period the related tax return is filed or prepared for the customer. Discounts for promotional programs are recorded at the time the return is prepared.

Gains on sales of Company-owned stores, which are financed by the Company, are deferred until the franchisee has made a significant financial commitment (20%). Losses on sales of Company-owned stores are recognized immediately.

(k) Income Taxes

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

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a threshold of more-likely than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. FIN 48 requires the recognition of interest, if the tax law would require interest to be paid on the underpayment of taxes, and recognition of penalties, if a tax position does not meet the minimum statutory threshold to avoid payment of penalties. Penalties and interest may be classified as either penalties and interest expense or income tax expense. Management has elected to classify accrued interest in interest expense and accrued penalties in general and administrative expenses. The Company adopted the provisions of FIN 48 effective May 1, 2006.

(l) Long-Lived Assets

In accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(m) Comprehensive Income

Comprehensive income consists of net income and the foreign currency translation adjustment and is presented in the accompanying consolidated statements of stockholders' equity and comprehensive income.

(n) Stock-Based Compensation

Effective May 1, 2006, the Company adopted FASB Statement No. 123(R), *Share-Based Payment* (Statement 123(R)). This statement replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation* (Statement 123) and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Statement 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the prospective method of application, which requires the Company to recognize compensation cost on a prospective basis. Therefore, prior years' financial statements have not been restated. Under this method, the Company records stock-based compensation expense for awards granted prior to, but not yet vested as of May 1, 2006, using the fair value amounts determined for pro forma disclosures under Statement 123. For stock-based awards granted after May 1, 2006, the Company recognizes compensation expense based on estimated grant date fair value using the Black-Scholes option-pricing model and the compensation expense is included in income from continuing operations.

(o) Use of Estimates

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

(p) Reclassification

Certain 2008 and 2007 amounts have been reclassified to conform to the 2009 financial statement presentation.

(q) Recently Issued Accounting Standards

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosure about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP FAS 157-2). FSP FAS 157-2 defers the implementation of Statement 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted Statement 157 beginning May 1, 2008 for financial instruments. Although the adoption of Statement 157 did not impact the Company's financial condition, results of operations or cash flow, the Company is now required to provide additional disclosures as part of its financial statements. The disclosure can be found in note 12. The aspects that have been deferred by FSP FAS 157-2 will be effective for the Company beginning May 1, 2009 and the Company is currently assessing the potential impact of its adoption.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (Statement 159). Statement 159 gives the Company the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. If the fair value option is elected, changes in fair value would be recorded in earnings at each subsequent reporting date. Statement 159 was effective for the Company beginning May 1, 2008. The Company has not elected the fair value measurement option for any financial assets or liabilities that were not previously recorded at fair value.

(2) Notes and Accounts Receivable

The Company provides financing to franchisees for the purchase of franchises and/or for working capital and equipment needs. The franchise related notes generally are payable over five years and the working capital and equipment notes generally are payable within one year. The notes typically bear interest at 12%. Transactions for 2009 and 2008 are as follows:

		2009	2008
		(In thousands)	
Balance at beginning of year	$	60,498	55,804
Notes issued:			
Sales of franchise territories		5,691	22,315
Sales of Company-owned stores		5,842	3,801
Franchisee to franchisee note assumptions		5,312	2,793
Operating loans to franchisees		24,207	13,710
Refinancing of notes and accounts receivable		5,825	4,956
Repayment of notes		(33,167)	(31,380)
Notes canceled		(17,084)	(11,804)
Foreign currency adjustment		(591)	303
Balance at end of year	$	56,533	60,498

Notes receivable reflected on the accompanying consolidated balance sheets include notes related to the sale of Company-owned stores, as well as loans to franchisees for franchise fees, working capital and equipment. Most of the notes receivable reflected on the accompanying consolidated balance sheets are due from the Company's franchisees. The notes are collateralized by the underlying franchise and are guaranteed by the respective franchisee and franchise owner(s). The franchisees' ability to repay the notes is dependent upon both the performance of the tax preparation industry as a whole and the individual franchisee. Management believes that the recorded allowance is adequate based upon its consideration of the estimated value of the franchises supporting the receivables. Any adverse change in the tax preparation industry could affect the Company's estimate of the allowance.

