

IDT CORP  
Form 10-Q  
December 10, 2018

**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 OCTOBER 31, 2018**

**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)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>22-3415036</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification Number)</b>

<b>520 Broad Street, Newark, New Jersey</b> <b>(Address of principal executive offices)</b>	<b>07102</b> <b>(Zip Code)</b>
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**(973) 438-1000**

**(Registrant’s telephone number, including area code)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

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

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

As of December 5, 2018, 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: 22,143,898 shares outstanding (excluding 3,450,600 treasury shares)

IDT CORPORATION

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

IDT CORPORATION  
CONSOLIDATED BALANCE SHEETS

	<b>October 31, 2018</b>	<b>July 31, 2018</b>
	(Unaudited) (Note 1)	
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$59,313	\$68,089
Debt securities	2,237	5,612
Trade accounts receivable, net of allowance for doubtful accounts of \$3,103 at October 31, 2018 and \$3,166 at July 31, 2018	66,094	69,481
Prepaid expenses	23,132	19,550
Other current assets	34,333	28,877
Assets held for sale	138,466	137,272
Total current assets	323,575	328,881
Property, plant and equipment, net	36,808	36,068
Goodwill	11,246	11,315
Other intangibles, net	4,238	306
Equity investments	7,827	6,633
Deferred income tax assets, net	4,598	5,668
Other assets	5,634	5,020
Assets held for sale	5,920	5,706
Total assets	\$399,846	\$399,597
Liabilities and equity		
Current liabilities:		
Trade accounts payable	\$56,441	\$45,124
Accrued expenses	120,843	129,818
Deferred revenue	45,116	55,003
Other current liabilities	8,817	8,269
Liabilities held for sale	130,550	128,770
Total current liabilities	361,767	366,984
Other liabilities	906	768
Liabilities held for sale	497	542
Total liabilities	363,170	368,294

## 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 October 31, 2018 and July 31, 2018	33	33
Class B common stock, \$.01 par value; authorized shares—200,000; 25,594 and 25,594 shares issued and 22,143 and 22,872 shares outstanding at October 31, 2018 and July 31, 2018, respectively	256	256
Additional paid-in capital	294,460	294,047
Treasury stock, at cost, consisting of 1,698 and 1,698 shares of Class A common stock and 3,451 and 2,722 shares of Class B common stock at October 31, 2018 and July 31, 2018, respectively	(89,451 )	(85,597 )
Accumulated other comprehensive loss	(4,417 )	(4,972 )
Accumulated deficit	(164,806)	(173,103)
Total IDT Corporation stockholders' equity	36,075	30,664
Noncontrolling interests	601	639
Total equity	36,676	31,303
Total liabilities and equity	\$399,846	\$399,597

See accompanying notes to consolidated financial statements.

## IDT CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	<b>Three Months Ended October 31, 2018      2017</b>	
	(in thousands, except per share data)	
Revenues	\$362,316	\$393,555
Costs and expenses:		
Direct cost of revenues (exclusive of depreciation and amortization)	304,693	336,510
Selling, general and administrative (i)	50,552	50,071
Depreciation and amortization	5,594	5,673
Severance	—	439
Total costs and expenses	360,839	392,693
Other operating expense	(195 )	(779 )
Income from operations	1,282	83
Interest income, net	108	362
Other expense, net	(1,349 )	(826 )
Income (loss) before income taxes	41	(381 )
Provision for income taxes	(1,189 )	(1,416 )
Net loss	(1,148 )	(1,797 )
Net income attributable to noncontrolling interests	(301 )	(295 )
Net loss attributable to IDT Corporation	\$(1,449 )	\$(2,092 )
Basic and diluted loss per share attributable to IDT Corporation common stockholders	\$(0.06 )	\$(0.08 )
Weighted-average number of shares used in calculation of basic and diluted loss per share	23,831	24,628
(i) Stock-based compensation included in selling, general and administrative expenses	\$413	\$810

See accompanying notes to consolidated financial statements.



IDT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	<b>Three Months Ended October 31,</b>	
	<b>2018</b>	<b>2017</b>
	(in thousands)	
Net loss	\$(1,148)	\$(1,797)
Other comprehensive income (loss):		
Change in unrealized gain on available-for-sale securities	(2 )	(30 )
Foreign currency translation adjustments	524	(368 )
Other comprehensive income (loss)	522	(398 )
Comprehensive loss	(626 )	(2,195)
Comprehensive income attributable to noncontrolling interests	(301 )	(295 )
Comprehensive loss attributable to IDT Corporation	\$(927 )	\$(2,490)

See accompanying notes to consolidated financial statements.

## IDT CORPORATION

## CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

**Three Months Ended October 31, 2018**

(in thousands)

**IDT Corporation Stockholders**

	<b>Class A Common Stock</b>	<b>Class B Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Accumulated Deficit</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>
BALANCE AT JULY 31, 2018	\$33	\$ 256	\$294,047	\$(85,597)	\$ (4,972 )	\$(173,103 )	\$ 639	\$31,303
Adjustment from the adoption of change in revenue recognition (see Note 2)	—	—	—	—	—	8,606	—	8,606
Adjustment from the adoption of change in accounting for equity investments (see Note 8)	—	—	—	—	33	1,140	—	1,173
ADJUSTED BALANCE AT AUGUST 1, 2018	33	256	294,047	(85,597)	(4,939 )	(163,357 )	639	41,082
Repurchases of Class B common stock through repurchase program	—	—	—	(3,854 )	—	—	—	(3,854 )
Stock-based compensation	—	—	413	—	—	—	—	413
Distributions to noncontrolling interests	—	—	—	—	—	—	(339 )	(339 )
Other comprehensive income	—	—	—	—	522	—	—	522
Net loss	—	—	—	—	—	(1,449 )	301	(1,148 )
BALANCE AT OCTOBER 31, 2018	\$33	\$ 256	\$294,460	\$(89,451)	\$ (4,417 )	\$(164,806 )	\$ 601	\$36,676

**Three Months Ended October 31, 2017**

(in thousands)

**IDT Corporation Stockholders**

	<b>Class A Common Stock</b>	<b>Class B Common Stock</b>	<b>Additional Paid-In Capital</b>	<b>Treasury Stock</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Accumulated Deficit</b>	<b>Noncontrolling Interests</b>	<b>Total Equity</b>
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BALANCE AT JULY 31, 2017	\$33	\$ 256	\$394,462	\$(83,304)	\$ (2,343 )	\$(163,370 )	\$ 8,823	\$154,557
Dividends declared (\$0.19 per share)	—	—	—	—	—	(4,720 )	—	(4,720 )
Restricted Class B common stock purchased from employees	—	—	—	(23 )	—	—	—	(23 )
Stock-based compensation	—	—	810	—	—	—	—	810
Distributions to noncontrolling interests	—	—	—	—	—	—	(380 )	(380 )
Other comprehensive loss	—	—	—	—	(398 )	—	—	(398 )
Net loss	—	—	—	—	—	(2,092 )	295	(1,797 )
BALANCE AT OCTOBER 31, 2017	\$33	\$ 256	\$395,272	\$(83,327)	\$ (2,741 )	\$(170,182 )	\$ 8,738	\$148,049

See accompanying notes to consolidated financial statements.

