IDT CORP
Form 10-K
October 15, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

[ü] Annual report pursuant to section 13 or 15(d) of the securities exchange act of 1934 for the fiscal year ended July 31, 2013, 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	**22-3415036**
(State or other jurisdiction of incorporation or organization)	(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:

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

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

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

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 [ü]

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 [ü] 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 [ü] 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. [ü]

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 [ ]	Accelerated filer [ü]
Non-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 [ü]

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, 2013 (the last business day of the registrant s most recently completed second fiscal quarter) of the Class B common stock of $10.22 per share, as reported on the New York Stock Exchange, was approximately $183.9 million.

As of October 5, 2013, the registrant had outstanding 21,411,789 shares of Class B common stock and 1,574,326 shares of Class A common stock. Excluded from these numbers are 2,878,483 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

The definitive proxy statement relating to the registrant s Annual Meeting of Stockholders, to be held December 16, 2013, is incorporated by reference into Part III of this Form 10-K to the extent described therein.

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IDT Corporation

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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 2013 refers to the fiscal year ended July 31, 2013).

Item 1. Business.

OVERVIEW

We are a multinational holding company with operations primarily in the telecommunications industry. We have three reportable business segments, Telecom Platform Services and Consumer Phone Services, which comprise our IDT Telecom division, and Zedge Holdings, Inc., or Zedge. 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. Zedge owns and operates an online platform for mobile phone consumers interested in obtaining free and relevant, high quality games, apps, and personalization content, such as ringtones, wallpapers, and alerts. All other operating segments that are not reportable individually are included in All Other. All Other includes Fabrix Systems Ltd (formerly Fabrix T.V., Ltd.), or Fabrix, a software development company specializing in highly efficient cloud-based video processing, storage and delivery, our real estate holdings, and other smaller businesses.

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 headquarters are 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 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.

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 stock on March 15, 1996. Our Class B common stock is listed on the New York Stock Exchange under the symbol IDT.

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.

In January 1997, we began marketing prepaid calling cards.

In fiscal 2009, we introduced Boss Revolution PIN-less, our pay-as-you-go, international calling service. The Boss Revolution platform on which it was built has since been expanded to include payment offerings such as domestic and international airtime top-up, domestic bill pay and international money transfer service.

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 fuel resources. Genie Oil and Gas resource development projects include initiatives in Colorado, Israel and Mongolia. 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.

RECENT DEVELOPMENTS

Straight Path Communications Inc. Spin-Off

On July 31, 2013, we completed the Straight Path Spin-Off, which was a pro rata distribution of the common stock of our subsidiary, Straight Path Communications Inc., or Straight Path, to our stockholders of record as of the close of business on July 25, 2013. At the time of the Straight Path Spin-Off, Straight Path owned 100% of Straight Path Spectrum, Inc. (formerly IDT Spectrum, Inc.), which holds, leases and markets fixed wireless spectrum licenses, and an 84.5% interest in Straight Path IP Group, Inc. (formerly Innovative Communications Technologies, Inc.), which holds intellectual property primarily related to communications over the Internet and the licensing and other businesses related to this intellectual property. As of July 31, 2013, each of our stockholders received one share of Straight Path Class A common stock for every two shares of our Class A common stock and one share of Straight Path Class B common stock for every two shares of our Class B common stock held of record as of the close of business on July 25, 2013. Straight Path 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.

In August 2013, our Board of Directors instructed management to investigate and pursue strategic alternatives to unlock the value in our Zedge subsidiary, including, without limitation, a spinoff or initial public offering of its stock. We intend to retain financial advisors to assist us in analyzing and executing on these alternatives.

Dividends

In fiscal 2013, we paid aggregate dividends of $0.75 per share on our Class A common stock and Class B common stock, or $17.1 million in total, which were paid as follows:

- On October 16, 2012, we paid a cash dividend of $0.15 per share for the fourth quarter of fiscal 2012 to stockholders of record at the close of business on October 9, 2012 of our Class A common stock and Class B common stock; and
- On November 13, 2012, we effectively paid the fiscal 2013 dividends in advance by distributing $0.60 per share to stockholders of record at the close of business on November 5, 2012 of our Class A common stock and Class B common stock.

On September 10, 2013, we paid a special cash dividend of $0.08 per share to stockholders of record at the close of business on August 30, 2013 of our Class A common stock and Class B common stock.

We anticipate resuming regular quarterly dividends commencing with a $0.15 payment for the first quarter of fiscal 2014 fiscal, which we expect to pay in December 2013, provided that the first quarter s results are consistent with our expectations.

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 2013, IDT Telecom had revenues of $1,602.1 million, representing 98.9% of our total consolidated revenues from continuing operations, and income from operations of $50.3 million, as compared with revenues of $1,496.4 million and income from operations of $10.0 million in fiscal 2012.

Telecom Platform Services

Our Telecom Platform Services segment, which represented 99.1% and 98.7% of IDT Telecom s total revenues in fiscal 2013 and fiscal 2012, 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 its core markets in the United States. These products include our flagship Boss Revolution PIN-less product (an international calling service sold through our Boss Revolution payment platform) as well as other prepaid calling card products including traditional, disposable calling cards.

Wholesale Termination Services is a global telecom carrier, terminating international long distance calls around the world for Tier 1 fixed line and mobile network operators, as well as other service providers, through our network of 650-plus carrier interconnects.

Payment Services provides payment offerings, including domestic and international airtime top-up sold both in traditional hard card format and over our Boss Revolution payment platform, gift cards sold in the United States and Europe, and our recently launched bill pay and international money transfer service. Payment Services also includes reloadable prepaid debit cards and Bank Identification Number (BIN) sponsorship services offered in Europe by our Gibraltar-based bank, IDT Financial Services Limited.

Hosted Platform Solutions provides customized communications services that leverage our proprietary networks, platforms and/or technology to cable companies and other service providers. The majority of Hosted Platform Solutions revenue is generated by our cable telephony business.

