

IDT CORP
Form 10-Q
June 14, 2010

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2010

or

o 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 Number)
520 Broad Street, Newark, New Jersey (Address of principal executive offices)	07102 (Zip Code)

(973) 438-1000
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

As of June 10, 2010, the registrant had the following shares outstanding:

Common Stock, \$.01 par value: 3,728,654 shares outstanding (excluding 5,512,841 treasury shares)
Class A common stock, \$.01 par value: 3,272,326 shares outstanding
Class B common stock, \$.01 par value: 15,619,999 shares outstanding (excluding 7,586,607 treasury shares)

IDT CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

IDT CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	April 30, 2010 (Unaudited)	July 31, 2009 (Note 1)
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	\$215,471	\$117,902
Restricted cash and cash equivalents (Note 14)	13,776	64,992
Marketable securities (Note 14)	587	5,702
Trade accounts receivable, net of allowance for doubtful accounts of \$14,851 at April 30, 2010 and \$15,740 at July 31, 2009	106,037	138,697
Prepaid expenses	14,509	17,597
Investments—short-term	1,804	631
Other current assets	16,065	17,394
Assets of discontinued operations	—	18,790
Total current assets	368,249	381,705
Property, plant and equipment, net	103,724	129,066
Goodwill	18,668	17,275
Licenses and other intangibles, net	4,073	5,350
Investments—long-term	7,879	13,099
Other assets	10,900	13,125
Total assets	\$513,493	\$559,620
Liabilities and equity		
Current liabilities:		
Trade accounts payable	\$48,908	\$68,120
Accrued expenses	147,143	159,032
Deferred revenue	71,934	67,505
Income taxes payable	2,431	2,031
Capital lease obligations—current portion	7,144	7,058
Notes payable—current portion	592	820
Other current liabilities	2,022	4,852
Liabilities of discontinued operations	—	5,496
Total current liabilities	280,174	314,914
Capital lease obligations—long-term portion	730	5,211
Notes payable—long-term portion	36,394	43,281
Other liabilities	16,040	16,772

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Total liabilities	333,338	380,178
Commitments and contingencies		
Equity:		
IDT Corporation stockholders' equity:		
Preferred stock, \$.01 par value; authorized shares—10,000; no shares issued	—	—
Common stock, \$.01 par value; authorized shares—100,000; 9,241 and 9,241 shares issued and 3,728 and 4,202 shares outstanding at April 30, 2010 and July 31, 2009, respectively	92	92
Class A common stock, \$.01 par value; authorized shares—35,000; 3,272 shares issued and outstanding at April 30, 2010 and July 31, 2009	33	33
Class B common stock, \$.01 par value; authorized shares—200,000; 23,207 and 22,913 shares issued and 15,620 and 15,503 shares outstanding at April 30, 2010 and July 31, 2009, respectively	232	229
Additional paid-in capital	712,732	720,804
Treasury stock, at cost, consisting of 5,513 and 5,039 shares of common stock and 7,587 and 7,410 shares of Class B common stock at April 30, 2010 and July 31, 2009, respectively	(295,696)	(293,901)
Accumulated other comprehensive income	554	953
Accumulated deficit	(239,081)	(251,916)
Total IDT Corporation stockholders' equity	178,866	176,294
Noncontrolling interests	1,289	3,148
Total equity	180,155	179,442
Total liabilities and equity	\$513,493	\$559,620

See accompanying notes to condensed consolidated financial statements.

IDT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2010	2009	2010	2009
	(in thousands, except per share data)			
Revenues	\$355,423	\$356,892	\$1,045,424	\$1,164,625
Costs and expenses:				
Direct cost of revenues (exclusive of depreciation and amortization)	281,242	272,179	827,901	895,135
Selling, general and administrative	52,625	67,354	164,391	219,240
Depreciation and amortization	7,614	10,915	25,440	35,934
Bad debt	1,194	2,438	2,104	6,191
Research and development	2,269	1,548	5,761	7,932
Impairments	5	29,344	(101)	38,144
Restructuring charges	2,883	536	4,552	7,720
Total costs and expenses	347,832	384,314	1,030,048	1,210,296
Gains on settlements, net	8,985	—	8,985	—
Gain on sale of interest in AMSO, LLC	—	2,606	—	2,606
Income (loss) from operations	16,576	(24,816)	24,361	(43,065)
Interest expense, net	(1,559)	(847)	(4,848)	(1,022)
Other income (expense), net	978	1,153	(103)	(30,588)
Income (loss) from continuing operations before income taxes	15,995	(24,510)	19,410	(74,675)
Provision for income taxes	(3,465)	(1,706)	(6,257)	(10,707)
Income (loss) from continuing operations	12,530	(26,216)	13,153	(85,382)
Discontinued operations, net of tax:				
Loss from discontinued operations	—	(36,398)	(170)	(77,162)
Loss on sale of discontinued operations	(39)	—	(230)	(231)
Total discontinued operations	(39)	(36,398)	(400)	(77,393)
Net income (loss)	12,491	(62,614)	12,753	(162,775)
Net (income) loss attributable to noncontrolling interests	116	(822)	82	95
Net income (loss) attributable to IDT Corporation	\$12,607	\$(63,436)	\$12,835	\$(162,680)
Amounts attributable to IDT Corporation common stockholders:				
Income (loss) from continuing operations	\$12,646	\$(27,038)	\$13,134	\$(86,154)
Loss from discontinued operations	(39)	(36,398)	(299)	(76,526)

