

IDT CORP  
Form 10-Q  
March 12, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2015**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

**Commission File Number: 1-16371**

**IDT CORPORATION**

**(Exact Name of Registrant as Specified in its Charter)**



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As of March 9, 2015, the registrant had the following shares outstanding:

Class A common stock, \$.01 par value: 1,574,326 shares outstanding (excluding 1,698,000 treasury shares)  
Class B common stock, \$.01 par value: 21,890,447 shares outstanding (excluding 2,979,800 treasury shares)

**IDT CORPORATION**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (Unaudited)****IDT CORPORATION****CONSOLIDATED BALANCE SHEETS**

	<b>January 31, 2015 (Unaudited) (in thousands)</b>	<b>July 31, 2014 (Note 1)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 133,141	\$ 153,823
Restricted cash and cash equivalents—short-term	69,197	65,706
Marketable securities	19,041	12,873
Trade accounts receivable, net of allowance for doubtful accounts of \$6,123 at January 31, 2015 and \$11,507 at July 31, 2014	55,796	69,330
Receivable from sale of interest in Fabrix Systems Ltd.	28,290	—
Prepaid expenses	16,253	21,799
Deferred income tax assets, net—current portion	2,026	2,953
Other current assets	10,377	12,381
Total current assets	334,121	338,865
Property, plant and equipment, net	86,235	81,760
Goodwill	14,446	14,830
Other intangibles, net	1,490	1,742
Investments	11,376	10,008
Restricted cash and cash equivalents—long-term	—	2,763
Deferred income tax assets, net—long-term portion	14,733	16,248
Other assets	18,002	14,715
Total assets	\$ 480,403	\$ 480,931
<b>Liabilities and equity</b>		
Current liabilities:		
Revolving credit loan payable	\$ —	\$ 13,000
Trade accounts payable	30,186	42,135
Accrued expenses	137,920	142,528
Deferred revenue	87,753	101,165
Customer deposits	64,555	62,685
Income taxes payable	401	732
Notes payable—current portion	6,492	271

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Other current liabilities	4,119	5,468
Total current liabilities	331,426	367,984
Notes payable—long-term portion	—	6,353
Other liabilities	1,829	5,430
Total liabilities	333,255	379,767
Commitments and contingencies		
Equity:		
IDT Corporation stockholders' equity:		
Preferred stock, \$.01 par value; authorized shares—10,000; no shares issued	—	—
Class A common stock, \$.01 par value; authorized shares—35,000; 3,272 shares issued and 1,574 shares outstanding at January 31, 2015 and July 31, 2014	33	33
Class B common stock, \$.01 par value; authorized shares—200,000; 24,849 and 24,587 shares issued and 21,869 and 21,653 shares outstanding at January 31, 2015 and July 31, 2014, respectively	248	246
Additional paid-in capital	399,325	392,858
Treasury stock, at cost, consisting of 1,698 and 1,698 shares of Class A common stock and 2,980 and 2,934 shares of Class B common stock at January 31, 2015 and July 31, 2014, respectively	(100,545)	(99,841 )
Accumulated other comprehensive (loss) income	(192 )	3,668
Accumulated deficit	(152,950)	(196,725)
Total IDT Corporation stockholders' equity	145,919	100,239
Noncontrolling interests	1,229	925
Total equity	147,148	101,164
Total liabilities and equity	\$480,403	\$480,931

See accompanying notes to consolidated financial statements.

## IDT CORPORATION

**CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

	Three Months Ended		Six Months Ended	
	January 31,	2014	January 31,	2014
	2015		2015	
	(in thousands, except per share data)			
Revenues	\$394,173	\$406,423	\$807,051	\$827,093
Costs and expenses:				
Direct cost of revenues (exclusive of depreciation and amortization)	328,737	335,258	672,544	685,577
Selling, general and administrative (i)	57,394	57,285	114,392	115,040
Depreciation and amortization	4,440	4,059	8,845	7,955
Research and development	—	2,597	1,656	4,873
Severance	351	—	1,899	—
Total costs and expenses	390,922	399,199	799,336	813,445
Gain on sale of interest in Fabrix Systems Ltd.	484	—	75,629	—
Other operating gains, net	—	350	—	1,209
Income from operations	3,735	7,574	83,344	14,857
Interest (expense) income, net	(40 )	105	(131 )	80
Other income (expense), net	967	(3,065 )	2,290	(3,614 )
Income before income taxes	4,662	4,614	85,503	11,323
Provision for income taxes	(1,905 )	(1,641 )	(2,392 )	(4,300 )
Net income	2,757	2,973	83,111	7,023
Net income attributable to noncontrolling interests	(247 )	(438 )	(445 )	(965 )
Net income attributable to IDT Corporation	\$2,510	\$2,535	\$82,666	\$6,058
Earnings per share attributable to IDT Corporation common stockholders:				
Basic	\$0.11	\$0.12	\$3.63	\$H. 28
Diluted	\$0.11	\$0.11	\$3.57	\$0.27
Weighted-average number of shares used in calculation of earnings per share:				
Basic	22,818	21,572	22,783	21,305
Diluted	23,225	22,743	23,155	22,827
Dividends declared per common share	\$0.82	\$0.17	\$1.67	\$0.17

(i) Stock-based compensation included in selling, general and administrative expenses	\$2,172	\$1,632	\$3,020	\$4,127
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See accompanying notes to consolidated financial statements.