## IDT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	<b>Three Months Ended October 31, 2018      2017</b>	
	(in thousands)	
Operating activities		
Net loss	\$(1,148 )	\$(1,797 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,594	5,673
Deferred income taxes	1,117	1,317
Provision for doubtful accounts receivable	447	566
Recognized loss (gain) on securities	46	(7 )
Interest in the equity of investments	—	104
Stock-based compensation	413	810
Change in assets and liabilities:		
Trade accounts receivable	97	(13,952 )
Prepaid expenses, other current assets and other assets	(8,766 )	(12,832 )
Trade accounts payable, accrued expenses, other current liabilities and other liabilities	6,069	(9,359 )
Customer deposits	5,567	(14,226 )
Deferred revenue	(1,206 )	(1,556 )
Net cash provided by (used in) operating activities	8,230	(45,259 )
Investing activities		
Capital expenditures	(4,463 )	(5,324 )
Payment for acquisition, net of cash acquired	(5,453 )	—
Proceeds from sale of interest in Straight Path IP Group Holding, Inc.	—	6,000
Purchase of IP Interest from Straight Path Communications Inc.	—	(6,000 )
Purchases of marketable securities	—	(15,671 )
Proceeds from maturities and sales of marketable securities	3,372	19,560
Net cash used in investing activities	(6,544 )	(1,435 )
Financing activities		
Dividends paid	—	(4,720 )
Distributions to noncontrolling interests	(339 )	(380 )
Repayment of other liabilities acquired	(599 )	—
Repurchases of Class B common stock	(3,854 )	(23 )
Net cash used in financing activities	(4,792 )	(5,123 )
Effect of exchange rate changes on cash, cash equivalents, and restricted cash and cash equivalents	(4,590 )	575
Net decrease in cash, cash equivalents, and restricted cash and cash equivalents	(7,696 )	(51,242 )

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Cash, cash equivalents, and restricted cash and cash equivalents at beginning of period	203,197	211,963
Cash, cash equivalents, and restricted cash and cash equivalents at end of period	\$195,501	\$160,721

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 notes 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 months ended October 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2019. The balance sheet at July 31, 2018 has been derived from the Company’s audited financial statements at that date but does not include all of the information and notes 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, 2018, 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 2019 refers to the fiscal year ending July 31, 2019).

#### Note 2—Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and has since issued amendments thereto (collectively referred to as “ASC 606”). The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and the guidance defines a five-step process to achieve this core principle. The five-step process to achieve this principle is as follows: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. ASC 606 also mandates additional disclosure about the nature, amount, timing and uncertainty of revenues and cash flows arising from customer contracts, including significant judgments

and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

The Company applied ASC 606 only to those contracts that were not completed as of August 1, 2018. Results for the reporting periods beginning after August 1, 2018 are presented under ASC 606, while prior period results are not adjusted and continue to be reported in accordance with historic accounting under ASC Topic 605.

*Modified Retrospective Method of Adoption and Cumulative Effect Adjustment*

The Company adopted ASC 606 as of August 1, 2018, using the modified retrospective method. As this method requires that the cumulative effect of initially applying ASC 606 be recognized at the date of adoption, at August 1, 2018, the Company recorded an \$8.6 million reduction to “Deferred revenue”, with an offsetting reduction to “Accumulated deficit”, for the cumulative effect of the adoption. This adjustment related to the change in accounting for breakage primarily from the Company’s Boss Revolution international calling service, traditional calling cards, and international and domestic mobile top-up. A customer’s nonrefundable prepayment gives the customer a right to receive a good or service in the future (and obliges the Company to stand ready to transfer that good or service). However, customers may not exercise all of their contractual rights to receive that good or service. Those unexercised rights are referred to as breakage. Prior to the adoption of ASC 606, the Company recorded breakage revenue when the likelihood of the customer exercising its remaining rights became remote. The Company generally deemed the likelihood remote after 12 or 24 months of no activity (depending on the revenue stream). Per ASC 606, if an entity expects to be entitled to a breakage amount, the entity should recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer, but only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the breakage is subsequently resolved. The Company determined that \$8.6 million included in its opening balance of “Deferred revenue” would have been recognized as breakage revenue under ASC 606 in prior periods, and accordingly, recorded the cumulative effect adjustment as of August 1, 2018.

*Breakage Revenue: Methods, Inputs and Assumptions*

The Company's inputs for recording breakage revenue was its aging of the deferred revenue balance for its Boss Revolution international calling service, traditional calling cards, international and domestic mobile top-up, and other revenue streams with deferred revenue balances. Upon the adoption of ASC 606, the Company's method changed to an estimate of expected breakage revenue by revenue stream recorded each month, based on inputs and assumptions about usage of the deferred revenue balances. The Company used its historical deferred revenue usage data by revenue stream to calculate the percentage of deferred revenue by month that will become breakage. The historical data indicated that customers utilize a very high percentage of minutes purchased in the first three months. The Company intends to review its estimates periodically based on updated data and adjust the monthly estimates accordingly.

*Contracts with Customers*

The Company earns revenue from contracts with customers, primarily through the provision of retail telecommunications and payment offerings as well as wholesale international long-distance traffic termination. The Company has two reportable business segments, Telecom & Payment Services and net2phone (formerly net2phone-Unified Communications as a Service ("UCaaS")). The Telecom & Payment Services segment markets and distributes the following communications and payment services: (1) retail communications, which includes international long-distance calling products primarily to foreign-born communities, with its core markets in the United States; (2) wholesale carrier services, which 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; and (3) payment services, which includes payment offerings, such as international and domestic mobile top-up, domestic bill payment and international money transfer, and National Retail Solutions, our merchant services offerings through point-of-sale terminals. The net2phone segment is comprised of (1) cloud-based PBX services offered to enterprise customers mainly through value-added resellers, service providers, telecom agents and managed service providers, (2) SIP trunking, which supports inbound and outbound domestic and international calling from an IP PBX, and (3) cable telephony.

The Company's most significant revenue streams are from its Boss Revolution international calling service, international and domestic mobile top-up, and wholesale termination provided by its Carrier Services business. The Boss Revolution international calling service and international and domestic mobile top-up are sold direct-to-consumers and through distributors and retailers.

*Boss Revolution international calling service direct-to-consumers*



Boss Revolution international calling service direct-to-consumers is offered to on a pay-as-you-go basis or in unlimited plans. The customer prepays for service in both cases, which results in a contract liability (deferred revenue). The contract term for pay-as-you-go plans is minute-to-minute that includes separate performance obligations for the series of material rights to renew the contract. The performance obligation is satisfied immediately after it arises, and the amount of consideration is known when the obligation is satisfied. Since the Company's satisfaction of its performance obligation and the customer's use of the service occur simultaneously, the Company recognizes revenue at the point in time when minutes are utilized, since the customer obtained control and the Company has a present right to payment. For unlimited plans, the Company has a stand ready obligation to provide service over time for an agreed upon term. Unlimited plans include fixed consideration over the term. Plan fees for unlimited plans are generally refundable up to three days after payment if there was no usage. Since the Company's satisfaction of its performance obligation and the customer's use of the service occur over the term, the Company recognizes revenue over a period of time as the service is rendered. The Company uses an output method as time elapses because it reflects the pattern by which the Company satisfies its performance obligation through the transfer of service to the customer. The fixed upfront consideration is recognized evenly over the service period, which is generally 24 hours, 7 days, or one month.

*Boss Revolution international calling service sold through distributors and retailers*

Boss Revolution international calling service sold through distributors and retailers is the same service as Boss Revolution international calling service direct-to-consumers. The difference is the distributor and retailers sales channel, which includes the Company's network of distributors that market to retail locations, in contrast to direct-to-consumers sales through the Company's mobile app, website or interactive voice response telephone call. The Company sells capacity to international calling minutes to retailers, or to distributors who resell to retailers. The retailer or distributor is the Company's customer in these transactions. The Company's sales price to retailers and distributors is less than the end user rate for Boss Revolution international calling service minutes. The customer or the Company may terminate their agreement at any time upon thirty days written notice without penalty. Retailers may sell the Boss Revolution international calling service on a pay-as-you-go basis or in unlimited plans. As described above, for pay-as-you-go, the Company recognizes revenue at the point in time when minutes are utilized, and for unlimited plans, the Company recognizes revenue over a period of time as the service is rendered. Retailers and distributors also receive renewal commissions when end users subsequently purchase minutes directly from the Company. Renewal commissions are payments to a customer that are accounted for as a reduction of the transaction price over time as the end user uses the service.

