

IDT CORP
Form 10-K
October 15, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual report pursuant to section 13 or 15(d) of the securities exchange act of 1934 for the fiscal year ended July 31, 2012, 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)

Delaware
(State or other jurisdiction of incorporation
or organization)

22-3415036
(I.R.S. Employer Identification No.)

520 Broad Street, Newark, New Jersey 07102

(Address of principal executive offices, zip code)

(973) 438-1000

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Class B common stock, par value \$.01 per share	New York Stock Exchange

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

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

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

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

Indicate by check mark 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant, based on the closing price on January 31, 2012 (the last business day of the registrant's most recently completed second fiscal quarter) of the Class B common stock of \$8.52 per share, as reported on the New York Stock Exchange, was approximately \$137.4 million.

As of October 4, 2012, the registrant had outstanding 21,264,307 shares of Class B common stock and 1,574,326 shares of Class A common stock. Excluded from these numbers are 2,847,485 shares of Class B common stock and 1,698,000 shares of Class A common stock held in treasury by IDT Corporation.

DOCUMENTS INCORPORATED BY REFERENCE

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The definitive proxy statement relating to the registrant's Annual Meeting of Stockholders, to be held December 17, 2012, is incorporated by reference into Part III of this Form 10-K to the extent described therein.

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IDT Corporation

Annual Report on Form 10-K

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Part I

As used in this Annual Report, 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 its subsidiaries, collectively. Each reference to a fiscal year in this Annual Report refers to the fiscal year ending in the calendar year indicated (for example, fiscal 2012 refers to the fiscal year ended July 31, 2012).

Item 1. Business.

OVERVIEW

We are a multinational holding company with operations primarily in the telecommunications industry. We have two reportable business segments, Telecom Platform Services and Consumer Phone Services, which comprise our IDT Telecom division. Telecom Platform Services provides telecommunications services, including prepaid and rechargeable calling products and international long distance traffic termination, as well as various payment services. Consumer Phone Services provides consumer local and long distance services in the United States. All other operating segments that are not reportable individually are included in All Other. All Other includes (1) Zedge Holdings, Inc., or Zedge, which owns and operates an on-line platform, including a popular Android app, that allows users to share and obtain content to personalize mobile phones and tablets, (2) Fabrix T.V., Ltd., or Fabrix, a software development company specializing in highly efficient cloud-based video processing, storage and delivery, (3) IDT Spectrum, which holds, leases and sells fixed wireless spectrum, (4) Innovative Communications Technologies, Inc., or ICTI, which holds intellectual property primarily related to voice over Internet protocol, or VoIP, technology and the licensing and other businesses related to this intellectual property, (5) our real estate holdings, and (6) other smaller businesses.

On October 28, 2011, we completed the Genie Spin-Off, which was a pro rata distribution of the common stock of our subsidiary, Genie Energy Ltd., or Genie, to our stockholders of record as of the close of business on October 21, 2011. At the time of the Genie Spin-Off, Genie owned 99.3% of Genie Energy International Corporation, which owned 100% of IDT Energy and 92% of Genie Oil and Gas, Inc. IDT Energy is a retail energy provider supplying electricity and natural gas to residential and small business customers in the Northeastern United States. Genie Oil and Gas is pioneering technologies to produce clean and affordable transportation fuels from the world's abundant oil shales and other unconventional fuel resources. Genie Oil and Gas resource development projects include oil shale initiatives in Colorado and Israel. As of October 28, 2011, each of our stockholders received one share of Genie Class A common stock for every share of our Class A common stock and one share of Genie Class B common stock for every share of our Class B common stock held of record as of the close of business on October 21, 2011. Genie and its subsidiaries met the criteria to be reported as discontinued operations and accordingly, their assets, liabilities, results of operations and cash flows are classified as discontinued operations for all periods presented.

Financial information by segment and geographic areas is presented under the heading Business Segment Information in the Notes to our Consolidated Financial Statements in this Annual Report.

Our main offices are located at 520 Broad Street, Newark, New Jersey 07102. We lease space at 550 Broad Street, Newark, New Jersey where many of our employees work. The telephone number at our headquarters is (973) 438-1000 and our web site is www.idt.net.

We make available free of charge through the investor relations page of our web site (www.idt.net/ir) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports, and all beneficial ownership reports on Forms 3, 4 and 5 filed by directors, officers and beneficial owners of more than 10% of our equity as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. We have adopted a Code of Business Conduct and Ethics for all of our employees, including our principal executive officer, principal financial officer and principal accounting officer. Copies of our Code of Business

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Conduct and Ethics are available on our web site.

Our web site and the information contained therein or incorporated therein are not incorporated into this Annual Report on Form 10-K or our other filings with the Securities and Exchange Commission.

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KEY EVENTS IN OUR HISTORY

We were founded in August 1990 and were originally incorporated in New York as International Discount Telecommunications, Corp. We were renamed IDT Corporation and reincorporated in Delaware in December 1995. We entered the telecommunications business in 1990, providing international call re-origination service. In 1995, with our access to the favorable international telephone rates we received as a result of our calling volume, we began selling wholesale termination services to other long distance carriers.

We completed an initial public offering of our common stock on March 15, 1996. Our common stock was quoted on the NASDAQ National Market until February 26, 2001, at which time it became listed on the New York Stock Exchange. On May 31, 2001, we distributed a stock dividend of one share of our Class B common stock for each outstanding share of our common stock, Class A common stock and Class B common stock. On June 1, 2001, our Class B common stock was listed on the New York Stock Exchange and now trades under the symbol IDT. In April 2011, our stockholders approved an amendment to our Certificate of Incorporation effecting a conversion and reclassification of each outstanding share of common stock into one share of our Class B common stock. Our common stock is, therefore, no longer listed on the New York Stock Exchange.

In 1996, we entered the Internet telephony market with our introduction, through our subsidiary Net2Phone, Inc., of PC2Phone, the first commercial service to connect voice calls between personal computers and telephones over the Internet.

We began marketing prepaid calling cards in January 1997.

In November 2004, we launched our retail energy provider business, IDT Energy.

In February 2008, we formed the first entity that became part of Genie Oil and Gas in order to pursue unconventional fuels development.

In fiscal 2009, we introduced Boss Revolution, our pay-as-you-go, cardless international calling service.

In June 2009, we acquired the 49% interest in Union Telecard Alliance, LLC, or UTA, that we did not previously own.

In October 2011, we completed the Spin-Off of Genie Energy to IDT's stockholders. Genie Energy's businesses included IDT Energy and Genie Oil and Gas.

RECENT DEVELOPMENTS

Dividends

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In fiscal 2012, we paid aggregate dividends of \$15.0 million, which were paid as follows:

On October 12, 2011, we paid a cash dividend of \$0.23 per share for the fourth quarter of fiscal 2011 to stockholders of record at the close of business on October 3, 2011 of our Class A common stock and Class B common stock;
On January 5, 2012, we paid a cash dividend of \$0.13 per share for the first quarter of fiscal 2012 to stockholders of record at the close of business on December 22, 2011 of our Class A common stock and Class B common stock;
On April 3, 2012, we paid a cash dividend of \$0.15 per share for the second quarter of fiscal 2012 to stockholders of record at the close of business on March 26, 2012 of our Class A common stock and Class B common stock; and
On June 26, 2012, we paid a cash dividend of \$0.15 per share for the third quarter of fiscal 2012 to stockholders of record at the close of business on June 18, 2012 of our Class A common stock and Class B common stock.

Following the close of our 2012 fiscal year, on September 24, 2012, our Board of Directors declared a \$0.15 per share dividend payable on October 16, 2012 to stockholders of record of our Class A common stock and Class B common stock as of the close of business on October 9, 2012.

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Credit Agreement with TD Bank, N.A.

Effective July 30, 2012, our subsidiary, 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 to be utilized by IDT Telecom for its working capital requirements, acquisitions and other general corporate purposes. The credit facility is secured by IDT Telecom's assets (with certain exceptions) with an interest rate of either LIBOR plus 1.50% or Prime Rate minus 1.25%, depending on the option chosen by IDT Telecom.

IDT TELECOM

IDT Telecom is comprised of Telecom Platform Services and Consumer Phone Services. Telecom Platform Services provides telecommunications services, including prepaid and rechargeable calling products and international long distance traffic termination, as well as various payment services. Consumer Phone Services provides consumer local and long distance services in the United States.

In fiscal 2012, IDT Telecom had revenues of \$1,496.4 million, representing 99.3% of our total consolidated revenues from continuing operations, and income from operations of \$10.0 million, as compared with revenues of \$1,343.0 million and income from operations of \$28.7 million in fiscal 2011.

Telecom Platform Services

Our Telecom Platform Services segment, which represented 98.7% and 98.0% of IDT Telecom's total revenues in fiscal 2012 and fiscal 2011, respectively, markets and distributes multiple communications and payment services across four broad business categories, including:

Retail Communications provides international long-distance calling products primarily to immigrant communities worldwide, with core markets in the United States and Europe. These products include our flagship Boss Revolution Pinless product (an international calling service sold through the Boss Revolution payment platform) as well as many of our established traditional disposable calling card brands including Boss, La Leyenda, and Feliz, and mobile apps, including PennyTalk.

Wholesale Termination Services is a global telecom carrier, terminating international long distance calls around the world for Tier 1 fixed line and mobile network operators as well as other aggregators through our network of 800-plus carrier interconnects. Payment Services provides payment offerings such as international mobile top-up, or IMTU, as well as gift cards in both the United States and Europe. IMTU enables customers to purchase minutes for a prepaid mobile telephone in another country. IMTU is available in both traditional cards as well as on our Boss Revolution payment platform. Payment Services also includes reloadable prepaid debit cards and Bank Identification Number (BIN) sponsorship services offered in Europe by IDT Financial Services through our Gibraltar-based bank.

Hosted Platform Solutions provides customized communications services that leverage our proprietary networks, platforms and/or technology to cable companies and other operators. The majority of Hosted Platform Solutions' revenue is generated by our cable telephony business which is in harvest mode maximizing revenues from current customers while maintaining expenses at the minimum levels essential to operate the business.

During fiscal 2012, our Telecom Platform Services segment generated \$1,477.1 million in revenues worldwide and had income from operations of \$5.9 million, as compared with revenues of \$1,316.6 million and income from operations of \$21.6 million in fiscal 2011.

Retail Communications

Retail Communications' revenue (37.3% and 36.6% of Telecom Platform Services' revenue in fiscal 2012 and fiscal 2011, respectively) was \$551.7 million and \$482.4 million in fiscal 2012 and fiscal 2011, respectively.

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In fiscal 2009, IDT Telecom introduced Boss Revolution Pinless, our international calling service that allows users to call their families and friends overseas without the need to use a traditional disposable calling card or enter a personal identification number, or PIN. Customers can add value to their account balances through any Boss Revolution retailer or online. Boss Revolutions Pinless calling service has become the leading PIN-less international calling service in the United States. Moreover, because each retailer and customer establishes an

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account on the Boss Revolution payment platform, the resulting relationship provides us with an opportunity to sell additional services. The Boss Revolution payment platform is an online portal that can be accessed via a regular web browser and utilized to sell a wide variety of our products and services. In fiscal 2011, we started to sell IMTU through the Boss Revolution Retailer portal, and in fiscal 2012 we added domestic mobile top-up, or DMTU, offerings.

The introduction of Boss Revolution Pinless and the addition of IMTU represent successful efforts to leverage our existing capabilities and distribution network to generate new sources of revenue to replace declining revenues from our traditional calling cards. Although Boss Revolution and IMTU generally have lower gross margins than our traditional disposable calling cards, customers tend to use the products for a longer period of time thereby allowing us to generate higher revenues and longer lifetime value per user. Similarly, the Boss Revolution payment platform has established a one-to-one and real-time relationship with all of our nationwide retailers that resulted in a more cost-effective and adaptable distribution model that can rapidly respond to changes in the business environment.

We are also geographically expanding our Boss Revolution payment platform. In fiscal 2012, we launched Boss Revolution in the United Kingdom and Spain. During fiscal 2013, we plan to expand Boss Revolution's footprint in Europe and into Asia.

We sell our traditional calling cards under the La Leyenda, Boss, Playball, GOOOL, RED, Feliz, PT-1 and PennyTalk brand names and others, providing telephone access to more than 230 countries and territories. We sell more than 1,000 different calling cards in the United States and more than 800 different cards abroad, with specific cards featuring favorable rates to specific international destinations. Our calling cards are marketed primarily to the ethnic and immigrant communities in the United States, Europe, Asia, Latin America and Africa that tend to generate higher per capita levels of international long distance calls over telecommunications networks.

In the United States, we distribute our products, including both Boss Revolution and traditional disposable prepaid calling cards, primarily through a network of distributors that, either directly or through several hundred sub-distributors, sell to retail outlets throughout most of the United States. In addition, we have an internal sales force that sells prepaid products directly to retailers. We also sell our products online directly to the consumer.

Retail Communications sales have traditionally been strongest in the Northeastern United States because of our extensive local distribution network. During fiscal 2012, IDT Telecom continued to develop distributor relationships and sell directly to retailers in areas of the United States, such as the west coast, where it previously did not enjoy a strong market presence. We also sell prepaid calling services in Europe, Latin America and Asia, as discussed in detail in the International Operations section below.

Retail Communications also includes sales of: (1) customized (private label) calling cards, which we sell to large retailers printed with the retailer's name and logo for sale to their customers; (2) IDT-branded calling cards, which are prepaid calling cards printed with the IDT, Entrix or DSA logo and design that are sold to small and medium-sized retail chains, such as supermarkets, drug stores and convenience stores, for resale to their customers; and (3) rechargeable calling cards, such as PennyTalk, which are marketed to consumers and business customers nationwide that can be used by U.S. callers to call internationally from any phone, including a cell phone.

Wholesale Termination Services

Wholesale Termination Services revenue (48.4% and 48.6% of Telecom Platform Services revenue in fiscal 2012 and fiscal 2011, respectively) was \$715.4 million and \$639.8 million in fiscal 2012 and fiscal 2011, respectively.

Wholesale Termination Services terminates international telecommunications traffic utilizing our proprietary least-cost-routing system, aggressive purchasing strategies, extensive experience in provisioning circuits and our

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high volume of international long distance telephone traffic to provide major carriers, niche carriers, operators, and call aggregators with competitive international termination rates at several quality levels.