At April 30, 2009 and 2008, the Company had an investment in impaired notes and related interest receivable of $9,150,000 and $7,728,000, respectively, which had recorded values that exceeded the fair value of the underlying collateral by approximately $429,000 and $455,000, respectively. In addition, the Company had trade accounts receivable due from these franchisees of $3,853,000 and $3,204,000 at April 30, 2009 and 2008, respectively. The Company has reflected an allowance of $4,282,000 and $3,659,000, respectively, for this impairment in the accompanying consolidated balance sheets. Activity in the allowance for doubtful accounts for the years ended April 30, 2009, 2008 and 2007 is summarized as follows:

		2009	2008	2007
			(In thousands)	
Beginning balance	$	5,865	5,177	3,083
Impact of deconsolidating VIEs		—	—	431
Additions charged to expense		4,266	3,553	4,472
Provision for franchise fee refunds		1,193	1,821	1,874
Write-offs		(5,185)	(4,733)	(4,683)
Foreign currency adjustment		(145)	47	—
Ending balance	$	5,994	5,865	5,177

The Company's average investment in impaired notes receivable during the years ended April 30, 2009 and 2008 was $8,429,000 and $8,100,000, respectively. Interest income related to impaired notes was $914,000, $417,000, and $1,406,000 for the years ended April 30, 2009, 2008 and 2007, respectively. The Company's investment in notes receivable on nonaccrual status as of April 30, 2009 and 2008 was $10,955,000 and $9,892,000, respectively.

(3) Property, Equipment and Software, Net

Property, equipment and software, net consists of the following at April 30, 2009 and 2008:

		2009	2008
		(In thousands)	
Land	$	935	799
Buildings		3,526	3,653
Leasehold improvements		243	212
Furniture, fixtures and equipment		3,062	3,512
Software		19,664	18,003
Construction in progress		594	—
		28,024	26,179
Less accumulated depreciation and amortization		10,598	7,658
Property, equipment and software, net	$	17,426	18,521

The software included above includes both internally developed software and purchased software. During 2002, the Company acquired a perpetual license for proprietary tax preparation software to be used by its Company-owned stores and franchisees. Capitalized costs related to this software totaled $7,564,000 and $7,383,000 at April 30, 2009 and 2008, respectively, and have been included in property, equipment and software in the accompanying consolidated balance sheets. The Company placed this software in service and began amortizing in 2007.

In August 2008, the Company entered into a contract to construct an additional corporate office building for $3,448,000. The Company has incurred $594,000 in construction costs directly related to this contract as of April 30, 2009. The building is expected to be complete in November 2009.

(4) Other Intangible Assets, Net

Other intangible assets, net consist of the following at April 30, 2009 and 2008:

	Amortization period		**2009**	**2008**
			(In thousands)	
Customer lists	5 years	$	3,477	3,801
Area franchise rights	10 years		8,560	3,333
			12,037	7,134
Less accumulated amortization			1,800	1,186
Intangible assets, net		$	10,237	5,948

Amortization and impairment charges for the years ended April 30, 2009, 2008 and 2007 were $1,650,000, $1,331,000, and $1,104,000, respectively. Estimated amortization expense for the next five years is $1,546,000 in 2010, $1,523,000 in 2011, $1,445,000 in 2012, $1,320,000 in 2013 and $1,025,000 in 2014.

(5) Leases

The Company is obligated under various operating leases for office space that expire at various dates. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of April 30, 2009 are (in thousands):

Year ending April 30:		
2010	$	2,128
2011		1,332
2012		816
2013		337
2014		61
Thereafter		43
Total minimum lease payments	$	4,717

The Company has subleases under certain of these commitments as of April 30, 2009 amounting to $1,147,000 in 2010, $770,000 in 2011, $539,000 in 2012, $253,000 in 2013, $22,000 in 2014, and $43,000 thereafter.

Total rent expense for operating leases, net of subleases, was approximately $1,658,000, $1,373,000, and $1,238,000 for the years ended April 30, 2009, 2008 and 2007, respectively.