*International and domestic mobile top-up*

International and domestic mobile top-up is sold direct-to-consumers and through distributors and retailers in the same manner as the Boss Revolution international calling service. The Company does not terminate the minutes in its mobile top-up transactions. The Company's performance obligation is to recharge (top-up) the airtime balance of a mobile account on behalf of the Company's customer. The Company has contracts with various mobile operators or aggregators to provide the mobile top-up service. The Company determined that it is the principal in primarily all its mobile top-up transactions as the Company controls the service to top-up a mobile account on behalf of the Company's customer. However, for a portion of its domestic mobile top-up business where the Company has no customer service responsibilities, no inventory risk, and does not establish the price, the Company determined that, as the Company is not considered to control the arrangement, it acts as an agent of the mobile operators. The Company records gross revenues based on the amount billed to the customer when it is the principal in the arrangement and records revenue net of the associated costs incurred when it acts as an agent in the arrangement. The performance obligation is satisfied, and revenue is recognized when the recharge of the mobile account occurs. Accordingly, transfer of control happens at the point in time that the airtime is recharged, which is when the Company has a right to payment and the customer has accepted the service.

*Carrier Services*

Carrier Services are offered to both postpaid and prepaid customers. Postpaid customers are billed in arrears and typically consist of credit-worthy companies such as Tier 1 carriers and mobile network operators. Prepaid customers are typically smaller communications companies and independent call aggregators. There is no performance obligation until the transport and termination of international long-distance calls commences. The initial contract durations range from six months to one year with successive extensions. During the initial term, the contract can only be terminated in certain instances (such as bankruptcy of either party, damage to the other party's network, fraud, or breach of contract). However, no penalties exist if the agreement is terminated in the initial term. After the initial term has expired, either party may terminate the agreement with notice of 30 days to 60 days depending on the agreement. The term of the contract is essentially minute-to-minute as there is no penalty for an early termination and no obligation to send traffic.

Each iteration is a separate optional purchase that is occurring over the contract duration (that is, minute-by-minute). The satisfaction of the performance obligation is occurring at a point in time (as the minutes are transferred) because the provision of the service and the satisfaction of the performance obligation are essentially occurring simultaneously. Revenue is recognized at the point in time upon delivery of the service.

The Company has not generally entered into contracts that have retroactive pricing features. Additionally, as the performance obligations are considered minute-by-minute obligations in the original contract, any modification of the

original contract that leads to a conclusion that there is a new contract would not result in any adjustment related to the original contract's consideration.

The Company provides discounts to its larger customers based on the expectation of a significant volume of minutes that are consistent with that class of customer in the wholesale carrier market. The discounts do not provide a material right to the customer because the customer receives the same pricing for all usage under the contract.

Carrier Service's contracts may include tiered pricing based on minute volumes. The Company determined that its retroactive tiered pricing should be accounted for as variable consideration because the final transaction price is unknown until the customer completes or fails to complete the specified threshold. Currently, contracts with retroactive tiered pricing are not material. The Company estimates the amount of variable consideration to include in the transaction price only to the extent that it is probable that a subsequent change in the estimate would not result in a significant revenue reversal.

The Company enters into Notification of Reciprocal Transmission ("NORT") transactions, in which the Company commits to purchase a specific number of wholesale carrier minutes to other specific destinations at specified rates, and the counterparty commits to purchase from the Company a specific number of minutes to specific destinations at specified rates. The number of minutes purchased and sold is not necessarily the same. The rates in these reciprocal transactions are generally not at prevailing market rates, although the amounts paid to the counterparty in excess of market rates are reflected as a reduction in revenue received from the customer. The initial terms of NORT contracts generally range from one month to six months. Since the arrangements include the promise of minimum guaranteed amounts of traffic, the performance obligation represents a stand ready obligation to provide the specified number of minutes over the contractual term. Since the Company's satisfaction of its performance obligation of routing calls to their destination includes a minimum guaranteed amount of traffic, the Company recognizes revenue over a period of time as the service is rendered. The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs. The Company uses an output method as the usage of minutes occur because it reflects the pattern by which the Company satisfies its performance obligation through the transfer of service to the customer.

*Disaggregated Revenues*

The Company's core operations are minute-based, paid-voice communications services, and revenue is primarily recognized at a point in time. The Company's Telecom & Payment Services' growth initiatives and net2phone-UCaaS are technology-driven, synergistic businesses that leverage the core assets, and revenue in some cases is recognized over time. The following table shows the Company's revenues disaggregated by business segment and service offered to customers:

	<b>Three Months Ended October 31, 2018      2017</b>	
	(in thousands)	
Core Operations:		
Boss Revolution Calling	\$ 123,513	\$ 132,184
Carrier Services	142,222	168,831
Mobile Top-Up	65,346	61,483
Other	14,595	18,027
Growth	6,173	4,557
Total Telecom & Payment Services	351,849	385,082
net2phone-UCaaS	4,805	2,398
net2phone-Platform Services	5,662	5,390
Total net2phone	10,467	7,788
All Other	—	685
Total	\$ 362,316	\$ 393,555

The following table shows the Company's revenues disaggregated by geographic region, which is determined based on selling location:

(in thousands)	Telecom & Payment Services	net2phone	All Other	Total
Three Months Ended October 31, 2018				
United States	\$ 227,750	\$ 7,932	\$ —	\$ 235,682
Outside the United States:				
United Kingdom	54,392	8	—	54,400
Netherlands	50,922	—	—	50,922
Other	18,785	2,527	—	21,312
Total outside the United States	124,099	2,535	—	126,634
Total	\$ 351,849	\$ 10,467	\$ —	\$ 362,316

(in thousands)	Telecom & Payment Services	net2phone	All Other	Total
Three Months Ended October 31, 2017				
United States	\$257,178	\$ 5,981	\$ 685	\$263,844
Outside the United States:				
United Kingdom	60,531	—	—	60,531
Netherlands	49,709	—	—	49,709
Other	17,664	1,807	—	19,471
Total outside the United States	127,904	1,807	—	129,711
Total	\$385,082	\$ 7,788	\$ 685	\$393,555

*Remaining Performance Obligations*

The Company’s revenue is generally recognized in the same period that its performance obligations are satisfied. The Company does not have any significant revenue from performance obligations satisfied or partially satisfied in previous reporting periods, or transaction price to be allocated to performance obligations that are unsatisfied (or partially unsatisfied) at the end of a reporting period.

*Accounts Receivable and Contract Balances*

The timing of revenue recognition may differ from the time of billing to our customers. Trade accounts receivable in our consolidated balance sheets represent unconditional rights to consideration. An entity records a contract asset when revenue is recognized in advance of the entity’s right to bill and receive consideration. The Company has not identified any contract assets.

Contract liabilities arise when the Company receives consideration or bills its customers prior to providing the goods or services promised in the contract. The primary component of the Company’s contract liability balance is the payments received for its prepaid Boss Revolution international calling service, traditional calling cards, and international and domestic mobile top-up services. Contract liabilities are recognized as revenue when services are provided to the customer. The contract liability balances are presented in our consolidated balance sheet as “Deferred revenue”.

The following table presents information about the Company’s contract liability balance:

	Three Months Ended October 31, 2018 (in thousands)
Revenue recognized in the period from amounts included in the contract liability balance at the beginning of the period	\$ 41,573

*Deferred Customer Contract Acquisition and Fulfillment Costs*

ASC 606 changed the accounting for costs to obtain and fulfill contracts with customers such that incremental costs of obtaining and direct costs of fulfilling contracts with customers are deferred and amortized consistent with the transfer of the related good or service. The Company's incremental costs of obtaining a customer contract are sales commissions paid to employees for retailer sales to end users. Employees receive commissions for both the initial sale and renewal sales to the end user. The Company's commission paid to employees on renewal sales is the same as the commission on initial sales. The Company determined that its renewal commissions are commensurate with the initial commissions. The Company applies the practical expedient whereby the Company primarily charges these costs to expense when incurred because the amortization period would be one year or less for the asset that would have been recognized from deferring these costs.

