Liberty Tax, Inc.
Form 10-Q
October 05, 2018

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

FORM 10-Q

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

For the quarterly period ended January 31, 2018

OR

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

For the transition period from to

Commission File Number 001-35588

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 o No ý

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.:

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.	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 October 1, 2018 was 14,036,684 shares.

LIBERTY TAX, INC.

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

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PART I. FINANCIAL INFORMATION
ITEM 1
FINANCIAL STATEMENTS

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LIBERTY TAX, INC. AND SUBSIDIARIES

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

	January 31, 2018 (unaudited)	April 30, 2017	January 31, 2017 (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$4,084	$16,427	$3,459
Receivables:			
Accounts receivable	67,550	54,723	63,013
Notes receivable - current	69,015	27,845	79,122
Interest receivable, net of uncollectible amounts	4,476	1,967	5,201
Allowance for doubtful accounts - current	(7,987)	(10,052)	(8,529)
Total current receivables, net	133,054	74,483	138,807
Assets held for sale	12,070	11,989	17,549
Income taxes receivable	14,820	55	12,827
Deferred income tax asset	—	6,956	3,881
Other current assets	19,473	5,757	23,079
Total current assets	183,501	115,667	199,602
Property, equipment, and software, net	40,050	39,789	41,734
Notes receivable, non-current	17,676	18,213	27,455
Allowance for doubtful accounts, non-current	(1,006)	(1,968)	(1,713)
Total notes receivables, non-current	16,670	16,245	25,742
Deferred tax asset - non-current	174	—	—
Goodwill	9,210	8,576	4,811
Other intangible assets, net	23,068	21,224	22,648
Other assets	2,535	2,767	3,214
Total assets	$275,208	$204,268	$297,751
Liabilities and Stockholders' Equity			
Current liabilities:			
Current installments of long-term obligations	$5,223	$7,738	$5,688
Accounts payable and accrued expenses	22,027	12,953	22,259
Due to Area Developers (ADs)	11,742	23,143	13,157
Income taxes payable	—	6,442	—
Deferred revenue - current	2,024	2,892	3,436
Total current liabilities	41,016	53,168	44,540
Long-term obligations, excluding current installments, net	16,421	18,461	19,238
Revolving credit facility	120,189	—	131,215
Deferred revenue and other - non-current	5,193	5,817	5,307
Deferred income tax liability	3,682	10,367	8,203
Total liabilities	186,501	87,813	208,503
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, 12,750,057, 12,682,550 and 12,681,245 shares issued and outstanding,	127	127	127

respectively			
Class B common stock, $0.01 par value per share, 1,000,000 shares authorized, 200,000 shares issued and outstanding, respectively	2	2	2
Exchangeable shares, $0.01 par value, 1,000,000 shares authorized, issued and outstanding	10	10	10
Additional paid-in capital	10,689	8,371	7,862
Accumulated other comprehensive loss, net of taxes	(990)	(2,084)	(1,673)
Retained earnings	78,869	110,029	82,920
Total stockholders' equity	88,707	116,455	89,248
Total liabilities and stockholders' equity	$ 275,208	$ 204,268	$ 297,751

