IDT CORP
Form 10-Q
March 12, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2019

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	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**
520 Broad Street, Newark, New Jersey	**07102**
(Address of principal executive offices)	**(Zip Code)**

(973) 438-1000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

As of March 7, 2019, the registrant had the following shares outstanding:

Class A common stock, $.01 par value:	1,574,326 shares outstanding (excluding 1,698,000 treasury shares)
Class B common stock, $.01 par value:	24,708,627 shares outstanding (excluding 905,947 treasury shares)

IDT CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

IDT CORPORATION
CONSOLIDATED BALANCE SHEETS

	January 31, 2019 (Unaudited)	July 31, 2018 (Note 1)
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$74,445	$68,089
Debt securities	1,051	5,612
Trade accounts receivable, net of allowance for doubtful accounts of $3,037 at January 31, 2019 and $3,166 at July 31, 2018	50,164	69,481
Prepaid expenses	20,432	19,550
Other current assets	28,078	28,877
Assets held for sale	167,083	137,272
Total current assets	341,253	328,881
Property, plant and equipment, net	36,186	36,068
Goodwill	11,273	11,315
Other intangibles, net	4,150	306
Equity investments	7,754	6,633
Deferred income tax assets, net	2,882	5,668
Other assets	6,680	5,020
Assets held for sale	5,962	5,706
Total assets	$416,140	$399,597
Liabilities and equity		
Current liabilities:		
Trade accounts payable	$35,288	$45,124
Accrued expenses	119,206	129,818
Deferred revenue	41,352	55,003
Other current liabilities	6,557	8,269
Liabilities held for sale	159,248	128,770
Total current liabilities	361,651	366,984
Other liabilities	853	768
Liabilities held for sale	433	542
Total liabilities	362,937	368,294
Commitments and contingencies		

Equity:		
IDT Corporation stockholders' equity:		
Preferred stock, $.01 par value; authorized shares—10,000; no shares issued	—	—
Class A common stock, $.01 par value; authorized shares—35,000; 3,272 shares issued and 1,574 shares outstanding at January 31, 2019 and July 31, 2018	33	33
Class B common stock, $.01 par value; authorized shares—200,000; 25,611 and 25,594 shares issued and 24,705 and 22,872 shares outstanding at January 31, 2019 and July 31, 2018, respectively	256	256
Additional paid-in capital	271,959	294,047
Treasury stock, at cost, consisting of 1,698 and 1,698 shares of Class A common stock and 906 and 2,722 shares of Class B common stock at January 31, 2019 and July 31, 2018, respectively	(51,727)	(85,597)
Accumulated other comprehensive loss	(4,455)	(4,972)
Accumulated deficit	(163,366)	(173,103)
Total IDT Corporation stockholders' equity	52,700	30,664
Noncontrolling interests	503	639
Total equity	53,203	31,303
Total liabilities and equity	$416,140	$399,597

See accompanying notes to consolidated financial statements.

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IDT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018	2019	2018
	(in thousands, except per share data)			
Revenues	$349,473	$395,883	$711,789	$789,438
Costs and expenses:				
Direct cost of revenues (exclusive of depreciation and amortization)	291,178	337,229	595,870	673,738
Selling, general and administrative (i)	50,900	52,358	101,452	102,429
Depreciation and amortization	5,762	5,735	11,357	11,408
Severance	—	195	—	635
Total costs and expenses	347,840	395,517	708,679	788,210
Other operating expense, net	(90)	(846)	(285)	(1,625)
Income (loss) from operations	1,543	(480)	2,825	(397)
Interest income, net	186	286	295	648
Other income (expense), net	496	370	(853)	(456)
Income (loss) before income taxes	2,225	176	2,267	(205)
(Provision for) benefit from income taxes	(1,736)	1,514	(2,926)	99
Net income (loss)	489	1,690	(659)	(106)
Net income attributable to noncontrolling interests	(300)	(174)	(601)	(470)
Net income (loss) attributable to IDT Corporation	$189	$1,516	$(1,260)	$(576)
Earnings (loss) per share attributable to IDT Corporation common stockholders:				
Basic	$0.01	$0.06	$(0.05)	$(0.02)
Diluted	$0.01	$0.06	$(0.05)	$(0.02)
Weighted-average number of shares used in calculation of earnings (loss) per share:				
Basic	24,816	24,643	24,323	24,635
Diluted	24,821	24,724	24,323	24,635
(i) Stock-based compensation included in selling, general and administrative expenses	$467	$987	$880	$1,797

See accompanying notes to consolidated financial statements.