## Note 3—Cash, Cash Equivalents, and Restricted Cash and Cash Equivalents

On August 1, 2018, the Company adopted the ASU related to the classification and presentation of changes in restricted cash in the statement of cash flows. The following table provides a reconciliation of cash, cash equivalents, and restricted cash and cash equivalents reported in the consolidated balance sheet that equals the total of the same amounts reported in the consolidated statement of cash flows:

	October 31, 2018	July 31, 2018
	(in thousands)	
Cash and cash equivalents	\$59,313	\$68,089
Restricted cash included in other current assets	544	285
Cash and cash equivalents included in current assets held for sale (see Note 4)	4,906	5,892
Restricted cash and cash equivalents included in current assets held for sale (see Note 4)	130,738	128,931
Total cash, cash equivalents, and restricted cash and cash equivalents	\$195,501	\$203,197

## Note 4—IDT Financial Services Holding Limited Assets and Liabilities Held for Sale

On June 22, 2017, the Company's wholly-owned subsidiary IDT Telecom, Inc. ("IDT Telecom") entered into a Share Purchase Agreement with JAR Fintech Limited ("JAR Fintech") and JAR Capital Limited to sell the capital stock of IDT Financial Services Holding Limited, a company incorporated under the laws of Gibraltar and a wholly-owned subsidiary of IDT Telecom ("IDTFS Holding"), to JAR Fintech. IDTFS Holding is the sole shareholder of IDT Financial Services Limited ("IDTFS"), a Gibraltar-based bank and e-money issuer, providing prepaid card solutions across the European Economic Area. The sale was subject to regulatory approval and other conditions. On October 25, 2018, JAR Fintech notified the Company that it considers the agreement terminated by the effluxion of time. All parties have indicated that they remain interested in consummating a transaction regarding the sale of IDTFS Holding and are working toward that goal while continuing to pursue the required regulatory approvals. The parties are negotiating certain changes to the terms of the sale.

The proposed sale of IDTFS Holding did not meet the criteria to be reported as a discontinued operation and accordingly, its results of operations and cash flows have not been reclassified. The IDTFS Holding assets and liabilities held for sale included the following:

**October 31, July 31,  
2018 2018  
(in thousands)**



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Current assets held for sale:		
Cash and cash equivalents	\$4,906	\$5,892
Restricted cash and cash equivalents	130,738	128,931
Trade accounts receivable, net of allowance for doubtful accounts of \$2,027 and \$2,192 at October 31, 2018 and July 31, 2018, respectively	2,328	1,265
Prepaid expenses	289	1,016
Other current assets	205	168
Total current assets held for sale	\$138,466	\$137,272
Noncurrent assets held for sale:		
Property, plant and equipment, net	\$5	\$12
Other intangibles, net	178	190
Other assets	5,737	5,504
Total noncurrent assets held for sale	\$5,920	\$5,706
Current liabilities held for sale:		
Trade accounts payable	\$665	\$776
Accrued expenses	283	407
Deferred revenue	56	12
Customer deposits	129,542	127,571
Other current liabilities	4	4
Total current liabilities held for sale	\$130,550	\$128,770
Noncurrent liabilities held for sale:		
Other liabilities	\$497	\$542
Total noncurrent liabilities held for sale	\$497	\$542

IDTFS Holding is included in the Telecom & Payment Services segment. IDTFS Holding's loss before income taxes and loss before income taxes attributable to the Company, which is included in the accompanying consolidated statements of operations, were as follows:

	Three Months Ended October 31, 2018 2017 (in thousands)
Loss before income taxes	\$(34) \$(450)
Loss before income taxes attributable to IDT Corporation	\$(34) \$(450)

Note 5—Acquisition of Versature Corp.

On September 14, 2018, the Company acquired 100% of the outstanding shares of Versature Corp., a software as a service (“SaaS”) business communications solutions and hosted voice over Internet Protocol (“VoIP”) provider serving the Canadian market, for cash of \$5.9 million. The acquisition expands the Company's SaaS business into Canada. Versature's operating results from the date of acquisition, which were not significant, are included in the Company's consolidated financial statements.

The impact of the acquisition's preliminary purchase price allocations on the Company's consolidated balance sheet and the acquisition date fair value of the total consideration transferred were as follows (in thousands):

Trade accounts receivable	\$370
Prepaid expenses	65
Property, plant and equipment	1,826
Non-compete agreement	600
Customer relationships	2,930
Tradename	490
Other assets	486
Trade accounts payable	(81 )
Accrued expenses	(523 )
Other liabilities	(710 )
Net assets excluding cash acquired	\$5,453

Supplemental information:

Cash paid	\$5,870
Cash acquired	(417 )
Total consideration, net of cash acquired	\$5,453

The following table presents unaudited pro forma information of the Company as if the acquisition occurred on August 1, 2017:

	<b>Three Months Ended</b>	
	<b>October 31,</b>	
	2018	2017
	(in thousands)	
Revenues	\$363,200	\$399,875
Net income (loss)	\$(1,356 )	\$(1,411 )

Note 6—Rafael Holdings, Inc. Spin-Off

On March 26, 2018, the Company completed a pro rata distribution of the common stock that the Company held in the Company's subsidiary, Rafael Holdings, Inc. ("Rafael"), to the Company's stockholders of record as of the close of business on March 13, 2018 (the "Rafael Spin-Off"). The disposition of Rafael did not meet the criteria to be reported as a discontinued operation and accordingly, Rafael's assets, liabilities, results of operations and cash flows have not been reclassified. At the time of the Rafael Spin-Off, Rafael owned the commercial real estate assets and interests in two clinical stage pharmaceutical companies that were previously held by the Company. The commercial real estate holdings consisted of the Company's headquarters building and its associated public garage in Newark, New Jersey, an office/data center building in Piscataway, New Jersey and a portion of a building in Israel that hosts offices for the Company and certain affiliates. The pharmaceutical holdings included debt interests and warrants in Rafael Pharmaceuticals, Inc., which is a clinical stage, oncology-focused pharmaceutical company committed to the development and commercialization of therapies that exploit the metabolic differences between normal cells and cancer cells, and a majority equity interest in Lipomedix Pharmaceuticals Ltd., a pharmaceutical development company based in Israel.

Rafael's loss before income taxes and loss before income taxes attributable to the Company, which was included in the accompanying consolidated statements of operations, were as follows:

Three  
Months  
Ended  
October  
31,  
2018&2017

(in  
thousands)

Loss before income taxes	\$ — \$ (539 )
Loss before income taxes attributable to IDT Corporation	\$ — \$ (498 )

## Note 7—Debt Securities

The following is a summary of marketable debt securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Available-for-sale debt securities:				
October 31, 2018:				
U.S. Treasury notes	\$1,697	\$ —	\$ (2 )	\$1,695
Municipal bonds	543	—	(1 )	542
Total	\$2,240	\$ —	\$ (3 )	\$2,237
July 31, 2018:				
Certificates of deposit*	\$3,032	\$ —	\$ —	\$3,032
U.S. Treasury notes	1,693	—	(1 )	1,692
Municipal bonds	888	—	—	888
Total	\$5,613	\$ —	\$ (1 )	\$5,612

\* 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.

Equity securities with a fair value of \$0.4 million at July 31, 2018 were reclassified to "Other current assets" to conform to the current year presentation (see Note 8).

Proceeds from maturities and sales of available-for-sale securities were \$3.4 million and \$19.6 million in the three months ended October 31, 2018 and 2017, respectively. The gross realized gains that were included in earnings as a result of sales were nil in the three months ended October 31, 2018 and \$7,000 in the three months ended October 31, 2017. There were no gross realized losses that were included in earnings as a result of sales in the three months ended October 31, 2018 and 2017. 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 October 31, 2018 were as follows:

	Fair Value (in thousands)
Within one year	\$ 2,237
After one year through five years	—
After five years through ten years	—
After ten years	—
Total	\$ 2,237

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

	Unrealized Losses	Fair Value
	(in thousands)	
October 31, 2018:		
U.S. Treasury notes	\$ 2	\$ 1,695
Municipal bonds	1	542
Total	\$3	\$ 2,237
July 31, 2018:		
U.S. Treasury notes	\$1	\$ 1,692

At October 31, 2018 and July 31, 2018, there were no securities in a continuous unrealized loss position for 12 months or longer.

