Pinero v. Jackson Hewitt Tax Service Inc. et al

Doc. 1 Att. 1

FORM 10-K

JACKSON HEWITT TAX SERVICE INC - JTX

Filed: June 29, 2007 (period: April 30, 2007)

Annual report which provides a comprehensive overview of the company for the past year

Exhibit
A

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

FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended April 30, 2007

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 1-32215

Jackson Hewitt Tax Service Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**20-0779692** (I.R.S. Employer Identification No.)
3 Sylvan Way Parsippany, New Jersey (Address of principal executive offices)	**07054** (Zip Code)

Registrant's telephone number, including area code: (973) 630-1040

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

Title of class	Name of exchange on which registered
Common Stock $0.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None.

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

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

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates as of October 31, 2006 was $1,136.9 million, computed by reference to the price at which the common equity was last sold as reported on the New York Stock Exchange on that date.

The number of shares outstanding of the registrant's common stock was 30,056,755 (net of 8,014,345 shares held in treasury) as of May 31, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement, to be filed within 120 days of the close of the registrant's fiscal year, relating to the registrant's 2007 Annual Meeting of Stockholders, to be held on September 20, 2007, are incorporated by reference into Part III of this report.

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JACKSON HEWITT TAX SERVICE INC.

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FORWARD-LOOKING STATEMENTS

Certain statements in this report, including, but not limited to, those contained in "Part I. Item 1—Business", "Part I. Item 2—Properties", "Part I. Item 3—Legal Proceedings", "Part II. Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II. Item 8—Financial Statements and Supplementary Data" and notes thereto, included in this report are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, cash flows, plans, objectives, future performance and business of Jackson Hewitt Tax Service Inc. All statements in this report, other than statements that are purely historical, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans," "may increase," "may fluctuate" and similar expressions or future or conditional verbs such as "will," "should," "would," "may," and "could." These forward-looking statements involve risks and uncertainties.

Actual results may differ materially from those contemplated (expressed or implied) by such forward-looking statements, because of, among other things, the following potential risks and uncertainties: our ability to achieve the same levels of growth in revenues and profits in the future as we have in the past; our ability to successfully attract and retain key personnel; government initiatives that simplify tax return preparation or reduce the need for a third party tax return preparer, improve the timing and efficiency of processing tax returns or decrease the number of tax returns filed; the trend of tax payers filing their tax returns later in the tax season; the success of our franchised offices; our responsibility to third parties, regulators or courts for the acts of, or failures to act by, our franchisees; government legislation and regulation of the tax return preparation industry and related financial products, including refund anticipation loans, and the failure by us, or the financial institutions which provide financial products to our customers, to comply with such legal and regulatory requirements; the ongoing Department of Justice lawsuits and Internal Revenue Service examinations; the effectiveness of our tax return preparation compliance program; increased regulation of tax return preparers; our exposure to litigation; the failure of our insurance to cover all the risks associated with our business; our ability to protect our customers' personal and financial information; the effectiveness of our marketing and advertising programs and franchisee support of these programs; disruptions in our relationships with our franchisees; changes in our relationships with financial product providers that could reduce the revenues we derive from our agreements with these financial institutions as well as affect our customers' ability to obtain financial products through our tax return preparation offices; changes in our relationships with retailers and shopping malls that could affect our growth and profitability; the seasonality of our business and its effect on our stock price; competition from tax return preparation service providers, volunteer organizations and the government; our ability to offer innovative new financial products and services; our reliance on technology systems and electronic communications to perform the core functions of our business; our ability to protect our intellectual property rights or defend against any third party allegations of infringement by us; our reliance on cash flow from subsidiaries; our compliance with credit facility covenants; our exposure to increases in prevailing market interest rates; our quarterly results not being indicative of our performance as a result of tax season being relatively short and straddling two quarters; our ability to pay dividends in the future; certain provisions that may hinder, delay or prevent third party takeovers; changes in accounting policies or practices and our ability to maintain an effective system of internal controls; and the effect of market conditions, general conditions in the tax return preparation industry or general economic conditions.

Other factors and assumptions not identified above were also involved in the derivation of these forward-looking statements, and the failure of such other assumptions to be realized as well as other factors may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control. As a result of these factors, no assurance can be given as to our future results and achievements. Accordingly, a forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. We are under no obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007

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PART I

ITEM 1. BUSINESS.

BUSINESS OVERVIEW

Jackson Hewitt Tax Service Inc. provides computerized preparation of federal, state and local individual income tax returns in the United States through a nationwide network of franchised and company-owned offices operating under the brand name Jackson Hewitt Tax Service®. We provide our customers with convenient, fast and accurate tax return preparation services and electronic filing of their tax returns. In connection with their tax return preparation experience, our customers may select various financial products, including refund anticipation loans ("RALs"). "Jackson Hewitt," the "Company," "we," "our," and "us" are used interchangeably in this report to refer to Jackson Hewitt Tax Service Inc. and its subsidiaries, appropriate to the context.

We are the second largest paid individual tax return preparer in the United States based upon the number of individual tax returns prepared and filed with the Internal Revenue Service ("IRS"). In 2007, our network consisted of 6,501 franchised and company-owned offices and prepared 3.65 million tax returns. We estimate our network prepared approximately 4% of all tax returns prepared by a paid tax return preparer ("paid tax return preparer market"). We had total revenues for 2007 of $293.2 million which consisted of fees paid by our franchisees, service revenues earned at company-owned offices and financial product fees.

The core of our business is our franchise system. In 2007, our franchisees operated 5,778 offices and prepared 88% of the total number of tax returns prepared by our network. Our franchise model enables us to grow more quickly with less capital investment and lower operating expenses than if we operated all of the offices in our network directly. Complementing our franchise system are our company-owned offices.

Jackson Hewitt Tax Service Inc. was incorporated in Delaware in February 2004 to be the parent corporation in connection with the Company's June 2004 initial public offering ("IPO") pursuant to which Cendant Corporation, now known as Avis Budget Group, Inc. ("Cendant"), divested 100% of its ownership interest in Jackson Hewitt Tax Service Inc. Jackson Hewitt Inc. ("JHI") is a wholly-owned subsidiary of Jackson Hewitt Tax Service Inc. Jackson Hewitt Technology Services LLC is a wholly-owned subsidiary of JHI that supports the technology needs of the Company. Company-owned office operations are conducted by Tax Services of America, Inc. ("TSA"), which is a wholly-owned subsidiary of JHI.

INDUSTRY OVERVIEW

We estimate that more than 136 million federal individual income tax returns will be filed in the United States in 2007 with more than 60% of these tax returns being prepared with the assistance of a paid tax return preparer. The market is highly fragmented and consists of tens of thousands of paid tax return preparers. In 2007, Jackson Hewitt was the second largest paid tax return preparer in the United States, with an approximate 4% share of the paid tax return preparer market. Electronic filing continues to be an important component in the filing of individual income tax returns. In 2007, 60% of United States individual income tax returns filed through April 30 were filed electronically. Electronic filing provides the taxpayer with benefits, including acknowledgment of receipt of the filing, better accuracy and faster tax refund processing.

The industry consists of customers with two filing behaviors—those who file during the early season (defined as January and February) and those who file during the late season (defined as March and April). Early season filers typically file their tax returns shortly after their Form W-2s become available in order to receive their tax refunds as quickly as possible. Historically, most of the tax returns filed by our network have been filed by the end of February, including approximately 74% of the returns filed by our network in 2007. Late season filers tend to have a higher adjusted gross income ("AGI") on average and have more complex tax return preparation needs. These late season customers are generally less concerned with the speed of receipt of their tax refunds.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

The table below shows the breakdown of tax returns filed by ranges of AGI, for all United States individual federal income tax returns filed (i) in 2005 in the United States and (ii) in 2007 by us.

	United States	Jackson Hewitt
Less than $35,000	56%	76%
$35,000 to $49,999	13	11
$50,000 or more	31	13
Total	100%	100%

Over the past few years, the overall tax filing market has experienced a shift in which more taxpayers are filing later in the tax season, moving from the early season to the late season. Through the end of February 2007, there were just under two million fewer tax returns filed with the IRS than during the same period in 2004. Total IRS tax filings have continued to grow, but the growth has occurred in the late season. We believe the stronger economy over the past few years—with declining unemployment and continued wage growth—has reduced the desire for certain taxpayers to file in the early season and receive their income tax refund as soon as possible. We believe this shift in taxpayer filings from early season to late season may be cyclical and could reverse following a slower economy.

BUSINESS OPERATIONS

Tax Return Preparation Services

Our network provides our customers with convenient, fast and accurate federal, state and local individual income tax return preparation services and electronic filing of their tax returns. Our network filed over 90% of our tax returns electronically in 2007. Through the use of our proprietary tax software, ProFiler®, we provide a comprehensive computerized individual tax return preparation experience designed to ensure accuracy. The cost of the tax return preparation service is generally based upon the complexity of the tax return. In connection with the filing of their tax returns, our customers may elect to receive their tax refund directly from the IRS, or if they prefer, may select one or more financial products.

In 2007, our network consisted of 5,778 franchised offices and 723 company-owned offices and prepared 3.65 million tax returns. Our total revenues in 2007 were $293.2 million, including revenues from franchisees, consisting of royalty and marketing and advertising fees and other revenues (45.4% of total revenues), service revenues earned at company-owned offices (27.3% of total revenues), and financial product fees (27.3% of total revenues).

Our network of offices consists of both storefront and retail-partner locations. Our retail-partner locations are located within other businesses, typically retail stores and shopping malls. In 2007, we had relationships with national and large regional retailers and shopping malls, including Wal-Mart Stores, Inc. ("Wal-Mart"), Kmart Corporation, Simon Property Group and General Growth Property, Inc., whose customer and employee demographics overlap with ours. Our agreements with these retailers allow Jackson Hewitt Tax Service offices to be located within the retail-partner's locations in high-traffic areas during the tax season at relatively modest costs. During 2007, our network had over 1,600 retail-partner locations in retailers and shopping malls nationwide, including more than 1,300 in Wal-Mart stores. In 2007, approximately 13% of the tax returns prepared by our network were generated in retail-partner locations located in Wal-Mart stores.

Our franchisees and company-owned operations operate in defined geographic territories. We divide the country into over 5,100 specific territories. The average population of a territory is approximately 60,000. Approximately 1,900 of our territories, or 37%, remain available for sale to expand our network. We reevaluate the population size of available territories from time to time. We focus on selling new territories to high-quality

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007

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franchisees already in our franchise system and to tax preparers or entrepreneurs new to our franchise system. We also seek to expand our network by increasing the number of offices operated in each territory. In 2007, the territories in which our network operated were largely under-penetrated, with only 31% of these territories having reached our target of at least three offices per territory. On average, we had 2.0 offices per territory in 2007.

Financial Products

In connection with our customers' tax return preparation experience, various financial products are available for their choosing. Certain of these financial products provide the customer with the ability to have all fees, including fees for tax return preparation and the financial product, withheld from the proceeds of the financial product. In addition, financial products which are loans provide the customer with access to funds more quickly than if the customer had filed the tax return and waited to receive a tax refund directly from the IRS. Financial products available to our customers include:

Refund Anticipation Loans ("RALs"). A RAL is a loan made by a third party financial institution to a customer and secured by a customer's anticipated federal tax refund. The loan amount, less applicable fees and charges, including tax return preparation fees, is generally disbursed to the customer within approximately one day from the time the tax return is electronically filed with the IRS.

Our financial product providers also offer instant loan products that are generally available to the customer on the same day that the customer applies for a loan.

Assisted Refunds. Assisted refunds (formerly called accelerated check refunds and assisted direct deposits) are not loans. Assisted refunds are provided by third party financial institutions and provide the customer with the ability to have their tax return preparation fees and other charges withheld directly from their tax refund. The customer's tax refund is deposited by the taxing authority directly into a bank account established for this purpose by the financial institution. The customer then has the choice of (i) receiving a bank check in the amount of the net tax refund or (ii) having the financial institution directly deposit the amount of the net tax refund into the customer's own bank account.

Over the past several tax seasons, our financial product providers have provided customers with various loan products, both during the pre-season (defined as November through early January) and tax season. In April 2007, we announced that we supported our financial product partners' decisions to discontinue the pre-season loan products that were available in connection with the 2007 tax filing season and that we intended to discontinue the availability of such products. We expect our financial product providers to continue to offer instant loan products in connection with RALs during the tax season.

Gold Guarantee®. Gold Guarantee is an extended warranty that a customer may purchase whereby the taxpayer may be reimbursed up to a set limit for any additional tax liability owed due to an error in the preparation of the customer's tax return.

As an alternative to receiving financial product proceeds by bank check, our customers may, for an additional fee, elect to receive funds on the ipower® CashCard, a debit MasterCard® card.

We have contractual arrangements with certain financial institutions that provide many of the financial products, including RALs, to our customers. These financial institutions are Santa Barbara Bank & Trust, a division of Pacific Capital Bank, N.A. ("SBB&T") and HSBC Taxpayer Financial Services, Inc. ("HSBC"). We provide the financial institutions with access to our customers and technology support. The agreements with HSBC will expire on October 31, 2007. The agreements with SBB&T will expire on October 31, 2008. We are currently in negotiations with each financial institution.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

Franchise Operations

Our growth has been largely attributable to the expansion of our franchise system. We seek to increase the number of franchised offices each year through the sale of new territories and by increasing the number of locations in existing territories. In 2007, we sold 205 new territories and increased the number of our franchised offices by 399. The franchise model has an inherently higher profit margin than that of our company-owned offices, as our existing infrastructure permits additional franchise growth without significant additional fixed cost investment. In 2007, 22% of our franchisees earned more than $1.0 million in revenues.

Historically, approximately three-fourths of our sales of territories have been sold to existing franchisees. In 2007, approximately 82% of our sales of territories were sold to our existing franchisees and the remaining territories were sold to new franchisees. We recruit new franchisees through a number of sources, including advertising in select publications that target entrepreneurs who are interested in new franchise opportunities.