During fiscal 2013, our Telecom Platform Services segment generated $1,587.6 million in revenues worldwide and income from operations of $48.5 million, as compared with revenues of $1,477.1 million and income from operations of $5.9 million in fiscal 2012.

Retail Communications

Retail Communications revenue (41.4% and 37.3% of Telecom Platform Services revenue in fiscal 2013 and fiscal 2012, respectively) was $656.5 million in fiscal 2013 compared to $551.7 million in fiscal 2012.

In fiscal 2009, IDT Telecom introduced Boss Revolution PIN-less, 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 at any Boss Revolution retailer, by phone or online. Our Boss Revolution PIN-less calling service has become a leading PIN-less international calling service in the United States. Because each retailer and customer establishes an account on the Boss Revolution payment platform, the resulting relationship also 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 payment offerings such as international airtime top-up through the Boss Revolution platform, and in fiscal 2012 we added domestic airtime top-up offerings. In fiscal 2013, we introduced domestic bill pay over the Boss Revolution platform, and we continued to grow revenue from Boss Revolution PIN-less by continuing to build our retail network.

The introduction of international and domestic airtime top-up over the Boss Revolution payment platform represent successful efforts to leverage our existing capabilities and distribution network to expand the scope of services we provide to our customers and generate new sources of revenue to replace declining revenues from our traditional calling cards. The Boss Revolution payment platform also provides us with a direct, real-time relationship with all of our retailers, resulting in a cost-effective and adaptable distribution model that can rapidly respond to changes in the business environment.

We are also geographically expanding the footprint where we offer our Boss Revolution payment platform. In fiscal 2012, we launched Boss Revolution in the United Kingdom and Spain. During fiscal 2013, we expanded Boss Revolution s footprint to Germany and three markets in the Asia-Pacific region Australia, Hong Kong and Singapore.

Although they now comprise a decreasing portion of our retail revenues, we continue to sell our traditional calling cards under the La Leyenda, Boss, Playball, GOOOL, RED, Feliz, PT-1 and PennyTalk brand names, among others, providing telephone access to more than 230 c 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. Our traditional calling card business is declining in revenue as customers transition to other products, including, among others, PIN-less, internet-based and mobile products.

In the United States, we distribute our products, including Boss Revolution PIN-less and other offerings 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 other areas of the United States, such as the West Coast, where we previously did not enjoy a strong market presence. The Boss Revolution retail network in the United States is now comprised of over 35,000 active retail locations, primarily located in neighborhoods with significant immigrant populations. 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 (43.3% and 48.4% of Telecom Platform Services revenue in fiscal 2013 and fiscal 2012, respectively) was $687.6 million in fiscal 2013 compared to $715.4 million in fiscal 2012.

Wholesale Termination Services terminates international telecommunications traffic utilizing our proprietary least-cost-routing system, aggressive purchasing strategies, extensive provisioning experience and our high volume of international long distance telephone traffic to provide major and niche carriers, operators, and other service providers such as call aggregators with competitive international termination rates at several quality levels.

During fiscal 2013, IDT Telecom terminated 32.6 billion minutes compared to 30.8 billion minutes in fiscal 2012, making us one of the largest carriers of long distance minutes worldwide. Wholesale Termination Services accounted for 22.4 billion minutes and 21.3 billion minutes of the total IDT Telecom minutes in fiscal 2013 and fiscal 2012, respectively.

IDT Telecom has a significant number of direct connections to Tier 1 providers outside the United States, particularly Tier 1 providers in Latin America, 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 operators, reflecting their growing share of the voice traffic market. In fiscal 2013, we expanded these direct relationships with fixed and mobile network operators, and expect to continue this expansion in fiscal 2014. However, as has occurred in previous quarters, we continue to experience considerable market rate shifts. Although this creates some pricing instability, we have often been able to take advantage of these pricing movements. In particular, market rate shifts in Southern Asia in the later part of fiscal 2013 led to declining volumes of traffic to this region.

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 services in which we provide higher quality connections, based upon a set of predetermined quality of service criteria. These services meet a growing need for higher quality connections for some of our customers who are providing services to high-value, quality-conscious retail customers. As of July 31, 2013, Wholesale Termination Services had more than 470 customers. IDT Telecom has over 650 carrier relationships globally.

Payment Services

Payment Services revenue (12.0% and 10.4% of Telecom Platform Services revenue in fiscal 2013 and fiscal 2012, respectively) was $191.3 million in fiscal 2013 compared to $153.0 million in fiscal 2012. Payment services sales increased substantially in fiscal 2012 and fiscal 2013 particularly as a result of the introduction of our domestic and international airtime top-up products to the Boss Revolution platform.

We introduced international airtime top-up services in fiscal 2008. Our international airtime top-up products enable customers to purchase minutes for a prepaid mobile telephone in another country. This product 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 payment services offerings combine our platform capabilities, our distribution reach into immigrant communities and our relationships with mobile network operators in developing countries into a simple and reliable service.

Future growth of our Payment Services segment will be, in large part, contingent upon our ability to enter into new international airtime top-up partnerships with wireless providers, as well as continued growth of international airtime top-up volume within existing relationships and the introduction of new payment offerings through the Boss Revolution payment platform. In the third quarter of fiscal 2013, we launched our domestic bill payment services in partnership with a licensed domestic bill pay provider.