## IDT CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	<b>Three Months Ended January 31, 2015    2014</b>		<b>Six Months Ended January 31, 2015    2014</b>	
	<b>(in thousands)</b>			
Net income	\$2,757	\$2,973	\$83,111	\$7,023
Other comprehensive (loss) income:				
Change in unrealized gain on available-for-sale securities	8	—	15	—
Foreign currency translation adjustments	(2,119)	518	(3,977)	1,182
Other comprehensive (loss) income	(2,111)	518	(3,962)	1,182
Comprehensive income	646	3,491	79,149	8,205
Comprehensive income attributable to noncontrolling interests	(247 )	(438 )	(445 )	(965 )
Comprehensive income attributable to IDT Corporation	\$399	\$3,053	\$78,704	\$7,240

See accompanying notes to consolidated financial statements.

## IDT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	<b>Six Months Ended</b>	
	<b>January 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>	
Operating activities		
Net income	\$83,111	\$7,023
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,845	7,955
Deferred income taxes	2,441	2,614
Provision for doubtful accounts receivable	35	548
Gain on sale of interest in Fabrix Systems Ltd.	(75,629 )	—
Gain on proceeds from insurance	—	(571 )
Realized loss on marketable securities	54	—
Interest in the equity of investments	(1,459 )	(852 )
Stock-based compensation	3,020	4,127
Change in assets and liabilities:		
Restricted cash and cash equivalents	(7,912 )	(19,077 )
Trade accounts receivable	3,285	3,465
Prepaid expenses, other current assets and other assets	5,787	(2,119 )
Trade accounts payable, accrued expenses, other current liabilities and other liabilities	(7,478 )	(23,300 )
Customer deposits	8,193	22,777
Income taxes payable	(292 )	665
Deferred revenue	(1,047 )	5,873
Net cash provided by operating activities	20,954	9,128
Investing activities		
Capital expenditures	(13,946 )	(7,847 )
Proceeds from sale of interest in Fabrix Systems Ltd, net of cash and cash equivalents sold.	36,039	—
Purchase of investments	(125 )	—
Proceeds from sale and redemption of investments	43	1,019
Proceeds from insurance	—	571
Purchases of marketable securities	(18,382 )	(11,631 )
Proceeds from maturities and sales of marketable securities	12,104	10,094
Net cash provided by (used in) investing activities	15,733	(7,794 )
Financing activities		
Dividends paid	(38,891 )	(5,754 )

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Distributions to noncontrolling interests	(750 )	(626 )
Purchases of stock of subsidiary	—	(1,133 )
Proceeds from exercise of stock options	2,896	528
Proceeds from revolving credit loan payable	—	30,000
Repayments of revolving credit loan payable and other borrowings	(13,132 )	(36,187 )
Repurchases of Class B common stock	(703 )	(955 )
Net cash used in financing activities	(50,580 )	(14,127 )
Effect of exchange rate changes on cash and cash equivalents	(6,789 )	(646 )
Net decrease in cash and cash equivalents	(20,682 )	(13,439 )
Cash and cash equivalents at beginning of period	153,823	151,600
Cash and cash equivalents at end of period	\$133,141	\$138,161
Supplemental schedule of non-cash investing and financing activities		
Net liabilities excluding cash and cash equivalents of Fabrix Systems Ltd. sold	\$14,333	\$—
Adjustment to liabilities in connection with the Straight Path Spin-Off	\$—	\$1,624

See accompanying notes to consolidated financial statements.

## **IDT CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

#### Note 1—Basis of Presentation

The accompanying unaudited consolidated financial statements of IDT Corporation and its subsidiaries (the “Company” or “IDT”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended January 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2015. The balance sheet at July 31, 2014 has been derived from the Company’s audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 31, 2014, as filed with the U.S. Securities and Exchange Commission (“SEC”).

The Company’s fiscal year ends on July 31 of each calendar year. Each reference below to a fiscal year refers to the fiscal year ending in the calendar year indicated (e.g., fiscal 2015 refers to the fiscal year ending July 31, 2015).

In the consolidated statements of cash flow, \$4.6 million previously included in “Restricted cash and cash equivalents” at July 31, 2013 was reclassified to “Cash and cash equivalents” to conform to the current year’s presentation.

#### Note 2—Sale of Interest in Fabrix Systems Ltd.

On October 8, 2014, the Company completed the sale of its interest in Fabrix Systems Ltd. (“Fabrix”) to Telefonaktiebolaget LM Ericsson (publ) (“Ericsson”). The final sale price for 100% of the shares in Fabrix was \$95 million in cash, excluding transaction costs and working capital and other adjustments. The Company owned approximately 78% of Fabrix on a fully diluted basis. The Company’s share of the sale price was \$68.0 million, after reflecting the impact of working capital and other adjustments. As of January 31, 2015, the Company had received cash of \$36.0 million and had aggregate receivables of \$32.0 million, of which \$28.3 million was classified as “Receivable from sale of interest in Fabrix Systems Ltd.” and \$3.7 million was included in “Other assets” in the accompanying consolidated balance sheet. The Company and the other shareholders placed \$13.0 million of the proceeds in escrow for the resolution of post-closing claims that may arise. Any unclaimed escrow balance will be released in two tranches over a period of 18 months. In the three months ended January 31, 2015, the Company recorded gain on the sale of its interest in Fabrix of \$0.5 million, which represented the Company’s share of working capital and other adjustments. In the six months ended January 31, 2015, the Company recorded a gain on the sale of its interest in Fabrix of \$75.6 million.