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2018	2017	2018	2017
Revenue:				
Franchise fees	$90	$ 522	$354	$ 1,126
Area Developer fees	507	1,001	2,209	3,118
Royalties and advertising fees	17,610	19,078	20,598	21,862
Financial products	18,106	18,745	19,324	19,528
Interest income	2,612	3,246	7,009	8,500
Assisted tax preparation fees, net of discounts	5,225	3,551	8,413	5,324
Other revenues	4,094	2,280	6,295	3,348
Total revenues	48,244	48,423	64,202	62,806
Operating expenses:				
Employee compensation and benefits	11,574	11,240	32,277	29,836
Selling, general, and administrative expenses	22,366	18,193	41,120	35,679
Area Developer expense	4,890	5,958	5,658	6,979
Advertising expense	5,623	5,424	9,702	8,838
Depreciation, amortization, and impairment charges	3,995	2,503	8,526	6,330
Restructuring expense	(9)	—	3,362	—
Total operating expenses	48,439	43,318	100,645	87,662
Income (loss) from operations	(195)	5,105	(36,443)	(24,856)
Other income (expense):				
Foreign currency transaction gain (loss)	57	15	128	(10)
Gain on sale of available-for-sale securities	—	—	—	50
Interest expense	(829)	(977)	(1,618)	(2,053)
Income (loss) before income taxes	(967)	4,143	(37,933)	(26,869)
Income tax expense (benefit)	555	1,688	(13,550)	(10,552)
Net income (loss)	(1,522)	2,455	(24,383)	(16,317)
Less: Net loss attributable to participating securities	—	(177)	—	—
Net income (loss) attributable to Class A and Class B common stockholders	$(1,522)	$ 2,278	$(24,383)	$(16,317)
Net income (loss) per share of Class A and Class B common stock:				
Basic	$(0.11)	$ 0.18	$(1.89)	$(1.26)
Diluted	$(0.11)	$ 0.18	$(1.89)	$(1.26)
Weighted-average shares outstanding basic	12,934,941	12,902,577	12,907,039	12,899,757
Weighted-average shares outstanding diluted	12,934,941	13,924,210	12,907,039	12,899,757
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

Condensed Consolidated Statements of Comprehensive Income (Loss)
Three and Nine Months Ended January 31, 2018 (unaudited) and 2017 (unaudited)
(In thousands)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2018	2017	2018	2017
Net income (loss)	$(1,522)	$2,455	$(24,383)	$(16,317)
Unrealized gain (loss) on interest rate swap agreement, net of taxes of $11, $14, $11 and $14, respectively	31	(22)	41	(22)
Unrealized gain on available-for-sale securities, net of taxes of $0, $0, $0 and $345, respectively	—	—	—	580
Reclassified loss on sale of available-for-sale securities included in income, net of taxes of $0, $0, $0 and $20, respectively	—	—	—	(30)
Foreign currency translation adjustment	372	189	1,052	(513)
Forward contracts related to foreign currency exchange rates	—	9	—	9
Comprehensive loss	$(1,119)	$2,631	$(23,290)	$(16,293)

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, 2018 (unaudited) and 2017 (unaudited)
(In thousands)

	Nine Months Ended January 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(24,383)	$(16,317)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts	7,865	6,482
Depreciation, amortization, and impairment charges	8,526	6,330
Amortization of deferred financing costs	116	—
Loss on disposal of fixed and intangible assets	2,370	—
Stock-based compensation expense	2,523	1,520
Gain on sale of available-for-sale securities	—	(50)
Gain on bargain purchases and sales of Company-owned offices	(1,626)	(634)
Equity in loss of affiliate	(71)	—
Deferred tax expense	113	1,046
Changes in accrued income taxes	(21,119)	(16,728)
Changes in other assets and liabilities	(36,709)	(43,694)
Net cash used in operating activities	(62,395)	(62,045)
Cash flows from investing activities:		
Issuance of operating loans to franchisees and ADs	(57,839)	(63,670)
Payments received on operating loans to franchisees	5,377	4,065
Purchases of AD rights, Company-owned offices and acquired customer lists	(2,456)	(8,141)
Proceeds from sale of Company-owned offices and AD rights	451	1,291
Proceeds from sale of available-for-sale securities	—	5,049
Purchases of property, equipment and software	(3,980)	(4,303)
Net cash used in investing activities	(58,447)	(65,709)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	95	—
Repurchase of common stock and tax impact of stock compensation	—	(417)
Dividends paid	(6,669)	(6,670)
Repayment of amounts due to former ADs and franchisees	(5,200)	(1,204)
Repayment of long-term obligations	—	(3,710)
Borrowings under revolving credit facility	120,525	132,531
Repayments under revolving credit facility	(336)	(1,316)
Proceeds from mortgage debt	—	2,200
Payment for debt issue costs	—	(35)
Cash paid for taxes on exercises/vesting of stock-based compensation	(299)	—
Tax benefit of stock option exercises	—	60
Net cash provided by financing activities	108,116	121,439
Effect of exchange rate changes on cash, net	383	(132)
Net decrease in cash and cash equivalents	(12,343)	(6,447)
Cash and cash equivalents at beginning of period	16,427	9,906

Cash and cash equivalents at end of period	$4,084	$3,459

See accompanying notes to condensed consolidated financial statements.