In certain situations, we provide financial support to convert independent tax practices to the Jackson Hewitt brand as either a new franchisee or through the acquisition of the independent tax practice by an existing franchisee ("Conversion"). We also provide financing and/or other incentives to support franchisees in new office growth.

The Franchise Agreement. Under the terms of our franchise agreement, each franchisee receives the right to operate a tax return preparation business under the Jackson Hewitt Tax Service brand within a designated geographic area. Franchisees are required to utilize our proprietary tax return preparation ProFiler software and other proprietary operating methods and procedures in the operation of their business. Franchisees are permitted to operate as many offices within a specified territory as they choose. The term of our standard franchise agreement is 10 years. In 1999 and 2000, we offered our franchisees the opportunity to renew their franchise relationship with us before their franchise agreement expired. In these early renewal programs, 93% of our franchisees entered into a new franchise agreement for a new 10-year term. As a result, 18% of our existing franchise agreements are up for renewal in 2009.

Our current franchise agreement requires franchisees to pay us royalties equal to 15% of their revenues (the royalty is 12% for most territories sold before mid-year 2000) and marketing and advertising fees equal to 6% of their revenues. We also charge franchisees a $2.00 fee for each tax return that they file electronically with the IRS.

Franchisee Support. We provide our franchisees with services, including training, administrative support, access to our proprietary ProFiler tax return preparation software, financial products, toll-free tax preparer and ProFiler support service and a dedicated field staff to advise and monitor their business. We also provide our franchisees assistance with marketing programs and information based on our market research. We offer initial training courses for new franchisees as well as more advanced training for more experienced operators and their staff. Throughout the year, we offer numerous workshops that address such topics as how to train tax return preparers, tax law updates, territory development, recruiting and staffing, new product updates and local advertising. Additionally, we provide each franchisee with field support to aid in site selection, market analysis and business strategies. We also provide access to a franchise service manager at our corporate headquarters who is available to provide information on research, updates, upcoming events and overall general support.

Company-Owned Offices

In 2007, we operated company-owned offices in 19 markets. Tax returns prepared by our company-owned offices represented 12% of the total number of tax returns prepared by our network in 2007. While we focus primarily on organic growth through the opening of new company-owned offices within existing territories as well as increasing office productivity, we also continue to pursue selective acquisition opportunities for our company-owned office segment. We intend to improve the profitability of our company-owned offices by taking advantage of our previous investments in infrastructure. Our company-owned offices also benefit from the support services that we provide to our franchisees.

Marketing and Advertising

Franchisees are required to pay us marketing and advertising fees equal to 6% of their revenues which we use to fund our marketing efforts. These fees are primarily utilized in connection with our regional and local marketing efforts which are designed to increase brand awareness and attract both early season and late season customers. Our marketing efforts also include national advertising and sponsorships and partnering with large, high-traffic retailers to drive customer awareness and increase customer traffic. Our advertising programs target early season and late season filers through network television advertisements, direct mail marketing, promotions and sponsorship of sports organizations whose fan base closely mirrors our core customer demographic group.

Tax Courses

Our franchised and company-owned offices offer a series of income tax courses. The basic income tax courses provide students with a general working knowledge of individual income taxes and tax return preparation. More advanced courses are also offered to provide a higher level of learning to those individuals who already possess a basic understanding of income taxes and income tax return preparation. These courses develop a general interest in tax return preparation and also create public awareness of our brand. Many of the students taking these courses develop an interest in tax return preparation as a career and often become tax preparers for franchisees or our company-owned offices.

SEASONALITY

The tax return preparation business is highly seasonal, and we historically generate substantially all of our revenues during the period from January 1 through April 30. In 2007, we earned 93% of our revenues during this period. We generally operate at a loss during the period from May 1 through December 31, during which we incur costs associated with preparing for the upcoming tax season.

INTELLECTUAL PROPERTY

We regard our intellectual property as critical to our success, and we rely on trademark, copyright, patent and trade secret laws in the United States to protect our proprietary rights. We pursue the protection of our trademarks by applying to register key trademarks in the United States. The initial duration of trademark registrations in the United States is 10 years. Most registrations can be renewed perpetually at 10-year intervals. In addition, we seek to protect our proprietary rights through the use of confidentiality agreements with employees, consultants, advisors and others.

We have obtained federal trademark registration for a number of marks, including Jackson Hewitt Tax Service, Jackson Hewitt®, Gold Guarantee, ProFiler and ipower CashCard. We also assert common law rights to certain marks. We do not have any registered patents.

EMPLOYEES

As of April 30, 2007, we employed 408 full-time employees, consisting of 142 employees at our corporate headquarters located in Parsippany, New Jersey, 159 employees at our technology facility located in Sarasota, Florida, 81 employees at our company-owned offices and 26 other employees. In addition, our company-owned offices employed approximately 6,300 seasonal employees primarily from January through April 2007.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

COMPETITION

The paid tax return preparation market is highly competitive. Our network competes with tens of thousands of paid tax return preparers, including H&R Block, which is the largest paid tax return preparation service company, Liberty Tax Service, regional and local tax return preparation companies, most of which are independent and some of which are franchised, and regional and national accounting firms and financial service institutions that prepare tax returns as part of their businesses. We also face competitive challenges from the online and software self preparer market, including the Free File Alliance, a consortium of the IRS and online preparation services that provides free online tax return preparation and filing and from volunteer organizations that prepare tax returns at no cost for low-income taxpayers. Certain states may also pass legislation to provide free online tax return preparation and filing from time to time. Our ability to compete in the tax return preparation business depends on our product mix, price for services, customer service, the specific site locations of our offices, local economic conditions, quality of on-site office management, the ability to file tax returns electronically with the IRS and the availability of financial products to our customers.

We also compete for the sale of tax return preparation franchises with H&R Block, Liberty Tax Service and other regional franchisors. In addition, we compete with franchisors of other high-margin services that attract entrepreneurs seeking to become franchisees. Our ability to continue to sell franchises is dependent on our brand image, the products and services to be provided through the network, the relative costs of financing and start-up costs, our reputation for quality, our marketing and advertising support and continuing recognition as an outstanding franchise opportunity by *Entrepreneur*® magazine.

In 2007, our early season business was impacted by the shift in taxpayer filings from early season to late season and the increased competitive environment. We believe the increased competitive environment was due in part to various pre-season loan products in the marketplace.

REGULATIONS

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

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

In addition to ongoing IRS audits of tax return preparation activities of certain of our franchisees and company-owned offices, the IRS has been conducting an audit of our policies, practices and procedures in connection with such tax return preparation activities. We are cooperating fully with the IRS in connection with these matters. The IRS has requested documents and other information, which we are providing to the IRS.

 Exhibit A - Part 1 of 2

On April 3, 2007, the Department of Justice ("DOJ") announced it had filed civil injunction suits against a franchisee and other named defendants operating in four states based upon allegations involving fraudulent tax return preparation (the "DOJ Lawsuits"). We are not named as a defendant in these suits. We are cooperating fully with the DOJ in connection with the DOJ Lawsuits. Based upon publicly-filed court documents, the DOJ Lawsuits are in preliminary stages prior to discovery commencing. The franchises in Georgia, Illinois, North Carolina and Michigan that are the subject of the DOJ Lawsuits, as well as a related franchise in Alabama, have suspended their operations.

We have retained outside counsel to conduct an internal review to investigate the allegations set forth in the DOJ Lawsuits and to examine our policies, practices and procedures in connection with tax return preparation activities of our franchisees and company-owned stores ("Internal Review"). We intend for the Internal Review to be completed promptly. As part of the Internal Review, outside counsel has provided recommendations regarding a variety of enhancements in the areas of tax return preparation compliance and monitoring. We will begin implementing these recommendations for the 2008 tax filing season. The enhancements to our policies, procedures and systems resulting from the recommendations are intended to continue to further support the preparation and filing of accurate tax returns by assisting our franchisees and company-owned offices in complying with regulatory requirements and expanding our monitoring of their compliance with these requirements.

With certain exceptions, the IRS prohibits the use or disclosure by income tax preparers of income tax return information without the prior written consent of the taxpayer. In addition, the Gramm-Leach-Bliley Act and related Federal Trade Commission ("FTC") regulations require income tax return preparers to adopt and disclose consumer privacy policies and provide consumers a reasonable opportunity to opt out of having personal information disclosed to unaffiliated third parties for marketing purposes. Some states have adopted or proposed stricter opt-in requirements in connection with use or disclosure of consumer information.

Financial Product Regulation: Federal and state statutes and regulations govern the facilitation of RALs and other financial products. These laws require us, among other things, to provide specific RAL disclosures and advertise RALs in a certain manner, including clearly explaining to the customer that the RAL is a loan. In addition, we are subject to federal and state laws that prohibit deceptive claims and require that our marketing practices are fair and not misleading. There are also many states that have statutes regulating, through licensing and other requirements, the activities of brokering loans and offering credit repair services to consumers as well as local usury laws which could be applicable to our business in certain circumstances. From time to time, we receive inquiries from various state regulators regarding our and our franchisees' facilitation of RALs and other financial products. We have in certain states paid fines, penalties and other payments, as well as agreed to injunctive relief, in connection with resolving these types of inquiries.

Many states have statutes requiring the licensing of persons offering contracts of insurance. If, in any particular state, it was determined that our Gold Guarantee program is subject to these statutes, then the manner in which we offer Gold Guarantee in such states might need to be modified or we may not be able to continue to offer Gold Guarantee in such states. Over the past several years, we have received inquiries from certain state insurance regulators about our Gold Guarantee program and the applicability of the state insurance statutes. In those states where the inquiries are closed, the regulators affirmed our position that the Gold Guarantee is not a contract of insurance and is therefore not subject to state insurance licensing laws.

Franchise Regulations: Our franchising activities are subject to the rules and regulations of the FTC and various state laws regulating the offer and sale of franchises. The FTC and various state laws require that we furnish to prospective franchisees a franchise offering circular containing proscribed information. A number of states, in which we are currently franchising, regulate the sale of franchises and require registration of the franchise offering circular with state authorities and the delivery of a franchise offering circular to prospective franchisees. We are currently operating under exemptions from registration in several of these states based upon our net worth and experience. Substantive state laws that regulate the franchisor/franchisee relationship presently

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exist in a substantial number of states, and bills have been introduced in Congress from time to time that would provide for federal regulation of the franchisor/franchisee relationship in certain respects. The state laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply.

From time to time, we may have to make appropriate amendments to our franchise offering circular used to comply with our disclosure obligations under federal and state law.

Tax Course Regulations: Certain states have regulations and requirements relating to our and our franchisees offering income tax courses. These requirements include licensing, bonding and certain restrictions on advertising.

AVAILABLE INFORMATION

We make available free of charge on or through our website, *www.jacksonhewitt.com*, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and, if applicable, amendments to those reports as soon as reasonably practicable after such reports are filed with, or furnished to, the Securities and Exchange Commission ("SEC"). Also available on our website are certain of our corporate governance policies, including the charters for the Board of Directors' audit, compensation and corporate governance committees, the Board of Directors corporate governance guidelines and our Codes of Conduct. A copy of any of these materials will be provided to any person, free of charge, upon written request to our Corporate Secretary at Jackson Hewitt Tax Service Inc., 3 Sylvan Way, Parsippany, New Jersey 07054.

On October 11, 2006, we submitted, without qualification, the annual CEO certification to the New York Stock Exchange ("NYSE") as required by Section 303A.12(a) of the NYSE Listed Company Manual. We, however, inadvertently omitted the following statement in our April 30, 2006 Annual Report on Form 10-K as required by the commentary to Section 303A.12(a) of the NYSE Listed Company Manual: "On October 20, 2005, we submitted, without qualification, our annual CEO certification to the New York Stock Exchange." We disclosed such submission in a Current Report on Form 8-K that was filed with the Securities and Exchange Commission on October 23, 2006. We were verbally advised by the NYSE that by including the required disclosure in that Current Report on Form 8-K we had cured this non-compliance with the commentary to Section 303A.12(a) of the NYSE Listed Company Manual. In addition, we included the certifications of the CEO and the CFO of Jackson Hewitt required by Section 302 of the Sarbanes-Oxley Act of 2002 and related rules, relating to the quality of Jackson Hewitt's public disclosure, in this Annual Report on Form 10-K as Exhibits 31.1 and 31.2.

ITEM 1A. RISK FACTORS.

We may not achieve the same levels of growth in revenues and profits in the future as we have in the past.

Over the past several years, our business has experienced significant growth in franchises, office locations, revenues and profits. Our ability to continue to grow our business will be subject to a number of risks and uncertainties and will depend in large part on: (i) finding new opportunities in our existing and new markets; (ii) continuing to facilitate financial products; (iii) attracting and retaining capable franchisees and expanding the operations of existing franchisees; (iv) hiring, training and retaining skilled managers and seasonal employees; (v) expanding and improving the efficiency of our operations and systems; (vi) increasing the quality of our tax return preparation; (vii) creating new product offerings; and (viii) attracting and retaining customers. Accordingly, we may not achieve the same levels of growth in revenues and profits as we have historically. For the fiscal year ended April 30, 2007 compared to the prior year, we did not experience growth in tax returns prepared by our system. If we are not able to increase the number of tax returns that we prepare in the future, our revenues and profits could decline.

We may be unable to attract and retain key personnel.

Our continued success depends largely on the efforts and abilities of our executive officers and other key employees. Competition for executive, managerial and skilled personnel in our industry remains intense. We may experience increased compensation costs in order to attract and retain executives, managers and other skilled employees. We may not be able to retain our existing management, fill new positions or vacancies created by expansion or turnover, or attract or retain the management and personnel necessary to operate our business effectively. Although we strive to be an employer of choice, we may not be able to continue to successfully attract and retain key personnel which would cause our business to suffer.