Note 8—Equity Investments

On August 1, 2018, the Company adopted the ASU that requires the Company to provide more information about recognition, measurement, presentation and disclosure of financial instruments. The ASU included, among other changes, the following: (1) equity investments (except those accounted for under the equity method or that result in consolidation) will be measured at fair value with changes in fair value recognized in net income, (2) a qualitative assessment each reporting period to identify impairment of equity investments without readily determinable fair values, (3) financial assets and financial liabilities will be presented separately by measurement category and form of financial asset on the balance sheet or the notes to the financial statements, and (4) an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. Entities will no longer recognize unrealized holding gains and losses on equity securities classified as available-for-sale in other comprehensive income. In addition, a practicability exception is available for equity investments that do not have readily determinable fair values and do not qualify for the net asset value practical expedient (the "measurement alternative"). These investments may be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Entities will have to reassess at each reporting period whether an investment qualifies for this practicability exception. At August 1, 2018, the cumulative effect of adopting this ASU was a \$1.2 million increase in "Equity investments", a \$33,000 decrease in "Accumulated other comprehensive loss" and a \$1.1 million decrease in "Accumulated deficit", primarily from the measurement at fair value of the Company's shares of Visa Inc. Series C Convertible Participating Preferred Stock ("Visa Series C Preferred") and the derecognition of unrealized holding losses on equity securities classified as available-for-sale.

At October 31, 2018 and July 31, 2018, the Company owned 42,282 shares of Zedge, Inc. Class B common stock that had a fair value of \$0.1 million. In addition, at October 31, 2018 and July 31, 2018, the Company owned 25,803 shares of Rafael Class B common stock that had a fair value of \$0.2 million. The aggregate fair value of these shares was included in “Other current assets” in the accompanying consolidated balance sheets.

The changes in the carrying value of the Company’s equity investments for which the Company elected the measurement alternative was as follows:

	Carrying Value (in thousands)
Balance, August 1, 2018	\$ 1,883
Adoption of change in accounting for equity investments	1,213
Adjusted balance, August 1, 2018	3,096
Adjustment for observable transactions involving a similar investment from the same issuer	22
Impairments	—
Balance, October 31, 2018	\$ 3,118

In the three months ended October 31, 2018, the Company increased the carrying value of its 1,830 shares of Visa Series C Preferred by \$22,000 based on the fair value of Visa Class A common stock and a discount for lack of current convertibility. Each share of Visa Series C Preferred is convertible into 13.952 shares of Visa Class A common stock at Visa’s option starting in June 2020 and will be convertible at the holder’s option beginning in June 2028.

Unrealized gains and losses for all equity investments included the following:

	Three Months Ended October 31,	
	2018	2017
	(in thousands)	
Net (losses) gains recognized during the period on equity investments	\$ (46 )	\$ 20
Less: net gains and losses recognized during the period on equity investments sold during the period	—	—
Unrealized (losses) gains recognized during the period on equity investments still held at the reporting date	\$ (46 )	\$ 20



## Note 9—Fair Value Measurements

In the first quarter of fiscal 2019, the Company adopted ASU 2018-13 that modifies the disclosure requirements for fair value measurements. The adoption of this ASU did not impact the fair value measurement disclosures in the Company's consolidated financial statements for the first quarter of fiscal 2019, however it may impact the Company's fair value measurement disclosures in the future.

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

	<b>Level 1 (1)</b>	<b>Level 2 (2)</b>	<b>Level 3 (3)</b>	<b>Total</b>
	(in thousands)			
October 31, 2018				
Debt securities	\$1,695	\$ 542	\$ —	\$2,237
Equity securities included in other current assets	292	—	—	292
Equity securities included in equity investments	—	—	2,816	2,816
Total	\$1,987	\$ 542	\$ 2,816	\$5,345
July 31, 2018				
Debt securities	\$1,692	\$ 3,920	\$ —	\$5,612
Equity securities included in other current assets	360	—	—	360
Total	\$2,052	\$ 3,920	\$ —	\$5,972

(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 October 31, 2018 and July 31, 2018, the Company did not have any liabilities measured at fair value on a recurring basis.

The following table summarizes the change in the balance of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3). There were no liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) in the three months ended October 31, 2018 and 2017.

	<b>Three Months Ended October 31, 2018 2017</b>	
	(in thousands)	
Balance, beginning of period	\$—	\$6,300
Transfer into Level 3 from adoption of change in accounting for equity investments	2,794	—
Total gains recognized in "Other expense, net"	22	—
Balance, end of period	\$2,816	\$6,300
Change in unrealized gains or losses for the period included in earnings for assets held at the end of the period	\$22	\$—

At October 31, 2018 and July 31, 2018, the Company had \$4.8 million in investments in hedge funds, which were included in "Equity investments" in the accompanying consolidated balance sheets. The Company's investments in hedge funds were accounted for using the equity method, therefore they were 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, other current assets, customer deposits, and other current liabilities.* At October 31, 2018 and July 31, 2018, 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 were classified as Level 1 and other current assets, customer deposits, and other current liabilities were classified as Level 2 of the fair value hierarchy.

*Other assets and other liabilities.* At October 31, 2018 and July 31, 2018, 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.

Note 10—Equity

*Stock Repurchases*

The Company has an existing stock repurchase program authorized by its Board of Directors for the repurchase of up to an aggregate of 8.0 million shares of the Company's Class B common stock. In the three months ended October 31, 2018, the Company repurchased 729,110 shares of Class B common stock for an aggregate purchase price of \$3.9 million. There were no repurchases under the program in the three months ended October 31, 2017. At October 31, 2018, 6.9 million shares remained available for repurchase under the stock repurchase program.

In the three months ended October 31, 2017, the Company paid \$23,000 to repurchase 1,668 shares of Class B common stock that were tendered by employees of the Company to satisfy the employees' tax withholding obligations in connection with the lapsing of restrictions on awards of restricted stock. Such shares were repurchased by the Company based on their fair market value on the trading day immediately prior to the vesting date. There were no repurchases from employees in the three months ended October 31, 2018.

#### *2015 Stock Option and Incentive Plan*

On November 15, 2018, the Company's Board of Directors amended the Company's 2015 Stock Option and Incentive Plan to increase the number of shares of the Company's Class B common stock available for the grant of awards thereunder by an additional 0.1 million shares. The amendment is subject to approval by the Company's stockholders at its annual meeting of stockholders on December 13, 2018.

#### *Proposed Sale of Shares to Howard S. Jonas*

On April 16, 2018, the Company's Board of Directors and its Corporate Governance Committee approved an arrangement with Howard S. Jonas, the Chairman of the Board of the Company, related to the purchase of shares of the Company's Class B common stock by Mr. Jonas. Under the arrangement, Mr. Jonas has agreed to purchase 2,546,689 shares of the Company's Class B common stock at a price per share of \$5.89, which was the closing price for the Class B common stock on the New York Stock Exchange on April 16, 2018 (the last closing price before approval of the arrangement) for an aggregate purchase price of \$15 million. The arrangement is subject to approval of the Company's stockholders at the annual meeting on December 13, 2018. Mr. Jonas has agreed to vote in favor of the arrangement when it is submitted to the stockholders. On May 31, 2018, Mr. Jonas paid \$1.5 million of the purchase price. The purchase price will be reduced by approximately \$0.2 million, which is the amount of dividends paid on 2,546,689 shares of the Company's Class B common stock whose record date was between April 16, 2018 and the issuance of the shares. The remainder of the purchase price, or \$13.3 million, will be payable following approval of the Company's stockholders, and the shares will be issued upon payment in full.

#### Note 11—Loss 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.

The following shares were excluded from the diluted loss per share computations because their inclusion would have been anti-dilutive:

	Three Months Ended October 31, 2018 2017 (in thousands)	
Stock options	1,243	1,273
Non-vested restricted Class B common stock	49	223
Shares excluded from the calculation of diluted earnings per share	1,292	1,496

The diluted loss per share equals basic loss per share in the three months ended October 31, 2018 and 2017 because the Company had a net loss and the impact of the assumed exercise of stock options and the vesting of restricted stock would have been anti-dilutive.