During fiscal 2012, IDT Telecom terminated 30.8 billion minutes compared to 26.2 billion minutes in fiscal 2011, making us one of the largest carriers of long distance minutes worldwide. Wholesale Termination Services accounted for 21.3 billion minutes and 17.2 billion minutes of the total IDT Telecom minutes in fiscal 2012 and fiscal 2011, respectively.

IDT Telecom has a significant number of direct connections to Tier 1 providers outside the United States, particularly Tier 1 providers in Asia, Africa and the Middle East. These direct connections improve the quality of the telephone calls and reduce the cost, which enables us to generate more traffic with higher margins to that foreign locale. Tier 1 providers are the largest recognized licensed carriers in a country. We also have direct relationships with mobile network providers, reflecting their growing share of the voice traffic market. In fiscal 2013, we plan to continue expanding these direct relationships with fixed and mobile network providers.

In addition to offering competitive rates to our carrier customers, we emphasize our ability to offer the high quality connections that these providers often require. To that end, we offer higher-priced, premium services in which we provide higher quality connections, based upon a set of predetermined quality-measuring criteria. These premium services meet a growing need for high quality connections for some of our customers who are providing services to high-value, quality-conscious retail customers. As of July 31, 2012, Wholesale Termination Services had more than 600 customers. Including vendors, IDT Telecom has over 1,100 carrier relationships globally.

Payment Services

Payment Services revenue (10.4% and 9.0% of Telecom Platform Services revenue in fiscal 2012 and fiscal 2011, respectively) was \$153.0 million and \$118.5 million in fiscal 2012 and fiscal 2011, respectively.

We introduced IMTU in fiscal 2008. IMTU enables customers to purchase minutes for a prepaid mobile telephone in another country. IMTU appeals to residents of developed countries such as the United States who regularly communicate with or financially support friends or family members in a developing country. Our IMTU offerings combine our platform capabilities, our distribution reach into immigrant communities and our relationships with mobile operators in developing countries into a simple and reliable service. IMTU's sales increased substantially in fiscal 2011 and fiscal 2012 particularly as a result of the introduction of IMTU through the Boss Revolution payment platform.

Hosted Platform Solutions

Hosted Platform Solutions revenue (3.9% and 5.8% of Telecom Platform Services revenue in fiscal 2012 and fiscal 2011, respectively) was \$57.0 million and \$75.9 million in fiscal 2012 and fiscal 2011, respectively.

International Operations

In Europe, we market our Retail Communications and Payment Services products in the United Kingdom, the Netherlands, Spain, Germany, Belgium, Ireland, Italy, Luxembourg, Sweden, Finland, Switzerland, Denmark, Norway, Portugal, Austria and Greece, seeking to capitalize on the demographic opportunity presented by immigration from underdeveloped countries to Europe's developed nations. Because the immigrant market is fragmented, and due to the large number of markets in which we compete, we offer over 600 different prepaid calling cards in Europe.

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We maintain our European corporate, Retail Communications and Wholesale Termination Services operations in London, England. We also operate satellite offices in Germany, Belgium, Spain and Greece.

We also provide wholesale termination services to international telecom companies, including foreign state-owned or state-sanctioned post, telephone or telegraph companies and Tier-1 carriers, new and emerging telephone companies, and value-added service providers.

Our European operations generated \$305.3 million of revenues in fiscal 2012, a 4.2% decrease from the \$318.8 million of revenues generated during fiscal 2011. Our European operations' revenues constituted 20.4% of IDT Telecom's revenues from continuing operations in fiscal 2012, as compared to 23.7% in fiscal 2011.

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In Asia, we sell Retail Communications products in Hong Kong, Singapore, Australia, Japan, Korea, Malaysia and Taiwan. In Hong Kong, we are one of the top providers to the Filipino segment and the Indonesian segment, the two largest overseas worker segments. In addition, in Singapore, Retail Communications products are a market leader for the Indian segment, which is the largest ethnic segment in Singapore, as well as the large Indonesia segment. In fiscal 2012, IDT Telecom generated \$99.0 million in revenues from our operations in the Asia Pacific region compared to \$96.2 million in fiscal 2011.

In Latin America, we market Retail Communications products in Argentina, Brazil, Peru, Chile, and Uruguay. In addition, we offer post-paid phone services in Brazil to consumers and small businesses. We maintain Latin American headquarters in Buenos Aires, Argentina. In fiscal 2012, IDT Telecom generated \$25.5 million in revenues from the sale of Retail Communications products in Latin America compared to \$21.5 million in fiscal 2011.

Sales, Marketing and Distribution

In the United States, we distribute Retail Communications and Payment Services products, including our prepaid calling cards, Boss Revolution and IMTU offerings, primarily to retail outlets through our network of distributors or through our own internal sales force. In addition, our white label calling cards as well as our IDT-branded calling cards are also marketed to retail chains and outlets through our own internal sales force, and from time to time we may utilize third-party agents or brokers to acquire accounts. We also market prepaid offerings, including Boss Revolution Pinless and IMTU, direct to the consumer via online channels.

In Europe and Asia, we sell our prepaid calling cards including both white label and IDT-branded calling cards through independent distributors and our own internal sales force. Additionally, we sell Boss Revolution Pinless and IMTU in select European markets, and in Asia we sell postpaid services direct to consumers and small businesses. Wholesale Termination Services are marketed and sold through our internal wholesale sales team.

Telecommunications Network Infrastructure

IDT Telecom operates a global voice and data network that enables us to provide an array of telecommunications and payment services to our customers worldwide utilizing a combination of proprietary and third-party applications. Proprietary applications include call routing and rating, customer provisioning, call management, product web pages, calling card features, and payment services features. Proprietary applications provide the flexibility to adapt to evolving marketplace demands without waiting for third-party software releases, and often provide advantages in capability or cost over commercially available alternatives.

The IDT Telecom core voice network utilizes Internet Protocol, or IP, and is interconnected through gateways to time-division multiplexing, or TDM, networks worldwide. This hybrid IP/TDM capability allows IDT Telecom to interface with carriers using the lowest cost technology protocol available. To support its global reach, IDT Telecom operates voice switches and/or points of presence in the United States, Europe, South America, Asia and Australia. IDT Telecom receives and terminates voice traffic from every country in the world, including cellular, landline and satellite calls through direct interconnects. The network includes data centers located in the United States and the United Kingdom. It is monitored and operated on a continual basis by our Network Operations Centers in the United States.

Consumer Phone Services

Our Consumer Phone Services segment generated revenues of \$19.3 million and income from operations of \$4.1 million in fiscal 2012, as compared to revenues of \$26.4 million and income from operations of \$7.1 million in fiscal 2011. Consumer Phone Services revenues declined 27.0% and 28.9% in fiscal 2012 and fiscal 2011, respectively, when compared to the prior fiscal year as we continued to operate the business in

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harvest mode maximizing revenue from current customers while maintaining expenses at the minimum levels essential to operate the business. This strategy has been in effect since calendar 2005 when the Federal Communications Commission, or FCC, decided to terminate the UNE-P pricing regime, which resulted in significantly inferior economics in the operating model for this business. We expect the Consumer Phone Services customer base and revenues will continue to decline in fiscal 2013. While not growing, the business continued to generate income from operations in fiscal 2012.

We currently provide our bundled local/long distance phone service in 11 states, marketed under the brand name IDT America. Our bundled local/long distance service, offered predominantly to residential customers,

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includes unlimited local, regional toll and domestic long distance calling and popular calling features. A second plan is available, providing unlimited local service with our long distance included for as low as 3.9 cents per minute. With either plan, competitive international rates and/or additional features can be added for additional monthly fees. We also offer stand-alone long distance service throughout the United States.

As of July 31, 2012, we had approximately 10,500 active customers for our bundled local/long distance plans and approximately 45,200 customers for our long distance-only plans. Our highest customer concentrations are in large urban areas, with the greatest number of customers located in New York, New Jersey, Pennsylvania and Massachusetts.

GENIE ENERGY LTD.

On October 28, 2011, we completed the Genie Spin-Off to our stockholders of record as of the close of business on October 21, 2011. At the time of the Genie Spin-Off, Genie's principal businesses consisted of the following:

IDT Energy, a retail energy provider supplying electricity and natural gas to residential and small business customers in the Northeastern United States; and

Genie Oil and Gas, which is pioneering technologies to produce clean and affordable transportation fuels from the world's abundant oil shales and other unconventional fuel resources, which consists of (1) American Shale Oil Corporation, which holds and manages a 50% interest in American Shale Oil, L.L.C., the Company's oil shale initiative in Colorado, and (2) an 89% interest in Israel Energy Initiatives, Ltd., the Company's oil shale initiative in Israel.

Genie and its subsidiaries met the criteria to be reported as discontinued operations and accordingly, their assets, liabilities, results of operations and cash flows are classified as discontinued operations for all periods presented.

ALL OTHER

All other operating segments that are not reportable individually are collectively included in All Other.

All Other includes (1) Zedge, which owns and operates an on-line platform, including a popular Android app, that allows users to share and obtain content to personalize mobile phones and tablets, (2) Fabrix, a software development company specializing in highly efficient cloud-based video processing, storage and delivery, (3) IDT Spectrum, which holds, leases and sells fixed wireless spectrum, (4) ICTI, which holds intellectual property primarily related to VoIP technology and the licensing and other businesses related to this intellectual property, (5) our real estate holdings, and (6) other smaller businesses.

During fiscal 2012, All Other generated \$10.4 million in revenues, representing 0.7% of our total consolidated revenues from continuing operations, and income from operations of \$0.9 million, as compared with revenues of \$8.9 million and a loss from operations of \$(2.9) million in fiscal 2011.

Zedge

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Zedge owns and operates an on-line platform, including a popular Android app, that allows users to share and obtain content to personalize mobile phones and tablets. As of July 31, 2012, Zedge's android app had surpassed 40 million downloads. The Zedge on-line game channel, launched in calendar 2012, is currently generating over 10 million game downloads per month.

On November 15, 2011, Shaman II, L.P. purchased shares in Zedge, for cash of \$0.1 million, which increased Shaman II, L.P.'s ownership in Zedge to 11.1% from 11.0%. One of the limited partners in Shaman II, L.P. is a former employee of ours. We currently own approximately 82% of Zedge.

Fabrix T.V., Ltd.

We are a majority stake holder in Fabrix T.V., Ltd., an Israeli company that develops and licenses a proprietary video software platform optimized for cost effective video storage, high throughput streaming and intelligent content distribution. This software is marketed to cable and telecommunications operators, Internet service providers and web based video portals that require deep video storage capabilities or offer unicast television applications including video-on-demand, multi-screen delivery, cloud storage, time/place shifting and

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remote DVR storage capabilities. Fabrix's grid based solution runs on commercial-off-the-shelf equipment, achieves the maximum throughput possible and is highly economical. Fabrix's technology powers a major North American multi-system operator's cloud-based DVR offering. In addition, another North American operator utilizes Fabrix technology for deep video storage and to provide streaming.

Following the close of fiscal 2012, Fabrix received \$12.0 million in cash from a system integrator partner pursuant to an expanded statement of work signed during the fourth quarter of fiscal 2012. Fabrix's revenue is generally recognized over three years from the date on which delivered orders are accepted by the customer.

IDT Spectrum

Our subsidiary, IDT Spectrum, holds a significant number of FCC licenses for commercial fixed wireless spectrum, although it provides only a limited amount of service over its spectrum. We are currently in the process of exploring the sale and lease of certain licenses held by IDT Spectrum.

In March and April 2012, IDT Spectrum closed on the sale of eight spectrum licenses covering metropolitan areas from its nationwide portfolio. We received cash of \$6.8 million in exchange for the licenses and recorded a gain of \$5.3 million on the sale in fiscal 2012.

Innovative Communications Technologies, Inc.

Innovative Communications Technologies, Inc.'s principal business is the acquisition, development, licensing and protection of intellectual property. ICTI presently own eleven patents issued by the U.S. Patent Office and their foreign counterparts that primarily relate to computer-to-computer communications technologies and include, among other things, patents facilitating the use of VoIP.

ICTI's strategy is to capitalize on its intellectual property by entering into licensing arrangements with parties involved in facilitating communications over a computer network. ICTI also seeks to enter into licensing arrangements with users of its proprietary technologies.

On July 19, 2012, we announced our intention to spin-off ICTI to our stockholders. We continue to evaluate the potential spin-off of ICTI to our stockholders, along with other alternatives for the business, as ICTI continues the efforts that it began in the second quarter of fiscal 2012 to enforce its rights against third parties that ICTI believes are infringing upon its intellectual property.

COMPETITION

IDT Telecom

Telecom Platform Services

Retail Communications

We believe success in providing our Retail Communications services is dependent on our ability to provide low rates and reliable service to our customers, while efficiently distributing our products and services to a geographically and culturally diverse customer base.

The calling card industry is notable for its relative lack of regulation compared to the rest of the telecommunications industry, and for its ease of market entry. We compete with other providers of retail communications services as well as established carriers and numerous small or regional operators and with providers of alternative telecommunications services such as Mobile Virtual Network Operators (MVNOs) and other prepaid wireless providers. Many of the largest telecommunications providers, including AT&T and Verizon, currently market prepaid calling cards, which in certain cases compete with our cards. Our largest competitors in the national retail chain store market are InComm, Blackhawk Network and Coinstar. In marketing prepaid calling cards to customers outside the United States, we compete with large foreign state-owned or state sanctioned post, telephone or telegraph companies. We believe that our interconnect and termination agreements, network infrastructure and least-cost-routing system provide us with the ability to offer low-cost, high quality services, while our distribution network provides us with access to customers, and that these factors represent competitive advantages. However, as some of our competitors have significantly

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greater financial resources and name recognition, and are capable of providing comparable call quality and service levels, our ability to maintain and/or to capture additional market share will remain dependent upon our ability to continue to provide competitively priced services.

Like all international calling services, our Boss Revolution products are subject to fierce competition. Whether it is direct competitors, which offer similar calling services, or indirect competitors such as wireless service providers and VoIP carriers, which offer alternative international calling services, competitors that offer alternatives to Boss Revolution try to attract their potential distributors and international callers with aggressive pricing and promotion.