Government initiatives that simplify tax return preparation could reduce the need for our services as a third party tax return preparer.

Many taxpayers seek assistance from paid tax return preparers such as us because of the level of complexity involved in the tax return preparation and filing process. From time to time, government officials propose measures seeking to simplify the preparation and filing of tax returns or to provide additional assistance with respect to preparing and filing such tax returns. The passage of any measures that significantly simplify tax return preparation or otherwise reduce the need for a third party tax return preparer could reduce demand for our services, causing our revenues or profitability to decline.

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

Our performance depends in part on our customers' interest in obtaining the various financial products available through our offices. The federal government and various state governments have, from time to time, announced initiatives designed to modernize their operations and improve the timing and efficiency of processing tax returns and delivery of tax refunds. If tax authorities are able to increase the speed and efficiency with which they process tax returns and deliver tax refunds, the demand for financial products and demand for our tax return preparation services could be reduced, causing our revenues or profitability to decline.

Changes in the tax law that result in a decreased number of tax returns filed could harm our business.

From time to time, the United States Treasury Department and the IRS adopt policy and rule changes and other initiatives that result in a decrease in the number of tax returns filed. Similar changes in the tax law could reduce demand for our services, causing our revenues or profitability to decline.

The current trend in filing patterns could harm our business.

Over the past few years, the overall tax filing market has experienced a shift in which more taxpayers are filing their tax returns later in the tax season, moving from the early season to the late season. A significant portion of our business is derived in the early season. Our inability to continue to maintain or grow our business in the early season or to grow our business in the late season could cause our revenues and profitability to decline.

Our success is tied to the operations of our franchisees, yet our ability to exercise control over their operations is limited.

Our financial success depends on our franchisees and the manner in which they operate and develop their offices. However, our ability to control the operations of our franchisees is limited because their businesses are independently owned and operated. Franchisees retain control over the employment and management of all personnel, including the large number of seasonal employees required during the tax season. Although we can exercise control over our franchisees and their operations to a certain extent under the terms of our franchise

agreements to, among other things, maintain signage and equipment, standardize operating procedures, approve suppliers, distributors and products, and require compliance with law, the quality of their operations may be diminished by any number of factors beyond our control. Consequently, our franchisees may not operate their offices in a manner consistent with our philosophy and standards or may not increase the level of revenues generated compared to prior tax seasons. While we ultimately can take action to terminate franchisees that do not comply with the standards contained in our franchise agreements, and even though we intend to implement increased compliance and monitoring functions, we may not be able to identify problems and take action quickly enough and, as a result, our image and reputation may suffer, causing our revenues or profitability to decline. See "Item 1—Regulations."

We may be held responsible by third parties, regulators or courts for the actions of, or failures to act by, our franchisees, which exposes us to possible fines, other liabilities and negative publicity.

Our agreements with our franchisees require that they understand and comply with all laws and regulations applicable to their businesses. However, our franchisees are independently owned and operated and have a significant amount of flexibility in running their operations. Third parties, regulators or courts may seek to hold us responsible for the actions or failures to act by our franchisees. In addition, we are parties to agreements with retailers, such as Wal-Mart, and, to a certain extent, financial institutions, such as SBB&T and HSBC, under which we indemnify third parties for our and our franchisees' failure to perform obligations and/or comply with laws and regulations applicable to us or them. There are also occasions when our and our franchisees' activities are not clearly distinguishable, and we may be held liable for the activities of our franchisees. Failure to comply with laws and regulations by our franchisees may expose us to possible fines, other liabilities, lawsuits and negative publicity which could have a material adverse effect on our business, financial condition and results of operations. See "Item 1—Regulations."

Federal and state legislators and regulators have increasingly taken an active role in regulating financial products such as RALs, and the continuation of this trend could impede our ability to facilitate these financial products and reduce demand for our services and harm our business.

From time to time, government officials at the federal and state levels introduce and enact legislation and regulations proposing to regulate the facilitation of RALs and other financial products. Certain of the proposed legislation and regulations could, if adopted, increase costs to us, our franchisees and the financial institutions that provide our financial products, or could negatively impact or eliminate the ability of financial institutions to provide RALs and other financial products through tax return preparation offices, which could cause our revenues or profitability to decline. The federal government and certain states currently have proposed legislation that could further this initiative.

Many states have statutes regulating, through licensing and other requirements, the activities of brokering loans and providing credit repair services to consumers as well as local usury laws. Certain state regulators are interpreting these laws in a manner that could adversely affect the manner in which RALs and other financial products are facilitated or result in fines or penalties to us or our franchisees. Additional states may interpret these laws in a manner that is adverse to how we currently conduct our business or how we have conducted our business in the past and we may be required to change business practices or otherwise comply with these statutes or it could result in fines or penalties or other payments related to past conduct.

We from time to time receive inquiries from various state regulatory agencies regarding the facilitation of RALs and other financial products. We have in certain states paid fines, penalties and other payments to resolve these matters. In addition, consumer advocacy groups have increasingly called for a legislative and regulatory response to the perceived inequity of these types of financial products. Increased regulatory activity in this area could have a material adverse effect on our business, financial condition and results of operations.

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

Our tax return preparation business, including our franchise operations and facilitation of financial products such as RALs, are subject to extensive regulation and oversight in the United States by the IRS, the FTC and by federal and state regulatory and law enforcement agencies. If governmental agencies having jurisdiction over our operations were to conclude that our business practices, the practices of our franchisees, or those of the financial institutions, violate applicable laws, we could become subject to sanctions which could have a material adverse effect on our business, financial condition and results of operations. These sanctions may include, without limitation: (i) civil monetary damages and penalties; (ii) criminal penalties; and (iii) injunctions or other restrictions on the manner in which we conduct our business.

The ongoing examination of us by the IRS could result in changes to our business practices and reputation, which could cause our revenues or profitability to decline. The IRS's ongoing examinations of certain of our franchisees and company-owned offices could result in certain tax preparers and employees being sanctioned by the IRS and could require them or our franchisees to leave our system. It is also possible that the DOJ could bring actions against other of our franchisees or their employees or with respect to company-owned offices or their employees, resulting in sanctions or requiring them to leave our network.

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

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

The ongoing DOJ Lawsuits and IRS examinations could harm our business, reputation, revenues and profitability.

The ongoing DOJ Lawsuits and IRS examinations could result in (i) increased IRS examinations with respect to our franchisees and their employees or company-owned offices and their employees; (ii) DOJ actions against other franchisees or their employees or company-owned offices or their employees; and (iii) negative publicity, which could impact how our customers and franchisees, both new and existing, view our brand and our business. These factors, individually or in the aggregate, could harm our reputation and cause our revenues or profitability to decline.

The ongoing DOJ Lawsuits and IRS examinations also expose us to the risk of litigation, which could result in litigation defense and resolution costs, which could cause our profitability to decline.

In addition, as a result of the Internal Review, we intend to implement a variety of enhancements in the areas of tax return preparation compliance and monitoring. The cost of the Internal Review and the implementation of additional tax return preparation compliance and monitoring procedures could cause our profitability to decline.

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Our tax return preparation compliance program may not be successful in detecting all problems in our network.

Although our tax return preparation compliance program seeks to monitor the activities of our network, it is unlikely to detect every problem. In conjunction with the Internal Review, we intend to implement a variety of measures to enhance tax return preparation compliance as well as our monitoring of these activities. There can be no assurance that we will be successful in implementing this program, that franchisees and tax preparers will follow these procedures or that these measures will be sufficient to satisfy the IRS in its ongoing examination of us. Failure to detect tax return preparation compliance issues could cause our revenues or profitability to decline, harm our reputation and expose us to the risk of litigation which could result in litigation defense and resolution costs.

Changes in the law that result in increased regulation of tax return preparers could make it more difficult to find qualified tax preparers and could harm our business.

The federal government and several states are considering various regulations regarding the education, licensing and registration of tax return preparers. Such regulations could impact our ability to find an adequate number of tax return preparers to meet the demands of our customers, which could cause our revenues and profitability to decline.

Our facilitation of RALs and other financial products exposes us to the risk of significant losses as a result of litigation defense and resolution costs.

Tax return preparers who facilitate RALs and other financial products have been subject, from time to time, to individual and class action lawsuits. These lawsuits have alleged, among other claims, collusion between the tax return preparers and financial product provider in violation of law and claims of fraud, unfair competition, misleading or deceptive statements, violation of credit services statutes, and breach of fiduciary duty on the part of the tax return preparers for failing to, among other things, properly disclose the terms of the financial product. We have been named as a defendant in several purported class action lawsuits in connection with our facilitation of RALs. See "Item 3—Legal Proceedings." Given the large number of financial products, including RALs, we facilitate every year and the inherent uncertainties of the United States legal system, we could experience significant losses as a result of litigation defense and resolution costs, which could cause our profitability to decline.

Our insurance coverage may not cover all risks associated with our business.

We have various insurance policies related to the risks associated with our business, including errors and omissions insurance and directors and officers insurance. However, in the event of a claim there can be no assurance that our insurance coverage will be sufficient or that our insurance companies will cover the matters claimed. The failure of adequate insurance coverage or recovery could have a material adverse effect on our business, financial condition and results of operations.

Failure to comply with laws and regulations that protect our customers' personal and financial information could result in significant fines and harm our brand and reputation.

Privacy concerns relating to the disclosure of customers' personal and financial information have drawn increased attention from federal and state governments. The IRS generally prohibits the use or disclosure by tax return preparers of taxpayers' information without the prior written consent of the taxpayer. In addition, the Gramm-Leach-Bliley Act and other FTC regulations require financial service providers, including tax return preparers, to adopt and disclose customer privacy policies and provide customers with a reasonable opportunity to opt out of having personal information disclosed to unaffiliated third parties for marketing purposes. Federal and state law also requires us to safeguard our customers' financial information, including credit card

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information. Although we have established security procedures to protect against identity theft and the theft of our customers' financial information, breaches of our customers' privacy may occur. To the extent the measures we have taken prove to be insufficient or inadequate, we may become subject to litigation or administrative sanctions, which could result in significant fines, penalties or damages and harm to our brand and reputation.

In addition, changes in these federal and state regulatory requirements could result in more stringent requirements and could result in a need to change business practices, including how information is disclosed. These changes could have a material adverse effect on our business, financial condition and results of operations.

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

Our revenues are heavily influenced by brand marketing and advertising. Our marketing and advertising programs may not be successful, which may lead us to fail to attract new customers and retain existing customers. If our marketing and advertising programs are unsuccessful, our revenues or profitability could decline. Moreover, because franchisees contribute to our marketing fund based on a percentage of their gross sales, our marketing fund expenditures are dependent upon sales volumes of our franchisees. If these sales decline, there will be a reduced amount available for our marketing and advertising programs.

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

Our operating results depend on the continued success and growth of our franchise system.

The continued success and growth of our franchise system depends on our maintaining a satisfactory working relationship with our franchisees. Lawsuits and other disputes with our franchisees could discourage our franchisees from expanding their business within our network or lead to negative publicity, which could discourage new franchisees from entering our network or existing franchisees from renewing their franchise agreements, and could have a material adverse effect on our business, financial condition and results of operations. The negative publicity relating to the DOJ Lawsuits and IRS examinations could also discourage new franchisees from entering the system or existing franchisees from renewing their franchise agreements.

In 1999 and 2000, we offered our franchisees the opportunity to renew their franchise relationship with us before their franchise agreement expired. In these early renewal programs, 93% of our franchisees entered into a new franchise agreement for a new 10-year term, and, as a result, approximately a third of our existing franchise agreements come up for renewal in 2009 and 2010. Our inability to renew a significant portion of these franchise agreements on favorable terms could have a material adverse effect on our business, financial condition and results of operations.

Our business is, to some extent, dependent upon our customers' ability to obtain financial products through our offices.

Our tax return preparation business is, to some extent, dependent on our customers' ability to obtain financial products through our tax return preparation offices. The financial products we facilitate are specialized financial products and relatively few financial institutions offer them. We currently have agreements with HSBC and SBB&T. Our agreement with HSBC terminates on October 31, 2007 and our agreement with SBB&T

terminates on October 31, 2008. We may not be able to renew these agreements on similar terms or at all. If our arrangements with the financial institutions that provide financial products were to terminate, and we were unable to enter into an alternative relationship with one or more other financial institutions on acceptable terms or at all, it could have a material adverse effect on our business, financial condition and results of operations.

In addition, we earn revenues under our agreements with the providers of financial products to our customers. Changes in the industry or how financial products are permitted to be provided could result in the termination of these agreements or cause our revenues or profitability to decline.

In 2007, the financial institutions that provide financial products through our offices announced that they will no longer offer pre-season loan products that were available in connection with the 2007 tax filing season. In support of that decision, we announced that we intended to discontinue the availability of such products. Our elimination of the pre-season loan products from our product offerings could reduce the number of customers utilizing our tax return preparation services, which could cause our revenues and profitability to decline.

Disruptions in our relationships with large retailers and shopping malls could negatively affect our growth and profitability.

Our retail-partner locations are an important part of our location strategy. In 2007, over 1,300 of our retail-partner locations were located within Wal-Mart stores. Our ability to operate in these locations is dependent on our ability to negotiate favorable agreements with retailers and shopping malls and on the continued operation of these stores. Our agreements with retailers and shopping malls are of limited duration, typically two years, and we may not be able to renew them on similar terms or at all and many of these agreements are not exclusive. In addition, renewal of each individual location may be dependent of the conduct of the individual franchisee seeking to open the location. In the event we are unable to negotiate favorable agreements with these or comparable retailers or shopping malls or they close a significant number of stores, especially immediately prior to or during the tax season, or our franchisees are unsuccessful in opening these locations, it could have a material adverse effect on our business, financial condition and results of operations.