#### Note 12—Revolving Credit Loan Payable

As of October 31, 2018, IDT Telecom entered into a credit agreement 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 LIBOR rate adjusted by the Regulation D maximum reserve requirement plus 125 basis points. Interest is payable monthly, and all outstanding principal and any accrued and unpaid interest is due on the maturity date of July 15, 2019. IDT Telecom pays a quarterly unused commitment fee of 0.3% 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.

## Note 13—Accumulated Other Comprehensive Loss

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

	<b>Unrealized Gain (Loss) on Available-for-Sale Securities</b>	<b>Foreign Currency Translation</b>	<b>Accumulated Other Comprehensive Loss</b>
	(in thousands)		
Balance, July 31, 2018	\$(34)	\$ (4,938 )	\$ (4,972 )
Adjustment from the adoption of change in accounting for equity investments (see Note 8)	33	—	33
Adjusted balance, August 1, 2018	(1 )	(4,938 )	(4,939 )
Other comprehensive (loss) income attributable to IDT Corporation	(2 )	524	522
Balance, October 31, 2018	\$(3 )	\$ (4,414 )	\$ (4,417 )

## Note 14—Business Segment Information

The Company has two reportable business segments, Telecom & Payment Services and net2phone. 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 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.

The Company modified the way it reports its business verticals within its Telecom & Payment Services and net2phone segments to align more closely with its business strategy and operational structure. The modification to the business verticals did not change the reportable business segments.

The Telecom & Payment Services segment provides retail telecommunications and payment offerings as well as wholesale international long-distance traffic termination. The net2phone segment is comprised of (1) cloud-based PBX services offered to enterprise customers mainly through value-added resellers, service providers, telecom agents and managed service providers, (2) SIP trunking, which supports inbound and outbound domestic and international calling from an IP PBX, and (3) cable telephony. Depreciation and amortization are allocated to Telecom & Payment Services and net2phone because the related assets are not tracked separately by segment. There are no other

significant asymmetrical allocations to segments.

Operating segments not reportable individually are included in All Other, which includes the real estate holdings and other investments that were included in the Rafael Spin-Off.

Corporate costs include 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, charitable contributions, travel and other corporate-related general and administrative expenses. Corporate does not generate any revenues, nor does it incur any direct cost of revenues.

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

(in thousands)	Telecom & Payment Services	net2phone	All Other	Corporate	Total
Three Months Ended October 31, 2018					
Revenues	\$351,849	\$ 10,467	\$—	\$—	\$362,316
Income (loss) from operations	5,269	(1,500 )	—	(2,487 )	1,282
Other operating expense	—	—	—	(195 )	(195 )
Three Months Ended October 31, 2017					
Revenues	\$385,082	\$ 7,788	\$ 685	\$—	\$393,555
Income (loss) from operations	4,423	(674 )	(547 )	(3,119 )	83
Severance	409	—	—	30	439
Other operating expense	—	—	—	(779 )	(779 )

Note 15—Commitments and Contingencies

*Legal Proceedings*

On May 21, 2018, Erik Dennis filed a putative class action against IDT Telecom and the Company in the U.S. District Court for the Northern District of Georgia alleging violations of Do Not Call Regulations promulgated by the U.S. Federal Trade Commission. The Company is evaluating the claim, and at this stage, is unable to estimate its potential liability, if any. On August 13, 2018, IDT Telecom and the Company filed a motion to dismiss or in the alternative to strike class allegations. The plaintiff opposed the motion. The motion to dismiss was denied. IDT Telecom and the Company intend to vigorously defend this matter.

On May 2, 2018, Jean Carlos Sanchez filed a putative class action against IDT Telecom in the U.S. District Court for the Northern District of Illinois alleging that the Company sent unauthorized marketing messages to cellphones in violation of the Telephone Consumer Protection Act of 1991. On July 26, 2018, the parties filed a stipulation of dismissal. The Company is evaluating the claim, and at this stage, is unable to estimate its potential liability, if any. The Company intends to vigorously defend this matter.

On April 24, 2018, Sprint Communications Company L.P. filed a patent infringement claim against the Company and certain of its affiliates in the U.S. District Court for the District of Delaware alleging infringement of U.S. Patent Nos. 6,298,064; 6,330,224; 6,343,084; 6,452,932; 6,463,052; 6,473,429; 6,563,918; 6,633,561; 6,697,340; 6,999,463; 7,286,561; 7,324,534; 7,327,728; 7,505,454; and 7,693,131. Plaintiff was seeking damages and injunctive relief. On June 28, 2018, Sprint dismissed the complaint without prejudice. The Company is evaluating the underlying claim, and at this stage, is unable to estimate its potential liability, if any. The Company intends to vigorously defend any claim of infringement of the listed patents.

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 of record as of the close of business on July 25, 2013 (the "Straight Path Spin-Off"). On July 5, 2017, plaintiff JDS1, LLC, on behalf of itself and all other similarly situated stockholders of Straight Path, and derivatively on behalf of Straight Path as nominal defendant, filed a putative class action and derivative complaint in the Court of Chancery of the State of Delaware against the Company, The Patrick Henry Trust (a trust formed by Howard S. Jonas that held record and beneficial ownership of certain shares of Straight Path he formerly held), Howard S. Jonas, and each of Straight Path's directors. The complaint alleges that the Company aided and abetted Straight Path Chairman of the Board and Chief Executive Officer Davidi Jonas, and Howard S. Jonas in his capacity as controlling stockholder of Straight Path, in breaching their fiduciary duties to Straight Path in connection with the settlement of claims between Straight Path and the Company related to potential indemnification claims concerning Straight Path's obligations under the Consent Decree it entered into with the FCC, as well as the sale of Straight Path's subsidiary Straight Path IP Group, Inc. to the Company in connection



with that settlement. That action was consolidated with a similar action that was initiated by The Arbitrage Fund. The Plaintiffs are seeking, among other things, (i) a declaration that the action may be maintained as a class action or in the alternative, that demand on the Straight Path Board is excused; (ii) that the term sheet is invalid; (iii) awarding damages for the unfair price stockholders received in the merger between Straight Path and Verizon Communications Inc. for their shares of Straight Path's Class B common stock; and (iv) ordering Howard S. Jonas, Davidi Jonas, and the Company to disgorge any profits for the benefit of the class Plaintiffs. On August 28, 2017, the Plaintiffs filed an amended complaint. On September 24, 2017, the Company filed a motion to dismiss the amended complaint. On November 20, 2017, the Delaware Chancery Court issued an order staying the case pending the closing of the transaction between Verizon and Straight Path on the grounds that the claims were not ripe. That transaction closed on February 28, 2018 and the Court was so notified. The motion to dismiss was denied. On July 13, 2018, the Company filed a motion for an interlocutory appeal with the Delaware Chancery Court. The Chancery Court granted the motion and the Delaware Supreme Court accepted the appeal. On September 5, 2018, the Company filed the appeal with the Delaware Supreme Court. On October 5, 2018, the Plaintiffs filed their Answering Brief to the appeal. In the three months ended October 31, 2018 and 2017, the Company incurred legal fees of \$0.2 million and \$0.8 million, respectively, related to this putative class action, which is included in "Other operating expense" in the accompanying consolidated statements of operations. At this stage, the Company is unable to estimate its potential liability, if any.

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) on a global undersea fiber optic network that Tyco was deploying at that time. After extensive proceedings, including several decisions and appeals, the New York Court of Appeals affirmed a lower court decision to dismiss the Company's claim and denied the Company's motion for re-argument of that decision. On June 23, 2015, the Company filed a new summons and complaint against Tyco in the Supreme Court of the State of New York, County of New York alleging that Tyco breached the settlement agreement. In September 2015, Tyco filed a motion to dismiss the complaint, which the Company opposed. Oral argument was held on March 9, 2016. On October 17, 2016, the judge granted Tyco's motion and dismissed the complaint. In August 2017, the Company filed an appeal, which Tyco opposed. On November 22, 2017, oral argument was held on the appeal. On December 21, 2017, the Company's appeal was denied. On January 22, 2018, the Company filed a motion for leave to appeal to the New York Court of Appeals. On February 6, 2018, Tyco opposed the Company's motion. The First Department denied the Company's motion for leave to appeal to the New York Court of Appeals. On May 3, 2018, the Company filed a motion for leave directly to the Court of Appeals. On June 28, 2018, the motion was denied.