Over the past few years, we have experienced a continued shift in demand industry-wide, away from traditional calling cards and into wireless products and IP-based products, which, among other things, contributes to the gradual erosion of our pricing power. The continued growth of these wireless and IP-based services has adversely affected the sales of our traditional disposable calling card products as customers migrate from using calling cards to using these alternative services. To compete with these new products, we launched the Boss Revolution payment platform in 2009 to migrate our traditional disposable calling card customers and to attract a significant number of customers from other prepaid calling card companies. A significant share of IDT Telecom's traditional disposable calling card customers has subsequently migrated to Boss Revolution-based products, as have a significant number of customers from other prepaid calling card companies.

Wholesale Termination Services

The wholesale carrier industry has numerous entities competing for the same customers, primarily on the basis of price, products and quality of service.

In our Wholesale Termination Services business, we compete with:

- interexchange carriers and other long distance resellers and providers, including large carriers such as AT&T and Verizon;
- historically state-owned or state-sanctioned post, telephone or telegraph companies such as Telefonica, France Telecom and KDDI;
- on-line, spot-market trading exchanges for voice minutes, such as Arbinet;
- other VoIP providers;
- other providers of international long distance services; and
- alliances between large multinational carriers that provide wholesale carrier services.

We believe that our extensive network of interconnect and termination agreements, as well as the significant volume of traffic to specific locations generated by our Wholesale Termination Services and Retail Communications businesses, provide us with a competitive advantage and the ability to offer quality services at competitive prices. We have generally had to pass along all or some of our per-minute cost savings to our customers in the form of lower prices.

Payment Services

We believe that our IMTU offerings have been successful because:

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we have focused on geographic corridors, such as the United States to Central America, that tend to generate high volumes of business; and
we have developed a comprehensive product offering that includes product, marketing and distribution focused on those corridors, taking advantage of synergies with our prepaid calling products such as traditional calling cards and Boss Revolution Pinless, and tailoring IMTU to the needs of customers in those corridors.

The major competitors to Payment Services IMTU offerings include:

international mobile operators, who seek to control more of their own distribution channel or create their own products that are directly competitive to IMTU; and
other distributors, who develop a more comprehensive product offering than our IMTU offerings or aggressively discount their product offerings that are similar to our IMTU offerings.

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Consumer Phone Services

We offer long distance phone services to residential and business customers in the United States. We also offer local and long distance phone services bundled for a flat monthly rate in 11 states. The U.S. consumer phone services industry is characterized by intense competition, with numerous providers competing for a declining number of wireline customers, leading to a high churn rate because customers frequently change providers in response to offers of lower rates or promotional incentives.

The regional bell operating companies, or RBOCs, remain our primary competitors in the local exchange market. We are also competing with providers offering communications service over broadband connections using VoIP technology, such as cable companies and independent VoIP providers. Companies also provide voice telephony services over broadband Internet connections, allowing users of these Internet services, such as Vonage and Skype, to obtain communications services without subscribing to a conventional telephone line. Mobile wireless companies are deploying wireless technology as a substitute for traditional wireline local telephones. Electric utilities have existing assets (in the form of last mile connections to the customer's premises), very large back-office support organizations and access to low-cost capital that could allow them to enter a telecommunications market rapidly and accelerate network development.

Due to changes in the U.S. regulatory environment that affected our cost of provisioning bundled local/long distance phone services and increased competition, we ceased marketing activities for this service, and as a result, our Consumer Phone Services business has declined significantly. We expect this trend to continue in fiscal 2013.

REGULATION

The following summary of regulatory developments and legislation is intended to describe what we believe to be the most important, but not all, current and proposed international, federal, state and local laws, regulations, orders and legislation that are likely to materially affect us.

Regulation of Telecom in the United States

Telecommunications services are subject to extensive government regulation at both the federal and state levels in the United States. Any violations of the regulations may subject us to enforcement actions, including interest and penalties. The FCC has jurisdiction over all telecommunications common carriers to the extent they provide interstate or international communications services. Each state regulatory commission has jurisdiction over the same carriers with respect to their provision of local and intrastate communications services. Local governments often indirectly regulate aspects of our communications business by imposing zoning requirements, taxes, permit or right-of-way procedures or franchise fees. Significant changes to the applicable laws or regulations imposed by any of these regulators could have a material adverse effect on our business, operating results and financial condition.

Regulation of Telecom by the Federal Communications Commission

The FCC has jurisdiction over all U.S. telecommunications service providers to the extent they provide interstate or international communications services, including the use of local networks to originate or terminate such services.

Universal Service and Other Regulatory Fees and Charges

In 1997, the FCC issued an order, referred to as the Universal Service Order that requires all telecommunications carriers providing interstate telecommunications services to contribute to universal service support programs administered by the FCC (known as the Universal Service

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Fund). In addition, beginning in October 2006, interconnected VoIP providers, such as our subsidiary Net2Phone, are required to contribute to the Universal Service Fund. These periodic contributions are currently assessed based on a percentage of each contributor's interstate and international end user telecommunications revenues reported to the FCC. We also contribute to several other regulatory funds and programs, most notably Telecommunications Relay Service, FCC Regulatory Fees, and Local Number Portability (collectively, the Other Funds). We and most of our competitors pass through Universal Service Fund and Other Funds contributions as part of the price of our services, either as part of the base rate or, to the extent allowed, as a separate surcharge on customer bills. Due to the manner in which these contributions are calculated, we cannot be assured that we fully recover from our customers all of our contributions. In addition, based on the nature of our current business, we receive certain exemptions from federal Universal Service Fund and Other Funds contributions. Changes in our

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business could eliminate our ability to qualify for some or all of these exemptions. As a result, our ability to pursue certain new business opportunities in the future may be constrained in order to maintain these exemptions, the elimination of which could materially affect the rates we would need to charge for existing services. Changes in regulation may also have an impact on the availability of some or all of these exemptions. If these exemptions become unavailable, it could materially increase our federal Universal Service Fund or Other Funds contributions and have a material adverse effect on the cost of our operations and, therefore, the development and growth of our business.

Interconnection and Unbundled Network Elements

FCC rule changes relating to unbundling have resulted in increased costs to purchase services and increased uncertainty regarding the financial viability of providing service using unbundled network elements. As a result, we placed our Consumer Phone Services business in harvest mode, wherein we seek to retain existing customers but do not actively market to new customers.

We continue to negotiate interconnection arrangements with each Incumbent Local Exchange Carrier, or ILEC, generally on a state-by-state basis, for our Consumer Phone Services business as well as other businesses. These agreements typically have terms of two or three years and need to be periodically renewed and renegotiated. While current FCC rules and regulations require the incumbent provider to provide certain network elements necessary for us to provision end-user services on an individual and combined basis, we cannot assure that the ILECs will provide these components in a manner and at a price that will support competitive operations.

Access Charges

As a provider of long distance services, we remit access fees directly to local exchange carriers or indirectly to our underlying long distance carriers for the origination and termination of our long distance telecommunications traffic. Generally, intrastate access charges are higher than interstate access charges. Therefore, to the degree access charges increase or a greater percentage of our long distance traffic becomes intrastate, our costs of providing long distance services will increase. As a local exchange provider, we bill access charges to long distance providers for the origination and termination of those providers' long distance calls. Accordingly, as opposed to our long distance business, our local exchange business benefits from the receipt of intrastate and interstate long distance traffic. Under FCC rules, our interstate access rates must be set at levels no higher than those of the ILEC in each area we serve, which limits our ability to seek increased revenue from these services. Some, but not all, states have similar restrictions on our intrastate access charges.

For nearly a decade, the FCC has had open regulatory proceedings in which it has considered reforming intercarrier compensation, which is a term that covers the payments that carriers bill and remit to each other access charges and reciprocal compensation, generally for the use of telecommunications networks to originate and terminate phone calls. On February 9, 2011, the FCC released a Notice of Proposed Rulemaking and a Further Notice of Proposed Rulemaking wherein it renewed its efforts to revise the rules governing intercarrier compensation. It is not yet known when the FCC will act, nor do we know the substance of the FCC's eventual action. It is possible that the FCC will act to substantially reduce or eliminate access charge payments. Since we both make payments to and receive payments from other carriers for exchange of local and long distance calls, at this time we cannot predict the effect that the FCC's determination may have upon our business.

Customer Proprietary Network Information

In 2007, the FCC increased its regulatory oversight of Customer Proprietary Network Information, or CPNI. The FCC took this increased role in response to several high-profile cases of pretexting, which occurs when an individual secures, through deception, from a communications provider the private phone records of another person. We have a CPNI compliance policy in place and we believe we currently meet or exceed all FCC requirements for the protection of CPNI. However, we cannot be assured that we are in full compliance and if the FCC were to conclude that we were not in compliance, we could be subject to fines or other forms of sanction.

Regulation of Telecom by State Public Utility Commissions

Our telecommunications services that originate and terminate within the same state, including both local and in-state long distance services, are subject to the jurisdiction of that state's public utility commission. The

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Communications Act of 1934, as amended, generally preempts state statutes and regulations that prevent the provision of competitive services, but permits state public utility commissions to regulate the rates, terms and conditions of intrastate services, so long as such regulation is not inconsistent with the requirements of federal law. We are certified to provide facilities-based and/or resold long distance service in all 50 states and facilities-based and resold local exchange service in 45 states. In addition to requiring certification, state regulatory authorities may impose tariff and filing requirements, consumer protection measures, and obligations to contribute to universal service and other funds. Rates for intrastate switched access services, which we both pay to local exchange companies and collect from long-distance companies for originating and terminating in-state toll calls, are subject to the jurisdiction of the state commissions. State commissions also have jurisdiction to approve negotiated rates, or establish rates through arbitration, for interconnection, including rates for unbundled network elements. Changes in those access charges or rates for unbundled network elements could have a substantial and material impact on our business.

Regulation of Telecom International

In connection with our international operations, we have obtained licenses or are otherwise authorized to provide telecommunications services in various foreign countries. We have obtained licenses or authorizations in Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Denmark, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Mexico, the Netherlands, Peru, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, the United Kingdom and Uruguay. In numerous countries where we operate or plan to operate, we are subject to many local laws and regulations that, among other things, may restrict or limit the ability of telecommunications companies to provide telecommunications services in competition with state-owned or state-sanctioned dominant carriers.

Regulation of Internet Telephony

The use of the Internet and private IP networks to provide voice communications services is largely unregulated within the United States, although several foreign governments have adopted laws and/or regulations that could restrict or prohibit the provision of voice communications services over the Internet or private IP networks. Net2Phone's ability to provide VoIP communications services at attractive rates arises in large part from the fact that VoIP services are not currently subject to the same level of regulation as traditional, switch-based telephony. As such, VoIP providers can currently avoid paying some of the charges that traditional telephone companies must pay. Local exchange carriers are lobbying the FCC and the states to regulate VoIP on the same basis as traditional telephone services. Congress, the FCC and several states are examining this issue. If these regulators decide to increase VoIP regulations, they may impose surcharges, taxes or additional regulations upon providers of Internet telephony. These surcharges could include access charges payable to local exchange carriers to carry and terminate traffic or other charges and fees. The imposition of any such additional fees, charges, taxes and regulations on IP communications services could materially increase our costs and may limit or eliminate our competitive pricing advantages.

Money Transmitter and Payment Instrument Laws and Regulations

Nearly every state regulates the business of money transmission. All states that require such licensure exempt banks. Many states also provide an exemption from licensure for a bank agent that is acting on behalf of the bank. Some states limit the bank agent exemption from licensure for the sale of bank-issued stored value or prepaid cards through non-bank locations. We have historically structured our operations as a bank agent to avail ourselves of the bank agent exemption from licensure and federal preemption. In connection with our development of additional consumer payment and money transmission services, we plan to obtain our own money transmitter licenses in states that require a license for these services.

Regulation of IDT Spectrum

The FCC regulates the grant, administration, and renewal of spectrum licenses in the United States. The FCC and the International Telecommunications Union, or ITU, also regulate a variety of spectrum interference, coordination, and power emission standards and authorizations.

Secondary Spectrum Markets: Spectrum Leasing

On May 15, 2003, the FCC adopted rules designed, in part, to assist in creating a secondary market in spectrum leasing. These rules established two categories of leases known as de facto transfer and spectrum manager leases by which licensees, like IDT Spectrum, can make their spectrum available to third parties upon application to the FCC. On July 8, 2004, the FCC amended its rules to streamline approval of leases and,

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in the case of spectrum manager leases and short-term leases, permit leasing following notification to the FCC, and FCC approval (which, in the case of most spectrum manager leases, is conducted via an expedited process). The FCC generally approves de facto transfer leasing arrangements within 30 days of application to the FCC. Licensees can lease spectrum according to specific point-to-point links, identified geographic areas and/or a subset of the licensed spectrum.

Renewal of 38 GHz and 28 GHz Local Multipoint Distribution Service (LMDS) Licenses, Substantial Service Filings, and Extension of Substantial Service Deadline

As of October 18, 2010, IDT Spectrum renewed 633 of its 38 GHz licenses and established a new expiration date of October 18, 2020 for these licenses. On August 8, 2008, the FCC adopted an order extending the substantial service deadline for all of IDT Spectrum's 38 GHz licenses until June 1, 2012 requiring IDT Spectrum to satisfy the FCC's substantial service performance obligations for those licenses by June 1, 2012 in order to maintain the renewal status of its 38 GHz licenses until October of 2020.

IDT Spectrum has filed its substantial service performance filings for its 38 GHz licenses, and IDT Spectrum has met current substantial service build-out obligations for 627 of its 633 38 GHz licenses. Additionally, substantial service applications for 7 of IDT Spectrum's 38 GHz licenses are in pending status. In a recent transaction, IDT Spectrum sold four 38 GHz licenses, resulting in IDT Spectrum holding 629 of these 38 GHz licenses.

IDT Spectrum also holds 135 active common carrier licenses, including 116 active 38 GHz service common carrier licenses, the vast majority of which expire in early to mid-2017. IDT Spectrum has met the substantial service build-out requirement for all 116 active 38 GHz licenses and they are in pending status.