LIBERTY TAX, INC. AND SUBSIDIARIES

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

	Nine Months Ended January 31,	
	2018	2017
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest of $425 and $106, respectively	$1,563	$1,702
Cash paid for taxes, net of refunds	7,344	5,062
Accrued capitalized software costs included in accounts payable	—	7
During the nine months ended January 31, 2018 and 2017, the Company acquired certain assets from ADs, franchisees, and third parties as follows:		
Fair value of assets purchased	$11,082	$27,016
Receivables applied, net of amounts written off, due ADs and related deferred revenue	(6,668)	(11,656)
Bargain purchase gains	(1,100)	(513)
Long-term obligations and accounts payable issued to seller	(858)	(6,706)
Cash paid to ADs, franchisees and third parties	$2,456	$8,141
During the nine months ended January 31, 2018 and 2017, the Company sold certain assets to ADs and franchisees as follows:		
Book value of assets sold	$1,129	$9,287
Gain on sale - revenue deferred	18	617
Gain (loss) on sale - gain (loss) recognized	88	(98)
Notes received	(784)	(6,552)
Long-term obligations and accounts payable assumed by acquiree	—	(1,963)
Cash received from ADs and franchisees	$451	$1,291

See accompanying notes to condensed consolidated financial statements.

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LIBERTY TAX, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

January 31, 2018 and 2017 (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 of America (the "U.S.") and Canada. The Company's principal operations are conducted through JTH Tax, Inc. (d/b/a Liberty Tax Service), the Company's largest subsidiary. Through this system of income tax preparation offices, the Company also facilitates refund-based tax settlement financial products, such as Refund Transfer products in the U.S. and personal income tax refund discounting in Canada. The Company also offers online tax preparation services. In fiscal 2015, the Company changed its name from JTH Holding, Inc. to Liberty Tax, Inc.

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

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 reclassifies to accounts payable checks issued in excess of funds available and reports them as cash flow from operating activities. The Company consolidates any entities in which it has a controlling interest, the usual condition of which is ownership of a majority voting interest. The Company also considers for consolidation an entity in which the Company has certain interests where a controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity ("VIE"), is required to be consolidated by its primary beneficiary. The Company does not possess any ownership interests in franchisee entities; however, the Company may provide financial support to franchisee entities. Because the Company's franchise arrangements provide franchisee entities the power to direct the activities that most significantly impact their economic performance, the Company does not consider itself the primary beneficiary of any such entity that might be a VIE. Based on the results of management's analysis of potential VIEs, the Company has not consolidated any franchisee entities. The Company's maximum exposure to loss resulting from involvement with potential VIEs is attributable to accounts and notes receivables and future lease payments due from franchisees. When the Company does not have a controlling interest in an entity but has the ability to exert significant influence over the entity, the Company applies the equity method of accounting. Intercompany balances and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. The condensed consolidated financial statements, including these notes, are unaudited and exclude some of the disclosures required only in annual financial statements. The consolidated balance sheet data as of April 30, 2017 was derived from the Company’s April 30, 2017 Annual Report on Form 10-K filed on July 7, 2017.

In the opinion of management, all adjustments necessary for a fair presentation of such condensed consolidated financial statements in accordance with GAAP have been recorded. These adjustments consisted only of normal recurring items. The accompanying condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto included in its April 30, 2017 Annual Report on Form 10-K filed on July 7, 2017.

Office Count

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

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

SiempreTax+ is operating 77 offices during the 2018 tax season compared to 159 during the 2017 season and 144 during the 2016 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 2018, we sold approximately 61 new territories, compared to approximately 85 during the same period in fiscal 2017 and 180 in fiscal 2016.