Fabrix’ income (loss) before income taxes and income (loss) before income taxes attributable to the Company, which is included in the accompanying consolidated statements of income, were as follows:

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	Three Months Ended January 31, 2015	Six Months Ended January 31, 2015	2014
(Loss) income before income taxes	\$—	\$(993)	\$917
(Loss) income before income taxes attributable to IDT Corporation	\$—	\$(878)	\$1,325
			\$(1,676)
			\$(1,482)

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## Note 3—Marketable Securities

The following is a summary of marketable securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale securities:				
January 31, 2015:				
Certificates of deposit*	\$12,394	\$ —	\$ —	\$12,394
Municipal bonds	6,640	8	(1 )	6,647
Total	\$19,034	\$ 8	\$ (1 )	\$19,041
July 31, 2014:				
Certificates of deposit*	\$10,375	\$ —	\$ —	\$10,375
Equity securities	31	—	(9 )	22
Municipal bonds	2,475	1	—	2,476
Total	\$12,881	\$ 1	\$ (9 )	\$12,873

\* Each of the Company's certificates of deposit has a CUSIP, was purchased in the secondary market through a broker and may be sold in the secondary market.

Proceeds from maturities and sales of available-for-sale securities were \$5.3 million and \$4.0 million in the three months ended January 31, 2015 and 2014, respectively, and \$12.1 million and \$10.1 million in the six months ended January 31, 2015 and 2014, respectively. The gross realized losses that were included in earnings as a result of sales were \$14,000 and nil in the three months ended January 31, 2015 and 2014, respectively, and \$54,000 and nil in the six months ended January 31, 2015 and 2014, respectively. The Company uses the specific identification method in computing the gross realized gains and gross realized losses on the sales of marketable securities.

The contractual maturities of the Company's available-for-sale debt securities at January 31, 2015 were as follows:

	Fair Value (in thousands)
Within one year	\$ 15,920
After one year through five years	3,121
After five years through ten years	—
After ten years	—
Total	\$ 19,041

The following available-for-sale securities were in an unrealized loss position for which other-than-temporary impairments have not been recognized:

	Unrealized Losses	Realized Value
January 31, 2015:		
Municipal bonds	\$1	\$1,230
July 31, 2014:		
Equity securities	\$9	\$22

At January 31, 2015 and July 31, 2014, there were no securities in a continuous unrealized loss position for 12 months or longer.

## Note 4—Fair Value Measurements

The following tables present the balance of assets measured at fair value on a recurring basis:

	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
	(in thousands)			
January 31, 2015:				
Available-for-sale securities	\$—	\$ 19,041	\$ —	\$ 19,041
July 31, 2014:				
Available-for-sale securities	\$—	\$ 12,873	\$ —	\$ 12,873

(1) – quoted prices in active markets for identical assets or liabilities

(2) – observable inputs other than quoted prices in active markets for identical assets and liabilities

(3) – no observable pricing inputs in the market

At January 31, 2015 and July 31, 2014, the Company did not have any liabilities measured at fair value on a recurring basis.

At January 31, 2015 and July 31, 2014, the Company had \$10.9 million and \$9.5 million, respectively, in investments in hedge funds, of which less than \$0.1 million and \$0.1 million, respectively, were included in “Other current assets” and \$10.9 million and \$9.4 million, respectively, were included in “Investments” in the accompanying consolidated balance sheets. The Company’s investments in hedge funds are accounted for using the equity method or the cost method; therefore investments in hedge funds are not measured at fair value.

#### *Fair Value of Other Financial Instruments*

The estimated fair value of the Company’s other financial instruments was determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting these data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange.

*Cash and cash equivalents, restricted cash and cash equivalents—short-term, other current assets, revolving credit loan payable, customer deposits, notes payable—current portion and other current liabilities.* At January 31, 2015 and July 31, 2014, the carrying amount of these assets and liabilities approximated fair value because of the short period of time to maturity. The fair value estimates for cash, cash equivalents and restricted cash and cash equivalents—short-term were classified as Level 1 and other current assets, revolving credit loan payable, customer deposits, notes payable—current portion and other current liabilities were classified as Level 2 of the fair value hierarchy.

*Restricted cash and cash equivalents—long-term.* At July 31, 2014, the carrying amount of restricted cash and cash equivalents—long-term approximated fair value. The fair value was estimated based on the anticipated cash flows once the restrictions are removed, which was classified as Level 2 of the fair value hierarchy.



*Other assets, Notes payable—long-term portion and other liabilities.* At January 31, 2015 and July 31, 2014, the carrying amount of these assets and liabilities approximated fair value. The fair values were estimated based on the Company's assumptions, which were classified as Level 3 of the fair value hierarchy.