In addition, IDT Spectrum holds 15 LMDS (Local Multipoint Distribution Service) licenses in the 28 GHz range, which expire on August 10, 2018 (except for its New York, NY LMDS license which expires on February 1, 2016). On April 11, 2008, the FCC adopted an order extending the substantial service deadline for all 15 LMDS licenses until June 1, 2012. IDT Spectrum has met substantial service build-out obligations for all 15 LMDS licenses.

Regulation of Other Businesses

We operate other smaller or early-stage initiatives and operations which may be subject to federal, state, local or foreign law and regulation.

Intellectual Property

We rely on a combination of patents, copyrights, trademarks, domain name registrations and trade secret laws in the United States and other jurisdictions and contractual restrictions to protect our intellectual property rights and our brand names. All of our employees sign confidentiality agreements. These agreements provide that the employee may not use or disclose our confidential information except as expressly permitted in connection with the performance of his or her duties for us, or in other limited circumstances. These agreements also state that, to the extent rights in any invention conceived of by the employee while employed by us do not vest in the Company automatically by operation of law, the employee is required to assign his or her rights to us.

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We own at least 190 trademark and service mark registrations and pending applications in the United States and at least 155 pending applications and registrations abroad. We protect our brands in the marketplace including the IDT and Net2Phone brands. Where deemed appropriate, we have filed trademark applications throughout the world in an effort to protect our trademarks. Where deemed appropriate, we have also filed patent applications in an effort to protect our patentable intellectual property. Excluding IDT Telecom and ICTI, IDT Corporation owns 9 issued patents and 12 patent applications in the United States and 10 patents issued abroad with 16 patent applications pending abroad.

We maintain a global telecommunications switching and transmission infrastructure that enables us to provide an array of telecommunications, Internet access and Internet telephony services to our customers worldwide. Our network is continuously monitored by our Network Operations Center based in Piscataway, New Jersey. IDT has domestic and foreign patents and patent applications regarding its infrastructure and/or global telecommunication network for its international telecommunications traffic and the international traffic of other telecommunications companies.

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Circumstances outside our control could pose a threat to our intellectual property rights. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

Companies in the telecommunications industry and other industries in which we compete own large numbers of patents, copyrights and trademarks and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. As we face increasing competition, the possibility of intellectual property claims against us grows. Although we do not believe that we infringe upon the intellectual property rights of others, our technologies may not be able to withstand any third-party claims or rights against their use.

IDT Telecom

In addition to IDT Corporation's patents, Net2Phone currently owns 33 issued patents and has 5 pending patent applications in the United States. Net2Phone has 9 foreign issued patents, and no patent applications pending abroad.

A number of Net2Phone's patents were transferred to our wholly-owned subsidiary ICTI. ICTI currently owns 11 U.S. issued patents and has no pending patent applications in the United States. ICTI has 16 foreign issued patents, and has no patent applications pending abroad.

Net2Phone owns at least 25 trademark and service mark registrations and pending applications in the United States. Net2Phone owns at least 133 trademark and service mark registrations and pending applications in various foreign countries. Net2Phone's most important mark is NET2PHONE. Net2Phone has made a significant investment in protecting this mark, and Net2Phone believes it has achieved recognition in the United States and abroad. Net2Phone is currently engaged in an international filing program to file trademark applications for trademark registrations of the mark NET2PHONE in a number of foreign countries.

Innovative Communications Technologies, Inc.

ICTI presently owns eleven patents issued by the U.S. Patent Office and their foreign counterparts that primarily relate to computer-to-computer communications technologies and include, among other things, patents facilitating the use of VoIP. ICTI is a party to an agreement with a leading multi-national law firm pursuant to which such firm will provide legal services to ICTI with respect to enforcement of the patents in exchange for ICTI paying it fees equal to a percentage of recoveries (subject to certain exceptions if ICTI terminates the relationship).

Other

We also currently own two patents and three pending patent applications and 3 registrations in the United States that relate to business operations we oversee or businesses-in-development. We also own or license certain trademark and service mark registrations and pending applications in the United States and additional registrations abroad.

RESEARCH AND DEVELOPMENT

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We incurred \$4.6 million, \$2.8 million and \$2.8 million on research and development during fiscal 2012, fiscal 2011 and fiscal 2010, respectively, related to Fabrix.

EMPLOYEES

As of October 1, 2012, we had a total of approximately 1,280 employees, of which approximately 1,250 are full-time employees.

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Item 1A. Risk Factors.

RISK FACTORS

Our business, operating results or financial condition could be materially adversely affected by any of the following risks as well as the other risks highlighted elsewhere in this document, particularly the discussions about regulation, competition and intellectual property. The trading price of our Class B common stock could decline due to any of these risks.

Risks Related to Our Telecommunications Businesses

Each of our telecommunications lines of business is highly sensitive to declining prices, which may adversely affect our revenues and margins.

The worldwide telecommunications industry has been characterized in recent years by intense price competition, which has resulted in declines in both our average per-minute price realizations and our average per-minute termination costs, as well as decreases in our revenue. Many of our competitors continue to aggressively price their services. The intense competition has led to continued erosion in our pricing power, in both our retail and wholesale markets, and we have generally had to pass along all or some of the savings we achieve on our per-minute costs to our customers in the form of lower prices. Any increase by us in pricing may result in our prices not being as attractive, which may result in a reduction of revenue. If these trends in pricing continue or increase, it could have a material adverse effect on the revenues generated by our telecommunications businesses and/or our gross margins.

Because our prepaid products and Boss Revolution products generate a significant portion of our revenue, our growth and our results of operations are substantially dependent upon growth in these products and these products continue to face significant competition which has adversely affected our profitability in recent years and may continue to adversely affect our profitability.

Because of the significant percentage of our revenues generated by our retail products, our results of operations and future growth significantly depend on the performance of these products.

We compete in the calling card market with many of the established facilities-based carriers, such as AT&T and Verizon, and with providers of alternative telecommunications services such as Mobile Virtual Network Operators and other prepaid wireless providers. These companies are substantially larger and have greater financial, technical, engineering, personnel and marketing resources, longer operating histories, greater name recognition and larger customer bases than we do. The use by these competitors of their resources in or affecting the calling card market could significantly impact our ability to compete against them successfully. In addition to these larger competitors, we face significant competition from smaller calling card providers, who from time-to-time offer rates that are substantially below our rates, and in some instances below what we believe to be the cost to provide the service, in order to gain market share. This type of pricing by one or more competitors can adversely affect our revenues, as they gain market share at our expense, and our gross margins, if we lower rates in order to better compete.

The continued growth of the use of wireless services and Internet protocol-based services, largely due to lower pricing of such services, have adversely affected the sales of our calling cards as customers migrate from using calling cards to using these alternative services. We expect pricing of wireless and IP-based services to continue to decrease, which may result in increased substitution and increased pricing pressure on our calling card sales and margins.

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Certain traditional wireless operators have been rolling out unlimited international long distance plans that include a limited list of international destinations to which customers can direct call from their mobile phones without time limitation. Currently, applicable destinations are limited. As more international destinations are added to the international unlimited list, this can adversely affect our revenues, as these operators gain subscriber market share.

If we are not able to increase or maintain our revenue and margins generated from prepaid products, our overall results of operations could materially suffer. Further, if our competitors continue to utilize their greater resources or to operate at lower levels of profitability in order to more aggressively market their products and services, this significant portion of our business could be adversely affected.

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In addition, like all international calling services, our Boss Revolution products are subject to fierce competition. Whether it is direct competitors, which offer similar calling services, or indirect competitors such as wireless service providers and VoIP carriers, which offer alternative international calling services, competitors that offer alternatives to Boss Revolution try to attract their potential distributors and international callers with aggressive pricing and promotion. This competition can adversely affect the revenues and profitability of our Boss Revolution products.

We may not be able to obtain sufficient or cost-effective termination capacity to particular destinations.

Most of our telecommunications traffic is terminated through third-party providers. In order to support our minutes-of-use demands and geographic footprint, we may need to obtain additional termination capacity or destinations. We may not be able to obtain sufficient termination capacity from high-quality carriers to particular destinations or may have to pay significant amounts to obtain such capacity. This could result in our not being able to support our minutes-of-use demands or in a higher cost-per-minute to particular destinations, which could adversely affect our revenues and margins.

The termination of our carrier agreements with foreign partners or our inability to enter into carrier agreements in the future could materially and adversely affect our ability to compete, which could reduce our revenues and profits.

We rely upon our carrier agreements with foreign partners in order to provide our telecommunications services to our customers. These carrier agreements are for finite terms and, therefore, there can be no guarantee that these agreements will be renewed at all or on favorable terms to us. Our ability to compete would be adversely affected if our carrier agreements were terminated or we were unable to enter into carrier agreements in the future to provide our telecommunications services to our customers, which could result in a reduction of our revenues and profits.

As our IMTU business grows and more competitors enter this space, our ability to secure competitive direct or indirect, exclusive or non-exclusive, agreements with international wireless operators to have access and to resell their in-country mobile top-ups could become more difficult or less attractive, thereby having an adverse affect on our revenues and operations.

Our customers, particularly our Wholesale Termination Services customers, could experience financial difficulties, which could adversely affect our revenues and profitability if we experience difficulties in collecting our receivables.

As a provider of international long distance services, we depend upon sales of transmission and termination of traffic to other long distance providers and the collection of receivables from these customers. The wholesale market continues to feature many smaller, less financially stable companies. If weakness in the telecommunications industry or the global economy reduces our ability to collect our accounts receivable from our major customers, particularly our wholesale customers, our profitability may be substantially reduced. Moreover, the recent economic recession both in the United States and elsewhere may affect our customers' access to liquidity and impair our ability to collect on receivables. While our most significant customers, from a revenue perspective, vary from quarter to quarter, our five largest wholesale carrier customers accounted for 5.6% of our total consolidated revenues from continuing operations in fiscal 2012 compared with 6.1% in fiscal 2011. This concentration of revenues increases our exposure to non-payment by our larger customers, and we may experience significant write-offs related to the provision of wholesale carrier services if any of our large customers fail to pay their outstanding balances, which could adversely affect our revenues and profitability.

Our revenues will continue to suffer if our distributors and sales representatives fail to effectively market and distribute our traditional disposable prepaid calling card products, our Boss Revolution products, our IMTU offerings and other services.

We currently rely on our distributors and representatives for marketing and distribution of our traditional disposable prepaid calling card products, our Boss Revolution products, our IMTU offerings and other services. We utilize a network of several hundred sub-distributors that sell our traditional disposable prepaid calling cards, Boss Revolution products, and IMTU to retail outlets throughout most of the United States.

In foreign countries, we are dependent upon our distributors and independent sales representatives, many of which also sell services or products for other companies. As a result, we cannot control whether these foreign distributors and sales representatives will devote sufficient efforts to selling our services. In addition, we may

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not succeed in finding capable distributors, retailers and sales representatives in new markets that we may enter. If our distributors or sales representatives fail to effectively market or distribute our prepaid calling card products, Boss Revolution products, IMTU offerings and other services, our ability to generate revenues and grow our customer base could be substantially impaired.

Natural or man-made disasters could have an adverse effect on our technological infrastructure.

Natural disasters, terrorist acts, acts of war, cyber attacks or other breaches of network or information technology security may cause equipment failures or disrupt our operations. Our inability to operate our telecommunications networks as a result of such events, even for a limited period of time, may result in significant expenses and/or loss of market share to other communications providers, which could have a material adverse effect on our results of operations and financial condition.

Certain functions related to our business, particularly the business of IDT Telecom, depend on a single supplier or small group of suppliers to carry out its business, and the inability to do business with some or all of these suppliers could have a materially adverse effect on our business and financial results.

Certain functions related to our business, particularly the business of IDT Telecom, depend on a single supplier or small group of suppliers to carry out its business. Were the services of any one of them to become unavailable or available only in decreased capacity or at less advantageous terms, this could result in interruptions to our ability to provide certain services, could cause reduction in service and/or quality as the function is transitioned to an alternate provider, if any alternate provider is available, or could increase our cost, which in the current competitive environment, we may not be able to pass along to customers. Accordingly, any of these events could materially and negatively impact our business, our revenues, our margins, and our relationships with customers.

We could be harmed by network disruptions, security breaches, or other significant disruptions or failures of our IT infrastructure and related systems or of those we operate for certain of our customers.

To be successful, we need to continue to have available, for our and our customers' use, a high capacity, reliable and secure network. We face the risk, as does any company, of a security breach, whether through cyber attack, malware, computer viruses, sabotage, or other significant disruption of our IT infrastructure and related systems. As such, there is a risk of a security breach or disruption of the systems we operate, including possible unauthorized access to our and our customers' proprietary or classified information. We are also subject to breaches of our network resulting in unauthorized utilization of our services or products, which subject us to the costs of providing those products or services, which are likely not recoverable. The secure maintenance and transmission of our and our customers' information is a critical element of our operations. Our information technology and other systems that maintain and transmit customer information, or those of service providers or business partners, may be compromised by a malicious third party penetration of our network security, or that of a third party service provider or business partner, or impacted by advertent or inadvertent actions or inactions by our employees, or those of a third party service provider or business partner. As a result, our or our customers' information may be lost, disclosed, accessed or taken without the customers' consent, or our products and services may be used without payment.

Although we make significant efforts to maintain the security and integrity of these types of information and systems, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging, especially in light of the growing sophistication of cyber attacks and intrusions. We may be unable to anticipate all potential types of attacks or intrusions or to implement adequate security barriers or other preventative measures. Certain of our business units have been the subject of attempted and successful cyber-attacks in the past. While we have completed our analysis and remediation of most attacks, and have implemented security designed to foil future similar attacks, with respect to certain of these attacks, we are still in the process of determining what information may have been compromised and its potential impact.

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Network disruptions, security breaches and other significant failures of the above-described systems could (i) disrupt the proper functioning of these networks and systems and therefore our operations or those of certain of our customers; (ii) result in the unauthorized use of our services or products without payment, (iii) result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or our customers, including trade secrets, which others could use to compete against us or for disruptive, destructive or otherwise harmful purposes and

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outcomes; (iv) require significant management attention or financial resources to remedy the damages that result or to change our systems; (v) subject us to claims for contract breach, damages, credits, fines, penalties, termination or other remedies; or (vi) result in a loss of business, damage our reputation among our customers and the public generally, subject us to additional regulatory scrutiny or expose us to litigation. Any or all of which could have a negative impact on our results of operations, financial condition and cash flows.