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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. Specifically, the Company retitled the revenue line titled "Tax preparation fees, net of discounts" for the three and nine months ended January 31, 2018 to "Assisted tax preparation fees, net of discounts". Revenue related to the Company's DIY online tax software was reclassified to "Other revenue" for the three and nine months ended January 31, 2018.

Accounting Pronouncements

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

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

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

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." This update will replace existing lease guidance in GAAP and will require lessees to recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements, such as information about variable lease payments and options to renew and terminate leases. When implemented, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The update is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently finalizing its implementation plan and evaluating the impact of the new pronouncement on its consolidated financial statements. The

Company expects the adoption of this pronouncement to result in a material increase in the assets and liabilities on its consolidated balance sheets and to not have a material impact on its consolidated statements of income.
In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230)", which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The update is intended to reduce the existing diversity in practice and is effective for the Company beginning with its first quarterly filing in fiscal year 2019. The Company will adopt the update for all periods beginning on or after May 1, 2018.
In June 2016, the FASB issued ASU No. 2016-13, "Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which changes how companies will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard replaces the "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost (which generally will result in the earlier recognition of allowances for losses) and requires companies to record allowances for available-for-sale debt securities, rather than reduce the carrying amount. In addition, companies will have to disclose significantly more information, including information used to track credit quality by year of origination, for most financing receivables. The ASU should be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the standard is effective. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. The ASU is effective for the Company beginning in the first quarter of fiscal year 2021. The Company is currently evaluating the impact of the adoption of this newly issued standard to its consolidated financial statements.
In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business", which clarifies the definition of a business with the objection of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill and consolidation. The ASU is effective for the Company beginning in the first quarter of fiscal year 2019. The Company will adopt the update for all periods beginning on or after May 1, 2018 and does not believe it will have an impact on its current accounting for business combinations.
In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” This new standard eliminates Step 2 from the goodwill impairment test. Instead, an entity should compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The standard will be effective for the Company in the first quarter of our fiscal year 2021. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this newly issued standard to its consolidated financial statements.

Foreign Operations

Canadian operations contributed $0.3 million and $0.5 million in revenues for the three months ended January 31, 2018 and 2017, respectively and $1.7 million and $1.7 million in revenues for the nine months ended January 31, 2018 and 2017, respectively.

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

(2) Accounts and Notes Receivable

The Company provides select financing to ADs and franchisees for the purchase of franchises, areas, Company-owned offices, and operating loans for working capital and equipment needs. The franchise-related notes generally are payable over five years and the operating loans generally are due within one year. Most notes bear interest at an annual rate of 12%.

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

At January 31, 2018, the Company had unfunded lending commitments for working capital loans to franchisees and ADs of $16.0 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, 2018 and 2017 was as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2018	2017	2018	2017
	(In thousands)			
Balance at beginning of period	$9,849	$8,991	$12,021	$8,850
Provision for doubtful accounts	4,410	3,195	7,865	6,482
Write-offs	(5,330)	(1,967)	(11,054)	(5,051)
Foreign currency adjustment	64	23	161	(39)
Balance at end of period	$8,993	$10,242	$8,993	$10,242

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

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

	January 31, 2018	April 30, 2017	January 31, 2017
	(In thousands)		
Impaired:			
Notes and interest receivable, net of unrecognized revenue	$9,778	$14,646	$10,012
Accounts receivable	9,189	11,396	6,341
Less amounts due to ADs and franchisees	(817)	(1,834)	(589)
Amounts receivable less amounts due to ADs and franchisees	$18,150	$24,208	$15,764
Allowance for doubtful accounts for impaired notes and accounts receivable	$8,013	$9,542	$6,814
Non-impaired:			
Notes and interest receivable, net of unrecognized revenue	$81,389	$33,379	$101,766
Accounts receivable	58,361	43,327	56,672
Less amounts due to ADs and franchisees	(11,213)	(23,119)	(12,994)
Amounts receivable less amounts due to ADs and franchisees	$128,537	$53,587	$145,444
Allowance for doubtful accounts for non-impaired notes and accounts receivable	$980	$2,478	$3,428
Total:			
Notes and interest receivable, net of unrecognized revenue	$91,167	$48,025	$111,778
Accounts receivable	67,550	54,723	63,013
Less amounts due to ADs and franchisees	(12,030)	(24,953)	(13,583)
Amounts receivable less amounts due to ADs and franchisees	$146,687	$77,795	$161,208
Total allowance for doubtful accounts	$8,993	$12,021	$10,242