In addition to the foregoing, the Company is subject to other legal 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.

#### *Regulatory Fee Audit*

The Company's 2017 Federal Communications Commission ("FCC") Form 499-A, which reports its calendar year 2016 revenue, related to payments due to the FCC, is currently under audit by the Internal Audit Division of the Universal Service Administrative Company. At October 31, 2018 and July 31, 2018, the Company's accrued expenses included \$42.3 million and \$43.9 million, respectively, for these regulatory fees for the years covered by the audit and subsequent years.

#### *Purchase Commitments*

The Company had purchase commitments of \$27.2 million at October 31, 2018, including the aggregate commitment of \$25.2 million under the Reciprocal Services Agreement described below.

#### *Reciprocal Services Agreement*

In August 2017, the Company entered into a Reciprocal Services Agreement with a telecom operator in Central America for a full range of services, including, but not limited to, termination of inbound and outbound international long-distance voice calls. The Company has committed to pay such telecom operator monthly committed amounts during the term of the agreement. In addition, under certain limited circumstances, the parties may renegotiate the amount of the monthly payments. In the event the parties do not agree on re-pricing terms after good faith negotiations, then either party has the right to terminate the agreement. Pursuant to the agreement, the Company deposited \$9.2 million into an escrow account as security for the benefit of the telecom operator, which is included in "Other current assets" in the accompanying consolidated balance sheet based on the terms and conditions of the agreement.

#### *Performance Bonds*

The Company has 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. At October 31, 2018, the Company had aggregate performance bonds of \$16.5 million outstanding.

*Substantially Restricted Cash and Cash Equivalents*

The Company treats unrestricted cash and cash equivalents held by IDT Payment Services, which provides the Company's international money transfer services in the United States, as substantially restricted and unavailable for other purposes. At October 31, 2018 and July 31, 2018, "Cash and cash equivalents" in the Company's consolidated balance sheets included an aggregate of \$15.0 million and \$10.7 million, respectively, held by IDT Payment Services that was unavailable for other purposes.

Indemnification Claims

Two customers of the Company have sought indemnification from the Company related to patent infringement claims brought against those customers by a third party.

*FCC Investigation of Straight Path Communications Inc.*

On September 20, 2016, the Company received a letter of inquiry from the Enforcement Bureau of the FCC requesting certain information and materials related to an investigation of potential violations by Straight Path Spectrum LLC (formerly a subsidiary of the Company and currently a subsidiary of Straight Path) in connection with licenses to operate on the 28 GHz and 39 GHz bands of the Fixed Microwave Services. The Company has cooperated with the FCC in this matter and has responded to the letter of inquiry. If the FCC were to pursue separate action against the Company, the FCC could seek to fine or impose regulatory penalties or civil liability on the Company related to activities during the period of ownership by the Company.

## Note 16—Other Expense, Net

Other expense, net consists of the following:

	<b>Three Months Ended October 31, 2018    2017</b>	
	(in thousands)	
Foreign currency transaction losses	\$(1,205)	\$(728)
Loss on investments	(46 )	(119)
Gain on debt securities	—	7
Other	(98 )	14
Total other expense, net	\$(1,349)	\$(826)

## Note 17—The Tax Cuts and Jobs Act

On December 22, 2017, the U.S. government enacted “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018”, which is commonly referred to as “The Tax Cuts and Jobs Act” (the “Tax Act”). The Tax Act reduces the U.S. federal statutory corporate tax rate from 35.0% to 21.0% effective January 1, 2018, requires companies to pay a one-time repatriation tax on earnings of certain foreign subsidiaries that were previously tax deferred (“transition tax”), and makes other changes to the U.S. income tax code. Due to the Company’s July 31 fiscal year-end, the lower corporate income tax rate is phased in, resulting in a blended U.S. federal statutory tax rate of approximately 26.9% for the Company’s fiscal 2018, and 21.0% for the Company’s fiscal years thereafter.

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”), expressing its views regarding Topic 740, *Income Taxes*, in the reporting period that includes the enactment date of the Tax Act. SAB 118 recognizes that a registrant’s review of certain income tax effects of the Tax Act may be incomplete at the time financial statements are issued for the reporting period that includes the enactment date, including interim periods therein. Specifically, SAB 118 allows a company to report provisional estimates in the reporting period that includes the enactment date if the company does not have the necessary information available, prepared, or fully analyzed for certain income tax effects of the Tax Act. The provisional estimates would be adjusted during a measurement period not to exceed 12 months from the enactment date of the Tax Act, at which time the accounting for the income tax effects of the Tax Act is required to be completed.

As of October 31, 2018, the Company had not completed its accounting for the income tax effects of the Tax Act; however, the Company had made a reasonable estimate of the effect on its existing AMT credit carry-over and transition tax that was recorded in fiscal 2018. The transition tax is based on total post-1986 earnings and profits which were previously deferred from U.S. income taxes. In fiscal 2018, the Company estimated that it will utilize \$12 million of federal net operating loss carryforwards to offset the transition tax that it expects it will incur. The Company is currently working to complete various earnings and profits analyses to finalize its estimate. The reduction in the corporate tax rate did not impact the Company's results of operations or financial position because the income tax benefit from the reduced rate was offset by the valuation allowance.

The global intangible low taxed income ("GILTI") and base erosion anti-abuse tax ("BEAT") became effective on August 1, 2018. The Company is reviewing the proposed guidance that was issued by the Internal Revenue Service in September 2018. As a result of its fully-valued net operating losses in the United States, the Company does not anticipate any material impact on its tax provision as a result of GILTI. The Company currently believes there will be no impact from the BEAT.

The Company anticipates that its assumptions and estimates may change as a result of future guidance and interpretation from the Internal Revenue Service, the SEC, the FASB, and various other taxing jurisdictions. In particular, the Company anticipates that the U.S. state jurisdictions will continue to determine and announce their conformity or decoupling from the Tax Act, either in its entirety or with respect to specific provisions. Legislative and interpretive actions could result in adjustments to the Company's provisional estimates when the accounting for the income tax effects of the Tax Act is completed. The Company will continue to evaluate the impact of the Tax Act on its financial statements and will record the effect of any reasonable changes in its estimates and adjustments.

#### Note 18—Recently Issued Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, and has since issued amendments thereto, related to the accounting for leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The Company will adopt the new standard on August 1, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Entities have the option to continue to apply historical accounting under Topic 840, including its disclosure requirements, in comparative periods presented in the year of adoption. An entity that elects this option will recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption instead of the earliest period presented. The Company is evaluating the impact that the new standard will have on its consolidated financial statements.

In June 2016, the FASB issued an ASU that changes the impairment model for most financial assets and certain other instruments. For receivables, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except the losses will be recognized as allowances instead of reductions in the amortized cost of the securities. In addition, an entity will have to disclose significantly more information about allowances, credit quality indicators and past due securities. The new provisions will be applied as a cumulative-effect adjustment to retained earnings. The Company will adopt the new standard on August 1, 2020. The Company is evaluating the impact that the new standard will have on its consolidated financial statements.

In August 2017, the FASB issued an ASU intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. In addition, the ASU includes certain targeted improvements to simplify the application of hedge accounting guidance in U.S. GAAP. The amendments in this ASU are effective for the Company on August 1, 2019. Early application is permitted. Entities will apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements will be applied prospectively. The Company is evaluating the impact that this ASU will have on its consolidated financial statements.