In addition, in the first quarter of fiscal 2014, we initiated an international money transfer service on a limited basis over our Boss Revolution platform after obtaining requisite licenses. We believe that these services are complementary to our existing product lines, and can be efficiently delivered through our retail network currently linked by our Boss Revolution platform. The regulated financial services products are marketed by our subsidiaries IDT Payment Services Inc. and IDT Payment Services of New York LLC in the United States, and by our Gibraltar based bank in Europe. The money transfer licensing process began in the first quarter of fiscal 2013. Money transfer applications have been filed in 49 U.S. jurisdictions. As of July 31, 2013, IDT Payment Services has received money transmitter licenses in Puerto Rico, the District of Columbia and the following 35 states: Alabama, Alaska, Arizona, Arkansas, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Hampshire, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, South Dakota, Utah, Washington, West Virginia, Wisconsin and Wyoming. We expect to be licensed in nearly every U.S. state by the end of calendar 2013.

Hosted Platform Solutions

Hosted Platform Solutions revenue (3.3% and 3.9% of Telecom Platform Services revenue in fiscal 2013 and fiscal 2012, respectively) was $52.2 million in fiscal 2013 compared to $57.0 million in fiscal 2012.

Hosted Platform Solutions provides customized communications services that leverage our proprietary networks, platforms and/or technology to cable companies and other service providers. The majority of Hosted Platform Solutions revenue is generated by our cable telephony business.

International Operations

In Europe, we market our Retail Communications products in the United Kingdom, the Netherlands, Spain, Germany, Belgium, Italy, Luxembourg, Sweden, Switzerland, Denmark, Norway, and Austria, 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. In Europe, we market our Payment Services products in the United Kingdom.

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, including Wholesale Termination Services and Retail Communications, generated $250.3 million of revenues in fiscal 2013, an 18.0% decrease from the $305.3 million of revenues generated during fiscal 2012. Our European operations revenues constituted 15.6% of IDT Telecom s revenues from continuing operations in fiscal 2013, as compared to 20.4% in fiscal 2012.

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 and Indonesian populations, the two largest overseas worker segments. In addition, in Singapore, our Retail Communications products are a market leader to the Indian populations, which is the largest ethnic segment in Singapore, as well as the large Indonesia population. In fiscal 2013, IDT Telecom generated $93.7 million in revenues from our operations in the Asia Pacific region compared to $99.0 million in fiscal 2012.

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 2013, IDT Telecom generated $28.6 million in revenues from the sale of Retail Communications products in Latin America compared to $25.5 million in fiscal 2012.

Sales, Marketing and Distribution

In the United States, we distribute Retail Communications and Payment Services products, including Boss Revolution PIN-less, domestic and international airtime top-up offerings, and prepaid calling cards 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 PIN-less and domestic and international airtime top-up, direct to the consumer via online channels including the Boss Revolution mobile apps for Apple iOS and Android.

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 PIN-less and domestic and international airtime top-up in select European and Asia-Pacific 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 $14.5 million and income from operations of $1.8 million in fiscal 2013, as compared to revenues of $19.3 million and income from operations of $4.1 million in fiscal 2012. Consumer Phone Services revenues declined 24.8% and 27.0% in fiscal 2013 and fiscal 2012, respectively, when compared to the prior fiscal years. We continued to operate the business in 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 2014.

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, 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, 2013, we had approximately 7,800 active customers for our bundled local/long distance plans and approximately 35,700 customers for our long distance-only plans, compared to 10,500 and 45,200 customers, respectively, on July 31, 2012. Our highest customer concentrations are in large urban areas, with the greatest number of customers located in New York, New Jersey, Pennsylvania and Massachusetts.

ZEDGE

Zedge owns and operates a popular online platform for mobile phone consumers interested in obtaining free, high quality games, apps, and personalization content including ringtones, wallpapers, and notification sounds. We believe that Zedge s popularity stems from its ability to select and present content in a customized and personally relevant manner. To this end, we have invested heavily in developing a proprietary, machine learning based, behavioral recommendation engine, tasked with discovering and packaging the content in an easy, attractive and self-intuitive fashion. As a result of Zedge s successful service and large user base, it is able to offer advertisers, game developers, musicians and artists a scalable, non-incentivized, user acquisition platform with global reach.

Users access Zedge through smartphone apps, which are available in both the Google Play and iTunes store, or through feature phones or Zedge s website. Zedge has grown its user base without any material investment in marketing, user acquisition or advertising. Consumer growth stems from the demand for, and popularity of, the content offerings, the quality of the recommendations and the commitment to providing an exceptional user experience. As of July 31, 2013, the Zedge smartphone app surpassed 70 million installations. The Android app has averaged amongst the Top 15 most popular free apps in the Google Play store for the past three years and we believe it has been installed on approximately 20% of all Android handsets in the US.

We believe that Zedge s users are social influencers and avid consumers of casual and social mobile games. The smartphone users are primarily located in North America and Europe, are a young, 18-34, age demographic and represent an almost equal gender breakout. The web users are concentrated in the emerging markets, are also young and skew male.

Zedge rolled out its Android app in late 2009 with content channels dedicated to ringtones, wallpapers and notification sounds. In April 2012, Zedge expanded its Android offering by introducing two new channels - mobile games and live-wallpapers. In late 2012, Zedge launched a limited version of its smartphone iOS app featuring wallpapers. Zedge also maintains a web presence primarily frequented by feature phone users. We expect that web traffic will decline as smartphones proliferate the global market and upgrade to the Zedge smartphone apps.

The ringtone and wallpaper content library is comprised of millions of user generated content submissions that are uploaded from our website while the mobile games catalogue is curated from the Google Play store.

Zedge developed a proprietary technology platform that meets the various demands of the business and is centered on content management and discovery, web and app development, data mining and analytics, machine learning, mobile content/device compatibility and ad serving and reporting. From an end user s perspective, the platform minimizes response latency and maximizes content relevancy. Zedge s architecture contains a fully redundant production environment that can tolerate multiple server failures with minimal end-user disruption. In addition, it utilizes a variety of hosted services including cloud computing and outsourced datacenter management in order to scale efficiently and competitively. The technology mix optimizes functionality, scalability, flexibility performance, cost and ease.