The Company’s average investment in impaired receivables during the nine months ended January 31, 2018 and 2017 was $21.2 million and $16.8 million, respectively.

Analysis of Past Due Receivables

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

	Past due	Current	Interest receivable, net	Total receivables
	(In thousands)			
Accounts receivable	$34,233	$33,317	$ —	$ 67,550
Notes and interest receivable, net (1)	9,805	76,886	4,476	91,167
Total accounts, notes and interest receivable	$44,038	$110,203	$ 4,476	$ 158,717

(1) Interest receivable is shown net of an allowance for uncollectible interest of $2.3 million.

Accounts receivable are considered to be past due if unpaid 30 days after billing, and notes receivable are considered past due if unpaid 90 days after the due date. If it is determined the likelihood of collecting substantially all of the notes and accrued interest is not probable the notes are put on non-accrual status. The Company's investment in notes receivable on non-accrual status was $9.8 million, $7.0 million and $11.6 million at January 31, 2018, April 30, 2017, and January 31, 2017, respectively. Payments received on notes in non-accrual status are applied to the principal until the note is current then to interest income. Non-accrual notes that are paid current and expected to remain current are moved back into accrual status during the next annual review.

(3) Restructuring Expense

The Company incurred $3.4 million of expenses in the nine months ended January 31, 2018 related to restructuring initiatives implemented to improve the Company's overall profitability. The expenses incurred are presented in the Restructuring expense line item in the consolidated statements of income. The composition of the restructuring expenses incurred for the nine months ended January 31, 2018 were as follows (in thousands):

Expense	Cash	Accrued Expenses	Non-cash	Total Expense
Contract termination costs - licensing and support	$355	$ 1,699	$ —	$ 2,054
Contract termination costs - impairment	—	—	549	549
Property and intangible impairments and exit costs	242	15	292	549
Employee termination costs	210	—	—	210
Total	$807	$ 1,714	$ 841	$ 3,362

The property and intangible impairments and exit costs were comprised of expenses related to lease obligations and non-cash charges associated with intangible write-downs. The accrued restructuring expenses are primarily related to maintenance termination costs of $1.7 million. $0.7 million is included in "Accounts payable and accrued expenses" and $1.0 million is included in "Deferred revenue and other - non-current" lines in the accompanying consolidated balance sheets.

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

(4) Goodwill and Intangible Assets

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

	January 31, 2018	January 31, 2017
	(In thousands)	
Balance at beginning of period	$8,576	$ 4,228
Acquisitions of assets from franchisees and others	1,850	858
Disposals and foreign currency changes, net	(184)	(185)
Purchase price reallocation	(1,032)	—
Impairments	—	(90)
Balance at end of period	$9,210	$ 4,811

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

	January 31, 2018			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	(In thousands)			
Amortizable intangible assets:				
Customer lists acquired from unrelated third parties	5 years	$ 3,187	$ (1,390)	$ 1,797
Tradenames	3 years	431	(136)	295
Non-compete agreements	2 years	241	(115)	126
Assets acquired from franchisees:				
Customer lists	4 years	2,193	(1,642)	551
Reacquired rights	2 years	1,712	(1,642)	70
AD rights	9 years	29,932	(9,703)	20,229
Total intangible assets		$ 37,696	$ (14,628)	$ 23,068

	April 30, 2017			
	Weighted average amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
	(In thousands)			
Amortizable intangible assets:				