The Company's investments at January 31, 2015 and July 31, 2014 included investments in the equity of certain privately held entities and other investments that are accounted for at cost. It is not practicable to estimate the fair value of these investments because of the lack of a quoted market price for the shares of these entities, and the inability to estimate their fair value without incurring excessive cost. The carrying value of these investments was \$1.6 million and \$1.8 million at January 31, 2015 and July 31, 2014, respectively, which the Company believes was not impaired.

## Note 5—Equity

Changes in the components of equity were as follows:

	<b>Six Months Ended January 31, 2015</b>		
	<b>Attributable to IDT Corporation</b>	<b>Noncontrolling Interests</b>	<b>Total</b>
	<b>(in thousands)</b>		
Balance, July 31, 2014	\$100,239	\$ 925	\$101,164
Dividends declared (\$1.67 per share)	(38,891 )	—	(38,891 )
Restricted Class B common stock purchased from employees	(279 )	—	(279 )
Repurchases of Class B common stock through repurchase program	(424 )	—	(424 )
Exercise of stock options.	2,896	—	2,896
Stock issued for matching contributions to the 401(k) Plan	134	—	134
Other	—	9	9
Sale of interest in Fabrix Systems Ltd.	102	538	640
Distributions to noncontrolling interests	—	(750 )	(750 )
Stock-based compensation	3,438	62	3,500
Comprehensive income:			
Net income	82,666	445	83,111
Other comprehensive loss	(3,962 )	—	(3,962 )
Comprehensive income	78,704	445	79,149
Balance, January 31, 2015	\$145,919	\$ 1,229	\$147,148

*Dividend Payments*

In the six months ended January 31, 2015, the Company paid aggregate cash dividends of \$1.67 per share on its Class A common stock and Class B common stock, or \$38.9 million in total. The aggregate cash dividends included special dividends of \$0.68 per share and \$0.64 per share paid in November 2014 and January 2015, respectively. In March 2015, the Company's Board of Directors declared a dividend of \$0.18 per share for the second quarter of fiscal 2015 to holders of the Company's Class A common stock and Class B common stock. The dividend will be paid on or about March 27, 2015 to stockholders of record as of the close of business on March 20, 2015.

*Stock Repurchase Program*

The Company has a stock repurchase program that authorized the repurchase of up to an aggregate of 8.3 million shares of the Company's Class B common stock. In the six months ended January 31, 2015, the Company repurchased 29,675 shares of Class B common stock for an aggregate purchase price of \$0.4 million. There were no repurchases under the program in the six months ended January 31, 2014. As of January 31, 2015, 5.0 million shares remained available for repurchase under the stock repurchase program.

*Restricted Stock*

On March 11, 2015, the Compensation Committee of the Company's Board of Directors approved an equity grant of 0.3 million restricted shares of the Company's Class B common stock to its employees, including executive officers. The shares are expected to vest 50% in January 2017 and 50% in July 2018.

**Note 6—Earnings Per Share**

Basic earnings per share is computed by dividing net income attributable to all classes of common stockholders of the Company by the weighted average number of shares of all classes of common stock outstanding during the applicable period. Diluted earnings per share is computed in the same manner as basic earnings per share, except that the number of shares is increased to include restricted stock still subject to risk of forfeiture and to assume exercise of potentially dilutive stock options using the treasury stock method, unless the effect of such increase is anti-dilutive.

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The weighted-average number of shares used in the calculation of basic and diluted earnings per share attributable to the Company's common stockholders consists of the following:

	<b>Three Months Ended January 31, 2015</b>		<b>Six Months Ended January 31, 2014</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	(in thousands)			
Basic weighted-average number of shares	22,818	21,572	22,783	21,305
Effect of dilutive securities:				
Stock options	52	132	40	109
Non-vested restricted Class B common stock	355	1,039	332	1,413
Diluted weighted-average number of shares	23,225	22,743	23,155	22,827

The following outstanding stock options were excluded from the calculation of diluted earnings per share because the exercise price of the stock option was greater than the average market price of the Company's stock during the period:

	<b>Three Months Ended January 31, 2015</b>		<b>Six Months Ended January 31, 2014</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	(in thousands)			
Shares excluded from the calculation of diluted earnings per share	16	16	16	42

#### Note 7—Revolving Credit Loan Payable

The Company's subsidiary, IDT Telecom, Inc., entered into a credit agreement, dated July 12, 2012, with TD Bank, N.A. for a line of credit facility for up to a maximum principal amount of \$25.0 million. IDT Telecom may use the proceeds to finance working capital requirements, acquisitions and for other general corporate purposes. The line of credit facility is secured by primarily all of IDT Telecom's assets. The principal outstanding bears interest per annum, at the option of IDT Telecom, at either (a) the U.S. Prime Rate less 125 basis points, or (b) the LIBOR rate adjusted by the Regulation D maximum reserve requirement plus 150 basis points. Interest is payable monthly and all outstanding principal and any accrued and unpaid interest is due on the maturity date of January 31, 2017. At January 31, 2015 and July 31, 2014, there was nil and \$13.0 million, respectively, outstanding under the facility. The principal outstanding at July 31, 2014 incurred interest at a rate of 1.65% per annum. In August 2014, IDT Telecom repaid the \$13.0 million loan payable. The Company intends to continue to borrow under the facility from time to time. IDT Telecom pays a quarterly unused commitment fee of 0.375% per annum on the average daily balance of the unused portion of the \$25.0 million commitment. IDT Telecom is required to comply with various affirmative and negative covenants as well as maintain certain financial targets and ratios during the term of the line of credit, including IDT Telecom may not pay any dividend on its capital stock and IDT Telecom's aggregate loans and advances to affiliates or subsidiaries may not exceed \$90.0 million. At January 31, 2015 and July 31, 2014, there were no amounts utilized for letters of credit under the line of credit, IDT Telecom was in compliance with all of the covenants, and IDT Telecom's aggregate loans and advances to affiliates and subsidiaries was \$88.0 million and \$73.7 million,

respectively.