Zedge s revenues are generated from offering direct advertisers, advertising networks, game publishers and marketers exposure to the customer base via advertising inventory that is sold on the smartphone app and website. We believe that advertisers are attracted to Zedge due to its growing user base, demographics, non-incentivized, user acquisition platform focused on mobile games and personalization content discovery, ability in optimizing ad inventory performance and direct distribution relationships with many leading mobile game publishers. During fiscal 2013, Zedge generated revenues of $5.8 million compared to $3.8 million in fiscal year 2012. Approximately $4.7 million, or 81%, of fiscal 2013 revenues were generated from advertising inventory on mobile devices compared to $2.4 million, or 63%, in fiscal 2012. Zedge s income from operations in fiscal year 2013 was $0.3 million compared to a loss of $(0.2) million in fiscal 2012.

We currently own approximately 83% (69% on a fully diluted basis) of Zedge. We are in the early stages of considering strategic options for Zedge. The alternatives include, amongst others, a spin-off as a separate company, a sponsored spin-off, taking in a strategic partner, an initial public offering or an outright sale.

ALL OTHER

All other operating segments that are not reportable individually are collectively included in All Other. All Other includes Fabrix, a software development company specializing in highly efficient cloud-based video processing, storage and delivery, our real estate holdings, and other smaller businesses.

During fiscal 2013, All Other generated $12.7 million in revenues, representing 0.7% of our total consolidated revenues from continuing operations, and loss from operations of $(7.3) million, as compared with revenues of $6.1 million and loss from operations of ($3.7) million in fiscal 2012.

Fabrix Systems Ltd

Fabrix Systems Ltd. is our majority-owned venture that developed 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 remote DVR storage capabilities. Fabrix s grid-based solution runs on commercial, off-the-shelf equipment servers and other equipment sold by system integrators such as IBM and Alcatel-Lucent. Fabrix s technology powers major North American and European multi-system operators cloud-based DVR offering. In addition, another North American operator utilizes Fabrix technology for deep video storage and to provide streaming.

In the first quarter of fiscal 2011, Fabrix successfully deployed its deep video storage product with a North American tier-1 operator. In addition, the major American cable operator that licensed the Fabrix software in August 2010 to empower its cloud-based DVR offering continued to purchase additional product. In the third quarter of fiscal 2013, Fabrix commenced software deliveries to a major European operator.

During fiscal 2013, Fabrix generated $10.6 million in revenues and a loss from operations of $(1.4) million, as compared with revenues of $3.6 million and a loss from operations of $(3.0) million in fiscal 2012. In fiscal 2013 and fiscal 2012, Fabrix received cash from sales of $16.0 million and $8.0 million, respectively.

In December 2012, a wholly owned subsidiary of ours purchased shares of Fabrix for cash of $1.8 million. The shares were purchased from holders of non-controlling interests in Fabrix and represented 4.5% of the equity in Fabrix. In August 2013, both Fabrix and a wholly owned subsidiary of ours purchased shares of Fabrix for aggregate cash of $1.1 million. The shares were purchased from holders of non-controlling interests in Fabrix representing 2.8% of the equity in Fabrix, which increased the Company s ownership in Fabrix to 88.4%.

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.

In recent years, we have introduced new sources of revenue, such as Boss Revolution PIN-less and international airtime top-up that have now largely replaced revenues from sales of traditional disposable calling cards. There can be no assurance that we will continue to grow our Boss Revolution PIN-less and international airtime top-up sales, or that we will be able to continue to generate new sources of revenue to offset the continuing decline in our traditional disposable calling card revenues.

Like all international calling services, our Boss Revolution PIN-less service is subject to fierce competition. While virtually any company offering retail voice services is a competitor of ours, we face particularly strong competition from other prepaid calling card providers offering both traditional and PIN-less prepaid voice products, mobile virtual network operators (or MVNOs) with aggressive international rate plans, and voice over Internet protocol (or VoIP) and other over the top (OTT) service providers.

Many of the largest telecommunications providers, including AT&T and Verizon, currently market prepaid calling cards, which in certain cases compete with our products. 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 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.

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 international airtime top-up offerings have been successful because:

- 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 PIN-less, and tailoring international airtime top-up to the needs of customers in those corridors.

The major competitors to Payment Services international airtime top-up 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 international airtime top-up; and
- other distributors, who develop a more comprehensive product offering than our international airtime top-up offerings or aggressively discount their product offerings that are similar to our international airtime top-up offerings.

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.

ZEDGE

Zedge faces competition in various forms. Ringtones and wallpapers are a commodity and many smaller apps and websites offer both free and paid ringtones and wallpapers. Zedge faces competition from various discovery services, including Quixey, HeyZap and AppsFire, as well from as a host of smaller personalization content providers. Zedge appears to have a competitive advantage due to its large user base, which is over-indexed for social and mobile games consumption, its proprietary recommendation engine, its market ranking and its longevity. Zedge is unaware of any service that maintains a content library as extensive as Zedge s library, or curates the content in such a relevant and easy to use fashion.

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 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 contributions. Changes in our 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 even some of these exemptions become unavailable, they 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, on our ability to continue to operate profitably, and to develop and grow of our business. We cannot be certain of the stability of the contribution factors for the Other Funds. Most recently, the Telecommunication Relay Service Fund contribution factor increased considerably approximately 40% from the prior year s contribution factor. Significant increases in the contribution factor for the Other Funds in general and the Telecommunications Relay Service Fund in particular can impact our profitability. Whether these contribution factors will be stable in the future is unknown, but it is possible that we will be subject to significant increases.