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

Our business is highly seasonal. We generate substantially all our revenues during the period from January 1 through April 30. The concentration of our revenue-generating activity during this relatively short period presents a number of operational challenges for us and our franchisees, including: (i) cash and resource management during the first eight months of our fiscal year, when we generally operate at a loss and incur fixed costs and costs of preparing for the upcoming tax season; (ii) flexible staffing, because the number of employees at our network's offices during the peak of the tax season is exponentially higher than at any other time; (iii) accurate forecasting of revenues and expenses; and (iv) ensuring optimal uninterrupted operations during tax season.

If we were unable to meet these challenges or we were to experience significant business interruptions during the tax season, which may be caused by labor shortages, systems failures, work stoppages, adverse weather or other events, many of which are beyond our control, we could experience a loss of business, which could have a material adverse effect on our business, financial condition and results of operations. In this regard, the Company believes that the negative publicity surrounding the DOJ's announcement of the DOJ Lawsuits had an adverse impact on our business following the announcement.

We face significant competition in our business that may negatively impact our revenues, profitability and market position.

The paid tax return preparation market is highly competitive. Our network competes with tens of thousands of paid tax return preparers and regional and national accounting firms and financial service institutions that

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prepare tax returns as part of their businesses. Some of these firms are larger and better capitalized. We also face competitive challenges from the online and software self preparer market, including Free File Alliance, a consortium of the IRS and online preparation services that provides free online tax return preparation and filing, and from volunteer organizations that prepare tax returns at no cost for low-income taxpayers. The availability of these alternatives may reduce demand for our products and limit the amount of fees that we can charge. Competitors may develop or offer more attractive or lower cost products and services than ours which could erode our customer base. In addition, an increase in use of free tax return preparation services could result in a loss of our customers and could cause revenues or profitability to decline.

Additionally, federal and state governments may in the future become direct competitors to our tax offerings. Were federal and state governments to provide their own software and electronic filing services to taxpayers at no charge it could have a material adverse effect on our business, financial condition and results of operations.

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

Our ability to file tax returns electronically and to facilitate financial products depends on our ability to electronically communicate with all of our network's offices, the IRS and the financial institutions that provide these financial products. Our electronic communications network is subject to disruptions of various magnitudes and durations. Any severe disruption of our network or electronic communications, especially during the tax season, could impair our ability to complete our customers' tax filings, to facilitate financial products and to provide technology services to the financial institutions providing financial products or to maintain our operations, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

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

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

We are a holding company that depends on cash flow from our subsidiaries to meet our obligations.

We are a holding company with no material assets other than the stock of our subsidiaries. Accordingly, all our operations are conducted by our subsidiaries. As a holding company, we require dividends and other payments from our subsidiaries to meet cash requirements or other obligations. If our subsidiaries are unable to pay us dividends and make other payments to us when needed, we will be unable to satisfy our obligations.

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

The agreement governing our credit facility imposes operating and financial restrictions on us, including restrictive covenants that will require us to maintain specified financial ratios and satisfy financial condition tests. In addition, our credit facility contains various customary restrictive covenants that limit our ability to, among other things, (i) incur additional indebtedness or guarantees, (ii) create liens or other encumbrances on our property, (iii) enter into a merger or similar transaction, (iv) sell or transfer property except in the ordinary course of business, and (v) make dividend and other restricted payments.

Our ability to comply with the ratios or tests in our credit facility may be affected by events beyond our control, including prevailing economic, financial and industry conditions. These covenants may prevent us from incurring additional indebtedness to expand our operations and execute our business strategy. In addition, a breach of any of these covenants, ratios or tests could result in a default under our credit facility.

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

We may borrow amounts under our credit facility that bear interest at rates that vary with prevailing market interest rates. Accordingly, a rise in market interest rates will adversely affect our financial results. We expect to draw most heavily on this credit facility from May through February of each year and then repay a significant portion of the borrowings by the end of each tax season. Therefore, a significant rise in interest rates during our off-season will have a disproportionate impact on our profitability.

Because the tax season is relatively short and straddles two quarters, our quarterly results may not be indicative of our performance, which may increase the volatility of the trading price of our common stock.

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

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

Our payment of dividends in the future will be at the discretion of our board of directors and will depend on, among other things, our earnings, capital requirements and financial condition. Our ability to pay dividends will be subject to compliance with customary financial covenants that are contained in our credit facility. Dividends may also be limited or prohibited by any future borrowings or issuances of preferred stock. In addition, applicable law requires that our board of directors determine that we have adequate surplus prior to the declaration of dividends. There can be no assurance that we will pay dividends at the levels currently anticipated or at all.

We are subject to certain provisions that may have the effect of hindering, delaying or preventing third party takeovers, which may prevent our shareholders from receiving premium prices for their shares in an unsolicited takeover and make it more difficult for third parties to replace our current management.

Our certificate of incorporation, by-laws and our rights plan contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions include, among other things, a classified board of directors, the elimination of stockholder action by

written consent, advance notice for raising business or making nominations at meetings and "blank check" preferred stock. Blank check preferred stock enables our board of directors, without stockholder approval, to designate and issue additional series of preferred stock with such dividend, liquidation, conversion, voting or other rights, including the right to issue convertible securities with no limitations on conversion, as our board of directors may determine are appropriate, including rights to dividends and proceeds in a liquidation that are senior to the common stock. These provisions may make it more difficult or expensive for a third party to acquire a majority of our outstanding voting common stock.

We are also subject to certain provisions of Delaware law which could delay, deter or prevent us from entering into an acquisition, including Section 203 of the Delaware General Corporation Law, which prohibits a Delaware corporation from engaging in a business combination with an interested stockholder unless specific conditions are met. These provisions also may delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our stockholders receiving a premium over the market price for their common stock.

In addition, our stockholder rights plan entitles our stockholders to acquire shares of our common stock at a price equal to 50% of the then current market value in limited circumstances when a third party acquires 15% or more of our outstanding common stock (excluding as a result of share repurchases by us) or announces its intent to commence a tender offer for at least 15% of our common stock, in each case, in a transaction that our board of directors does not approve. Because, under these limited circumstances, all of our stockholders would become entitled to affect discounted purchases of our common stock, other than the person or group that caused the rights to become exercisable, the existence of these rights would significantly increase the cost of acquiring control of us without the support of our board of directors. The existence of the rights plan could therefore deter potential acquirers and thereby reduce the likelihood that you will receive a premium for your common stock in an acquisition.

If we fail to maintain an effective system of internal controls, we may not be able to detect fraud or report our financial results accurately, which could harm our business and the trading price of our common stock.

Effective internal controls are necessary for us to provide reliable financial reports and to detect and prevent fraud. We periodically assess our system of internal controls, and the internal controls of service providers upon which we rely, to review their effectiveness and identify potential areas of improvement. These assessments may conclude that enhancements, modifications or changes to our system of internal controls are necessary. Performing assessments of internal controls, implementing necessary changes, and maintaining an effective internal controls process is expensive and requires considerable management attention. Internal control systems are designed in part upon assumptions about the likelihood of future events, and all such systems, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. If we fail to implement and maintain an effective system of internal controls or prevent fraud, we could suffer losses, could be subject to costly litigation, investors could lose confidence in our reported financial information and our brand and operating results could be harmed, which could have a negative effect on the trading price of our common stock.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we and our independent registered public accounting firm must certify the adequacy of our internal controls over financial reporting annually. Identification of material weaknesses in internal controls over financial reporting by us or our independent registered public accounting firm could adversely affect our competitive position in our business, and the market price for our common stock.

 Exhibit A - Part 1 of 2

ITEM 1B. UNRESOLVED STAFF COMMENTS.

There were no unresolved staff comments.

ITEM 2. PROPERTIES.

Our corporate headquarters are located in a leased office in Parsippany, New Jersey consisting of approximately 45,000 square feet. The lease for this office is scheduled to expire in 2012. Our technology facility is located in a leased office in Sarasota, Florida consisting of approximately 34,000 square feet. The lease for this office is schedule to expire in 2014. All of our company-owned offices are operated under leases. We believe that our offices are in good repair and sufficient to meet our present needs.

ITEM 3. LEGAL PROCEEDINGS.

On March 18, 2003, Canieva Hood and Congress of California Seniors brought a purported class action suit against Santa Barbara Bank & Trust ("SBB&T") and us in the Superior Court of California (Santa Barbara, following a transfer from San Francisco) seeking declaratory relief in connection with the provision of RALs, as to the lawfulness of the practice of cross-lender debt collection, as to the validity of SBB&T's cross-lender debt collection provision and as to whether the method of disclosure to customers with respect to the provision is unlawful or fraudulent, and seeking injunctive relief, restitution, disgorgement, compensatory damages, statutory damages, punitive damages, attorneys' fees, and expenses. We are a party in the action for allegedly collaborating, and aiding and abetting, in the actions of SBB&T. The trial court granted a motion for judgment on the pleadings by SBB&T and third-party bank defendants on federal preemption grounds, and stayed all other proceedings pending appeal. The California Court of Appeal reversed the trial court's preemption decision. The California Supreme Court denied review. SBB&T and third-party banks moved in the California Court of Appeal to stay remittitur pending certiorari to the United States Supreme Court. On June 4, 2007, the United States Supreme Court denied certiorari, and the purported class action suit is proceeding in the trial court. A class certification hearing has been tentatively scheduled for October 3, 2007. We believe we have meritorious defenses and are contesting this matter vigorously. On December 18, 2003, Ms. Hood also filed a separate suit against us in the Ohio Court of Common Pleas (Montgomery County) and is seeking to certify a class in the action. The allegations of negligence, breach of fiduciary duty, and violation of certain Ohio law relate to the same set of facts as the California action. Plaintiff seeks equitable and declaratory relief, damages, attorneys' fees, and expenses. The case is in its discovery and pretrial stage. We believe we have meritorious defenses and are contesting this matter vigorously.

On September 26, 2006, Willie Brown brought a purported class action complaint against us in the Ohio Court of Common Pleas, Cuyahoga County, on behalf of Ohio customers who obtained RALs facilitated by us, for an alleged failure to comply with Ohio's Credit Services Organization Act, and for alleged unfair and deceptive acts in violation of Ohio's Consumer Sales Practices Act, and seeking damages and injunctive relief. On October 30, 2006, we filed a notice removing the complaint to the United States District Court for the Northern District of Ohio, Eastern Division. On November 6, 2006, we filed a motion to dismiss, and a motion to stay proceedings and to compel arbitration. On December 8, 2006, plaintiff filed a motion to remand the case to the Ohio Court of Common Pleas, Cuyahoga County, which we opposed on January 16, 2007. On February 27, 2007 the Court entered an order remanding the case to the Cuyahoga County Court of Common Pleas, without ruling on the other pending motions. On March 6, 2007, we filed for permission to appeal the remand decision with the United States Court of Appeals for the Sixth Circuit. A decision by the court is currently pending. We believe we have meritorious defenses and are contesting this matter vigorously.

On October 30, 2006, Linda Hunter brought a purported class action complaint against us in the United States District Court, Southern District of West Virginia, on behalf of West Virginia customers who obtained RALs facilitated by us, seeking damages for an alleged breach of fiduciary duty, for breach of West Virginia's Credit Service Organization Act, for breach of contract, and for unfair or deceptive acts or practices in

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

connection with our RAL facilitation activities. On November 22, 2006, we filed a motion to dismiss. A decision by the Court is currently pending, and during such time the case is in its discovery stage. We believe we have meritorious defenses and are contesting this matter vigorously.

On April 20, 2007, Brent Wooley brought a purported class action complaint against us and certain unknown franchisees in the United States District Court, Northern District of Illinois, on behalf of customers who obtained tax return preparation services that allegedly included false deductions without support by the customer that resulted in penalties being assessed by the IRS against the taxpayer for violations of the Illinois Consumer Fraud and Deceptive Practices Act, and the Racketeer and Corrupt Organizations Act, seeking compensatory and punitive damages, restitution, and attorneys' fees. The alleged violations of the Illinois Consumer Fraud and Deceptive Practices Act relate to representations regarding tax return preparation and Gold Guarantee coverage and denial of Gold Guarantee claims. On June 20, 2007, we agreed to plaintiff's request to permit him to file an Amended Complaint in exchange for extending the deadline for filing a motion to dismiss the Amended Complaint to July 31, 2007. We believe we have meritorious defenses and are contesting this matter vigorously.

On June 22, 2007, James Chapman brought a purported class action complaint against Jackson Hewitt Inc. and certain unknown franchisees in the United States District Court, District of New Jersey, on behalf of customers whose returns were deemed improper by the IRS and then were denied Gold Guarantee claims for violations of the New Jersey Consumer Fraud Act and the Racketeering and Corrupt Organizations Act as well as breach of contract and unjust enrichment. We have not yet been served with the complaint. We believe we have meritorious defenses and, if served, intend to contest this matter vigorously.

We are from time to time subject to other legal proceedings and claims in the ordinary course of business, none of which we believe are likely to have a material adverse effect on our financial position, results of operations or cash flows. However, there can be no assurance that such litigation or claims, or any future litigation or claims, will not have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2007.

 Exhibit A - Part 1 of 2

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Price Range of Common Stock

The principal market in the United States for our common stock is the NYSE. The only class of our securities that is traded is our common stock. Our common stock has traded on the NYSE since June 22, 2004, under the symbol JTX. The following table sets forth the quarterly high and low sales prices of our common stock for the period indicated as reported by the NYSE. These prices do not include retail mark-ups, markdowns, or commissions.

Fiscal 2007		High	Low
First Quarter:	May 1-July 31, 2006	$ 35.76	$ 29.44
Second Quarter:	August 1-October 31, 2006	$ 36.70	$ 27.90
Third Quarter:	November 1, 2006-January 31, 2007	$ 37.44	$ 32.90
Fourth Quarter:	February 1-April 30, 2007	$ 36.82	$ 26.26

Fiscal 2006		High	Low
First Quarter:	May 1-July 31, 2005	$ 26.26	$ 17.65
Second Quarter:	August 1-October 31, 2005	$ 27.24	$ 22.11
Third Quarter:	November 1, 2005-January 31, 2006	$ 28.30	$ 23.68
Fourth Quarter:	February 1-April 30, 2006	$ 31.84	$ 25.00

Approximate Number of Equity Security Holders

As of May 31, 2007, there were 21 registered shareholders of our common stock.