In June 2018, the FASB issued an ASU to simplify several aspects of the accounting for nonemployee share-based payment transactions by expanding the scope of Topic 718, *Compensation—Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers*. The amendments in this ASU are effective for the Company on August 1, 2019. The Company is evaluating the impact that this ASU 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, 2018, 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, 2018. 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, 2018.

### Overview

We are a multinational company with operations primarily in the telecommunications and payment industries. We have two reportable business segments, Telecom & Payment Services and net2phone (formerly net2phone-Unified Communications as a Service, or UCaaS). Our Telecom & Payment Services segment provides retail telecommunications and payment offerings as well as wholesale international long-distance traffic termination. Our net2phone segment is comprised of (1) cloud-based private branch exchange, or PBX, services offered to enterprise customers mainly through value-added resellers, service providers, telecom agents and managed service providers, (2) Session Initiation Protocol, or SIP, trunking, which supports inbound and outbound domestic and international calling

from an IP PBX, and (3) cable telephony. Operating segments not reportable individually are included in All Other.

On March 26, 2018, we completed a pro rata distribution of the common stock of our former subsidiary, Rafael Holdings, Inc., or Rafael, to our stockholders of record as of the close of business on March 13, 2018, which we refer to as the Rafael Spin-Off. The disposition of Rafael did not meet the criteria to be reported as a discontinued operation and accordingly, Rafael's assets, liabilities, results of operations and cash flows have not been reclassified. At the time of the Rafael Spin-Off, Rafael owned the commercial real estate assets and interests in two clinical stage pharmaceutical companies that we previously held. The commercial real estate holdings consisted of our headquarters building and its associated public garage in Newark, New Jersey, an office/data center building in Piscataway, New Jersey and a portion of a building in Israel that hosts offices for us and certain affiliates. The pharmaceutical holdings included debt interests and warrants in Rafael Pharmaceuticals, Inc., which is a clinical stage, oncology-focused pharmaceutical company committed to the development and commercialization of therapies that exploit the metabolic differences between normal cells and cancer cells, and a majority equity interest in Lipomedix Pharmaceuticals Ltd., a pharmaceutical development company based in Israel. In addition, prior to the Rafael Spin-Off, we transferred assets to Rafael such that, at the time of the Rafael Spin-Off, Rafael had \$42.3 million in cash, cash equivalents, and marketable securities, plus approximately \$6 million in hedge fund and other investments.

We lease office space and parking in Rafael's building and parking garage located at 520 Broad St, Newark, New Jersey. We also lease office space in Israel from Rafael. The leases expire in April 2025. In the three months ended October 31, 2018, we incurred rent expense of \$0.4 million in connection with the Rafael leases.



## 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 2018. 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 assets, income taxes and regulatory agency fees, and 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 2018.

## Recently Issued Accounting Standards Not Yet Adopted

In February 2016, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2016-02, *Leases (Topic 842)*, and has since issued amendments thereto, related to the accounting for leases. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. We will adopt the new standard on August 1, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Entities have the option to continue to apply historical accounting under Topic 840, including its disclosure requirements, in comparative periods presented in the year of adoption. An entity that elects this option will recognize a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption instead of the earliest period presented. We are evaluating the impact that the new standard will have on our consolidated financial statements.

In June 2016, the FASB issued an ASU that changes the impairment model for most financial assets and certain other instruments. For receivables, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except the losses will be recognized as allowances instead of reductions in the amortized cost of the securities. In addition, an entity will have to disclose significantly more information about allowances, credit quality indicators and past due securities. The new provisions will be applied as a cumulative-effect adjustment to retained earnings. We will adopt the new standard on August 1, 2020. We are evaluating the impact that the new standard will have on our consolidated

financial statements.

In August 2017, the FASB issued an ASU intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, the ASU includes certain targeted improvements to simplify the application of hedge accounting guidance in U.S. GAAP. The amendments in this ASU are effective for us on August 1, 2019. Early application is permitted. Entities will apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements will be applied prospectively. We are evaluating the impact that this ASU will have on our consolidated financial statements.

In June 2018, the FASB issued an ASU to simplify several aspects of the accounting for nonemployee share-based payment transactions by expanding the scope of Topic 718, *Compensation—Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the attribution of cost (that is, the period of time over which share-based payment awards vest and the pattern of cost recognition over that period). The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers*. The amendments in this ASU are effective for us on August 1, 2019. We are evaluating the impact that this ASU will have on our consolidated financial statements.

## Results of Operations

### Three Months Ended October 31, 2018 Compared to Three Months Ended October 31, 2017

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.

We have modified the way we report our business verticals within our Telecom & Payment Services and net2phone segments to align more closely with our business strategy and operational structure.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and has since issued amendments thereto (collectively referred to as “ASC 606”). The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, and the guidance defines a five-step process to achieve this core principle. The five-step process to achieve this principle is as follows: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the entity satisfies a performance obligation. ASC 606 also mandates additional disclosure about the nature, amount, timing and uncertainty of revenues and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract.

We applied ASC 606 to those contracts that were not completed as of August 1, 2018. For incomplete contracts that were modified before August 1, 2018, we elected to use the practical expedient available under the modified retrospective method, which allows us to aggregate the effect of all modifications when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating transaction price to the satisfied and unsatisfied performance obligations for the modified contract at transition. Results for the reporting periods beginning after August 1, 2018 are presented under ASC 606, while prior period results are not adjusted and continue to be reported in accordance with historic accounting under ASC Topic 605.

We adopted ASC 606 as of August 1, 2018, using the modified retrospective method. As this method requires that the cumulative effect of initially applying ASC 606 be recognized at the date of adoption, at August 1, 2018, we recorded an \$8.6 million reduction to “Deferred revenue”, with an offsetting reduction to “Accumulated deficit”, for the cumulative effect of the adoption. This adjustment related to the change in accounting for breakage primarily from our Boss Revolution international calling service, traditional calling cards, and international and domestic mobile top-up. A customer’s nonrefundable prepayment gives the customer a right to receive a good or service in the future (and obliges us to stand ready to transfer a good or service). However, customers may not exercise all of their contractual rights. Those unexercised rights are referred to as breakage. Prior to the adoption of ASC 606, we recorded breakage revenue when the likelihood of the customer exercising its remaining rights became remote. We generally deemed the likelihood remote after 12 or 24 months of no activity. Per ASC 606, if an entity expects to be entitled to a breakage amount, the entity should recognize the expected breakage amount as revenue in proportion to the pattern of rights exercised by the customer, but only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the breakage is subsequently resolved. We determined that \$8.6 million included in our opening balance of “Deferred revenue” would have been recognized as breakage revenue under ASC 606 in prior periods, and accordingly, recorded the cumulative effect adjustment as of August 1, 2018.

### ***Telecom & Payment Services Segment***

Telecom & Payment Services, which represented 97.1% and 97.8% of our total revenues in the three months ended October 31, 2018 and 2017, respectively, markets and distributes the following communications and payment services:

Core includes our three largest communications and payments offerings by revenue: Boss Revolution Calling, an international long-distance calling service marketed primarily to immigrant communities in the U.S., Carrier Services, which provides international long-distance termination and outsourced traffic management solutions to telecoms worldwide, and Mobile Top-Up, which enables customers to transfer airtime and bundles of airtime, as well as messaging and data credits to friends and family overseas and domestically. Core also includes several smaller communications and payments offerings; and

Growth, which is comprised of National Retail Solutions' retailer point-of-sale, or POS, terminal-based services and Boss Revolution international money transfer service. International money transfers are generated by direct-to-consumer transfers initiated on the BOSS Revolution Money app or through the Boss Revolution website as well as transfers initiated through an authorized agent or retailer.

	Three months ended		Change	
	October 31, 2018	2017	\$	%
	(in millions)			
Revenues	\$351.8	\$385.1	\$(33.3)	(8.6)%
Direct cost of revenues	301.6	334.0	(32.4)	(9.7)
Selling, general and administrative	40.9	42.3	(1.4)	(3.3)
Depreciation and amortization	4.0	4.0	—	2.1
Severance	—	0.4	(0.4)	(100.0)