(6) Line of Credit

At May 1, 2007, the Company had three lines of credit with various financial institutions, which allowed for borrowings up to $50,000,000. In June 2007, these three lines of credit were renegotiated into one line of credit allowing borrowings up to $60,000,000 at LIBOR plus 1.45% and was scheduled to expire on August 31, 2009.

During February 2008, the Company replaced the $60,000,000 line of credit described above with a syndicated line of credit with ten financial institutions, which allows for borrowings up to $100,000,000 and accrues interest at one-month LIBOR plus a margin ranging from 1.250% to 2.000% depending on the Company’s leverage ratio. At April 30, 2009 the rate was 1.759%. The line is collateralized by all the assets of the Company and expires on March 31, 2013. The line of credit contains certain financial covenants, which the Company must meet, including leverage and fixed charge coverage ratios as well as minimum net worth requirements and capital expenditure limitations.

(7) Long-Term Debt

Long-term debt at April 30, 2009 and 2008 consists of the following:

		2009	2008
		(In thousands)	
Mortgage note payable to a bank in monthly installments of $16 including interest at 6.06% through September 2016; at which time a balloon payment of $2,213 is payable; collateralized by land and building.	$	2,521	2,553
Notes payable for acquired stores, interest rates ranging from 8% to 12%; due May 2009 through January 2011.		837	203
Term note payable for software purchase, payable in three annual installments of $2,000 at 0% interest beginning December 2007; interest has been imputed at 8%.		1,847	3,552
Total long-term debt		5,205	6,308
Less current installments		2,710	1,922
Total long-term debt, less current installments	$	2,495	4,386

Aggregate maturities of long-term debt as of April 30, 2009 are as follows (in thousands):

Year ending April 30:		
2010	$	2,710
2011		45
2012		38
2013		41
2014		44
Thereafter		2,327
Total long-term debt	$	5,205

(8) Subordinated Debt

In November 2004, the Company entered an agreement to borrow $15,000,000 from a group of lenders. The loan bore interest at 16%, with 12% payable quarterly and 4% added to the principal balance of the debt and payable at maturity. Deferred financing costs incurred in securing the loan were amortized over its life using the effective interest method. The loan was refinanced in November 2006 as a part of the term loan agreement that was repaid in 2008. Because the refinancing constituted a debt extinguishment for accounting purposes, the remaining related financing costs were expensed in 2007 and reflected as a loss on extinguishment of debt.

Interest expense totaling $113,000 was recorded in 2007, related to the amortization of deferred financing costs.

(9) Income Taxes

Total income taxes were allocated as follows:

		2009	2008	2007
			(In thousands)	
Income from continuing operations	$	8,737	11,114	8,324
Stockholders' equity, tax benefit on exercise of stock options		(506)	(541)	(242)
Foreign currency translation adjustment		(206)	238	—
Total income taxes	$	8,025	10,811	8,082

Components of income tax expense for the years ended April 30, 2009, 2008 and 2007 were as follows:

		2009	2008	2007
			(In thousands)	
Current:				
Federal	$	6,318	8,392	6,415
State		1,137	1,530	1,273
Foreign		294	813	263
Current tax expense		7,749	10,735	7,951
Deferred:				
Federal		838	324	301
State		150	59	60
Foreign		—	(4)	12
Deferred tax expense		988	379	373
Total income tax expense	$	8,737	11,114	8,324

The Company's effective tax expense (computed by multiplying income before income taxes by the U.S. federal statutory rate of 35% in 2009, 2008 and 2007) differs from tax expense for the years ended April 30, 2009, 2008 and 2007 as follows:

		2009	2008	2007
			(In thousands)	
Computed "expected" income tax expense	$	7,285	9,793	8,419
Increase (decrease) in income taxes resulting from:				
State income taxes, net of federal benefit		836	1,033	897
Change in taxes resulting from permanent differences, net		753	270	256
Impact of nontaxable VIEs		—	—	(918)
Other		(137)	18	(330)
Total income tax expense	$	8,737	11,114	8,324

The tax effect of temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of deferred tax assets and liabilities at April 30, 2009 and 2008 are as follows:

		2009	2008
		(In thousands)	
Deferred tax assets:			
Unexercised nonqualified options	$	393	181
Accounts payable and accrued liabilities		122	146
Allowance for doubtful accounts		2,948	2,727
Total deferred tax assets		3,463	3,054
Deferred tax liabilities:			
Property, equipment and software and other intangible assets		4,386	2,923
Deferred revenue		8,554	8,534
Prepaid expenses		125	211
Foreign currency translation adjustment		32	238
Total deferred tax liabilities		13,097	11,906
Net deferred tax liability	$	(9,634)	(8,852)

(Continued)

In assessing the realizability of the gross deferred tax assets, management considers whether it is more likely than not that some portion or all the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

In April 2008, the Internal Revenue Service completed audits of 2005 and 2006. As of April 30, 2009, the years that remain subject to examination by the Internal Revenue Service are 2007 and subsequent years, and years that remain open for other major taxing jurisdictions are 2006 and subsequent years.

(10) Stockholders' Equity

(a) Preferred Stock and Exchangeable Shares

The Company has 3,200,000 shares of authorized preferred stock with a par value of $1.

The holders of the Class A preferred stock are entitled to a dividend if a dividend is declared for common stock and shall receive a dividend as if each share of preferred stock had been converted to Class A common stock in accordance with the conversion ratio, and a liquidation preference upon the liquidation, dissolution or consolidation of the Company. In the event of liquidation, dissolution or consolidation, the holders of Class A preferred stock will be entitled to receive out of the assets of the Company, after payment or provision for payment of the debts or other liabilities of the Company, the original issue price per share for each share of preferred stock then outstanding, plus an amount equal to the original issue price per share multiplied by 10% per annum from the original issue date, compounded annually to the date of such distribution. The liquidation value of the Class A preferred stock was $6,160,000 and $5,600,000 as of April 30, 2009 and 2008, respectively. Its carrying amount was $2,375,000 at April 30, 2009 and 2008.

A holder of the Class A preferred stock may, at the holder's option, elect to convert each share of the Class A preferred stock into 10 shares of fully paid and nonassessable shares of Class A common stock.

During 2008, the Company reacquired all outstanding shares of Class B preferred stock and dissolved this class of stock.

In October 2001, the Company acquired the remaining 40% of the outstanding common stock of the Canadian subsidiary in a transaction which was accounted for as a purchase. The Company issued consideration to the minority shareholder consisting of 1,600,000 shares of Class A common stock, 10 shares of special voting preferred stock and 100,000 shares of exchangeable shares in exchange for $2,000,000 in cash and the 40% minority interest in the Canadian subsidiary. The 100,000 exchangeable shares are exchangeable at any time at a 10:1 ratio into the Class A common stock of the Company. The special voting preferred shares issued have a $1 par value and no liquidation value and entitle the holder to vote each share as if it represented 100,000 shares of Class A common stock. These shares will be canceled as the holder exchanges the exchangeable shares.

(b) Common Stock

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

During 2009, the Company changed its presentation of reacquired shares of common stock to present repurchases as retirements of common stock at the date of reacquisition. Accordingly, the Company's previous presentation of classifying these repurchases as treasury stock has been changed to present all activity as a reduction of common stock and the applicable amounts of additional paid-in capital and/or retained earnings as of and for the years ended April 30, 2008 and 2007. This change in presentation had no impact on total stockholders' equity on any of the years presented.

During 2009, 2008 and 2007, in connection with the acquisition of franchises from existing franchisees, the Company issued a total of 42,000, 4,000 and 10,000 shares, respectively, of Class A common stock.

(c) Warrants and Put Option

In July 2001, the Company issued 463,400 warrants to purchase Class A common stock to a venture capital group. These warrants were exercisable immediately upon issuance at an exercise price of $0.00001 per share and were exercised in 2007.

(11) Stock Compensation Plan

In May 1998, the board of directors approved the JTH Tax, Inc. Stock Option Plan (the Plan). Employees and outside directors are eligible to receive awards under the Plan and 5,500,000 shares of Class A common stock have been authorized for grant under the Plan. At April 30, 2009, approximately 1,241,000 shares of Class A common stock are available for grant under the Plan. Stock options vest from six months to five years and generally expire five years from the vesting date.