Dividends

In fiscal 2007, we paid four quarterly dividends of $0.12 per share to holders of our common stock totaling $15.8 million. In fiscal 2006, we paid four quarterly dividends of $0.08 per share to holders of our common stock totaling $11.5 million. We intend to continue the payment of quarterly cash dividends to holders of our common stock in the foreseeable future.

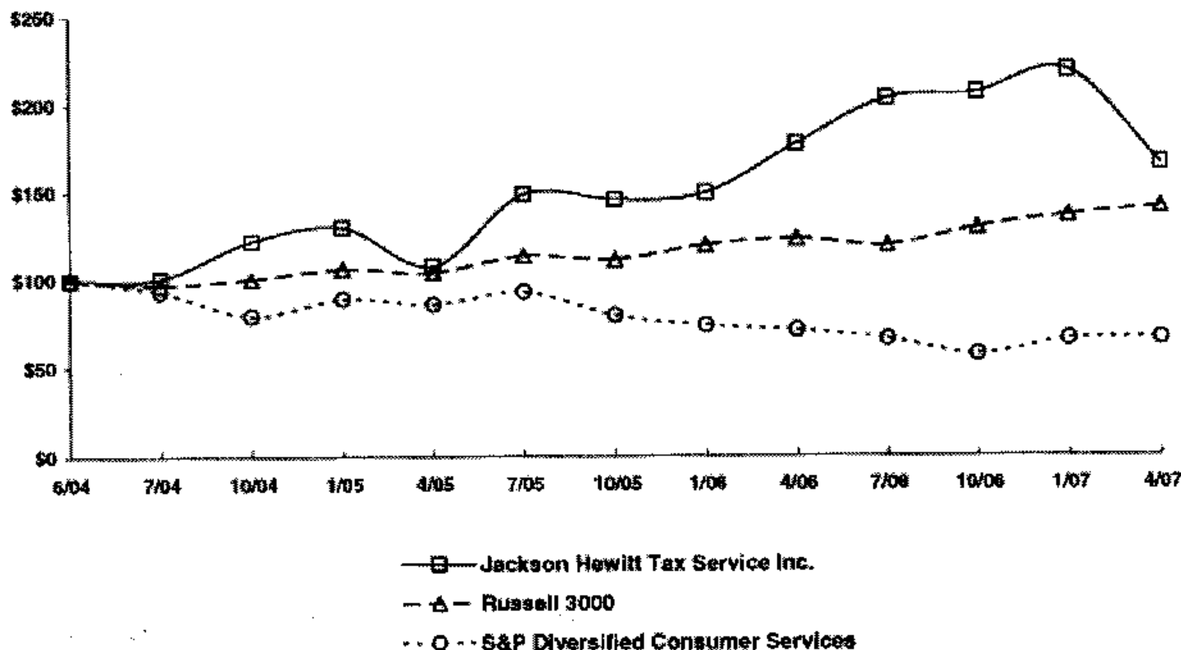
Issuer Purchases of Equity Securities

Period of settlement date	Total Number of Shares Purchased	Average Price Paid per Share (including Commissions)	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program at end of Period(a)
February 1-28, 2007	—	$ —	—	$ 170.5 million
March 1-31, 2007	545,800	$ 32.62	545,800	$ 152.7 million
April 1-30, 2007	701,089	$ 28.53	701,089	$ 132.7 million
Three months ended April 30, 2007	1,246,889	$ 30.32	1,246,889	$ 132.7 million

(a) On October 13, 2006, we announced a $200.0 million multi-year share repurchase program.

Performance Graph

The following graph assumes $100 invested on June 22, 2004, the date of the Company's IPO, and compares (a) the percentage change in the Company's cumulative total stockholder return on the Common Stock (as measured by dividing (i) the sum of (A) the cumulative amount of dividends, assuming dividend reinvestment, during the period commencing June 22, 2004, and ending on April 30, 2007, and (B) the difference between the Company's share price at the end and the beginning of the periods presented by (ii) the share price at the beginning of the periods presented) with (b) (i) the Russell 3000® Index and (ii) the Standard & Poor's Diversified Consumer Services Index.



* $100 invested on 6/22/04 in stock or index-including reinvestment of dividends.
Fiscal year ending April 30.

	6/04	7/04	10/04	1/05	4/05	7/05	10/05	1/06	4/06	7/06	10/06	1/07	4/07
Jackson Hewitt Tax Service Inc.	100.00	100.87	122.14	129.95	107.81	148.64	145.66	149.28	177.03	202.99	206.60	219.13	165.87
Russell 3000	100.00	97.06	100.59	106.11	104.30	113.48	111.25	119.55	123.16	119.31	129.46	136.41	140.99
S&P Diversified Consumer Services	100.00	93.33	79.49	89.27	85.94	93.09	79.47	73.83	71.02	65.78	57.12	65.80	66.12

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ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth our selected historical consolidated financial data as of and for each of the years in the five-year period ended April 30, 2007. You should read this information in conjunction with the information under "Part II. Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part I. Item 1—Business" and our historical consolidated financial statements and the related notes thereto included elsewhere in this Form 10-K. Our historical consolidated statement of operations data and consolidated balance sheet data as of and for each of the years in the five-year period ended April 30, 2007 has been derived from our audited consolidated financial statements. Our historical consolidated financial statements as of April 30, 2007 and 2006 and for each of the years in the three-year period ended April 30, 2007 and Deloitte & Touche LLP's report on these historical consolidated financial statements have been included under "Part II. Item 8—Financial Statements and Supplementary Data."

Our results of operations and cash flows for the period from May 1, 2004 through our IPO date and for the fiscal years ended April 30, 2004 and 2003, respectively, reflect the historical results of operations and cash flows of the business divested by Cendant in our IPO. As a result, the accompanying Consolidated Financial Statements may not necessarily reflect our results of operations and cash flows in the future or what our results of operations and cash flows would have been had we been a stand-alone public company during these periods.

	Fiscal Year Ended April 30,				
	2007	2006	2005	2004	2003
Consolidated Statements of Operations Data (Dollars in thousands, except per share amounts)					
Total revenues	$ 293,196	$ 275,410	$ 232,487	$ 205,615	$ 171,547
Selling, general and administrative(1), (2) & (3)	$ 35,792	$ 39,723	$ 30,397	$ 30,500	$ 14,997
Interest expense(4)	$ 9,972	$ 8,301	$ 6,700	$ 373	$ 36
Write-off of deferred financing costs(5)	$ 108	$ 2,677	$ —	$ —	$ —
Net income	$ 65,380	$ 57,961	$ 49,951	$ 42,960	$ 41,133
Earnings per share(6):					
Basic	$ 1.97	$ 1.61	$ 1.33	$ 1.15	$ 1.10
Diluted	$ 1.93	$ 1.59	$ 1.32	$ 1.15	$ 1.10

	As of April 30,				
	2007	2006	2005	2004	2003
Consolidated Balance Sheet Data (in thousands):					
Total assets	$ 573,541	$ 588,082	$ 675,089	$ 725,942	$ 661,901
Long-term debt(4) & (7)	$ 127,000	$ 50,000	$ 175,000	$ —	$ —
Stockholders' equity(7)	$ 303,490	$ 387,923	$ 396,237	$ 655,096	$ 612,136

	Fiscal Year Ended April 30,				
	2007	2006	2005	2004	2002
Other Consolidated Data:					
Cash dividends declared per share	$ 0.48	$ 0.32	$ 0.21	$ —	$ —

(1) In fiscal 2007, we incurred $1.9 million in litigation related expenses in connection with the previously disclosed settlement of the California Attorney General and Pierre Brailsford matters regarding the origination of RALs between 2001 and 2005; in fiscal 2006, we accrued $3.8 million in litigation related

expenses in connection with the California Attorney General matter. In fiscal 2004, we incurred a litigation settlement charge of $10.4 million in connection with the settlement of franchisee litigation related to RALs.

(2) In fiscal 2005, we incurred a stock-based compensation charge of $4.5 million related to the issuance to employees of vested stock options and common stock in exchange for Cendant stock options and RSUs that were held by such employees prior to our IPO.

(3) Following our IPO in June 2004, we began to incur incremental costs such as additional insurance and stock-based compensation.

(4) Interest expense increased in fiscal 2005 primarily due to the issuance of $175.0 million of five-year floating-rate senior unsecured notes (the "$175 Million Notes") in connection with our IPO. The $175 Million Notes were repaid in June 2005. Thereafter, interest expense was primarily attributable to borrowings under our credit facility.

(5) In fiscal 2007, we incurred a non-cash charge of $0.1 million related to the write-off of unamortized deferred financing costs associated with amending and restating our credit facility. Please see "Part II. Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—$450 Million Credit Facility" for additional information. In fiscal 2006, we incurred a non-cash charge of $2.7 million related to the write-off of deferred financing costs associated with the repayment of the $175 Million Notes and termination of our $100.0 million five-year revolving credit facility (the "$100 Million Credit Facility"). Both facilities were replaced with an amended credit facility.

(6) In fiscal 2007 and 2006, we repurchased 4,415,348 and 2,538,197 shares of our common stock, respectively, totaling $142.3 million and $61.3 million, including commissions, under authorized share repurchase programs.

(7) In connection with our IPO in June 2004, we paid a special dividend to Cendant in the amount of $306.9 million (the "Special Dividend"). The $175.0 million cash portion of the dividend was funded entirely from the net proceeds of the $175 Million Notes issuance and the remaining $131.9 million represents the cancellation of a receivable due from Cendant.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion may be understood more fully by reference to the consolidated financial statements and notes to the consolidated financial statements beginning on page 45 in this Annual Report on Form 10-K.

Overview

We manage and evaluate the operating results of our business in two segments:

- Franchise operations: This segment consists of the operations of our franchise business, including royalty and marketing and advertising revenues, financial product fees and other revenues; and
- Company-owned office operations: This segment consists of the operations of our company-owned offices for which we recognize service revenues primarily for the preparation of tax returns.

Revenues that we earn consist of the following components:

Franchise operations revenues:

- Royalty revenues: We earn royalty revenues from our franchisees. Our franchise agreements require franchisees to pay us a royalty fee of 15% of their revenues (12% for most territories sold before mid-year 2000). In fiscal 2007, our average royalty rate was 13.4%. Franchisees earn revenues from the preparation of tax returns and from related products and services. We recognize royalty revenues upon the completion of tax returns by our franchisees.
- Marketing and advertising revenues: In addition to royalty revenues, franchisees pay us a marketing and advertising fee equal to 6% of their revenues. We recognize marketing and advertising revenues upon the completion of tax returns by our franchisees.
- Financial product fees: In 2006, we entered into program agreements with HSBC and SBB&T. Under the agreements, each financial institution has the right to offer, process and administer RALs and assisted refunds (formerly referred to as accelerated check refunds and assisted direct deposits) to customers of certain of our franchised and company-owned offices. Additionally, we agreed to provide certain technology-related services to the financial institutions in support of the financial institutions' offering and administration of the financial products.

  We earn a fixed annual fee under such agreements during the tax season in the third and fourth fiscal quarters for providing access to Jackson Hewitt offices and supporting the technology needs of the program, as well as a variable payment upon the attainment of certain contractual growth thresholds.

  The agreements with HSBC will expire on October 31, 2007. The agreements with SBB&T will expire on October 31, 2008. We are currently in negotiations with each financial institution.

  Prior to January 2006 (under the previous financial product agreements), we earned fixed fees from SBB&T and HSBC depending upon the financial product facilitated varying in amounts up to $14.55 per financial product. We recognized revenues for the fixed fees received at the time the financial products were approved by the financial institution.

  Additional financial products offered by us include the ipower CashCard and Gold Guarantee product. Revenues from the Gold Guarantee product are earned ratably over the product's 36-month life.
- Other financial product revenues: Beginning in January 2006, we no longer earn other financial product revenues related to RALs provided to our customers. Prior to January 2006, other financial product revenues represented a portion of the revenues that we earned from the facilitation of RALs. SBB&T provided 80% of the RALs facilitated by us in fiscal 2005, with the remainder provided by HSBC.

SBB&T in 2005: The agreement with SBB&T in place for the 2005 tax season resulted in the following revenues: (i) a fee of $19.00 for each RAL facilitated by our network; (ii) a portion of RAL fees collected in the 2005 tax season that were originated prior to January 2005; and (iii) a variable fee equal to 50% of the amount by which the net finance fees received by SBB&T exceeded uncollected loans by a threshold amount of at least 1.0% of the aggregate principal amount of RALs made by SBB&T to our customers.

Additionally, through December 2004 (in fiscal 2005), we earned revenues with respect to RALs provided by SBB&T in prior years.

HSBC in 2005: Other financial product revenues represented revenues we earned equal to a portion (ranging from 59% to 100%) of the difference between net finance fees paid by customers to HSBC and loan amounts that HSBC was unable to collect. These revenues were in addition to the fixed fees recorded in financial product fees earned from the facilitation of RALs. The finance fee was calculated as a percentage of the total loan amount (subject to a minimum and maximum fee). The finance fees were maintained by HSBC as a reserve against uncollected loans. Other financial product revenues were recognized only to the extent that the reserves maintained by HSBC exceeded the uncollected loans made by HSBC at the end of each reporting period.

- Other revenues: Other revenues include ancillary fees we earn from franchisees, including a $2.00 fee per tax return prepared paid by franchisees for the processing of each electronically-transmitted tax return. We recognize revenues from processing fees at the time the tax returns are filed. In fiscal 2007, approximately 90% of all tax returns filed by our network were filed electronically. Other revenues also include revenues that we earn from the sale or transfer of our franchise territories. Such revenues are recognized when all material services or conditions relating to the sale have been performed, generally upon completion of a mandatory training program for new franchisees.