We could fail to comply with requirements imposed on us by certain third parties, including regulators.

An increasingly significant portion of our telecom transactions are processed using credit cards and similar payment methods. As we shift from sales through our traditional distribution channels to newer platforms, including Boss Revolution, that portion is expected to increase and that growth is dependent on utilizing such payment methods. The banks, credit card companies and other relevant parties are imposing strict system and other requirements in order to participate in such parties' payment systems. Further, as we move into more payment and financial services in addition to services and products that are solely telecom related, those operations may be subject to different and more stringent requirements by regulators and trade organizations in various jurisdictions. We may not be able to comply with all such requirements in a timely manner or remain in compliance. If we are not in compliance, we could be subject to penalties or the termination of our rights to participate in such payment systems or provide such services, which could have a material negative impact on our ability to carry on and grow our Retail Communications and Payment Services operations.

Risks Related to Our Financial Condition

We hold significant cash, cash equivalents and investments that are subject to various market risks.

As of July 31, 2012, we had cash and cash equivalents of \$151.5 million and aggregate short-term and long-term restricted cash and cash equivalents of \$22.1 million. As of July 31, 2012, we also had \$6.4 million in investments in hedge funds, of which \$0.1 million was included in Investments-short-term and \$6.3 million was included in Investments-long-term in our consolidated balance sheet. We liquidated most of our investment in hedge funds in recent years. The remaining balances are subject to time restrictions. We anticipate liquidating the remaining balances when the restrictions lapse. These hedge funds carry a degree of risk, as there can be no assurance that we can redeem these investments at any time and that the managers of the hedge funds in which we have invested will be able to accurately predict the course of price movements of securities and other instruments and, in general, the securities markets have in recent years been characterized by great volatility and unpredictability. As a result of these different market risks, our holdings of cash, cash equivalents and investments could be materially and adversely affected.

Intellectual Property, Tax, Regulatory and Litigation Risks

We may be adversely affected if we fail to protect our proprietary technology.

We depend on proprietary technology and other intellectual property rights in conducting our various business operations. We rely on a combination of patents, copyrights, trademarks and trade secret protection and contractual rights to establish and protect our proprietary rights. Failure of our patents, copyrights, trademarks and trade secret protection, non-disclosure agreements and other measures to provide protection of our technology and our intellectual property rights could enable our competitors to more effectively compete with us and have an adverse effect on our business, financial condition and results of operations.

In addition, we may be required to litigate in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition or results of operations,

and there can be no assurances that we will be successful in any such litigation.

We may be subject to claims of infringement of intellectual property rights of others.

From time to time we may be subject to claims and legal proceedings from third parties regarding alleged infringement by us of trademarks, copyrights, patents and other intellectual property rights. Additionally, ICTI's business model relies on licensing and otherwise realizing value on its VoIP patent portfolio. It may enforce its patents in United States federal district courts, which hold exclusive jurisdiction to hear claims of patent infringement. ICTI may be subject to counterclaims alleging that the asserted patents are not infringed, invalid, and/or unenforceable. Such suits and counterclaims can be expensive and time consuming and could distract us and our management from focusing on our businesses. Further, loss of such suits could result in financial burdens and the requirement to modify our modes of operation, which could materially adversely affect our business.

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We are subject to tax and regulatory audits which could result in the imposition of liabilities that may or may not have been reserved.

We are subject to audits by taxing and regulatory authorities with respect to certain of our income and operations. These audits can cover periods for several years prior to the date the audit is undertaken and could result in the imposition of liabilities, interest and penalties if our positions are not accepted by the auditing entity.

At July 31, 2012, we have accrued for the estimated loss from these audits for which it is probable that a liability has been incurred, however amounts asserted by taxing authorities or the amount ultimately assessed against us could be greater than the accrued amounts. Accordingly, additional provisions may be recorded in the future as revised estimates are made or underlying matters are settled or resolved. Imposition of assessments as a result of audits related to these other taxes could have an adverse effect on our results of operations, cash flows and financial condition.

On February 10, 2006, Universal Service Administrative Company, or USAC, notified us that it issued an Audit Report from its Internal Audit Division, or IAD. In calendar year 2005, the IAD audited our FCC Form 499-A filings for calendar years 2000 through 2004 related to the payments to the Universal Service Fund, and concluded that we incorrectly reported certain revenues on Forms 499-A. USAC directed us to refile our Forms 499-A for calendar years 2002 through 2004 in a manner consistent with the IAD's findings. We did not refile the Forms 499-A, as we believe the IAD is mistaken in certain conclusions regarding the treatment of our revenues. USAC, however, filed the forms on our behalf, which we believe to be impermissible under the FCC's rules and regulations.

In calendar year 2008, the IAD audited our FCC Form 499-A filings for calendar years 2005 and 2006. In connection therewith, USAC issued an Audit Report from its IAD finding, as it found in its prior Audit Report, that we incorrectly reported certain revenues on Forms 499-A. USAC directed us to refile our Forms 499-A for calendar year 2005 in a manner consistent with the IAD's findings. We did not refile the Forms 499-A, as we believed the IAD is mistaken in certain conclusions regarding the treatment of our revenues. Whereas USAC filed certain Forms 499-A on our behalf over our objection in the first audit, USAC has not yet filed any Forms 499-A on our behalf as a result of the second audit. We filed with the FCC a Request for Review of the Audit Report, which remains pending as of the date we are filing this Annual Report.

USAC's revisions in both audits to our filing methodology resulted in additional regulatory payments for the years covered by the audit. While we believe in the accuracy of our filing methodology and our Request for Review remains pending, we have implemented some of the revisions set forth in the IAD's filings beginning with our calendar year 2010 Form 499-A. We have accrued for all regulatory fees we believe may be incurred under IAD's methodology from 2002 through the present, in the event our Request for Review is denied and/or our methodology is not upheld on appeal, and we have made certain payments on amounts that have been invoiced to us by USAC and/or other agencies. We anticipate receiving additional invoices in the near future for our most recent audit. If we receive such invoices, we will likely remit payment for those invoices while our Request for Review remains pending. As of July 31, 2012, our accrued expenses included \$26.8 million for these regulatory fees for the years covered by the audit and subsequent years through fiscal 2012. Until a final decision has been reached in our disputes, we will continue to accrue in accordance with IAD's methodology. If we do not properly calculate, or have not properly calculated, the amount payable by us to the Universal Service Fund, we may be subject to interest and penalties.

We are subject to value added tax, or VAT, audits from time-to-time in various jurisdictions. In the conduct of such audits, we may be required to disclose information of a sensitive nature and, in general, to modify the way we have conducted business with our distributors until the present, which may affect our business in an adverse manner.

We are also subject to audits in various jurisdictions for various other taxes, including utility excise tax, sales and use tax, communications services tax, gross receipts tax and property tax. As of July 31, 2012, we had accrued an aggregate of \$2.6 million related to these audits. The following is a summary of the more significant audits:

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In December 2010, the New Jersey Division of Taxation filed a Certificate of Debt related to the sales and use tax audit that resulted in the entry of a Judgment in the amount of \$2.1 million, which allows the Division of Taxation to place a lien or levy on our assets.

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In May 2011, we received a Notice of Proposed Assessment from the Florida Department of Revenue related to communications services tax that included an aggregate assessment of tax and interest of \$2.7 million.

Federal and state regulations may be passed that could harm Net2Phone's business.

Net2Phone's ability to provide VoIP communications services at attractive rates arises in large part from the fact that VoIP services are not currently subject to the same level of regulation as traditional, switch-based telephony. The use of the Internet and private IP networks to provide voice communications services is largely unregulated within the United States, although several foreign governments have adopted laws and/or regulations that could restrict or prohibit the provision of voice communications services over the Internet or private IP networks. If interconnected VoIP services become subject to state regulation and/or additional regulation by the FCC, such regulation will likely lead to higher costs and reduce or eliminate the competitive advantage interconnected VoIP holds, by virtue of its lesser regulatory oversight, over traditional telecommunications services. More aggressive regulation of the Internet in general, and Internet telephony providers and services specifically, may materially and adversely affect our business, financial condition and results of operations.

Our ability to offer services outside of the United States is subject to the local regulatory environment, which may be unfavorable, complicated and often uncertain.

Regulatory treatment outside the United States varies from country to country. We distribute our products and services through resellers that may be subject to telecommunications regulations in their home countries. The failure of these resellers to comply with these laws and regulations could reduce our revenue and profitability, or expose us to audits and other regulatory proceedings. Regulatory developments such as these could have a material adverse effect on our operating results.

In many countries in which we operate or our services are sold, the status of the laws that may relate to our services is unclear. We cannot be certain that our customers, resellers, or other affiliates are currently in compliance with regulatory or other legal requirements in their respective countries, that they or we will be able to comply with existing or future requirements, and/or that they or we will continue in compliance with any requirements. Our failure or the failure of those with whom we transact business to comply with these requirements could materially adversely affect our business, financial condition and results of operations.

While we expect additional regulation of our industry in some or all of these areas, and we expect continuing changes in the regulatory environment as new and proposed regulations are reviewed, revised and amended, we cannot predict with certainty what impact new laws in these areas will have on us, if any. For a complete discussion of what we believe are the most material regulations impacting our business, see Item 1 to Part I "Business Regulation" included elsewhere in this Annual Report.

We are subject to legal proceedings in the ordinary course of business that may have a material adverse effect on our business, results of operations, cash flows or financial condition.

Various legal proceedings that have arisen or may arise in the ordinary course of business have not been finally adjudicated, which may have a material adverse effect on our results of operations, cash flows or financial condition. See, for example, the Southwestern Bell matter as set forth in detail in Item 3 to Part I "Legal Proceedings" in this Annual Report.

Risks Related to Our Capital Structure

Holders of our Class B common stock have significantly less voting power than holders of our Class A common stock.

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Holders of our Class B common stock are entitled to one-tenth of a vote per share on all matters on which our stockholders are entitled to vote, while holders of our Class A common stock are entitled to three votes per share. As a result, the ability of holders of our Class B common stock to influence our management is limited.

We are controlled by our principal stockholder, which limits the ability of other stockholders to affect our management.

Howard S. Jonas, our Chairman of the Board, Chief Executive Officer and founder, has voting power over 5,370,218 shares of our common stock (which includes 1,574,326 shares of our Class A common stock, which are convertible into shares of our Class B common stock on a 1-for-1 basis, and 3,297,379 shares of our

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Class B common stock), representing approximately 73.8% of the combined voting power of our outstanding capital stock, as of October 4, 2012. Mr. Jonas is able to control matters requiring approval by our stockholders, including the election of all of the directors and the approval of significant corporate matters, including any merger, consolidation or sale of all or substantially all of our assets. As a result, the ability of any of our other stockholders to influence our management is limited.

Risks Related to Our Publicly Traded Equity

The price of our Class B common stock decreased significantly in prior periods, and may continue to be subject to volatility.

The price of our Class B common stock decreased significantly in fiscal 2008 and fiscal 2009, although the price has increased since fiscal 2009, after taking into account the value of stock of entities that were spun off by the Company that were received by the Company's stockholders, but not to the previous levels. The price of our Class B common stock has been subject to substantial volatility during these fiscal years. As of the close of business on October 9, 2012, the price of our Class B common stock was \$10.51. See Item 5 to Part II "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in this Annual Report for more information on the history of the closing prices of our Class B common stock. The price of our Class B common stock may continue to be subject to substantial volatility.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our headquarters are located in Newark, New Jersey. We own a building that contains approximately 500,000 square feet, along with an 800 car parking garage, that we acquired in fiscal 2008 and is subject to a mortgage. We also lease a 75,000 square foot space in Newark, New Jersey. Collectively, these two buildings currently serve as the base for each of our operating segments.

We own a building in Piscataway, New Jersey, which is subject to a mortgage that is used by IDT Telecom for certain of its operations. We also lease space in a number of other locations in metropolitan areas primarily to house telecommunications equipment.

We maintain our European headquarters in London, England and we own a 12,400 square foot condominium interest in a building in Jerusalem, Israel. We also maintain various international office locations and telecommunications facilities in portions of Europe, South America, Central America, the Middle East, Asia and Africa where we conduct operations.

Item 3. Legal Proceedings.

On October 12, 2011, we entered into a binding term sheet with T-Mobile USA, Inc., or T-Mobile, to settle litigation related to a complaint filed by T-Mobile on May 15, 2009, against us in the Superior Court of the State of Washington, King County. T-Mobile alleged that we breached a wholesale supply agreement entered into between T-Mobile and us in February 2005, as amended, by failing to purchase at least \$75 million in services from T-Mobile. T-Mobile sought approximately \$55 million for alleged damages and interest. In consideration of the settlement of all disputes between the parties, on October 13, 2011, we paid T-Mobile \$10 million. We incurred legal fees of \$1.0 million in fiscal 2012 in connection with this matter. We recorded a loss of \$11.0 million in fiscal 2012 for this settlement, which is included in "Other operating (losses)

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gains, net in the accompanying consolidated statement of income. On June 4, 2012, the parties executed a formal settlement agreement containing standard mutual releases and covenants not to sue, and on June 6, 2012, the parties filed a stipulation of dismissal of the complaint with the Court.

On August 5, 2011, the Administrative Court in Gothenburg, Sweden rejected our appeal and upheld the Swedish Tax Agency's imposition of a VAT assessment including penalties and interest of approximately SEK 147 million (\$21.6 million at July 31, 2012) for the period from January 2004 through June 2008. We had appealed this decision to the Administrative Court of Appeal in Gothenburg. On March 27, 2012 the Swedish Tax Agency retracted from its position and filed a pleading with the Administrative Court of Appeal changing its position and stating that it supported our appeal. On May 22, 2012, we were notified that the Administrative Court of Appeal granted our appeal and thus revoked the Swedish Tax Agency's original

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decision and the County Administrative Court's judgment to impose VAT and penalties. The judgment clarified that the Administrative Court of Appeal did not find any reason to deviate from the common view of the parties. The time for any appeal has expired.