The weighted average fair value of each option granted in 2009 was $3.02 estimated on the dates of grant using an option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 13.81% – 14.46%, risk-free interest rates of 2.06% – 3.57% and expected lives of four to six years. The weighted average fair value of each option granted in 2008 was $2.46 estimated on the dates of grant using an option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 11.04% – 15.93%, risk-free interest rates of 3.77% – 4.87% and expected lives of four to six years. There were no options granted in 2007.

The following table summarizes all stock option activity during the periods indicated:

	Number of options	Weighted average exercise price
Outstanding at April 30, 2006	2,393,100	$ 6.04
Granted	—	—
Exercised	(165,350)	1.82
Canceled	(163,500)	6.59
Outstanding at April 30, 2007	2,064,250	6.34
Granted	530,120	10.87
Exercised	(373,450)	3.53
Canceled	(108,550)	8.60
Outstanding at April 30, 2008	2,112,370	7.85
Granted	558,800	15.02
Exercised	(442,700)	5.19
Canceled	(114,700)	11.97
Outstanding at April 30, 2009	2,113,770	10.08

All stock options were granted to employees of the Company except for options issued to nonemployee directors. Nonemployee directors were granted a total of 80,000 and 50,000 stock options during the years ended April 30, 2009 and 2008, respectively. No stock options were issued to nonemployee directors in 2007.

The following table summarizes nonvested stock option activity during the periods indicated:

	Nonvested options		Weighted average exercise price
Outstanding at April 30, 2006	361,664	$	7.26
Granted	—		—
Vested	(135,000)		7.05
Canceled	(120,000)		7.50
Outstanding at April 30, 2007	106,664		7.25
Granted	265,000		11.21
Vested	(163,332)		9.02
Canceled	(11,666)		9.00
Outstanding at April 30, 2008	196,666		11.17
Granted	270,000		15.00
Vested	(126,666)		12.78
Canceled	(65,000)		12.40
Outstanding at April 30, 2009	275,000		13.90

At April 30, 2009, there was $814,000 of total unrecognized compensation costs related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized between 2010 and 2013.

The following tables summarize information about stock options outstanding and exercisable at April 30, 2009:

Number of shares outstanding at April 30, 2009		Range of exercise prices	Weighted average exercise price	Weighted average remaining contractual life	Number of shares exercisable at April 30, 2009		Weighted average exercise price
409,800	$	5.50 – 6.88	5.96	1.3 years	409,800	$	5.96
155,000		7.00 – 7.50	7.26	1.7 years	155,000		7.26
343,000		8.50 – 9.00	8.56	1.7 years	343,000		8.56
251,350		9.00 – 9.90	9.04	2.0 years	251,350		9.04
396,920		10.50 – 11.55	10.52	4.1 years	331,920		10.53
557,700		14.00 – 16.50	14.99	5.2 years	347,700		15.01

(12) Fair Value of Financial Instruments

The consolidated financial statements include various estimated fair value information as of April 30, 2009 and 2008. FASB Statement 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and liabilities subject to fair value measurements on a recurring basis are classified according to a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. Level 1 represents observable inputs such as quoted prices in active markets. Level 2 is defined as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuations in which all significant inputs are observable in the market. Level 3 is defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Disclosure of the estimated fair values of financial instruments often requires the use of estimates. The Company uses the following methods and assumptions to estimate the fair value of financial instruments.

Cash and cash equivalents, trade accounts receivable, bank product fees, other current assets, accounts payable and accrued expenses, and deferred revenue: The carrying amounts approximate fair value because of the short maturity of these instruments.

Notes receivable: The carrying amount of the Company’s notes receivable approximates fair value based upon the present value of expected future cash flows discounted at the interest rate currently offered by the Company, which approximates rates currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk.

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

Financial instruments that could potentially subject the Company to concentrations of credit risks consist of accounts and notes receivable with its franchisees. The Company manages such risk by evaluating the financial position, value of the franchises as well as the personal guarantee of the individual franchisees. As of April 30, 2009, there were no significant concentrations of credit risk associated with any individual franchisee or group of franchisees. The Company maintains an allowance for potential losses based on its expected collectibility of the receivables, which the Company believes is adequate for its credit loss exposure.