Company-owned office operations revenues:

- Service revenues: Service revenues include only revenues earned at our company-owned offices and primarily consist of fees that we earn directly from our customers for the preparation of tax returns. We recognize service revenues upon the completion of tax returns by our company-owned offices.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

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Our consolidated results of operations are set forth below and are followed by a more detailed discussion of each of our business segments, as well as a detailed discussion of certain corporate and other expenses.

	Fiscal Year Ended April 30,		
	2007	2006	2005
		(In thousands)	
Consolidated Results of Operations:			
Revenues			
Franchise operations revenues:			
Royalty	$ 83,060	$ 76,234	$ 59,360
Marketing and advertising	37,159	34,685	27,416
Financial product fees	80,011	74,458	35,990
Other financial product revenues	—	5,518	33,934
Other	12,776	12,986	12,766
Service revenues from company-owned office operations	80,190	71,529	63,021
Total revenues	293,196	275,410	232,487
Expenses			
Cost of franchise operations	33,435	31,179	27,426
Marketing and advertising	44,247	40,977	32,966
Cost of company-owned office operations	51,706	47,084	42,928
Selling, general and administrative	35,792	39,723	30,397
Depreciation and amortization	12,266	11,428	11,398
Total expenses	177,446	170,391	145,115
Income from operations	115,750	105,019	87,372
Other income/(expense):			
Interest income	1,856	1,924	1,484
Interest expense	(9,972)	(8,301)	(6,700)
Write-off of deferred financing costs	(108)	(2,677)	—
Other	—	520	—
Income before income taxes	107,526	96,485	82,156
Provision for income taxes	42,146	38,524	32,205
Net income	$ 65,380	$ 57,961	$ 49,951

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

The following table presents selected key operating statistics for our franchise and company-owned office operations.

	Fiscal Year Ended April 30,		
	2007	2006	2005
Operating Statistics			
Offices:			
Franchise operations(1)	5,778	5,379	4,871
Company-owned office operations	723	643	613
Total offices—system(1)	6,501	6,022	5,484
Tax returns prepared (in thousands):			
Franchise operations	3,229	3,246	2,917
Company-owned office operations	420	412	403
Total tax returns prepared—system	3,649	3,658	3,320
Average revenues per tax return prepared:			
Franchise operations(2)	$ 191.82	$ 178.06	$ 156.61
Company-owned office operations(3)	$ 190.74	$ 173.82	$ 156.18
Average revenues per tax return prepared—system	$ 191.69	$ 177.58	$ 156.56
Financial products (in thousands)(4)	3,412	3,350	3,052
Average financial product fees per financial product(5)	$ 23.45	$ 22.23	$ 11.79

(1) Includes 214 offices that suspended operations as of April 9, 2007.
(2) Calculated as total revenues earned by our franchisees, which does not represent revenues earned by Jackson Hewitt, divided by the number of tax returns prepared by our franchisees (see calculation below). We earn royalty and marketing and advertising revenues, which represent a percentage of the revenues received by our franchisees.
(3) Calculated as tax return preparation revenues and related fees earned by company-owned offices (as reflected in the Consolidated Statements of Operations) divided by the number of tax returns prepared by company-owned offices.
(4) Consists of RALs, assisted refunds and Gold Guarantee products.
(5) Calculated as revenues earned from financial product fees (as reflected in the Consolidated Statements of Operations) divided by number of financial products. Average financial product fees per financial product in fiscal 2007 and fiscal 2006 reflect the impact of the agreements with the providers of financial products to our customers effective in the 2006 tax season.

Calculation of average revenues per tax return prepared in Franchise Operations:

	Fiscal Year Ended April 30,		
	2007	2006	2005
	(Dollars in thousands, except per tax return prepared data)		
Total revenues earned by our franchisees(A)	$619,319	$578,019	$456,820
Average royalty rate(B)	13.41%	13.19%	12.99%
Marketing and advertising rate(C)	6.00%	6.00%	6.00%
Combined royalty and marketing and advertising rate(B plus C)	19.41%	19.19%	18.99%
Royalty revenues(A times B)	$ 83,060	$ 76,234	$ 59,360
Marketing and advertising revenues(A times C)	37,159	34,685	27,416
Total royalty and marketing and advertising revenues	$120,219	$110,919	$ 86,776
Number of tax returns prepared by our franchisees(D)	3,229	3,246	2,917
Average revenues per tax return prepared by our franchisees(A divided by D)	$ 191.82	$ 178.06	$ 156.61

Amounts may not recalculate precisely due to rounding differences.

Fiscal Year Ended April 30, 2007 as Compared to the Fiscal Year Ended April 30, 2006

Total Revenues

Total revenues increased $17.8 million, or 6.5%, primarily due to an increase in the average revenues per tax return prepared by our network, higher financial product fees under our agreements with SBB&T and HSBC and cumulative growth and higher pricing per product in our Gold Guarantee program. Average revenues per tax return prepared increased 8% primarily as a result of stronger pricing. The increase in financial product fees is largely related to the attainment of certain contractual growth thresholds and higher fixed fees under our agreements. Customer retention was approximately just over 60% in fiscal 2007. Same store tax return volume decreased approximately 4%.

Our network of franchised and company-owned offices prepared 3.65 million tax returns in fiscal 2007, a decline of 0.2% as compared to fiscal 2006. Contributing to the overall decline were the increased competitive environment, due in part to various pre-season loan products in the marketplace, and the shift in taxpayer filings from early season to late season, compounded by the negative publicity in early April surrounding the announcement by the Department of Justice of the DOJ Lawsuits.

Preceding 2007, our business consistently experienced significant growth in the early season, with approximately three-fourths of the number of tax returns being prepared in our offices during that time. Over the past few years, however, the overall tax filing market has experienced a shift in which more taxpayers are filing later in the tax season, moving from the early season to the late season. Through the end of February 2007, there were just under two million fewer tax returns filed with the IRS than during the same period in 2004. We believe the stronger economy over the past few years—with declining unemployment and continued wage growth—has reduced the desire for certain taxpayers to file in the early season and receive their income tax refund as soon as possible. In fiscal 2007, our early season business was impacted by this shift. We believe the shift in taxpayer filings from early season to late season may be cyclical and could reverse following a slower economy.

Total IRS tax filings have continued to grow over the years, but the growth has occurred in the late season. Our business has also historically experienced higher growth in the late season (as compared to the early season) with the number of tax returns prepared by our network historically growing at a rate significantly exceeding that of the overall tax filing market's rate. Following the slow start in January 2007 discussed above, many of our traditional early season customers began to come back to our network in February as our business returned to strong growth in the number of tax returns prepared. However, our overall late season business was somewhat impacted by the negative publicity in early April surrounding the announcement by the Department of Justice of the DOJ Lawsuits, which contributed to the overall decline in the number of tax returns prepared by our network in fiscal 2007.

An important element of our location strategy is that the maturation of our offices from which the average number of tax returns prepared per office increases as offices age. Our retail-partner locations typically prepare fewer tax returns as they tend to be smaller in size than typical storefront locations. Due to the factors already discussed above, the average number of tax returns prepared per office presented in the table below decreased in most age categories as compared to fiscal 2006.

The following table includes, for fiscal 2007, the average number of tax returns prepared by offices in our network, including the percentage of retail-partner locations as a percentage of total offices by age category, based upon the number of years in our network:

Number of Years in our Network	Offices as a % of Total Offices	Retail-Partner Locations as a % of Total Offices By Age	Average Number of Tax Returns Prepared per Office (Total Offices)
1	11%	17%	245
2	11%	19%	302
3	12%	32%	376
4	12%	42%	454
5	9%	26%	533
6	6%	23%	612
7+	39%	22%	755
	100%		

Please see Franchise Results of Operations and Company-Owned Office Results of Operations for additional highlights.

Total Expenses

Total operating expenses increased $7.1 million, or 4%. The more notable highlights were as follows:

Cost of franchise operations: Cost of franchise operations increased $2.3 million, or 7%, primarily due to the cumulative growth in our Gold Guarantee program over the past three years, including higher program costs, which are charged ratably over the product's 36-month life.

Marketing and advertising: Marketing and advertising expenses increased $3.3 million, or 8%, primarily in line with the increase in marketing and advertising revenues.

Cost of company-owned office operations: Cost of company-owned office operations increased $4.6 million, or 10%, primarily due to increased labor and facilities expenses incurred to support the new offices opened during the past year to support customer demand. Despite this increase, cost of operations decreased as a percentage of the related service revenues from operations due to a continued focus on strategic initiatives implemented two years ago.

Selling, general and administrative: Selling, general and administrative decreased $3.9 million, or 10%, primarily due to (i) $6.0 million in lower incentive compensation expenses; and (ii) a $1.9 million reduction in litigation related expenses ($1.9 million in fiscal 2007 in connection with the previously disclosed settlement of the California Attorney General and Pierre Brailsford matters regarding the origination of RALs between 2001 and 2005 compared to $3.8 million in fiscal 2006 accrued in connection with the California Attorney General matter). These decreases were partially offset by (i) $1.3 million in higher stock-based compensation as we granted additional stock options in the first quarter of fiscal 2007 for which the associated cost is recognized over the four-year vesting period following the grant date; (ii) a $1.2 increase in salary and commission expense; (iii) a $0.9 million increase in outsourced technology-related service costs; (iv) $0.8 million in higher external legal fees; and (v) $0.5 million in Internal Review expenses.

Other Income/(Expense)

Interest expense: Interest expense increased $1.7 million, or 20%, primarily due to higher interest rates. Our average cost of debt was 6.2% and 5.5% in fiscal 2007 and 2006, respectively.

Write-off of deferred financing costs: In fiscal 2006, we incurred a non-cash charge of $2.7 million related to the write-off of deferred financing costs associated with the repayment of the $175 Million Notes and the replacement of our $100 Million Credit Facility.

Fiscal Year Ended April 30, 2006 as Compared to the Fiscal Year Ended April 30, 2005

Total Revenues

Total revenues increased $42.9 million, or 18%, primarily due to the increase of 10% in the number of tax returns prepared in our network as well as due to the increase of 13% in the average revenues per tax return prepared in our network. The number of tax returns prepared increased primarily due to same store tax return volume growth in excess of 6% and the expansion of our network as the total number of offices increased 10%. Average revenues per tax return prepared increased primarily as a result of stronger pricing throughout the entire tax season, enhanced product offerings and increased financial product attachment rates. Customer retention was just under 61% in fiscal 2006 as compared to just under 60% in fiscal 2005.

The following table includes, for fiscal 2006, the average number of tax returns prepared by offices in our network, including the percentage of retail-partner locations as a percentage of total offices by age category, based upon the number of years in our network:

Number of Years in our Network	Offices as a % of Total Offices	Retail-Partner Locations as a % of Total Offices By Age	Average Number of Tax Returns Prepared per Office (Total Offices)
1	13%	24%	235
2	14%	33%	343
3	14%	42%	444
4	10%	27%	547
5	7%	24%	627
6	8%	13%	688
7+	34%	24%	838
	100%		

As of January 2006, we no longer earn "other financial product revenues" on RALs facilitated by our network. Accordingly, when viewed in combination with financial product fees, total financial product related revenues increased $10.1 million, or 14%, as compared to fiscal 2005.

Please see Franchise Results of Operations and Company-Owned Office Results of Operations for additional highlights.

Total Expenses

Total expenses increased $25.3 million, or 17%. The more notable highlights were as follows:

Cost of franchise operations: Cost of franchise operations increased $3.8 million, or 14%, primarily due to the cumulative growth in our Gold Guarantee program over the past three years, including higher program costs.

Marketing and advertising: Marketing and advertising expenses increased $8.0 million, or 24%, primarily in line with the increase in marketing and advertising revenues.

Cost of company-owned office operations: Cost of company-owned office operations increased $4.2 million, or 10%, primarily due to higher labor and facilities expenses to support the increase in the number of offices and number of tax returns prepared. Despite this increase, cost of operations decreased as a percentage of service revenues from operations due to a continued focus on strategic initiatives implemented in fiscal 2005.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

Selling, general and administrative: Selling, general and administrative increased $9.3 million, or 31%, due to: (i) the increase of $5.1 million in legal expenses, including $3.8 million in litigation related expenses accrued in connection with the California Attorney General matter; (ii) the increase of $1.4 million for Sarbanes-Oxley compliance; (iii) the increase of $1.0 million in stock-based compensation due to additional stock options granted in fiscal 2006; (iv) the increase of $0.5 million in rental expense primarily due to duplicate rental costs for our corporate headquarters as rental expense was recorded beginning at inception of our new corporate headquarters lease which was several months prior to our occupancy; and (v) the increase of $5.2 million in personnel and other administrative expenses. Included in fiscal 2005 was a stock-based compensation charge of $4.5 million related to the issuance to our employees of vested stock options and shares of common stock in exchange for Cendant stock options and restricted stock units that were held by such employees prior to our IPO.

Other Income/(Expense)

Interest income: Interest income increased $0.4 million, or 30%, primarily due to our investment earnings on cash equivalents.

Interest expense: Interest expense increased $1.6 million, or 24%, primarily due to higher interest rates. Our average cost of debt was 5.5% and 4.2% in fiscal 2006 and fiscal 2005, respectively.

Write-off of deferred financing costs: We incurred a non-cash charge of $2.7 million related to the write-off of deferred financing costs associated with the repayment of the $175 Million Notes and termination of our $100 Million Credit Facility.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

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Segment Results and Corporate and Other

Franchise Operations

At the core of our business strategy is the growth and development of our franchise system. We derive a significant portion of our revenues during the third and fourth fiscal quarters from royalty and marketing and advertising fees. The number of tax returns prepared by our franchise system represented 88% of the total number of tax returns prepared by our network in fiscal 2007.