Note 8—Severance Expense

Severance expense of \$0.4 million and \$1.9 million in the three and six months ended January 31, 2015, respectively, was due to a downsizing of certain IDT Telecom sales and administrative functions in Europe and the U.S. Approximately 20 employees were terminated in the six months ended January 31, 2015 as a result of the downsizing. At January 31, 2015, there was accrued severance of \$0.5 million for this downsizing included in “Accrued expenses” in the accompanying consolidated balance sheet.

In February and March 2015, the Company completed a reduction of approximately 7% of its global compensation costs. The cost-cutting initiative is expected to reduce the Company’s current selling, general and administrative expense run rate by approximately \$10 million per year. As a result of this reduction in headcount, the Company expects to incur severance expense of approximately \$6.6 million in the third quarter of fiscal 2015.

## Note 9—Accumulated Other Comprehensive Income

The accumulated balances for each classification of other comprehensive income (loss) were as follows:

	Unrealized Gain (Loss) on Foreign Currency Translation Available for-Sale Securities (in thousands)	Accumulated Other Comprehensive Income
Balance, July 31, 2014	\$(8 ) \$ 3,676	\$ 3,668
Sale of interest in Fabrix Systems Ltd.	— 102	102
Other comprehensive income (loss) attributable to IDT Corporation	15 (3,977 )	(3,962 )
Balance, January 31, 2015	\$7 \$ (199 )	\$ (192 )

## Note 10—Business Segment Information

The Company has two reportable business segments, Telecom Platform Services and Consumer Phone Services. Operating segments that are not reportable individually are included in All Other. The Company's reportable segments are distinguished by types of service, customers and methods used to provide their services. The operating results of these business segments are regularly reviewed by the Company's chief operating decision maker.

The Telecom Platform Services segment provides retail telecommunications and payment offerings as well as wholesale international long distance traffic termination. The Consumer Phone Services segment provides consumer local and long distance services in certain U.S. states. Telecom Platform Services and Consumer Phone Services comprise the IDT Telecom division. Beginning in the three months ended January 31, 2015, All Other includes Zedge Holdings, Inc. ("Zedge"), which owns and operates a platform for mobile phone consumers interested in obtaining free, high quality games, apps, and mobile phone customization including ringtones, wallpapers, and notification sounds. Comparative results have been reclassified and restated as if Zedge was included in All Other in all periods presented. All Other also includes the Company's real estate holdings and other, smaller, businesses. Until the sale of Fabrix in October 2014, All Other also included Fabrix, a software development company offering a cloud-based scale-out storage and computing platform optimized for big data, virtualization and media storage, processing and delivery. Corporate costs include certain services, such as compensation, consulting fees, treasury and accounts payable, tax and accounting services, human resources and payroll, corporate purchasing, corporate governance including Board of Directors' fees, internal and external audit, investor relations, corporate insurance, corporate legal, business development, and other corporate-related general and administrative expenses including, among others, facilities costs, charitable contributions and travel, as well as depreciation expense on corporate assets. Corporate does not generate any revenues, nor does it incur any direct cost of revenues.

The accounting policies of the segments are the same as the accounting policies of the Company as a whole. The Company evaluates the performance of its business segments based primarily on income (loss) from operations. IDT Telecom depreciation and amortization are allocated to Telecom Platform Services and Consumer Phone Services because the related assets are not tracked separately by segment. There are no other significant asymmetrical allocations to segments.

Operating results for the business segments of the Company are as follows:

(in thousands)	Telecom Platform Services	Consumer Phone Services	All Other	Corporate	Total
Three Months Ended January 31, 2015					
Revenues	\$388,970	\$ 2,243	\$2,960	\$ —	\$394,173
Income (loss) from operations	6,870	306	(602 )	(2,839 )	3,735
Gain on sale of interest in Fabrix Systems Ltd.	—	—	484	—	484
Three Months Ended January 31, 2014					
Revenues	\$398,103	\$ 2,850	\$5,470	\$ —	\$406,423
Income (loss) from operations	12,392	421	(1,333 )	(3,906 )	7,574
Six Months Ended January 31, 2015					
Revenues	\$792,758	\$ 4,554	\$9,739	\$ —	\$807,051
Income (loss) from operations	12,540	662	75,936	(5,794 )	83,344
Gain on sale of interest in Fabrix Systems Ltd.	—	—	75,629	—	75,629
Six Months Ended January 31, 2014					
Revenues	\$810,922	\$ 5,866	\$10,305	\$ —	\$827,093
Income (loss) from operations	24,298	841	(1,799 )	(8,483 )	14,857