IDT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018	2019	2018
	(in thousands)			
Net income (loss)	$489	$1,690	$(659)	$(106)
Other comprehensive (loss) income:				
Change in unrealized loss on available-for-sale securities	3	(120)	1	(150)
Foreign currency translation adjustments	(41)	330	483	(38)
Other comprehensive (loss) income	(38)	210	484	(188)
Comprehensive income (loss)	451	1,900	(175)	(294)
Comprehensive income attributable to noncontrolling interests	(300)	(174)	(601)	(470)
Comprehensive income (loss) attributable to IDT Corporation	$151	$1,726	$(776)	$(764)

See accompanying notes to consolidated financial statements.

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IDT CORPORATION

CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

	Three Months Ended January 31, 2019 (in thousands) IDT Corporation Stockholders							
	Class A Common Stock	**Class B Common Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Accumulated Deficit**	**Noncontrolling Interests**	**Total Equity**
BALANCE AT OCTOBER 31, 2018 (see Note 2)	$33	$ 256	$294,460	$(89,451)	$ (4,417)	$(163,555)	$ 601	$37,927
Sale of Class B common stock to Howard S. Jonas	—	—	(22,968)	37,740	—	—	—	14,772
Restricted Class B common stock purchased from employees	—	—	—	(16)	—	—	—	(16)
Stock-based compensation	—	—	467	—	—	—	—	467
Distributions to noncontrolling interests	—	—	—	—	—	—	(398)	(398)
Other comprehensive loss	—	—	—	—	(38)	—	—	(38)
Net income	—	—	—	—	—	189	300	489
BALANCE AT JANUARY 31, 2019	$33	$ 256	$271,959	$(51,727)	$ (4,455)	$(163,366)	$ 503	$53,203

	Six Months Ended January 31, 2019 (in thousands) IDT Corporation Stockholders							
	Class A Common Stock	**Class B Common Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Accumulated Deficit**	**Noncontrolling Interests**	**Total Equity**
BALANCE AT JULY 31, 2018	$33	$ 256	$294,047	$(85,597)	$ (4,972)	$(173,103)	$ 639	$31,303
Adjustment from the adoption of change in revenue recognition (see Note 2)	—	—	—	—	—	9,857	—	9,857
Adjustment from the adoption of change in	—	—	—	—	33	1,140	—	1,173

accounting for equity investments (see Note 8)								
BALANCE AT AUGUST 1, 2018	33	256	294,047	(85,597)	(4,939)	(162,106)	639	42,333
Repurchases of Class B common stock through repurchase program	—	—	—	(3,854)	—	—	—	(3,854)
Sale of Class B common stock to Howard S. Jonas	—	—	(22,968)	37,740	—	—	—	14,772
Restricted Class B common stock purchased from employees	—	—	—	(16)	—	—	—	(16)
Stock-based compensation	—	—	880	—	—	—	—	880
Distributions to noncontrolling interests	—	—	—	—	—	—	(737)	(737)
Other comprehensive income	—	—	—	—	484	—	—	484
Net loss	—	—	—	—	—	(1,260)	601	(659)
BALANCE AT JANUARY 31, 2019	$33	$ 256	$271,959	$(51,727)	$ (4,455)	$(163,366)	$ 503	$53,203

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IDT CORPORATION

CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited) — Continued

Three Months Ended January 31, 2018
(in thousands)

	IDT Corporation Stockholders							
	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Noncontrolling Interests	Total Equity
BALANCE AT OCTOBER 31, 2017	$33	$ 256	$395,272	$(83,327)	$ (2,741)	$(170,182)	$ 8,739	$148,050
Dividends declared ($0.19 per share)	—	—	—	—	—	(4,720)	—	(4,720)
Restricted Class B common stock purchased from employees	—	—	—	(38)	—	—	—	(38)
Transfer of right to receive equity to Howard S. Jonas	—	—	—	—	—	—	(40)	(40)
Consolidation of Lipomedix Pharmaceuticals Ltd.	—	—	—	—	—	—	558	558
Stock-based compensation	—	—	987	—	—	—	—	987
Distributions to noncontrolling interests	—	—	—	—	—	—	(337)	(337)
Other comprehensive income	—	—	—	—	210	—	—	210
Net income	—	—	—	—	—	1,516	174	1,690
BALANCE AT JANUARY 31, 2018	$33	$ 256	$396,259	$(83,365)	$ (2,531)	$(173,386)	$ 9,094	$146,360