	Fiscal Year Ended April 30,		
	2007	2006	2005
	(In thousands)		
Results of Operations:			
Revenues:			
Royalty	$ 83,060	$ 76,234	$ 59,360
Marketing and advertising	37,159	34,685	27,416
Financial product fees	80,011	74,458	35,990
Other financial product revenues	—	5,518	33,934
Other	12,776	12,986	12,766
Total revenues	213,006	203,881	169,466
Expenses:			
Cost of operations	33,435	31,179	27,426
Marketing and advertising	37,159	34,691	27,416
Selling, general and administrative	3,945	3,448	4,130
Depreciation and amortization	9,408	8,706	7,645
Total expenses	83,947	78,024	66,617
Income from operations	129,059	125,857	102,849
Other income/(expense):			
Interest income	1,352	1,121	1,029
Income before income taxes	$ 130,411	$ 126,978	$ 103,878

Fiscal Year Ended April 30, 2007 as Compared to the Fiscal Year Ended April 30, 2006

Total Revenues

Total revenues increased $9.1 million, or 4%, primarily for the same reasons discussed in the Consolidated Results of Operations. Average revenues per tax return prepared increased 8% while the number of tax returns prepared by our franchise operations decreased 0.5% as compared to fiscal 2006. The more notable highlights were as follows:

Royalty and marketing and advertising: Royalty revenues increased $6.8 million, or 9%, and marketing and advertising revenues increased $2.5 million, or 7%, primarily due to the increase in total revenues earned by our franchisees. Additionally, we benefited from an increase in the average royalty rate we earn, which was 13.41% in fiscal 2007 as compared to 13.19% in fiscal 2006, as the segment included more territories at the 15% royalty fee rate.

Financial product fees: Financial product fees increased $5.6 million, or 7%, as discussed in the Consolidated Results of Operations. In fiscal 2007, financial product fees under the financial product agreements were $69.2 million as compared to $65.0 million in fiscal 2006. Gold Guarantee revenues increased by $1.3 million to $9.8 million in fiscal 2007. Franchisees facilitated the sale of 3.0 million financial products in fiscal 2007 as compared with 2.9 million in fiscal 2006.

Other financial product revenues: Other financial product revenues, which were related to RALs, were eliminated beginning in January 2006 under the financial products agreements that were executed in 2006.

Other revenues: Other revenues included fees generated from the sale of 205 territories in fiscal 2007, consistent with fiscal 2006.

Total Expenses

Total operating expenses increased $5.9 million, or 8%. The more notable highlights were as follows:

Cost of operations: Cost of operations increased as discussed in the Consolidated Results of Operations.

Marketing and advertising: Marketing and advertising expenses increased $2.5 million, or 7%, in line with the increase in marketing and advertising revenues. Franchise operations recognized marketing and advertising expenses equal to 6% of total revenues earned by our franchisees.

Fiscal Year Ended April 30, 2006 as Compared to the Fiscal Year Ended April 30, 2005

Total Revenues

Total revenues increased $34.4 million, or 20%, primarily due to the increase of 11% in the number of tax returns prepared as well as due to the increase of 14% in the average revenues per tax return prepared. The number of tax returns prepared increased primarily due to strong same stores sales growth and the expansion of the franchise operations segment as total number of offices increased 10%. Average revenues per tax return prepared increased primarily as a result of stronger pricing throughout the entire tax season, enhanced product offerings and increased financial product attachment rates. Additional highlights were as follows:

Royalty and marketing and advertising: Royalty revenues increased $16.9 million, or 28%, and marketing and advertising revenues increased $7.3 million, or 27%, due to the increase in total revenues earned by our franchisees. In addition, in fiscal 2006 we benefited from an increase in the average royalty rate we earn, which was 13.2% in fiscal 2006 as compared to 13.0% in fiscal 2005 as the segment included more territories at the 15% royalty rate.

Financial product fees: Financial product fees increased to $74.5 million as a result of the agreements with HSBC and SBB&T executed in 2006 under which we earned a fixed annual fee as well as a variable payment upon the attainment of certain contractual growth thresholds. Financial product fees in fiscal 2006 included $65.0 million related to such agreements and $8.5 million in Gold Guarantee revenues. Gold Guarantee revenues increased $3.0 million primarily due to the cumulative growth in such program sales over the past three years. Financial product sales in aggregate increased 10% over fiscal 2005. Franchisees facilitated the sale of 2.9 million financial products in fiscal 2006 as compared with 2.6 million in fiscal 2005.

Other financial product revenues: Other financial product revenues, which were related to RALs, were eliminated beginning in January 2006 under the financial products agreements that were executed in 2006. Accordingly, when viewed in combination with financial product fees, total financial product related revenues increased $10.1 million, or 14%.

Other revenues: Other revenues increased $0.2 million, or 2%, primarily due to higher revenues of $0.5 million in fees for electronically-transmitted tax returns partially offset by lower initial franchise fees. We sold 205 new territories in fiscal 2006 as compared to 219 in fiscal 2005.

Total Expenses

Total expenses increased $11.4 million, or 17%. The more notable highlights were as follows:

Cost of operations: Cost of operations increased $3.8 million, or 14%, as discussed in the Consolidated Results of Operations.

Marketing and advertising: Marketing and advertising expenses increased $7.3 million, or 27%, in line with the increase in marketing and advertising revenues.

Selling, general and administrative: Selling, general and administrative decreased $0.7 million, or 17%, primarily due to a decrease in sales compensation expense.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

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Company-Owned Office Operations

Complementing our franchise system are our company-owned offices. The number of tax returns prepared by our company-owned offices represented 12% of the total number of tax returns prepared within our network in fiscal 2007.

	Fiscal Year Ended April 30,		
	2007	2006	2005
		(In thousands)	
Results of Operations:			
Revenues			
Service revenues from operations	$80,190	$71,529	$63,021
Expenses			
Cost of operations	51,706	47,084	42,928
Marketing and advertising	7,088	6,286	5,550
Selling, general and administrative	3,395	3,623	3,554
Depreciation and amortization	2,858	2,722	3,753
Total expenses	65,047	59,715	55,785
Income from operations	15,143	11,814	7,236
Other income/(expense):			
Interest income	—	—	25
Other	—	520	—
Income before income taxes	$15,143	$12,334	$ 7,261

Fiscal Year Ended April 30, 2007 as Compared to the Fiscal Year Ended April 30, 2006

Revenues

Service revenues from operations increased $8.7 million, or 12%, primarily due to an increase of 10% in the average revenues per tax return prepared as well as an increase of 2% in the number of tax returns prepared. Average revenues per tax return prepared increased primarily as a result of stronger pricing. Company-owned offices facilitated the sale of 421,000 financial products in fiscal 2007 as compared with 402,000 in fiscal 2006.

Total Expenses

Total expenses increased $5.3 million, or 9%. The more notable highlights were as follows:

Cost of operations: Cost of operations increased as discussed in the Consolidated Results of Operations.

Marketing and advertising: Marketing and advertising increased $0.8 million, or 13%, and was closely tied to growth in the business. Company-owned office operations recognized marketing and advertising expenses approximately equal to 6% of service revenues from operations, similar to that of franchise operations. In addition, company-owned office operations also recognized regional and local marketing and advertising expenses.

Fiscal Year Ended April 30, 2006 as Compared to the Fiscal Year Ended April 30, 2005

Revenues

Service revenues from operations increased $8.5 million, or 14%, primarily due to an increase of 11% in the average revenues per tax return prepared as well as an increase of 2% in the number of tax returns prepared. The number of tax returns prepared increased primarily due to a 5% increase in the total number of offices in existing,

but under-penetrated, territories. Partially offsetting the increase was the decline in the number of tax returns prepared attributable to the sale of operations in Texas and Massachusetts to existing franchisees. The sale of operations in Texas and Massachusetts had the impact of reducing tax return preparation and revenue growth by approximately 6% each. Average revenues per tax return prepared increased primarily as a result of stronger pricing throughout the entire tax season, enhanced product offerings and increased financial product attachment rates. Company-owned offices facilitated the sale of 402,000 financial products in fiscal 2006 as compared with 413,000 in fiscal 2005.

Total Expenses

Total expenses increased $3.9 million, or 7%, in fiscal 2006. The more notable highlights were as follows:

Cost of operations: Cost of operations increased $4.2 million, or 10%, as discussed in the Consolidated Results of Operations.

Marketing and advertising: Marketing and advertising increased $0.7 million, or 13%, and was closely tied to growth in the business.

Depreciation and amortization: Depreciation and amortization decreased $1.0 million, or 27%, primarily due to certain equipment becoming fully depreciated since April 30, 2005.

Corporate and Other

Corporate and other expenses include unallocated corporate overhead supporting both segments, including legal, finance, human resources, real estate facilities and strategic development activities, as well as stock-based compensation.

	Fiscal Year Ended April 30,		
	2007	2006	2005
		(In thousands)	
Expenses(a)			
General and administrative	$ 21,979	$ 26,044	$ 17,006
Stock-based compensation	4,122	2,808	1,844
Stock-based compensation related to our IPO	—	—	4,508
Litigation related expenses/(recovery)	1,873	3,800	(645)
Internal Review expenses	478	—	—
Total expenses	28,452	32,652	22,713
Loss from operations	(28,452)	(32,652)	(22,713)
Other income/(expense):			
Interest income	504	803	430
Interest expense	(9,972)	(8,301)	(6,700)
Write-off of deferred financing costs(b)	(108)	(2,677)	—
Loss before income taxes	$(38,028)	$(42,827)	$(28,983)

(a) Included in selling, general and administrative in the Consolidated Statements of Operations.
(b) Fiscal 2006 charge represents a non-cash charge associated with the repayment of the $175 Million Notes and the replacement of the $100 Million Credit Facility.

Fiscal Year Ended April 30, 2007 as Compared to the Fiscal Year Ended April 30, 2006

Loss from Operations

Loss from operations decreased $4.2 million, or 13%, primarily due to (i) lower incentive compensation expenses of $6.0 million and (ii) lower litigation related expenses of $1.9 million. Partially offsetting the overall

decrease were (i) higher stock-based compensation of $1.3 million; (ii) higher salary expense of $0.6 million; (iii) higher outsourced technology-related service expenses of $0.9 million; (iv) higher external legal fees of $0.8 million; and (v) Internal Review expenses of $0.5 million.

Other income/(expense)

Interest expense increased and write-off of deferred financing costs decreased as discussed in Consolidated Results of Operations.

Fiscal Year Ended April 30, 2006 as Compared to the Fiscal Year Ended April 30, 2005

Loss from operations increased $9.9 million, or 44%, due to: (i) increase of $5.1 million in legal related costs, including $3.8 million of litigation related expenses as discussed in the Consolidated Results of Operations; (ii) increase of $1.4 million for Sarbanes-Oxley compliance; (iii) increase of $1.0 million in stock-based compensation due to additional stock options granted in fiscal 2006; (iv) increase of $0.5 million in rental expense primarily due to duplicate rental costs for our corporate headquarters; and (v) increase of $5.8 million in personnel and other administrative expenses. Included in fiscal 2005 was a stock-based compensation charge of $4.5 million related to our IPO.

Other income/(expense)

Interest income increased $0.4 million primarily due to higher average cash balances. Additionally, interest expense increased and write-off of deferred financing costs decreased as discussed in the Consolidated Results of Operations.

Seasonality of Operations

Given the seasonal nature of the tax return preparation business, we have historically generated and expect to continue to generate substantially all our revenues during the period from January 1 through April 30. In fiscal 2007, we earned 93% of our revenues during this period. We historically operate at a loss through the first eight months of each fiscal year, during which we incur costs associated with preparing for the upcoming tax season.

Contractual Obligations

The following table presents future contractual obligations due by fiscal period as of April 30, 2007:

	2008	2009-2010	2011-2012	2013 and Thereafter	Total
			(In thousands)		
Long-term debt(1)	$ —	$ —	$127,000	$ —	$127,000
Operating lease commitments	11,382	12,506	5,109	2,169	31,166
Purchase obligations(2)	6,051	4,086	114	—	10,251
Total	$17,433	$ 16,592	$132,223	$ 2,169	$168,417

(1) The payments due under our $450 Million Credit Facility do not include future payments for interest. Borrowings outstanding under the $450 Million Credit Facility were $173.0 million as of May 31, 2007.

(2) In connection with certain marketing and technology-related services.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

Liquidity and Capital Resources

Historical Sources and Uses of Cash from Operations

Seasonality of Cash Flows

The tax return preparation business is highly seasonal resulting in substantially all of our revenues and cash flow being generated during the period from January 1 through April 30. Following the tax season, from May 1 through December 31, we primarily rely on excess operating cash flow from the previous tax season and our credit facility to fund our operating expenses and to reinvest in our business to support future growth. Given the nature of the franchise business model, our business is typically not capital intensive and has historically generated strong operating cash flow from operations.

$450 Million Credit Facility

On October 6, 2006, we amended and restated our five-year unsecured credit facility (the "$450 Million Credit Facility") to increase the borrowing capacity from $250 million to $450 million, extend the maturity date to October 2011, reduce the cost of debt and make a financial covenant less restrictive. Borrowings under the $450 Million Credit Facility are to be used to finance working capital needs, general corporate purposes, potential acquisitions, and repurchases of our common stock.

The $450 Million Credit Facility provides for loans in the form of Eurodollar or Base Rate borrowings. Eurodollar borrowings bear interest at the London Inter-Bank Offer Rate ("LIBOR"), as defined in the $450 Million Credit Facility, plus a credit spread as defined in the $450 Million Credit Facility, ranging from 0.50% to 0.75% per annum. Base Rate borrowings, as defined in the $450 Million Credit Facility, bear interest primarily at the Prime Rate, as defined in the $450 Million Credit Facility. The $450 Million Credit Facility carries an annual fee ranging from 0.10% to 0.15% of the unused portion of the $450 Million Credit Facility. We may also use the $450 Million Credit Facility to issue letters of credit for general corporate purposes. There was a $0.8 million letter of credit outstanding under the $450 Million Credit Facility as of April 30, 2007 as required under our lease agreement for our corporate headquarters in Parsippany, New Jersey, which was reduced to $0.5 million in May 2007 and will terminate in May 2008.