(13) Related-Party Transactions

During 2009, 2008 and 2007, the Company assisted in the sale of 213,000, 83,000 and 56,000 shares of common stock for related parties, respectively. Proceeds to related parties under these transactions were \$3,188,000, \$1,336,000 and \$1,114,000, respectively. During 2009, the Company sold 424,000 shares of common stock to related parties. Proceeds from these sales were \$7,087,000.

(14) Employee 401(k) Plan

The Company sponsors a defined contribution 401(k) profit sharing plan. Under the plan, employees who are 18 years of age and have completed 90 days of service are eligible to make voluntary contributions to the plan. The Company matches 50% of each employee’s contribution up to 6% of the employee’s salary. Total compensation expense related to these contributions was $263,000, $240,000 and $97,000 for the years ended April 30, 2009, 2008 and 2007, respectively.

(15) Commitments and Contingencies

The Company is a defendant in certain lawsuits and is aware of other threatened claims generally incidental to its business as a franchisor. Management is of the opinion that the accompanying consolidated financial statements will not be materially affected by the ultimate resolution of litigation pending or threatened as of April 30, 2009.

(16) Variable Interest Entities

FIN 46R requires the consolidation of a VIE if the Company is deemed to be the primary beneficiary of the VIE. FIN 46R requires an entity to assess its equity investments and certain other contractual interests to determine whether they are VIEs. As defined in FIN 46R, variable interests are contractual, ownership or other interests in an entity that change with changes in the entity’s net asset value. Variable interests in an entity may arise from financial instruments, service contracts, guarantees, leases or other arrangements with the VIE. The Company may, in certain cases, provide financing or guarantee financing to unit franchisees or area developers. The Company neither possesses any ownership interest in any franchise or area developer entities nor does it typically provide ongoing financial support to these entities. Unit franchisees or area developers generally may qualify as VIEs due to the existence of financing provided to purchase the franchise and/or for working capital and equipment needs.

An entity that will absorb a majority of the VIE’s expected losses or expected residual returns, as defined in FIN 46R, is considered the primary beneficiary of the VIE. The primary beneficiary should include the VIE’s assets, liabilities and results of operations in its consolidated financial statements until a reconsideration event, as defined in FIN 46R, occurs to require deconsolidation of the VIE. At the deconsolidation date, the assets and liabilities of the VIE are removed from the consolidated financial statements and any assets and liabilities of the Company that were eliminated in consolidation are restored. The gain recognized from deconsolidating VIEs is recorded in the consolidated statements of income as gain on deconsolidation of VIEs.

During 2006, the Company was deemed to be the primary beneficiary of 16 VIEs of its franchise entities due to the relatively significant financial support provided to these entities. The Company did not hold an ownership interest in any of these entities. During 2007, a reconsideration event occurred for each of the 16 VIEs consolidated at April 30, 2006. The operating results of each VIE, through its deconsolidation date, are consolidated in the accompanying consolidated statement of income for the year ended April 30, 2007. The Company was not deemed to be the primary beneficiary of any additional VIEs in any subsequent periods. The summarized effect of these entities in the accompanying consolidated statement of income for the year ended April 30, 2007 is as follows:

		JTH Tax, Inc. and subsidiaries	VIEs	Consolidating and deconsolidating adjustments and eliminations	Consolidated
			(In thousands)		
Revenue	$	74,990	578	(420)	75,148
Operating expenses		53,293	1,294	(420)	54,167
Other, net		18	—	—	18
Gain on deconsolidation of VIEs		—	—	3,055	3,055
Income (loss) before income taxes		21,715	(716)	3,055	24,054
Income tax expense		8,324	—	—	8,324
Net income (loss)	$	13,391	(716)	3,055	15,730

(17) Subsequent Events

On May 29, 2009, the Company authorized the grant of 277,500 stock options to certain employees and 50,000 stock options to the nonemployee directors of the Company. The exercise price of these options will be $15 per share, which management believes was the fair value of the common stock at the date of the grant. Most of the options will vest after six months and may be exercised over a five-year period.