On February 15, 2011, a jury in the United States District Court, Eastern District of Texas awarded Alessam, Inc., or Alessam, \$9.1 million in damages from us in an action alleging infringement of two patents related to the activation of phone and gift cards (incorporating bank identification numbers approved by the American Banking Association for use in a banking network) over a point-of-sale terminal. The final judgment issued in August 2011 awarded Alessam an aggregate of \$10.1 million including damages and interest. Post-judgment interest continues to accrue at an annual rate of 0.11% on the \$10.1 million awarded in the final judgment. We have mostly completed a design-around to avoid infringement of the Alessam patents and do not expect that this decision will have a material impact on our future business operations. On October 28, 2011, we filed a notice of appeal and on November 1, 2011, Alessam filed a notice of cross-appeal. Briefing on the appeals is complete. A decision on the appeal is expected by early 2013. On September 1, 2011, Alessam filed a new action seeking royalties for the products and systems previously found to infringe its patents to the extent they have been used since January 1, 2011. The Court set this action for trial on January 10, 2013. At that time the Court will determine the additional royalties owed to Alessam. These additional royalties will only be due and payable if the original judgment is affirmed on appeal. In fiscal 2011, we recorded an expense of \$10.8 million related to this matter, which is included in Other operating (losses) gains, net in our consolidated statement of income. As of July 31, 2012, we had \$10.0 million accrued for this matter. As of July 31, 2012, our reasonably possible liability related to Alessam's claims above the amount that has been accrued range from \$0 to \$3.5 million. The upper limit of the range of reasonably possible liability may increase to the extent that the products and systems previously found to infringe Alessam's patents continue to be used.

On August 27, 2003, Aerotel, Ltd., Aerotel U.S.A., and Aerotel U.S.A., LLC, collectively Aerotel, filed a complaint against us in the United States District Court, Southern District of New York, seeking damages for alleged infringement of a patent. On August 17, 2007, the parties reached a settlement (the 2007 Settlement) and all claims and counterclaims were dismissed. The 2007 Settlement provided for a payment of \$15 million in cash to Aerotel, which we paid in the first quarter of fiscal 2008. The 2007 Settlement also required us to make available to Aerotel calling cards or PINS over time with potential termination costs of up to \$15 million, subject to certain other conditions. In connection with the 2007 Settlement, we accrued an expense of \$24 million in the fourth quarter of fiscal 2007. On May 13, 2008, Aerotel, Ltd. filed a complaint against us in the United States District Court, Southern District of New York related to a dispute concerning the 2007 Settlement alleging breach of contract, anticipatory breach, and breach of covenant of good faith and fair dealing. On June 29, 2009, the parties finalized a Settlement Agreement (the 2009 Settlement Agreement), the terms of which were subject to a confidentiality provision and the complaint was dismissed. In connection with this matter, we accrued an additional expense of \$6 million in the fourth quarter of fiscal 2008. Since that time, the parties had been working to implement the 2009 Settlement Agreement. On October 27, 2010, Aerotel, Ltd. served us with a Notice of Arbitration and Statement of Claim referring disputes related to the 2009 Settlement Agreement to the CPR Institute for Dispute Resolution. The Statement of Claim alleges breach of contract, anticipatory breach, breach of covenant of good faith and fair dealing, common law fraud, negligence and deceptive business practices and seeks damages of at least \$25 million and attorneys' fees. On November 26, 2010, we served our Notice of Defense and Counterclaim. The arbitration was held in June 2012, post hearings briefs were submitted on July 3, 2012, and we expect the arbitrators' decision in the near future.

On July 2, 2009, Southwestern Bell Telephone Company and nine of its affiliates (collectively Southwestern Bell), each of which is a local exchange carrier, filed a complaint in the United States District Court for the Northern District of Texas seeking an accounting as well as declaratory, injunctive and monetary relief from us. The complaint alleges that we failed to pay switched access service charges for calls made by consumers using our prepaid calling cards. The complaint alleges causes of action for (i) violation of federal tariffs, (ii) violation of state tariffs, and (iii) unjust enrichment. On November 18, 2011, the parties each submitted a motion for summary judgment with opposition and reply briefs filed in December 2011. On March 9, 2012, the Court issued an order denying our motion and granting Southwestern Bell's motion for partial summary judgment on liability, but provided that the parties will proceed to trial to determine the precise amount of damages owed. Although the parties continue to engage in settlement discussions, we are evaluating our options going forward, including our options on appeal. A trial on damages is scheduled to begin on November 5, 2012.

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We are the exclusive licensee of a patent related to a method and process used in prepaid calling cards that was invented by Shmuel Fromer. We had been attempting to enforce this patent in Germany, and had succeeded, prevailing in infringement cases against certain calling card providers, including Lycatel (Ireland) Limited and Lycatel Services Limited, and Mox Telecom AG. On February 21, 2012, a nullity hearing (effectively judging the validity of the patent) with respect to the patent, took place before the German Federal Court of Justice in Karlsruhe, between Lycatel Services Limited as claimant, Mox Telecom AG as intervenor on the side of claimant, and Mr. Fromer, as defendant. During this hearing, the court nullified claims 1, 2, 3, 5 and 6 of the patent. The Court also ordered the defendant to pay costs and fees in respect of all of the nullity proceedings involving Lycatel and Mox. Except for the amount of fees and costs which may be claimed against us that are based on applicable statutes, the outcome of this matter is uncertain, and, as such, we are not able to make an assessment of the final result and its impact on us.

As of July 31, 2012, we had an aggregate of \$18.3 million accrued for the Aerotel, Southwestern Bell and Lycatel/Mox matters. As of July 31, 2012, our reasonably possible liability above the aggregate amount that had been accrued for these matters was \$14.9 million.

On May 5, 2004, we 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). We alleged that Tyco breached a settlement agreement that it had entered into with us to resolve certain disputes and civil actions among the parties. We alleged that Tyco did not provide us, as required under the settlement agreement, free of charge and for our exclusive use, a 15-year indefeasible right to use four Wavelengths in Ring Configuration (as defined in the settlement agreement), or Wavelengths, on a global undersea fiber optic network that Tyco was deploying at that time. In June 2004, Tyco asserted several counterclaims against us, alleging that we breached the settlement agreement and are liable for damages for allegedly refusing to accept Tyco's offer regarding the Wavelengths referenced in the settlement agreement and for making a public statement that Tyco failed to provide us with the use of its Wavelengths. On August 19, 2008, the Appellate Division of the State of New York, First Department, granted summary judgment in favor of Tyco dismissing the complaint and remanded the matter to the Supreme Court for further proceedings. On October 22, 2009, the New York Court of Appeals issued an Order denying our appeal and affirming the Appellate Division's order. On or about November 17, 2009, we demanded that Tyco comply with its obligations under the settlement agreement. After further discussions and meetings between the parties regarding Tyco's obligations under the settlement agreement, including its obligation to provide the use of the Wavelengths for fifteen years in a manner fully consistent with that described in the settlement agreement, we filed a complaint on November 24, 2010 in the Supreme Court of the State of New York, County of New York, against Tyco based upon the failure to comply with the obligations under the settlement agreement, to negotiate the terms of an indefeasible right to use the Wavelengths in good faith, and to provide us with the Wavelengths. The complaint alleges causes of action for breach of contract and breach of duty to negotiate in good faith. On January 6, 2011, Tyco filed a motion to dismiss the complaint, which was granted. On July 22, 2011, we filed a notice of appeal. We filed our opening brief on November 7, 2011. Tyco filed its opposition on February 10, 2012 and we filed our reply on March 9, 2012. Oral argument was held on April 2, 2012 and we await the Court's decision.

On April 1, 2004, D. Michael Jewett, a former employee with whom we entered into a confidential settlement agreement in November 2010, sent a copy of the complaint he had filed against us to the United States Attorney's Office. In the complaint, Jewett had alleged, among other things, that improper payments were made to foreign officials in connection with an IDT Telecom contract. As a result, the Department of Justice, or DOJ, the SEC and the United States Attorney in Newark, New Jersey conducted an investigation of this matter. We and the Audit Committee of our Board of Directors initiated independent investigations, by outside counsel, regarding certain of the matters raised in the Jewett complaint and in these investigations. Neither the Audit Committee's nor our investigations have found any evidence that we made any such improper payments to foreign officials. We continue to cooperate with these investigations, which the SEC and DOJ have confirmed are still ongoing.

In January 2012, we filed complaints in the United States District Court for the Eastern District of Virginia against Stalker Software, Inc. (d/b/a CommuniGate Systems, Inc.), ooVoo, LLC, and Vivox, Inc. claiming

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infringement of a number of our key patents. We seek both damages and injunctive relief from the defendants. On April 10, 2012, Stalker Software, Inc. filed its answer, on May 11, 2012, ooVoo, LLC filed its answer, and on June 25, 2012, Vivox, Inc. filed its answer and a counterclaim seeking a declaratory judgment that the patents are invalid and not infringed by Vivox. On October 9, 2012, we and ooVoo, LLC reached a confidential settlement of this matter. The parties have commenced discovery and a markman hearing (also known as a claim construction hearing) was held on October 10, 2012. We expect the Court's order in the near future. In addition, a jury trial is scheduled for January 8, 2013.

In addition to the foregoing, we are 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, none of the other legal proceedings to which we are a party will have a material adverse effect on our results of operations, cash flows or financial condition.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents**Part II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****PRICE RANGE OF COMMON STOCK**

Our Class B common stock trades on the New York Stock Exchange under the symbol **IDT**.

The table below sets forth the high and low sales prices for our Class B common stock as reported by the New York Stock Exchange for the fiscal periods indicated. On October 28, 2011, we completed the Genie Spin-Off, in which each of our stockholders received one share of Genie Class A common stock for every share of our Class A common stock and one share of Genie Class B common stock for every share of our Class B common stock held of record as of the close of business on October 21, 2011.

	High	Low
Fiscal year ended July 31, 2011		
First Quarter	\$ 19.70	\$ 13.86
Second Quarter	\$ 30.12	\$ 13.43
Third Quarter	\$ 30.46	\$ 22.64
Fourth Quarter	\$ 29.43	\$ 24.01
Fiscal year ended July 31, 2012		
First Quarter	\$ 24.80	\$ 11.50
Second Quarter	\$ 14.20	\$ 8.76
Third Quarter	\$ 10.49	\$ 7.81
Fourth Quarter	\$ 10.73	\$ 7.90

On September 20, 2012, there were 440 holders of record of our Class B common stock and 4 holders of record of our Class A common stock. All shares of Class A common stock are beneficially owned by Howard Jonas. These numbers do not include the number of persons whose shares are in nominee or in street name accounts through brokers. On October 9, 2012, the last sales price reported on the New York Stock Exchange for the Class B common stock was \$10.51 per share.

Additional information regarding dividends required by this item is incorporated by reference from the Management's Discussion and Analysis section found in Item 7 and from Note 10 to the Consolidated Financial Statements.

The information required by Item 201(d) of Regulation S-K will be contained in our Proxy Statement for our Annual Stockholders Meeting, which we will file with the Securities and Exchange Commission within 120 days after July 31, 2012, and which is incorporated by reference herein.

Table of Contents**Performance Graph of Stock**

The line graph below compares the cumulative total stockholder return on our Class B common stock with the cumulative total return of the New York Stock Exchange Composite Index and the Standard & Poor's Telecommunication Services Index for the five years ended July 31, 2012. The graph and table assume that \$100 was invested on July 31, 2007 (the last day of trading for the fiscal year ended July 31, 2007) in each of Class B common stock with the cumulative total return of the NYSE Composite Index and the S&P Telecommunication Services Index, and that all dividends were reinvested. Cumulative total return for our Class B common stock includes the value of spin-offs consummated by IDT (i.e., pro rata distributions of the common stock of a subsidiary to our stockholders). Cumulative total stockholder returns for our Class B common stock, NYSE Composite Index and the S&P Telecommunication Services Index are based on our fiscal year.

	7/07	7/08	7/09	7/10	7/11	7/12
IDT Corporation	100.00	17.74	8.68	61.86	82.93	65.50
NYSE Composite	100.00	90.42	70.97	79.12	93.37	93.34
S&P Telecommunication Services	100.00	77.18	69.53	75.24	90.18	117.82

Table of Contents**Issuer Purchases of Equity Securities**

The following table provides information with respect to purchases by us of our shares during the fourth quarter of fiscal 2012.

		Total Number of Shares Purchased	Average Price per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
May 1	31, 2012		\$		5,411,783
June 1	30, 2012	80,648	\$ 9.38	80,648	5,331,135
July 1	31, 2012	188,500	\$ 9.77	188,500	5,142,635
Total		269,148	\$ 9.65	269,148	

(1) Under our existing stock repurchase program, approved by our Board of Directors on June 13, 2006, we were authorized to repurchase up to an aggregate of 8.3 million shares of our Class B common stock and our common stock, without regard to class. On December 17, 2008, our Board of Directors (i) approved a one-for-three reverse stock split of all classes of our common stock which was effective on February 24, 2009, and (ii) amended the stock repurchase program to increase the aggregate number of shares of our Class B common stock and common stock, without regard to class, that we are authorized to repurchase from the 3.3 million shares that remained available for repurchase to 8.3 million shares.

Table of Contents**Item 6. Selected Financial Data.**

The selected consolidated financial data presented below for each of the fiscal years in the five-year period ended July 31, 2012 has been derived from our Consolidated Financial Statements, which have been audited by Grant Thornton LLP, independent registered public accounting firm. The selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto and other financial information appearing elsewhere in this Annual Report.

Year Ended July 31,

(in thousands, except per share data)	2012	2011	2010	2009	2008
STATEMENT OF OPERATIONS DATA:					
Revenues	\$ 1,506,836	\$ 1,351,916	\$ 1,193,578	\$ 1,242,949	\$ 1,476,843
Income (loss) from continuing operations	35,770	22,426	6,572	(98,263)	(181,256)
Income (loss) from continuing operations per common share basic	1.68	1.05	0.29	(4.30)	(7.12)
Income (loss) from continuing operations per common share diluted	1.57	0.96	0.28	(4.30)	(7.12)
Cash dividend declared per common share	0.66	0.67			

As of July 31,

(in thousands)	2012	2011	2010	2009	2008
BALANCE SHEET DATA:					
Total assets	\$ 451,114	\$ 568,166	\$ 517,795	\$ 559,620	\$ 1,002,974
Capital lease obligations long-term portion			407	5,210	10,673
Notes payable long term portion	29,716	29,564	33,640	43,281	42,543

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Annual Report 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 this Annual Report. The forward-looking statements are made as of the date of this Annual 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 Securities and Exchange Commission pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, including our reports on Forms 10-Q and 8-K.