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, starting in 2006, 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 Incumbent Local Exchange Carriers, or ILECs, 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. Similarly, as a local exchange provider, we bill access charges to long distance providers for the 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 November 18, 2011, the FCC released a Report and Order and Further Notice of Proposed Rulemaking wherein it set forth a schedule which, over a period of several years, substantially reduces terminating access rates. Since we both make payments to and receive payments from other carriers for terminating long distance calls, the FCC s action has the effect of reducing payments we receive from other carriers while also reducing our costs to terminate our long distance calls. The FCC has also raised the possibility which it has yet to conclusively act upon that it will reduce originating access charges in a similar manner. Due to the nature of IDT s business, IDT pays, but does not bill originating access charges. At this time we cannot predict the effect future FCC actions 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 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 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 generally less regulated than traditional switch-based telephony within the United States and abroad and, in many markets, is not subject to the imposition of certain taxes and fees that increase our costs. As a result, IDT is able, in many markets, to offer VoIP communications services at rates that are more attractive than those applicable to traditional telephone services. However, in the U.S. and abroad, there have been efforts by legislatures and regulators to harmonize the regulatory structures between traditional switch-based telephony and VoIP. This could result in additional fees, charges, taxes and regulations on IP communications services that could materially increase our costs and may limit or eliminate our competitive pricing advantages. Additionally, 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. These efforts could likewise harm our ability to offer VoIP communications services.

Money Transmitter and Payment Instrument Laws and Regulations

We have further developed our business in the area of consumer financial services. Our offerings now include money transfer, which launched in the first quarter of 2014, and various network branded or open loop prepaid card offerings. These industries are heavily regulated. Accordingly, we, and the products and services that we market in the area of consumer financial services, are subject to a variety of federal and state laws and regulations, including:

- Banking laws and regulations;
- Money transmitter and payment instrument laws and regulations;
- Anti-money laundering laws;
- Privacy and data security laws and regulations;
- Consumer protection laws and regulations;
- Unclaimed property laws; and
- Card association and network organization rules.

In connection with the development of our money transmission services and the expansion of our network branded prepaid card offerings, we are actively pursuing our own money transmitter licenses. As of July 31, 2013, we had money transmitter licenses in 35 states, Puerto Rico and Washington, DC, and applications pending in additional states. Our goal is to acquire licenses in all of the jurisdictions where our current or expected activities, or the activities of our agents, distributors or reload partners, require 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.

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, Boss Revolution 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. IDT Corporation owns 9 issued patents and 14 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. We have domestic and foreign patents and patent applications regarding our infrastructure and/or global telecommunication network for our international telecommunications traffic and the international traffic of other telecommunications companies.

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 36 issued patents and has 4 pending patent applications in the United States. Net2Phone has 8 foreign issued patents, and 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.

Zedge

Zedge owns at least 4 trademark and service mark registrations and at least 7 pending applications in the United States and in various foreign countries. Zedge s most important mark is ZEDGE. Zedge has made a significant investment in protecting this mark and the other marks it is seeking to protect. Zedge is currently engaged in a domestic international filing program to file trademark applications for trademark registrations of the mark ZEDGE and other trade names in the United States and in a number of foreign countries. While Zedge cannot insure that there will be no opposition to its current applications, no such opposition currently exists.

Other

We also currently own two patents and three pending patent applications and three 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

We incurred $7.2 million, $4.6 million and $2.8 million on research and development during fiscal 2013, fiscal 2012 and fiscal 2011, respectively, all related to Fabrix.

EMPLOYEES

As of October 1, 2013, we had a total of approximately 1,320 employees, of which approximately 1,310 are full-time employees.

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 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 including 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 prepaid calling market with many of the established facilities-based carriers, such as AT&T, Verizon and Sprint, 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 international prepaid calling market could significantly impact our ability to compete against them successfully. In addition to these larger competitors, we face significant competition from smaller prepaid calling 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 Internet protocol-based services, including Boss Revolution Pin-less, has adversely affected the sales of our traditional prepaid calling cards as customers migrate from using calling cards to using these alternative services. We expect pricing of IP-based services to continue to decrease, which may result in increased substitution and increased pricing pressure on our international prepaid calling sales and margins.

Certain traditional wireless operators have been rolling out unlimited international long distance plans that include international destinations to which customers can place direct calls 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.

In addition, like all international calling services, our Boss Revolution products are subject to fierce competition. Whether it is direct competitors, who 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 international airtime top-up 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 effect 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 5.1% of our total consolidated revenues from continuing operations in fiscal 2013 compared with 5.6% in fiscal 2012. 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 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 international airtime top-up 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 international airtime top-up 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 international airtime top-up 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 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, international airtime top-up 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-attacks, 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 customer s 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.

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 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 and platforms utilized by our financial services business, 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. We are required to comply with the privacy provisions of various federal and state privacy statutes and regulations, and the Payment Card Industry Data Security Standard, each of which is subject to change at any time. Compliance with these requirements is often difficult and costly, and our failure, or our distributors failure, to comply may result in significant fines or civil penalties, regulatory enforcement action, liability under or termination of necessary agreements related to our financial services business, each of which could have a material adverse effect on our financial position and/or operations and that of our distributors who could be liable as well. 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. Our financial services unit is subject to federal and state banking regulations and we are also subject to further regulation by those states in which we are licensed as a money transmitter. We do not believe that our distributors are themselves required to become licensed as money transmitters in order to engage in their normal business activities. However, there is a risk that a federal or state regulator will take a contrary position and initiate enforcement or other proceedings against a distributor, us, our issuing banks or our other distribution partners. Some states are aggressively enforcing their regulations, which can lead to us being required to spend extensive time and resources gathering information and complying with requests, and can lead to fines or restrictions on activities. Such a development could have an adverse impact on our business. 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.

Our business is subject to a wide range of laws and regulations intended to help detect and prevent illegal or illicit activity and our failure, or the failure of one of our disbursement partners or payment processors to comply with those laws and regulations could harm our business, financial condition and results of operations.