### Note 11—Legal Proceedings

On May 5, 2004, the Company filed a complaint in the Supreme Court of the State of New York, County of New York, seeking injunctive relief and damages against Tyco Group, S.A.R.L., Tyco Telecommunications (US) Inc. (f/k/a TyCom (US) Inc.), Tyco International, Ltd., Tyco International (US) Inc., and TyCom Ltd. (collectively “Tyco”). The Company alleged that Tyco breached a settlement agreement that it had entered into with the Company to resolve certain disputes and civil actions among the parties. The Company alleged that Tyco did not provide the Company, as required under the settlement agreement, free of charge and for the Company’s exclusive use, a 15-year indefeasible right to use four Wavelengths in Ring Configuration (as defined in the settlement agreement) (“Wavelengths”) on a global undersea fiber optic network that Tyco was deploying at that time. In June 2004, Tyco asserted several counterclaims against the Company, alleging that the Company breached the settlement agreement and is liable for damages for allegedly refusing to accept Tyco’s offer regarding the Wavelengths referenced in the settlement agreement and for making a public statement that Tyco failed to provide the Company with the use of its Wavelengths. On August 19, 2008, the Appellate Division of the State of New York, First Department, granted summary judgment in favor of Tyco dismissing the complaint and remanded the matter to the Supreme Court for further proceedings. On October 22, 2009, the New York Court of Appeals issued an Order denying the Company’s appeal and affirming the Appellate Division’s order. On or about November 17, 2009, the Company demanded that Tyco comply with its obligations under the settlement agreement. After further discussions and meetings between the parties regarding Tyco’s obligations under the settlement agreement, including its obligation to provide the use of the Wavelengths for fifteen years in a manner fully consistent with that described in the settlement agreement, the Company filed a complaint on November 24, 2010 in the Supreme Court of the State of New York, County of New York, against Tyco based upon the failure to comply with the obligations under the settlement agreement, to negotiate the terms of an indefeasible right to use the Wavelengths in good faith, and to provide the Company with the Wavelengths. The complaint alleges causes of action for breach of contract and breach of duty to negotiate in good faith. On January 6, 2011, Tyco filed a motion to dismiss the complaint, which was granted. On July 22, 2011, the

Company filed a notice of appeal. After briefing was completed, oral argument was held on April 2, 2012. On December 27, 2012, the Appellate Division issued an opinion and order reversing the order of the Supreme Court that granted Tyco's motion to dismiss the Company's complaint. On April 30, 2013, Tyco filed a motion for reargument or, in the alternative, leave to appeal to the Court of Appeals, which the Company opposed. On February 8, 2013, Tyco filed an answer with a counterclaim. On May 21, 2013, the Appellate Division denied Tyco's request for reargument but granted its request for leave to appeal to the Court of Appeals. On July 30, 2013, Tyco filed its opening brief, the Company filed its response brief on September 16, 2013, and Tyco filed its reply on October 11, 2013. Oral argument was held on April 29, 2014. On June 5, 2014, the Court issued its decision, and reversed the order of the Appellate Division, and ordered that the order of the Supreme Court should be reinstated. On July 7, 2014, the Company filed a motion for reargument with the Court of Appeals, which Tyco opposed. On September 11, 2014, the Court denied the Company's motion. The Company is evaluating its options going forward.

In addition to the foregoing, the Company is subject to other legal and employment-related proceedings that have arisen in the ordinary course of business and have not been finally adjudicated. Although there can be no assurance in this regard, the Company believes that none of the other legal proceedings to which the Company is a party will have a material adverse effect on the Company's results of operations, cash flows or financial condition.



## Note 12—Commitments and Contingencies

*Purchase Commitments*

The Company had purchase commitments of \$5.5 million as of January 31, 2015, which includes commitments related to the renovations of the first four floors of the Company's building located at 520 Broad Street, Newark, New Jersey.

*Letters of Credit*

As of January 31, 2015, the Company had letters of credit outstanding totaling \$3.3 million for collateral to secure mortgage repayments and for IDT Telecom's business. The letters of credit outstanding as of January 31, 2015 expire in the twelve month period ending January 31, 2016.

*Performance Bonds*

IDT Payment Services and IDT Telecom have performance bonds issued through third parties for the benefit of various states in order to comply with the states' financial requirements for money remittance licenses and telecommunications resellers, respectively. At January 31, 2015, the Company had aggregate performance bonds of \$11.0 million outstanding.

*Customer Deposits*

As of January 31, 2015 and July 31, 2014, "Customer deposits" in the Company's consolidated balance sheets included refundable customer deposits of \$64.6 million and \$62.7 million, respectively, related to IDT Financial Services Ltd., the Company's Gibraltar-based bank.

*Substantially Restricted Cash and Cash Equivalents*

The Company treats unrestricted cash and cash equivalents held by IDT Payment Services and IDT Financial Services Ltd. as substantially restricted and unavailable for other purposes. At January 31, 2015 and July 31, 2014, "Cash and cash equivalents" in the Company's consolidated balance sheets included an aggregate of \$15.5 million and \$12.9 million, respectively, held by IDT Payment Services and IDT Financial Services Ltd. that was unavailable for other purposes.