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8 of this Annual Report.

OVERVIEW

We are a multinational holding company with operations primarily in the telecommunications industry. We have two reportable business segments, Telecom Platform Services and Consumer Phone Services, which comprise our IDT Telecom division. Telecom Platform Services provides telecommunications services, including prepaid and rechargeable calling products and international long distance traffic termination, as well as various payment services. Consumer Phone Services provides consumer local and long distance services in the United States. All other operating segments that are not reportable individually are included in All Other. All Other includes (1) Zedge, which owns and operates an on-line platform, including a popular Android app, that allows users to share and obtain content to personalize mobile phones and tablets, (2) Fabrix, a software development company specializing in highly efficient cloud-based video processing, storage and delivery, (3) IDT

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Spectrum, which holds, leases and sells fixed wireless spectrum, (4) ICTI, which holds intellectual property primarily related to VoIP technology and the licensing and other businesses related to this intellectual property, (5) our real estate holdings, and (6) other smaller businesses.

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Discontinued Operations

Genie Energy Ltd.

On October 28, 2011, we completed a pro rata distribution of the common stock of our subsidiary Genie Energy Ltd. to our stockholders of record as of the close of business on October 21, 2011. At the time of the Genie Spin-Off, Genie owned 99.3% of Genie Energy International Corporation, which owned 100% of IDT Energy and 92% of Genie Oil and Gas, Inc. As of October 28, 2011, each of our stockholders received one share of Genie Class A common stock for every share of our Class A common stock and one share of Genie Class B common stock for every share of our Class B common stock held of record as of the close of business on October 21, 2011. Genie and subsidiaries met the criteria to be reported as discontinued operations and accordingly, their assets, liabilities, results of operations and cash flows are classified as discontinued operations for all periods presented.

We have received a ruling from the Internal Revenue Service, or IRS, substantially to the effect that, for U.S. federal income tax purposes, the distribution of shares of Genie common stock will qualify as tax-free for Genie, us and our stockholders under Section 355 of the Internal Revenue Code of 1986. In addition to obtaining the IRS ruling, we have received an opinion from PricewaterhouseCoopers LLP on the three requirements for a tax-free distribution that are not addressed in the IRS ruling. Specifically, the opinion concludes that the distribution (i) should satisfy the business purpose requirement of the Internal Revenue Code for a tax-free distribution, (ii) should not be viewed as being used principally as a device for the distribution of earnings and profits of the distributing corporation or the controlled corporation or both, and (iii) should not be viewed as part of a plan (or series of related transactions) pursuant to which one or more persons will acquire directly or indirectly stock representing a 50 percent or greater interest in the distributing corporation or controlled corporation within the meaning of the relevant section of the Internal Revenue Code.

In October 2011, prior to the Genie Spin-Off, we committed to fund Genie with a total of \$106.0 million in aggregate cash and cash equivalents, including restricted cash. We funded Genie with \$70.3 million at the time of the spin-off so that Genie held \$94.0 million in cash and cash equivalents and \$0.1 million in restricted cash. Subsequent to the Genie Spin-Off, in November and December 2011, we funded Genie with the final remaining \$11.9 million.

We entered into various agreements with Genie prior to the Genie Spin-Off including a Separation and Distribution Agreement to effect the separation and provide a framework for our relationship with Genie after the spin-off, and a Transition Services Agreement, which provides for certain services to be performed by us and Genie to facilitate Genie's transition into a separate publicly-traded company. These agreements provide for, among other things, (1) the allocation between us and Genie of employee benefits, taxes and other liabilities and obligations attributable to periods prior to the spin-off, (2) transitional services to be provided by us relating to human resources and employee benefits administration, (3) the allocation of responsibilities relating to employee compensation and benefit plans and programs and other related matters, (4) finance, accounting, tax, internal audit, facilities, investor relations and legal services to be provided by us to Genie following the spin-off and (5) specified administrative services to be provided by Genie to certain of our foreign subsidiaries. In addition, we entered into a Tax Separation Agreement with Genie, which sets forth the responsibilities of us and Genie with respect to, among other things, liabilities for federal, state, local and foreign taxes for periods before and including the spin-off, the preparation and filing of tax returns for such periods and disputes with taxing authorities regarding taxes for such periods.

IDT Entertainment

In connection with the sale of IDT Entertainment to Liberty Media Corporation in the first quarter of fiscal 2007, we were eligible to receive additional consideration from Liberty Media based upon any appreciation in the value of IDT Entertainment over the five-year period that ended in August 2011, however, we may have been required to pay Liberty Media up to \$3.5 million if the value of IDT Entertainment did not exceed a certain amount by August 2011. In July 2011, we revised our estimate for this commitment. Included in Income on sale of discontinued operations in the accompanying consolidated statement of income in fiscal 2011 was a gain of \$3.5 million from the reversal of the liability that

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had been recorded in a prior period. In September 2011, we and Liberty Media executed an agreement to settle and resolve all claims related to the additional consideration and certain other disputes and claims. Liberty Media paid us \$2.0 million in September 2011 in consideration for the settlement and related releases, which is included in `Income on sale of discontinued operations` in the accompanying consolidated statement of income.

Table of Contents*CTM Media Holdings, Inc.*

On September 14, 2009, we completed the CTM Spin-Off, which was a pro rata distribution of the common stock of CTM Media Holdings, Inc., or CTM Holdings, to our stockholders of record as of the close of business on August 3, 2009. CTM Holdings' businesses at the time of the CTM Spin-Off included CTM Media Group, IDW Publishing and WMET 1160AM. As of September 14, 2009, each of our stockholders of record as of the close of business on the record date received: (i) one share of CTM Holdings Class A common stock for every three shares of our common stock; (ii) one share of CTM Holdings Class B common stock for every three shares of our Class B common stock; (iii) one share of CTM Holdings Class C common stock for every three shares of our Class A common stock; and (iv) cash in lieu of a fractional share of all classes of CTM Holdings' common stock. CTM Holdings and subsidiaries met the criteria to be reported as discontinued operations and accordingly, their assets, liabilities, results of operations and cash flows are classified as discontinued operations for all periods presented.

In September 2009, prior to the CTM Spin-Off, we funded CTM Holdings with an additional \$2.0 million in cash.

Summary Financial Data of Discontinued Operations

Revenues, income before income taxes and net loss of Genie and subsidiaries and CTM Holdings and subsidiaries, which are included in discontinued operations, were as follows:

Year ended July 31

(in millions)	2012	2011	2010
REVENUES:			
Genie and subsidiaries	\$ 45.8	\$ 203.6	\$ 201.4
CTM Holdings and subsidiaries			4.0
TOTAL	\$ 45.8	\$ 203.6	\$ 205.4
INCOME BEFORE INCOME TAXES:			
Genie and subsidiaries	\$ 2.6	\$ 4.4	\$ 28.0
CTM Holdings and subsidiaries			0.1
TOTAL	\$ 2.6	\$ 4.4	\$ 28.1
NET INCOME (LOSS):			
Genie and subsidiaries	\$ 1.0	\$ (2.6)	\$ 14.1
CTM Holdings and subsidiaries			(0.2)
TOTAL	\$ 1.0	\$ (2.6)	\$ 13.9

IDT Carmel

On January 30, 2009, IDT Carmel, Inc., IDT Carmel Portfolio Management LLC, and FFPM Carmel Holdings I LLC (all of which were subsidiaries of ours) (collectively IDT Carmel) and Sherman Originator III LLC consummated the sale, pursuant to a Purchase and Sale Contract, of substantially all of IDT Carmel Portfolio Management LLC's debt portfolios with an aggregate face value of \$951.6 million for cash of \$18.0 million. We exited the debt collection business in April 2009. Included in Loss on sale of discontinued operations in fiscal 2010 were costs of \$0.2 million which arose from and were directly related to the operations of IDT Carmel prior to its disposal.

IDT Telecom

Since our inception, we have derived the majority of our revenues and operating expenses from IDT Telecom's businesses. IDT Telecom's revenues represented 99.3%, 99.3% and 99.5% of our total revenues from continuing operations in fiscal 2012, fiscal 2011 and fiscal 2010, respectively.

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Telecom Platform Services, which represented 98.7%, 98.0% and 96.9% of IDT Telecom's total revenues in fiscal 2012, fiscal 2011 and fiscal 2010, respectively, markets and distributes multiple communications and payment services across four broad business categories, including:

Retail Communications provides international long-distance calling products primarily to immigrant communities worldwide, with core markets in the United States and Europe. These products include our flagship Boss Revolution Pinless product (an international calling service sold through the Boss Revolution payment platform) as well as many of our established traditional disposable calling card brands including Boss, La Leyenda, and Feliz, and mobile apps, including PennyTalk.

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Wholesale Termination Services is a global telecom carrier, terminating international long distance calls around the world for Tier 1 fixed line and mobile network operators as well as other aggregators through our network of 800-plus carrier interconnects. Payment Services provides payment offerings such as IMTU as well as gift cards in both the United States and Europe. IMTU enables customers to purchase minutes for a prepaid mobile telephone in another country. IMTU is available in both traditional cards as well as on our Boss Revolution payment platform. Payment Services also includes reloadable prepaid debit cards and BIN sponsorship services offered in Europe by IDT Financial Services through our Gibraltar-based bank. Hosted Platform Solutions provides customized communications services that leverage our proprietary networks, platforms and/or technology to cable companies and other operators. The majority of Hosted Platform Solutions' revenue is generated by our cable telephony business which is in harvest mode maximizing revenues from current customers while maintaining expenses at the minimum levels essential to operate the business.

Our Consumer Phone Services segment provides consumer local and long distance services in the United States. Since calendar 2005, this business has been in harvest mode, wherein we seek to retain existing customers but do not actively market to new customers, and we attempt to maximize profits by optimally managing both the life-cycle of our customer base as well as the costs associated with operating this business.

Our prepaid calling card business worldwide sells the great majority of its products to distributors at a discount to their face value, and records the sales as deferred revenues. These deferred revenues are recognized as revenues when telecommunications services are provided and/or administrative fees are imposed. Calling card revenues tend to be somewhat seasonal, with the second fiscal quarter (which contains Christmas and New Year's Day) and the fourth fiscal quarter (which contains Mother's Day and Father's Day) typically showing higher minute volumes.

Direct costs related to our telecom businesses consist primarily of three major categories: termination and origination costs, toll-free costs and network costs.

Termination costs represent costs associated with the transmission and termination of international and domestic long distance services. We terminate our traffic via the arbitrage market or through direct interconnections with other carriers. This cost is primarily variable, with a price paid on a per-minute basis. Origination costs relating to our Consumer Phone Services segment consists primarily of leased lines from the RBOCs, which are billed to us as a monthly fee. Toll-free costs are variable costs paid to providers of toll-free services.

Network costs, which are also called connectivity costs, are fixed for a range of minutes of use, and include customer/carrier interconnect charges and leased fiber circuit charges. Local circuits are generally leased for a 12 to 24 month term, while long haul circuits generally are leased for longer terms. Although these are not purely variable costs, where the cost increases for each additional minute carried on our suppliers networks, a general growth in minutes will often likely result in incrementally higher network costs.

Direct costs related to our telecom business include an estimate of charges for which invoices have not yet been received, and estimated amounts for pending disputes with other carriers. Subsequent adjustments to these estimates may occur after the invoices are received for the actual costs incurred, but these adjustments generally are not material to our results of operations.

Selling expenses in IDT Telecom consist primarily of sales commissions paid to internal salespersons and independent agents, and advertising costs, which are the primary costs associated with the acquisition of customers. General and administrative expenses include employee compensation, benefits, professional fees, rent and other administrative costs. IDT Telecom's Retail Communications offerings generally have higher selling, general and administrative expenses associated with them than does its wholesale carrier services business.

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Telecom Competition

Over the past few years, we have experienced a continued shift in demand industry-wide, away from traditional calling cards and into wireless products and IP-based products, which, among other things, contributes to the gradual erosion of our pricing power. The continued growth of these wireless and IP-based services has adversely affected the sales of our traditional disposable prepaid calling card products as customers migrate from using cards to using these alternative services. We expect pricing of wireless and IP-based services to continue to decrease, which may result in increased substitution and increased pricing pressure on our prepaid calling card products' sales and margins.

To combat this trend, we have introduced in recent years new sources of revenue, such as Boss Revolution and IMTU that have now largely replaced revenues from our traditional disposable calling cards. Boss Revolution Pinless allows users to call their families and friends overseas without the need to enter a PIN. IMTU appeals to residents of developed countries such as the United States who regularly communicate with or financially support friends or family members in a developing country. The addition of Boss Revolution Pinless and IMTU represent successful efforts to leverage our existing capabilities and distribution. In general, Boss Revolution Pinless and IMTU command lower gross margins when compared to our more established, traditional calling cards. There can be no assurance that we will continue to grow our Boss Revolution Pinless and IMTU sales, or that we will be able to generate new sources of revenue to offset the continuing decline in our traditional disposable calling card revenues.

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

Concentration of Customers

Our most significant customers typically include telecom carriers to whom IDT Telecom provides wholesale telecommunications services and distributors of IDT Telecom's calling products. While they may vary from quarter to quarter, our five largest customers collectively accounted for 8.1%, 7.1% and 8.4% of total consolidated revenues from continuing operations in fiscal 2012, fiscal 2011 and fiscal 2010, respectively. Our customers with the five largest receivables balances collectively accounted for 24.3% and 21.0% of the consolidated gross trade accounts receivable at July 31, 2012 and 2011, respectively. This concentration of customers increases our risk associated with nonpayment by those customers. In an effort to reduce our risk, we perform ongoing credit evaluations of our significant retail telecom, wholesale termination and cable telephony customers, and in some cases, do not offer credit terms to customers, choosing instead to demand prepayment. Historically, when we have issued credit, we have not required collateral to support trade accounts receivable from our customers. However, when necessary, IDT Telecom has imposed stricter credit restrictions on its customers. In some cases, this has resulted in IDT Telecom sharply curtailing, or ceasing completely, sales to certain customers. IDT Telecom attempts to mitigate its credit risk related to specific wholesale termination customers by also buying services from the customer, in order to create an opportunity to offset its payables and receivables with the customer. In this way, IDT Telecom can continue to sell services to these wholesale termination customers while reducing its receivable exposure risk. When it is practical to do so, IDT Telecom will increase its purchases from wholesale termination customers with receivable balances that exceed IDT Telecom's applicable payables in order to maximize the offset and reduce its credit risk.

CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Critical accounting policies are those that require application of management's most subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. Our critical accounting policies include those related to the allowance for doubtful accounts, goodwill, valuation of long-lived and intangible assets, income and other taxes and regulatory agency fees, IDT Telecom direct cost of revenues' disputed amounts, and contingent liabilities. 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. See Note 1 to the Consolidated Financial Statements in this Annual Report for a complete discussion of our significant accounting policies.

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Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses that result from the inability or unwillingness of our customers to make required payments. The allowance for doubtful accounts was \$13.1 million and \$15.4 million at July 31, 2012 and 2011, respectively. The allowance for doubtful accounts as a percentage of gross trade accounts receivable increased to 13.6% at July 31, 2012 from 13.3% at July 31, 2011 as a result of the decline in the gross trade accounts receivable balance at IDT Telecom. Our allowance is determined based on known troubled accounts, historical experience and other currently available evidence. Our estimates of recoverability of customer accounts may change due to new developments, changes in assumptions or changes in our strategy, which may impact our allowance for doubtful accounts balance. We continually assess the likelihood of potential amounts or ranges of recoverability and adjust our allowance accordingly, however actual collections and write-offs of trade accounts receivables may materially differ from our estimates.

Goodwill and Intangible Assets with Indefinite Useful Lives

Our goodwill balance of \$14.6 million at July 31, 2012 is allocated to our Telecom Platform Services segment (\$11.4 million) and All Other (\$3.2 million). Retail Communications and Zedge are the reporting units for our goodwill impairment test. Goodwill and other intangible assets deemed to have indefinite lives are not amortized. These assets are reviewed annually (or more frequently under various conditions) for impairment using a fair value approach. Intangible assets with finite useful lives are amortized over their estimated useful lives.

The goodwill impairment assessment involves estimating the fair value of the reporting unit and comparing it to its carrying amount, which is known as Step 1. If the carrying value of the reporting unit exceeds its estimated fair value, Step 2 is performed to determine if an impairment of goodwill is required. We estimate the fair value of our reporting units using discounted cash flow methodologies, as well as considering third party market value indicators. Goodwill impairment is measured by the excess of the carrying amount of the reporting unit's goodwill over its implied fair value.

On August 1, 2011, we adopted the accounting standard update, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. The amendments in this update modified Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, we are required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, we consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. As required by this standard update, we performed an assessment of our Retail Communications reporting unit that has a negative carrying amount upon adoption and determined that a goodwill impairment did not exist.

For Retail Communications' annual impairment test for fiscal 2012, we qualitatively assessed whether it was more likely than not that a goodwill impairment existed and concluded that a goodwill impairment did not exist. For Retail Communications in fiscal 2011 and fiscal 2010, and for Zedge in fiscal 2012, fiscal 2011 and fiscal 2010, the estimated fair values of the reporting unit substantially exceeded their respective carrying values in Step 1 of our annual impairment tests, therefore it was not necessary to perform Step 2. In addition, we do not believe our reporting units are currently at risk of failing Step 1. Calculating the fair value of the reporting units, and allocating the estimated fair value to all of the tangible assets, intangible assets and liabilities, requires significant estimates and assumptions by management. Should our estimates or assumptions regarding the fair value of our reporting units prove to be incorrect, we may be required to record impairments of goodwill in future periods and such impairments could be material.

On August 1, 2012, we adopted the accounting standard update to simplify how an entity tests goodwill for impairment. The amendments in the update allow us to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. We are no longer required to calculate the fair value of a reporting unit (Step 1) unless we determine, based on a qualitative assessment, that

it is more likely than not that the fair value of the reporting unit is less than its carrying amount.

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Valuation of Long-Lived Assets including Intangible Assets with Finite Useful Lives

We test the recoverability of our long-lived assets including identifiable intangible assets with finite useful lives whenever events or changes in circumstances indicate that the carrying value of any such asset may not be recoverable. Such events or changes in circumstances include:

- significant actual underperformance relative to expected performance or projected future operating results;
- significant changes in the manner or use of the asset or the strategy of our overall business;
- significant adverse changes in the business climate in which we operate; and
- loss of a significant contract.

If we determine that the carrying value of certain long-lived assets may not be recoverable, we test for impairment based on the projected undiscounted cash flows to be derived from such asset. If the projected undiscounted future cash flows are less than the carrying value of the asset, we will record an impairment loss based on the difference between the estimated fair value and the carrying value of the asset. We generally measure fair value by considering sale prices for similar assets or by discounting estimated future cash flows from the asset using an appropriate discount rate. Cash flow projections and fair value estimates require significant estimates and assumptions by management. Should our estimates and assumptions prove to be incorrect, we may be required to record impairments in future periods and such impairments could be material.

At July 31, 2012, the carrying value of the land, building and improvements that we own at 520 Broad Street, Newark, New Jersey was \$43.3 million and the mortgage payable balance was \$22.9 million. At April 30, 2012 and 2011, we evaluated the recoverability of the land, building and improvements at 520 Broad Street and determined that the carrying value was recoverable. We are considering a range of options as to the future use or disposition of 520 Broad Street, some of which could result in a loss from a reduction in the carrying value of the land, building and improvements and such loss could be material.

Income and Other Taxes and Regulatory Agency Fees

Our current and deferred income taxes, and associated valuation allowance as well as certain other tax and telecom regulatory agency fee accruals, are impacted by events and transactions arising in the normal course of business as well as in connection with special and non-routine items. Assessment of the appropriate amount and classification of income and other taxes and certain regulatory agency fees is dependent on several factors, including estimates of the timing and realization of deferred income tax assets, the results of IRS audits of our federal income tax returns, other tax-related or regulatory fee-related audits, changes in tax laws or regulatory agency rules and regulations, as well as unanticipated future actions impacting related accruals of regulatory agency fees.

The valuation allowance on our deferred income tax assets was \$205.0 million and \$206.7 million at July 31, 2012 and 2011, respectively. The decrease in fiscal 2012 included a \$36.9 million reversal of a portion of the valuation allowance. In fiscal 2012, we determined that it was more likely than not that a portion of our deferred income tax assets would be realized, therefore the valuation allowance related to those assets was reversed. We based our determination on a projection of future U.S. income and took into consideration the historical U.S. performance and decided a partial release of the U.S. valuation that relates to the core businesses was warranted in the current period. Assumptions regarding future taxable income require significant analysis and judgment. This analysis includes financial forecasts based on historical performance of the core business and continuance of doing business in a jurisdiction in which losses are incurred. Based on our projections, we expect that we will generate future taxable income over the next five years in the U.S. jurisdiction and will begin utilizing our net operating loss carryover through this period. Accordingly, we concluded that a portion of our U.S. jurisdiction core business assets do not require a full valuation allowance.

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We did not release any of the valuation allowances that relate to our IDT Spectrum business since it is not part of the main tax consolidated group and the portion of the Net2Phone acquired net operating loss that is subject to Internal Revenue Code Section 382 limitations. We did not release any of the valuation allowances related to our foreign operations as it is not more likely than not that the assets will be utilized based upon the earnings history and the current profitability projections.

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Our FCC Form 499-A filings for calendar years 2000 through 2006 related to payments to the Universal Service Fund have been audited by the Internal Audit Division of USAC, which concluded that we incorrectly reported certain revenues on Forms 499-A. USAC's revisions to our filing methodology resulted in additional regulatory payments for the years covered by the audits. While we believe in the accuracy of our filing methodology and our Request for Review remains pending, we have implemented some of the revisions set forth in the IAD's filings beginning with our calendar year 2010 Form 499-A. We have accrued for all regulatory fees we believe may be incurred under IAD's methodology from 2002 through the present, in the event our Request for Review is denied and/or our methodology is not upheld on appeal, and we have made certain payments on amounts that have been invoiced to us by USAC and/or other agencies. As of July 31, 2012, our accrued expenses included \$26.8 million for these regulatory fees for the years covered by the audit and subsequent years through fiscal 2012. Until a final decision has been reached in our disputes, we will continue to accrue in accordance with IAD's methodology. If we do not properly calculate, or have not properly calculated, the amount payable by us to the Universal Service Fund, we may be subject to interest and penalties.

We are also subject to audits in various jurisdictions for various taxes, including utility excise tax, sales and use tax, communications services tax, gross receipts tax and property tax. As of July 31, 2012, we had accrued an aggregate of \$2.6 million related to these audits.

We use a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. We determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. Tax positions that meet the more-likely-than-not recognition threshold are measured to determine the amount of tax benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability. We review and adjust our liability for unrecognized tax benefits based on our best estimate and judgment given the facts, circumstances and information available at each reporting date. To the extent that the final outcome of these tax positions is different than the amounts recorded, such differences may impact income tax expense and actual tax payments.

IDT Telecom Direct Cost of Revenues Disputed Amounts

IDT Telecom's direct cost of revenues includes estimated amounts for pending disputes with other carriers. The billing disputes typically arise from differences in minutes of use and/or rates charged by carriers that provide service to us. At July 31, 2012, there was \$19.5 million in outstanding carrier payable disputes, for which we have recorded direct cost of revenues of \$7.4 million. We consider various factors to determine the amount to accrue for pending disputes, including (1) our historical experience in dispute resolution, (2) the basis of disputes, (3) the financial status and our current relationship with vendors and (4) our aging of prior disputes. Subsequent adjustments to our estimates may occur when disputes are resolved or abandoned, but these adjustments are generally not material to our results of operations. However, there can be no assurance that revisions to our estimates will not be material to our results of operations in the future.

Contingent Liabilities

We are subject to a number of lawsuits, investigations and claims that arise out of the conduct of our global business operations. We recognize a liability for such contingencies when both (a) information available prior to issuance of the financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements and (b) the amount of loss can reasonably be estimated. At July 31, 2012, we had accrued an aggregate of \$28.3 million for various legal proceedings. We continually assess the likelihood of any adverse judgments or outcomes to our contingencies, as well as potential amounts or ranges of probable losses, and recognize a liability, if any, for these contingencies based on an analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. Because many of these matters are resolved over long periods of time, our estimate of liabilities may change due to new developments, changes in assumptions or changes in our strategy related to the matter.

Table of Contents**RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED**

In December 2011, an accounting standard update was issued to enhance disclosures and provide converged disclosures in U.S. GAAP and International Financial Reporting Standards, or IFRS, about financial instruments and derivative instruments that are either offset on the statement of financial position or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the statement of financial position. Entities will be required to provide both net and gross information for those assets and liabilities in order to enhance comparability between entities that prepare their financial statements on the basis of U.S. GAAP and entities that prepare their financial statements on the basis of IFRS. We are required to adopt this standard update on August 1, 2013. We are evaluating the impact that this standard update will have on our consolidated financial statements.

In July 2012, an accounting standard update was issued to reduce the complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments in the update permit an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. Prior to the adoption of this update, an entity is required to test indefinite-lived intangible assets for impairment, on at least an annual basis, by comparing the fair value of the asset with its carrying amount. We are required to adopt this standard update on August 1, 2013. The adoption of this standard update will not impact our financial position, results of operations or cash flows.

RESULTS OF OPERATIONS**Year Ended July 31, 2012 compared to Years Ended July 31, 2011 and 2010**

The following table sets forth certain items in our statements of income as a percentage of our total revenues from continuing operations:

Year ended July 31,	2012	2011	2010
REVENUES:			
IDT Telecom	99.3%	99.3%	99.5%
All Other	0.7	0.7	0.5
TOTAL REVENUES	100.0	100.0	100.0
Direct cost of revenues (exclusive of depreciation and amortization)	84.3	82.8	81.0
GROSS PROFIT	15.7	17.2	19.0
OPERATING EXPENSES:			
Selling, general and administrative	13.8	15.1	16.3
Depreciation and amortization	1.1	1.5	2.8
Research and development	0.3	0.2	0.2
Severance and other charges		0.1	0.4
TOTAL OPERATING EXPENSES	15.2	16.9	19.7
Other operating (losses) gains, net	(0.7)	0.4	0.8
(LOSS) INCOME FROM OPERATIONS	(0.2)	0.7	0.1
Interest expense, net	(0.2)	(0.3)	(0.4)
Other (expense) income, net	(0.1)	0.3	0.1
(LOSS) INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(0.5)%	0.7%	(0.2)%

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

IDT Telecom Telecom Platform Services and Consumer Phone Services Segments

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(in millions) Year ended July 31,	2012	2011	2010	2012 change from 2011		2011 change from 2010	
				\$	%	\$	%
Revenues							
Telecom Platform Services	\$ 1,477.1	\$ 1,316.6	\$ 1,150.1	\$ 160.5	12.2%	\$ 166.5	14.5%
Consumer Phone Services	19.3	26.4	37.2	(7.1)	(27.0)	(10.8)	(28.9)
Total revenues	\$ 1,496.4	\$ 1,343.0	\$ 1,187.3	\$ 153.4	11.4%	\$ 155.7	13.1%

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Revenues. IDT Telecom revenues increased in fiscal 2012 and fiscal 2011 compared to the prior fiscal year due to an increase in Telecom Platform Services revenues, which more than offset a decline in Consumer Phone Services revenues. As a percentage of IDT Telecom's total revenues, Telecom Platform Services revenues increased from 96.9% in fiscal 2010 to 98.0% in fiscal 2011 and 98.7% in fiscal 2012, and Consumer Phone Services revenues decreased from 3.1% in fiscal 2010 to 2.0% in fiscal 2011 and 1.3% in fiscal 2012.

Telecom Platform Services revenues, minutes of use and average revenue per minute for fiscal 2012, fiscal 2011 and fiscal 2010 consisted of the following:

(in millions, except revenue per minute) Year ended July 31	2012	2011	2010	2012 change from 2011		2011 change from 2010	
				\$/#	%	\$/#	%
Telecom Platform Services Revenues							
Retail Communications	\$ 551.7	\$ 482.4	\$ 493.0	\$ 69.3	14.4%	\$ (10.6)	(2.1)%
Wholesale Telecommunications Service							