Our money transfer and network branded prepaid card services are subject to an increasingly strict set of legal and regulatory requirements intended to help detect and prevent money laundering, terrorist financing, fraud and other illicit activity. The interpretation of those requirements by judges, regulatory bodies and enforcement agencies is changing, often quickly and with little notice. Economic and trade sanctions programs that are administered by the U.S. Treasury Department s Office of Foreign Assets Control, or OFAC, prohibit or restrict transactions to or from or dealings with specified countries, their governments, and in certain circumstances, with individuals and entities that are specially-designated nationals of those countries, narcotics traffickers and terrorists or terrorist organizations. As federal, state and foreign legislative regulatory scrutiny and enforcement action in these areas increase, we expect our costs to comply with these requirements will increase, perhaps substantially. Failure to comply with any of these requirements by us or our disbursement partners could result in the suspension or revocation of a money transmitter license, the limitation, suspension or termination of our services, the seizure and/or forfeiture of our assets and/or the imposition of civil and criminal penalties, including fines.

The foregoing laws and regulations are constantly evolving, unclear and inconsistent across various jurisdictions, making compliance challenging. If we fail to update our compliance system to reflect legislative or regulatory developments, we could incur penalties. New legislation, changes in laws or regulations, implementing rules and regulations, litigation, court rulings, changes in industry practices or standards, changes in systems rules or requirements or other similar events could expose us to increased compliance costs, liability, reputational damage, and could reduce the market value of our money transfer and network branded prepaid card services or render them less profitable or obsolete.

We provide communications services to consumers and are therefore subject to various Federal and state laws and regulations.

As a provider of communications services to consumers, such as our Boss Revolution international calling service or our prepaid calling card services, we are subject to various Federal and state laws and regulations relating to the manner in which we advertise our services, describe and present the terms of our services, and communicate with our consumers. Compliance with these laws requires us to be constantly vigilant as they often vary from state to state. Failure to comply with these laws, could result in action being taken by Federal and state agencies or offices responsible for consumer protection, like the Federal Trade Commission.

We are subject to licensing and other requirements imposed by U.S. state regulators, and the U.S. federal government. If we were found to be subject to or in violation of any laws or regulations governing money transmitters, we could lose our licenses, be subject to liability or be forced to change our business practices.

A number of states have enacted legislation regulating money transmitters. As of July 31, 2013, we had obtained licenses to operate as a money transmitter in 35 U.S. states, Washington, DC and Puerto Rico, and have applications pending in additional states. We are also registered as money services businesses with the Financial Crimes Enforcement Network of the U.S. Department of the Treasury, or FinCEN. As a licensed money transmitter, we are subject to bonding requirements, liquidity requirements, restrictions on our investment of customer funds, reporting requirements and inspection by state and foreign regulatory agencies. If our pending applications were denied or if additional states or jurisdictions require us to apply for a license, we could be forced to change our business practice or required to bear substantial cost to comply with the requirements of the additional states or jurisdictions. If we were found to be subject to and in violation of any banking or money services laws or regulations, we could be subject to liability or additional restrictions, such as increased liquidity requirements. In addition, our licenses could be revoked or we could be forced to cease doing business or change our practices in certain states or jurisdictions, or be required to obtain additional licenses or regulatory approvals that could impose a substantial cost on us. Regulators could also impose other regulatory orders and sanctions on us. Any change to our business practices that makes our service less attractive to customers or prohibits use of our services by residents of a particular jurisdiction could decrease our transaction volume and harm our business.

Our business is subject to strict regulation under federal law regarding anti-money laundering and anti-terrorist financing. Failure to comply with such laws, or abuse of our card programs for purposes of money laundering or terrorist financing, could have a material adverse impact on our business.

Provisions of the USA PATRIOT Act, the Bank Secrecy Act and other federal laws impose substantial regulations on financial institutions that are designed to prevent money laundering and the financing of terrorist organizations. Increasing regulatory scrutiny of our industry with respect to money laundering and terrorist financing matters could result in more aggressive enforcement of these laws or the enactment of more onerous regulation, which could have a material adverse impact on our business. In addition, abuse of our money transfer services or prepaid card programs for purposes of money laundering or terrorist financing, notwithstanding our efforts to prevent such abuse through our regulatory compliance and risk management programs, could cause reputational or other harm that would have a material adverse impact on our business.

The Dodd-Frank Act, as well as the regulations required by the Dodd-Frank Act, and the creation of the Consumer Financial Protection Bureau could harm us and the scope of our activities, and could harm our operations, results of operations and financial condition.

The Dodd-Frank Act, which became law in the United States on July 21, 2010, calls for significant structural reforms and new substantive regulation across the financial services industry. In addition, the Dodd-Frank Act created the Consumer Financial Protection Bureau, or CFPB, whose purpose is to issue and enforce consumer protection initiatives governing financial products and services, including money transfer services. The CFPB will create additional regulatory oversight that will affect us. The Dodd-Frank Act and actions by the CFPB could have a significant impact on us by, for example, requiring us to limit or change our business practices, limiting our ability to pursue business opportunities, requiring us to invest valuable management time and resources in compliance efforts, imposing additional costs on us, limiting fees we can charge for services, requiring us to meet more stringent capital requirements, impacting the value of our assets, delaying our ability to respond to marketplace changes, requiring us to alter our services in a manner that would make them less attractive to consumers and impair our ability to offer them profitably, or requiring us to make other changes that could harm our business.

The CFPB has recently issued regulations implementing the remittance provisions of the Dodd-Frank Act. These regulations, which are effective on October 28, 2013, will impact our money transfer and network branded prepaid card services business in a variety of areas as described elsewhere in these risk factors. These requirements and other potential changes under CFPB regulations could harm our operations and financial results and change the way we operate our business.