*Restricted Cash and Cash Equivalents*

Restricted cash and cash equivalents consist of the following:

	<b>January 31, 2015</b>	<b>July 31, 2014</b>
	(in thousands)	
Restricted cash and cash equivalents-short-term		
Related to letters of credit	\$3,206	\$665
IDT Financial Services customer deposits	65,745	64,415
Other	246	626
Total short-term	69,197	65,706
Restricted cash and cash equivalents-long-term		

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Related to letters of credit	—	2,763
Total restricted cash and cash equivalents	\$69,197	\$68,469

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*Estimated Liability to Straight Path Communications Inc.*

On July 31, 2013, the Company completed a pro rata distribution of the common stock of the Company's subsidiary, Straight Path Communications Inc. ("Straight Path"), to the Company's stockholders (the "Straight Path Spin-Off"). The Company entered into various agreements with Straight Path prior to the Straight Path Spin-Off including a Separation and Distribution Agreement to effect the separation and provide a framework for the Company's relationship with Straight Path after the spin-off. The Separation and Distribution Agreement includes that the Company is obligated to reimburse Straight Path for the payment of any liabilities of Straight Path arising or related to the period prior to the Straight Path Spin-Off. The following table summarizes the change in the balance of the Company's estimated liability to Straight Path, which is included in "Other current liabilities" in the accompanying consolidated balance sheet:

	Six Months Ended January 31, 2015 (in thousands)
Balance, beginning of period	\$ 1,860
Additional liability	1,532
Adjustments	(540 )
Payments	(1,136 )
Balance, end of period	\$ 1,716
Note 13—Other Operating Gains, Net	

The following table summarizes the other operating gains, net by business segment:

	<b>Three Months Ended January 31, 2015</b>	<b>Six Months Ended January 31, 2014</b>
	(in thousands)	
Telecom Platform Services-gain related to legal matters	\$—\$350	\$—\$650
All Other-gain on insurance claim (a)	— —	— 571
All Other-other	— —	— 67
Corporate-loss related to settlement (b)	— —	— (79 )
Total	\$—\$350	\$—\$1,209

(a) In the six months ended January 31, 2014, the Company received proceeds from insurance of \$0.6 million related to water damage to portions of the Company's building and improvements at 520 Broad Street, Newark, New Jersey.

The damage occurred in a prior period. The Company recorded a gain of \$0.6 million from this insurance claim.

(b) In the six months ended January 31, 2014, the Company incurred a loss of \$0.1 million in connection with the June 2013 settlement of outstanding claims and disputes with the former Chief Executive Officer of Straight Path Spectrum, Inc. and his related parties.

Note 14—Other Income (Expense), Net

Other income (expense), net consists of the following:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>January 31,</b>		<b>January 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	(in thousands)			
Foreign currency transaction gains (losses)	\$322	\$(3,157)	\$1,089	\$(4,362)
(Loss) gain on investments	(455)	117	1,402	853
Other	1,100	(25)	(201)	(105)
Total other income (expense), net	\$967	\$(3,065)	\$2,290	\$(3,614)

Note 15—Recently Issued Accounting Standard Not Yet Adopted

In May 2014, the Financial Accounting Standards Board and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard that will supersede most of the current revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards (“IFRS”). The goals of the revenue recognition project were to clarify and converge the revenue recognition principles under U.S. GAAP and IFRS and to develop guidance that would streamline and enhance revenue recognition requirements. The Company will adopt this standard on August 1, 2017. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard. The Company is evaluating the impact that the standard will have on its consolidated financial statements.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following information should be read in conjunction with the accompanying consolidated financial statements and the associated notes thereto of this Quarterly Report, and the audited consolidated financial statements and the notes thereto and our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended July 31, 2014, as filed with the U.S. Securities and Exchange Commission (or SEC).

As used below, unless the context otherwise requires, the terms "the Company," "IDT," "we," "us," and "our" refer to IDT Corporation, a Delaware corporation, its predecessor, International Discount Telecommunications, Corp., a New York corporation, and their subsidiaries, collectively.

### **Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that contain the words "believes," "anticipates," "expects," "plans," "intends," and similar words and phrases. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results projected in any forward-looking statement. In addition to the factors specifically noted in the forward-looking statements, other important factors, risks and uncertainties that could result in those differences include, but are not limited to, those discussed under Item 1A to Part I "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended July 31, 2014. The forward-looking statements are made as of the date of this report and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Investors should consult all of the information set forth in this report and the other information set forth from time to time in our reports filed with the SEC pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, including our Annual Report on Form 10-K for the year ended July 31, 2014.

### **Overview**

We are a multinational holding company with operations primarily in the telecommunications and payment industries. We have two reportable business segments, Telecom Platform Services and Consumer Phone Services. Telecom Platform Services provides retail telecommunications and payment offerings as well as wholesale international long distance traffic termination. Consumer Phone Services provides consumer local and long distance services in certain U.S. states. Telecom Platform Services and Consumer Phone Services comprise our IDT Telecom division. Operating segments not reportable individually are included in All Other. All Other includes Zedge Holdings, Inc., or Zedge, which owns and operates a platform for mobile phone consumers interested in obtaining free, high quality games,

apps, and mobile phone customization including ringtones, wallpapers, and notification sounds. All Other also includes our real estate holdings and other, smaller, businesses. Until the sale of Fabrix Systems Ltd., or Fabrix, in October 2014, All Other also included Fabrix, a software development company offering a cloud-based scale-out storage and computing platform optimized for big data, virtualization and media storage, processing and delivery.