In connection with amending and restating our five-year unsecured credit facility, we incurred an additional $0.6 million of financing fees, which were deferred and are being amortized to interest expense over the term of the $450 Million Credit Facility. Additionally, we incurred a non-cash charge of $0.1 million fiscal 2007 related to the write-off of unamortized deferred financing costs in connection with amending and restating our credit facility.

In the future, we may require additional financing to meet our capital needs. Our liquidity position may be negatively affected by unfavorable conditions in the market in which we operate. In addition, our inability to generate sufficient profits during tax season may unfavorably impact our funding requirements.

For a more detailed discussion of our $450 Million Credit Facility, including a description of financial covenants which we are required to meet, please see "Part II—Item 8—Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 11—Long-Term Debt and Credit Facilities."

Sources and Uses of Cash

Operating activities

The increase in revenues in each of the past three fiscal years and the scalability of the franchise model contributed to the continued increases in net income and generation of significant cash flow. Net cash provided by operating activities has exceeded net income in each of the past three fiscal years.

In fiscal 2007, net cash provided by operating activities decreased $33.3 million as compared to fiscal 2006 primarily due to the following:

- Higher federal and state income tax payments as we paid $29.8 million in fiscal 2007 as compared to $13.5 million in fiscal 2006 primarily due to the timing of estimated tax payments and the increase in operating income between years;
- Higher bonus payments as we paid $15.8 million in fiscal 2007 (accrued in fiscal 2006) as compared to $9.1 million in fiscal 2006 (accrued in fiscal 2005);
- Higher litigation settlement related payments as we paid $7.8 million in fiscal 2007 as compared to $2.2 million in fiscal 2006; and
- Higher marketing and advertising payments as we paid $42.5 million in fiscal 2007 as compared to $39.6 million in fiscal 2006.

Partially offsetting the factors discussed above were the increase in net income of 13% and the timing of payments received from franchisees.

In fiscal 2006, net cash provided by operating activities decreased $1.9 million as compared to fiscal 2005 primarily due to the following:

- Higher federal and state income tax payments as we paid $13.5 million in fiscal 2006 as compared to $3.7 million in fiscal 2005 when we utilized a federal net operating loss generated subsequent to our IPO and had less operating income;
- Higher marketing and advertising payments as we paid $39.6 million in fiscal 2006 as compared to $30.6 million in fiscal 2005;
- Higher bonus payments of $9.1 million in fiscal 2006, which were accrued during the 16-month period from January 2004-April 2005 as we converted to a fiscal year ended April 30 effective May 1, 2004; and
- The timing of payments received from franchisees for royalty and marketing and advertising revenues and from one of the providers of our financial products for incremental financial product fees.

Partially offsetting the factors discussed above were the increase in net income of 16% and the timing of payments associated with payroll costs, litigation settlement and other accrued liabilities.

Investing activities

We continue to reinvest capital in our business, primarily for technology upgrades to support our growth, expansion of our company-owned offices, funding provided to franchisees for Conversions and to open new storefront offices and costs to acquire independent tax return preparation offices. In fiscal 2007, net cash used in investing activities increased $0.7 million as compared to fiscal 2006 primarily due to the following:

- Cash paid for tax return preparation businesses acquired increased $1.9 million; and

 Exhibit A - Part 1 of 2

- Funding provided to franchisees, net of repayments, increased $0.3 million.

Partially offsetting the higher payments discussed above were lower capital expenditures of $1.8 million primarily due to lower build out costs and new equipment purchases associated with the relocation of our technology and corporate headquarters to new buildings (our technology headquarters in Florida in fiscal 2007 and our corporate headquarters in New Jersey in fiscal 2006).

In fiscal 2006, net cash used in investing activities increased $7.0 million as compared to fiscal 2005 primarily due to the following:

- Capital expenditures increased $5.8 million and included the build-out costs associated with our corporate headquarters in New Jersey and additional locations in company-owned operations and technology upgrades; and

- Funding provided to franchisees increased $1.8 million.

Partially offsetting the higher payments discussed above were lower payments of $0.6 million for the acquisition of tax return preparation businesses.

Financing activities

Financing activities primarily relate to borrowings and repayments under our credit facility, share repurchases and dividend payments to stockholders. In fiscal 2007, net cash used in financing activities decreased $118.6 million as compared to fiscal 2006 primarily due to the repayment of our $175 Million Notes in June 2005. This reduction was partially offset by:

- An increase in cash used to repurchase 4,415,348 shares of our common stock at an average price per share (including commissions) of $32.24 in fiscal 2007 as compared to 2,538,197 shares at an average price per share (including commissions) of $24.16 in fiscal 2006 as a result of larger authorized share repurchase programs; and

- We made higher quarterly dividend payments to stockholders for which the quarterly payments were increased to $0.12 per share during fiscal 2007 as compared to $0.08 per share during fiscal 2006.

In fiscal 2006, net cash used in financing activities was $194.7 million as compared to net cash provided by financing activities of $2.5 million in fiscal 2005. The primary factor for the change of $197.2 million was the repayment of our $175 Million Notes in June 2005. Other contributing factors included the following:

- In fiscal 2006, we began acquiring shares of our common stock and repurchased of 2,538,197 shares at an average price per share (including commissions) of $24.16; and

- We made higher quarterly dividend payments to stockholders for which the quarterly payments were increased to $0.08 per share during fiscal 2006 as compared to $0.07 per share during fiscal 2005.

In fiscal 2005, net cash provided by financing activities included the cash settlement of our remaining intercompany balance with Cendant, including our federal and state income tax obligations as we were included in the consolidated income tax returns of Cendant up until our IPO date. In connection with our IPO, we issued the $175 Million Notes and used the entire proceeds to fund the cash portion of the Special Dividend to Cendant. In addition to the cash portion of the Special Dividend paid to Cendant in fiscal 2005, we settled our remaining intercompany balance with Cendant, including our federal and state income tax obligations, through a non-cash distribution of amounts due from Cendant on the date of disposition of $131.9 million.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007 Exhibit A - Part 1 of 2

Future Cash Requirements and Sources of Cash

Future Cash Requirements

We are committed to growing our business while maintaining a flexible capital structure to reinvest in the Company as well as to return excess capital to stockholders in the form of share repurchases and dividends. Our primary future cash requirements will be to fund operating activities, repurchase shares of our common stock, repay outstanding borrowings under the $450 Million Credit Facility, make periodic interest payments on our debt outstanding, fund capital expenditures, pay quarterly dividends, provide funding to franchisees and fund acquisitions. For fiscal 2008, our primary cash requirements are as follows:

- *Expenses including marketing and advertising expenses*—Expenses preceding the tax season relate primarily to personnel and facility related costs. Marketing and advertising expenses, as compared to the other categories of expenses, are more seasonal in nature and typically increase in our third and fourth fiscal quarters when most of our revenues are earned. Marketing and advertising expenses include national, regional and local campaigns designed to increase brand awareness and attract both early season and late season customers. We also receive marketing and advertising payments from franchisees to fund our budget for most of these expenses. We expect to experience an increase in expenses during the remainder of fiscal 2008 as we expect to grow our business. Additionally, beginning in fiscal 2008, we expect to incur expenses in connection with the Internal Review and expenses associated with the implementation of a variety of enhancements in the areas of tax return preparation compliance and monitoring for the 2008 tax filing season.

- *Expenses to operate company-owned offices*— Our company-owned offices complement our franchise system and are focused primarily on organic growth through the opening of new company-owned offices within existing territories as well as increasing office productivity. We also continue to pursue selective acquisition opportunities for our company-owned office segment. Expenses to operate our company-owned offices begin to increase during the third fiscal quarter and peak during the fourth fiscal quarter primarily due to the labor costs related to the seasonal employees who provide tax return preparation services to our customers.

- *Repurchase of shares of our common stock*—On October 12, 2006, our Board of Directors authorized a $200.0 million multi-year share repurchase program. As of May 31, 2007, we had repurchased 3,155,389 shares of our common stock under this program totaling $97.3 million, including commissions. Such repurchases to date have been made in open market purchases. In the future, such repurchases may be made through open market purchases or privately negotiated transactions. Such repurchases depend on our assessment of the prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

- *Repayment of outstanding borrowings under the $450 Million Credit Facility*—As of May 31, 2007, we had $173.0 million outstanding under our $450 Million Credit Facility. We anticipate generating operating cash flow next tax season to partially repay these outstanding borrowings.

- *Capital expenditures*—We anticipate spending $8 to $10 million on capital expenditures in fiscal 2008, which will primarily include: (i) leasehold improvements associated with new offices and replacement of legacy equipment in company-owned offices (ii) information technology upgrades to support our growth and enhance tax return preparation compliance and monitoring for the 2008 filing season.

- *Quarterly dividend*—We currently intend to make quarterly cash dividend payments of $0.18 per common share in fiscal 2008.

Future Sources of Cash

We borrow against our credit facility to fund operations with increases particularly during the first nine months of the fiscal year. Beginning in the fourth fiscal quarter, we expect our primary source of cash to be cash provided by operating activities, primarily from the collection of accounts receivable from our franchisees and from the providers of financial products to our customers.

Exhibit A - Part 1 of 2

Interest Rate Hedges

In August 2005, we entered into interest rate swap agreements with financial institutions to convert a notional amount of $50.0 million of floating-rate borrowings into fixed-rate debt, with the intention of mitigating the economic impact of changing interest rates. Under these interest rate swap agreements, which became effective in October 2005, we receive a floating interest rate based on the three-month LIBOR (in arrears) and pay a fixed interest rate averaging 4.4%. In connection with extending the maturity date under the amended and restated credit facility, in October 2006 we entered into interest rate collar agreements to become effective after the interest rate swap agreements terminate. The interest rate collar agreements were entered into with financial institutions to limit the variability of expense/payments on $50.0 million of floating-rate borrowings during the period from July 2010 to October 2011 to a range of 5.5% (the cap) and 4.6% (the floor). These interest rate collar agreements were determined to be cash flow hedges in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 137, No. 138 and No. 149. Since inception, no amounts have been recognized in the results of operations due to ineffectiveness of the interest rate hedges.

Critical Accounting Policies

In presenting our Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States, we are required to make estimates and assumptions that affect the amounts reported therein. Events that are outside of our control cannot be predicted and, as such, they cannot be contemplated in evaluating such estimates and assumptions. If there is a significant unfavorable change to current conditions, it could result in a material adverse impact to our consolidated results of operations, financial position and liquidity. We believe that the estimates and assumptions we used when preparing our consolidated financial statements were the most appropriate at that time. The following critical accounting policies may affect reported results resulting in variations in our financial results both on an interim and fiscal year basis.

Goodwill

We have reviewed the carrying value of our goodwill by comparing the carrying value of our reporting units to their fair value and determined that the carrying amounts of our reporting units did not exceed their respective fair values as of April 30, 2007. When determining fair value, we utilized various assumptions, including projections of future cash flows. A change in these underlying assumptions would cause a change in the results of the tests and, as such, could cause fair value to be less than the respective carrying amount. In such event, we would then be required to record a charge, which would impact results. We will continue to review the carrying value of goodwill for impairment annually, or more frequently if circumstances indicate impairment may have occurred. An adverse change to our business will impact our consolidated results and may result in an impairment of our goodwill. The aggregate carrying value of our goodwill was $393.2 million as of April 30, 2007. See "Part II. Item 8—Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 4—Goodwill and Other Intangible Assets" for more information on goodwill.

Other Intangible Assets

Indefinite-lived intangible assets are carried at the lower of cost or fair value. If the fair value of the indefinite-lived intangible asset is less than the carrying amount, an impairment loss would be recognized in an amount equal to the difference. We have reviewed the carrying value of our indefinite-lived asset by comparing its carrying value to its fair value and determined that its carrying value did not exceed its fair value as of April 30, 2007. We will continue to review the carrying value of indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred. An adverse change to our business will impact our consolidated results and may result in an impairment of our indefinite-lived intangible assets. The aggregate carrying value of our indefinite-lived intangible assets

 Exhibit A - Part 1 of 2

was $81.0 million as of April 30, 2007. See "Part II. Item 8—Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 4—Goodwill and Other Intangible Assets" for more information on indefinite-lived intangible assets.

Definite-lived intangible assets and long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. We test for impairment based on a comparison of the asset's undiscounted cash flows to its carrying value and, if impaired, written down to fair value based on either discounted cash flows or appraised values.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109" ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income tax positions that we have taken or expect to take with respect to a tax refund. FIN No. 48 prescribes a more-likely-than-not threshold for recognition as well as measurement criteria for changes in such tax positions for financial statement purposes. In addition, FIN No. 48 also requires additional qualitative and quantitative disclosures on unrecognized tax benefits to be included in the notes to the consolidated financial statements. We adopted the provisions of FIN No. 48 beginning May 1, 2007. The adoption of FIN No. 48 is not expected to have a material impact on our Consolidated Financial Statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for us beginning May 1, 2008. We are currently assessing the potential impact on our Consolidated Financial Statements of adopting SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective for us beginning May 1, 2008. We are currently assessing the potential impact on our Consolidated Financial Statements of adopting SFAS No. 159.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We have financial market risk exposure related primarily to changes in interest rates. We attempt to reduce this risk through the utilization of derivative financial instruments. See "Interest Rate Hedges" above. A hypothetical 1% change in the interest rate on our floating-rate borrowings outstanding as of April 30, 2007, excluding our $50.0 million of hedged borrowings whereby we fixed the interest rate, at an average of 4.4%, would result in an annual increase or decrease in income before income taxes of $0.8 million. The estimated increase or decrease is based upon the level of variable rate debt as of April 30, 2007 and assumes no changes in the volume or composition of debt.

Source: JACKSON HEWITT TAX S, 10-K, June 29, 2007

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