We may also be subject to examination by the CFPB, which has broad authority to enforce consumer financial laws. In July 2011, many consumer financial protection functions formerly assigned to the federal banking agency and other agencies were transferred to the CFPB. The CFPB has a large budget and staff and has broad authority with respect to our money transfer service and related business. It is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data and promote the availability of financial services to underserved consumers and communities. In addition, the CFPB may adopt other regulations governing consumer financial services, including regulations defining unfair, deceptive or abusive acts or practices, and new model disclosures. The CFPB s authority to change regulations adopted in the past by other regulators, or to rescind or alter past regulatory guidance, could increase our compliance costs and litigation exposure.

The Dodd-Frank Act establishes a Financial Stability Oversight Counsel that is authorized to designate as systemically important non-bank financial companies and payment systems. Companies designated under either standard will become subject to new regulation and regulatory supervision. If we were designated under either standard, the additional regulatory and supervisory requirements could result in costly new compliance burdens or may require changes in the way we conduct business that could harm our business.

The effect of the Dodd-Frank Act and the CFPB on our business and operations will be significant, in part because the function and scope of the CFPB, the reactions of our competitors and the responses of consumers and other marketplace participants are uncertain.

Our disbursement partners generally are regulated institutions in their home jurisdiction, and money transfers are regulated by governments in both the United States and in the jurisdiction of the recipient. If our disbursement partners fail to comply with applicable laws, it could harm our business.

Money transfers are regulated by state, federal and foreign governments. Many of our disbursement partners are banks and are heavily regulated by their home jurisdictions. Our non-bank disbursement partners are also subject to money transfer regulations. We require regulatory compliance as a condition to our continued relationship, perform due diligence on our disbursement partners and monitor them periodically with the goal of meeting regulatory expectations. However, there are limits to the extent to which we can monitor their regulatory compliance. Any determination that our disbursement partners or their sub-disbursement partners have violated laws and regulations could seriously damage our reputation, resulting in diminished revenue and profit and increased operating costs. While our services are not directly regulated by governments outside the United States, except with respect to our Gibraltar bank as discussed below, it is possible that in some cases we could be liable for the failure of our disbursement partners or their sub-disbursement partners to comply with laws, which also could harm our business, financial condition and results of operations. Our bank in Gibraltar is regulated by the Gibraltar Financial Services Commission (the FSC), and, as such, is subject to Gibraltarian and EU laws relating to financial institutions. As an issuer of prepaid debit cards for programs operated by other entities, commonly known as program managers, the bank is responsible, inter alia, for anti-money laundering laws oversight and compliance. If we were to fail to implement the requisite controls or follow the rules and procedures mandated by the FSC and applicable law, we could be subject to regulatory fines, and even the loss of our banking license.

We process, store and use personal information and other data, which subjects us to governmental regulation and other legal obligations related to privacy. Our actual or perceived failure to comply with such obligations could harm our business.

We receive, store and process personal information and other customer data, including bank account numbers, credit and debit card information, identification numbers and images of government identification cards. As a result, we are required to comply with the privacy provisions of the Gramm-Leach-Bliley Act of 1999, or the Gramm-Leach-Bliley Act, and the Payment Card Industry Data Security Standard. There are also numerous other federal, state and local laws around the world regarding privacy and the storing, sharing, use, processing, disclosure and protection of personal information and other customer data, the scope of which are changing, subject to differing interpretations, and may be inconsistent among different jurisdictions or conflict with other applicable rules. It is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our business practices.

Additionally, with advances in computer capabilities and data protection requirements to address ongoing threats, we may be required to expend significant capital and other resources to protect against potential security breaches or to alleviate problems caused by security breaches.

Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to customers or other third parties, or our privacy-related legal obligations, or any compromise of security that results in the unauthorized release or transfer of personally identifiable information or other customer data, may result in governmental enforcement actions, fines or litigation. If there is a breach of credit or debit card information that we store, we could also be liable to the issuing banks for their cost of issuing new cards and related expenses. In addition, a significant breach could result in our being prohibited from processing transactions for any of the relevant network organizations, such as Visa or MasterCard, which would harm our business. If any third parties with whom we work, such as marketing partners, vendors or developers, violate applicable laws or our policies, such violations may put our customers information at risk and could harm our business. Any negative publicity arising out of a data breach or failure to comply with applicable privacy requirements could damage our reputation and cause our customers to lose trust in us, which could harm our business, results of operations, financial position and potential for growth.

Risks Related to Our Financial Condition

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

As of July 31, 2013, we had cash, cash equivalents and marketable securities of $156.6 million and aggregate short-term and long-term restricted cash and cash equivalents of $42.4 million. As of July 31, 2013, we also had $8.3 million in investments in hedge funds, of which $0.1 million was included in Other current assets and $8.2 million was included in Investments in our consolidated balance sheet. We liquidated most of our investment in hedge funds in recent years. Much of the remaining balances in these funds are subject to time restrictions. We may consider liquidating such remaining balances when their restrictions lapse. Investments in marketable securities and hedge funds carry a degree of risk, as there can be no assurance that we can redeem the hedge fund investments at any time and that our investment managers 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, marketable securities 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. Such suits 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.

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.

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, or IAD, of the Universal Service Administrative Company, or 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, 2013, our accrued expenses included $37.9 million for these regulatory fees for the years covered by the audit and subsequent years through fiscal 2013. 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.

Federal and state regulations may be passed that could harm our 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.

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.

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 4,347,583 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 2,773,257 shares of our Class B common stock), representing approximately 72.9% of the combined voting power of our outstanding capital stock, as of October 10, 2013. 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 10, 2013, the price of our Class B common stock was $18.01. 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. We also lease a 75,000 square foot space in Newark, New Jersey, as well as a space in New York, New York. Collectively, these three 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 and for our retail telecom operations.