Since our inception, we have derived the majority of our revenues and operating expenses from IDT Telecom's businesses. IDT Telecom's revenues represented 98.8% of our total revenues in the six months ended January 31, 2015 and 2014.

Telecom Platform Services, which represented 99.4% and 99.3% of IDT Telecom's total revenues in the six months ended January 31, 2015 and 2014, respectively, markets and distributes multiple communications and payment services across four broad business verticals:

Retail Communications provides international long-distance calling products primarily to foreign-born communities worldwide, with its core markets in the United States;

Wholesale Termination Services is a global telecom carrier, terminating international long distance calls around the world for Tier 1 fixed line and mobile network operators, as well as other service providers;

Payment Services provides payment offerings, including international airtime top-up and international money transfer sold over our Boss Revolution platform and other channels; and

Hosted Platform Solutions provides customized communications services that leverage our proprietary networks, platforms and/or technology to cable companies and other service providers.

Over the past few years, the telecommunications industry has experienced a continued shift in demand away from traditional calling cards and into wireless and Internet protocol (or IP)-based products and services, which, among other things, has, and continues to contribute to the gradual erosion of our pricing power. The continued growth of these wireless and IP-based services has adversely affected the sales of our traditional disposable prepaid calling card products as customers migrate from using cards to using these alternative services. We expect pricing of wireless and IP-based services to continue to decrease, which may result in increased substitution and increased pricing pressure on our prepaid calling products' sales and margins. Further, the rate of change to new offerings to meet consumers' communications needs has accelerated in recent years and we must continue to develop and offer new products and services to meet these needs and replace revenues from outdated offerings.

To combat this trend, we have introduced in recent years new sources of revenue, such as Boss Revolution PIN-less and international airtime top-up that have now largely replaced revenues from our traditional disposable calling cards. Boss Revolution PIN-less allows our customers to call overseas without the need to enter a personal identification number. International airtime top-up, which enables customers to purchase airtime for a prepaid mobile telephone in another country, appeals to residents of developed countries such as the United States who regularly communicate with or financially support friends or family members in a developing country. The addition of Boss Revolution PIN-less and international airtime top-up represent successful efforts to leverage our existing capabilities, infrastructure and distribution network. Although Boss Revolution PIN-less and international airtime top-up generally have lower gross margins than our traditional disposable calling cards, we believe that customers tend to continue using these products over a longer period of time thereby allowing us to generate higher revenues and longer lifetime value per user. The Boss Revolution platform provides us with a direct, real-time relationship with all of our participating retailers, resulting in a cost-effective and adaptable distribution model that can rapidly respond to changes in the business environment. There can be no assurance that we will continue to grow our Boss Revolution PIN-less and international airtime top-up sales, or that we will be able to continue to generate new sources of revenue to offset the continuing decline in our traditional disposable calling card revenues or possible future declines in Boss Revolution PIN-less or other sources of revenue.

The wholesale carrier industry has numerous players competing for the same customers, primarily on the basis of price, products and quality of service. In our Wholesale Termination Services business, we have historically had to pass along all or most of our per-minute cost savings to our customers in the form of lower prices.

### **Critical Accounting Policies**

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for fiscal 2014. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Critical accounting policies are those that require application of management's most subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. Our critical accounting policies include those related to the allowance for doubtful accounts, goodwill, valuation of long-lived and intangible assets, income taxes and regulatory agency fees, and IDT Telecom direct cost of revenues—disputed amounts. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. For additional discussion of our critical accounting policies, see our Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for fiscal 2014.

### **Recently Issued Accounting Standard Not Yet Adopted**

In May 2014, the Financial Accounting Standards Board and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard that will supersede most of the current revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards, or IFRS. The goals of the revenue recognition project were to clarify and converge the revenue recognition principles under U.S. GAAP and IFRS and to develop guidance that would streamline and enhance revenue recognition requirements. We will adopt this standard on August 1, 2017. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard. We are evaluating the impact that the standard will have on our consolidated financial statements.

## **Results of Operations**

### **Three and Six Months Ended January 31, 2015 Compared to Three and Six Months Ended January 31, 2014**

We evaluate the performance of our operating business segments based primarily on income (loss) from operations. Accordingly, the income and expense line items below income (loss) from operations are only included in our discussion of the consolidated results of operations.



*IDT Telecom—Telecom Platform Services and Consumer Phone Services Segments*

	Three months ended				Six months			
	January 31,		Change		ended		Change	
	2015	2014	\$	%	2015	2014	\$	%
	(in millions)							
Revenues								
Telecom Platform Services	\$389.0	\$398.1	\$(9.1)	(2.3)%	\$792.8	\$810.9	\$(18.1)	(2.2)%
Consumer Phone Services	2.2	2.9	(0.7)	(21.3)	4.5	5.9	(1.4)	(22.4)
Total revenues	\$391.2	\$401.0	\$(9.8)	(2.4)%	\$797.3	\$816.8	\$(19.5)	