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Net income (loss)	\$12,607	\$(63,436)	\$12,835	\$(162,680)
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Earnings per share attributable to IDT Corporation common stockholders:

Basic:

Income (loss) from continuing operations	\$0.61	\$(1.23)	\$0.64	\$(3.73)
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Loss from discontinued operations	—	(1.65)	(0.01)	(3.32)
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Net income (loss)	\$0.61	\$(2.88)	\$0.63	\$(7.05)
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Weighted-average number of shares used in calculation of basic earnings per share	20,523	22,052	20,425	23,081
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Diluted:

Income (loss) from continuing operations	\$0.58	\$(1.23)	\$0.61	\$(3.73)
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Loss from discontinued operations	—	(1.65)	(0.01)	(3.32)
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Net income (loss)	\$0.58	\$(2.88)	\$0.60	\$(7.05)
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Weighted-average number of shares used in calculation of diluted earnings per share	21,878	22,052	21,310	23,081
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See accompanying notes to condensed consolidated financial statements.

IDT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended April 30,	
	2010	2009
	(in thousands)	
Net cash provided by (used in) operating activities	\$47,467	\$(98,317)
Investing activities		
Capital expenditures	(6,593)	(10,249)
Repayment of notes receivable, net	71	168
Capital contributions to AMSO, LLC	(744)	(904)
Acquisition of intangible asset	—	(600)
Proceeds from sale and redemption of investments	2,349	26,351
Restricted cash and cash equivalents	51,216	(54,538)
Proceeds from sales of buildings	5,150	—
Proceeds from insurance	250	—
Proceeds from sale of interest in AMSO, LLC	—	3,198
Proceeds from sales and maturities of marketable securities	4,618	145,316
Purchases of marketable securities	—	(56,035)
Net cash provided by investing activities	56,317	52,707
Financing activities		
Cash of subsidiaries deconsolidated as a result of the CTM Spin-Off	(9,775)	—
Distributions to holders of noncontrolling interests in subsidiaries	(1,499)	(1,945)
Proceeds from sales of stock of subsidiaries	5,690	1,187
Proceeds from employee stock purchase plan	—	36
Repayments of capital lease obligations	(4,519)	(5,856)
Repayments of borrowings	(475)	(780)
Repurchases of common stock and Class B common stock	(1,795)	(6,568)
Net cash used in financing activities	(12,373)	(13,926)
Discontinued operations		
Net cash provided by (used in) operating activities	930	(1,220)
Net cash (used in) provided by investing activities	(44)	28,233
Net cash used in financing activities	(471)	(1,316)
Net cash provided by discontinued operations	415	25,697
Effect of exchange rate changes on cash and cash equivalents	(737)	(4,728)
Net increase (decrease) in cash and cash equivalents	91,089	(38,567)
Cash and cash equivalents (including discontinued operations) at beginning of period	124,382	164,886
Cash and cash equivalents (including discontinued operations) at end of period	215,471	126,319
Less cash and cash equivalents of discontinued operations at end of period	—	(6,001)

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Cash and cash equivalents (excluding discontinued operations) at end of period	\$215,471	\$120,318
Supplemental schedule of non-cash financing and investing activities		
Mortgage note payable settled in connection with the sale of building	\$(6,137)	\$—
Net assets excluding cash and cash equivalents of subsidiaries deconsolidated as a result of the CTM Spin-Off		
	\$(6,011)	\$—

See accompanying notes to condensed consolidated financial statements.

IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of IDT Corporation and its subsidiaries (the “Company” or “IDT”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended April 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2010. The balance sheet at July 31, 2009 has been derived from the Company’s audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 31, 2009, as filed with the U.S. Securities and Exchange Commission (the “SEC”).

The Company’s fiscal year ends on July 31 of each calendar year. Each reference below to a fiscal year refers to the fiscal year ending in the calendar year indicated (e.g., fiscal 2010 refers to the fiscal year ending July 31, 2010).

On August 1, 2009, the Company adopted the accounting standard relating to noncontrolling interests in consolidated financial statements (see Note 15). In addition, certain prior year amounts have been reclassified to conform to the current year’s presentation. As described in Note 2, certain subsidiaries have been reclassified to discontinued operations for all periods presented, and a subsidiary has been reclassified from discontinued operations to continuing operations for all periods presented. As described in Note 12, business segment results for the three and nine months ended April 30, 2009 have been reclassified and restated to conform to the current year’s presentation.

The Company records Universal Service Fund (“USF”) charges that are billed to customers on a gross basis in its results of operations, and records other taxes and surcharges on a net basis. USF charges in the amount of \$0.5 million and \$1.7 million in the three and nine months ended April 30, 2010, respectively, and \$0.6 million and \$2.1 million in the three and nine months ended April 30, 2009, respectively, were recorded on a gross basis.

On April 1, 2010, the Company received notification from the New York Stock Exchange (“NYSE”) that it had regained full compliance with the NYSE’s quantitative continued listing standards by a