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 February 15, 2011, a jury in the United States District Court, Eastern District of Texas awarded Alexsam, Inc., or Alexsam, $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 judgment issued in August 2011 awarded Alexsam an aggregate of $10.1 million including damages and interest. After we appealed the judgment, on May 20, 2013, the Federal Circuit Court of Appeals ruled on behalf of us that we did not infringe the Alexsam patents. The Court also affirmed that we were licensed to use Alexsam s patents for activations of certain phone and gift cards. However, the Court denied the remainder of the appeal. The Court remanded the case to the District Court for a recalculation of damages. Post-judgment interest continued to accrue at an annual rate of 0.11% on the $10.1 million awarded in the judgment. We have completed a design-around of certain of the card encoding schemes at issue in an attempt to avoid infringement of the Alexsam patents. On September 1, 2011, Alexsam filed a related 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. A bench trial was held on April 1 and April 2, 2013. On September 24, 2013, the parties entered into a Memorandum of Understanding pursuant to which the parties agreed to settle this matter in full and will negotiate a final confidential settlement agreement.

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 alleged that we failed to pay switched access service charges for calls made by consumers using our prepaid calling cards. The complaint alleged causes of action for (i) violation of federal tariffs, (ii) violation of state tariffs, and (iii) unjust enrichment. On October 22, 2012, we and Southwestern Bell entered into a Confidential Settlement Agreement to fully and finally resolve the litigation and the underlying claim and matter in dispute.

In connection with the Aerotel, Ltd., or Aerotel, arbitration that was held in June 2012, on March 15, 2013, the arbitration panel issued its Final Award, and determined that Aerotel sustained damages, inclusive of interest at 9% per annum through March 15, 2013, in the total amount of approximately $5.4 million. On April 8, 2013, Aerotel filed a Petition for Judgment Vacating the Arbitration Awards in the United States District Court, Southern District of New York along with a Motion supporting its Petition to Vacate the Arbitration Awards. After briefing, on July 18, 2013, the Court confirmed the award, and as a result, in July 2013, we paid Aerotel $5.4 million including interest. On August 14, 2013, Aerotel filed a Notice of Appeal with the Court of Appeals, 2nd Circuit. Aerotel s brief is due by November 5, 2013. A date has not been set for our opposition and Aerotel s reply.

Our subsidiary Prepaid Cards BVBA was the exclusive licensee of a patent related to a method and process used in prepaid calling cards that was invented by Shmuel Fromer, which has now expired. 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 in connection with the infringement proceedings 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. Upon enforcement of the judgments in these cases, we were required to transfer security deposits to the court. The security deposit for each of the Lycatel and Mox cases was 250,000 ($0.3 million at July 31, 2013) and 1.5 million ($2.0 million at July 31, 2013) respectively. We requested release of both security deposits. The court released the Lycatel security deposit to us. Mox is attempting to block the release of the Mox security deposit, by submitting a payment order of approximately 1.5 million against Prepaid Cards BVBA for damages it claims were incurred as a result of the preliminary enforcement by Prepaid Cards BVBA of the first and second instance patent infringement judgments. Prepaid Cards BVBA has objected to this payment order. If Mox desires to further pursue this claim it would have to initiate regular proceedings for damages, in which it would have to substantiate the claim, and provide evidence for the allegedly suffered damage. We believe that there is evidence to the contrary that Mox would find difficult to overcome in proving this claim.

As of July 31, 2013, we had an aggregate of $10.0 million accrued for the Alexsam, Southwestern Bell and Lycatel/Mox matters.

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. After briefing was completed, oral argument was held on April 2, 2012. On December 27, 2012, the Appellate Division issued an opinion and order reversing the order of the Supreme Court which granted Tyco s motion to dismiss our complaint. On January 31, 2013, Tyco filed a motion for reargument or, in the alternative, leave to appeal to the Court of Appeals, which we opposed. On February 8, 2013, Tyco filed an answer with a counterclaim. On May 21, 2013, the Appellate Division denied Tyco s request for reargument but granted its request for leave to appeal to the Court of Appeals. On July 30, 2013, Tyco filed its opening brief, we filed our response on September 6, 2013, and Tyco s reply was filed on October 11, 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.

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. On July 31, 2013, we completed the Straight Path Spin-Off, in which each of our stockholders received one share of Straight Path Class A common stock for every two shares of our Class A common stock and one share of Straight Path Class B common stock for every two shares of our Class B common stock held of record as of the close of business on July 25, 2013.

	High	Low
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
Fiscal year ended July 31, 2013		
First Quarter	$ 11.00	$ 9.61
Second Quarter	$ 10.57	$ 8.86
Third Quarter	$ 14.94	$ 9.81
Fourth Quarter	$ 21.24	$ 13.77

On October 10, 2013, 2013, there were 534 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 10, 2013, the last sales price reported on the New York Stock Exchange for the Class B common stock was $18.01 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, 2013, and which is incorporated by reference herein.

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, 2013. The graph and table assume that $100 was invested on July 31, 2008 (the last day of trading for the fiscal year ended July 31, 2008) 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.

	7/08	7/09	7/10	7/11	7/12	7/13
IDT Corporation	**100.00**	**48.96**	**348.78**	**467.60**	**369.33**	**811.28**
NYSE Composite	**100.00**	**78.49**	**87.50**	**103.26**	**103.23**	**129.49**
S&P Telecommunication Services	**100.00**	**90.09**	**97.50**	**116.85**	**152.66**	**161.17**

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 2013.

	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, 2013		$		5,064,792
June 1 30, 2013		$		5,064,792
July 1 31, 2013		$		5,064,792
Total		$		

(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, until April 2011, 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.

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, 2013 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)	2013	2012	2011	2010	2009
STATEMENT OF OPERATIONS DATA:					
Revenues	**$ 1,620,617**	$ 1,506,283	$ 1,351,416	$ 1,193,131	$ 1,242,459
Income (loss) from continuing operations	**18,078**	30,934	20,987	6,988	(92,894)
Income (loss) from continuing operations per common share basic	**0.77**	1.45	0.98	0.31	(4.07)
Income (loss) from continuing operations per common share diluted	**0.72**				