Six Months Ended January 31, 2018
(in thousands)

	IDT Corporation Stockholders							
	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Noncontrolling Interests	Total Equity
	$33	$ 256	$394,462	$(83,304)	$ (2,343)	$(163,370)	$ 8,823	$154,557

BALANCE AT JULY 31, 2017								
Dividends declared ($0.38 per share)	—	—	—	—	—	(9,440)	—	(9,440)
Restricted Class B common stock purchased from employees	—	—	—	(61)	—	—	—	(61)
Transfer of right to receive equity to Howard S. Jonas	—	—	—	—	—	—	(40)	(40)
Consolidation of Lipomedix Pharmaceuticals Ltd.	—	—	—	—	—	—	558	558
Stock-based compensation	—	—	1,797	—	—	—	—	1,797
Distributions to noncontrolling interests	—	—	—	—	—	—	(717)	(717)
Other comprehensive loss	—	—	—	—	(188)	—	—	(188)
Net loss	—	—	—	—	—	(576)	470	(106)
BALANCE AT JANUARY 31, 2018	$33	$ 256	$396,259	$(83,365)	$ (2,531)	$(173,386)	$ 9,094	$146,360

See accompanying notes to consolidated financial statements.

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IDT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended January 31,	
	2019	2018
	(in thousands)	
Operating activities		
Net loss	$(659)	$(106)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,357	11,408
Deferred income taxes	2,785	3,212
Provision for doubtful accounts receivable	620	696
Stock-based compensation	880	1,797
Other	(78)	(68)
Change in assets and liabilities:		
Trade accounts receivable	17,333	(4,568)
Prepaid expenses, other current assets and other assets	79	(15,109)
Trade accounts payable, accrued expenses, other current liabilities and other liabilities	(18,288)	(20,347)
Customer deposits at IDT Financial Services Limited, our Gibraltar-based bank	29,015	4,481
Deferred revenue	(4,997)	(4,710)
Net cash provided by (used in) operating activities	38,047	(23,314)
Investing activities		
Capital expenditures	(9,396)	(10,931)
Payment for acquisition, net of cash acquired	(5,453)	—
Proceeds from redemption of investments	1,000	—
Cash used for purchase of investments	(500)	—
Proceeds from sale of interest in Straight Path IP Group Holding, Inc.	—	6,000
Purchase of IP Interest from Straight Path Communications Inc.	—	(6,000)
Purchases of marketable securities	—	(19,797)
Proceeds from maturities and sales of marketable securities	4,555	31,610
Net cash (used in) provided by investing activities	(9,794)	882
Financing activities		
Dividends paid	—	(9,440)
Distributions to noncontrolling interests	(737)	(717)
Proceeds from sale of Class B common stock to Howard S. Jonas	13,272	—
Repayment of other liabilities acquired.	(615)	—
Proceeds from borrowings under revolving credit facility	3,000	19,080
Repayments of borrowings under revolving credit facility	(3,000)	(19,080)
Repurchases of Class B common stock	(3,870)	(61)
Net cash provided by (used in) financing activities	8,050	(10,218)
	(236)	9,490

Effect of exchange rate changes on cash, cash equivalents, and restricted cash and cash equivalents		
Net increase (decrease) in cash, cash equivalents, and restricted cash and cash equivalents	36,067	(23,160)
Cash, cash equivalents, and restricted cash and cash equivalents at beginning of period	203,197	211,963
Cash, cash equivalents, and restricted cash and cash equivalents at end of period	$239,264	$188,803
Supplemental schedule of non-cash financing activities		
Howard S. Jonas' advance payment used for sale of Class B common stock	$1,500	$—

See accompanying notes to consolidated financial statements.

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IDT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Basis of Presentation

The accompanying unaudited consolidated financial statements of IDT Corporation and its subsidiaries (the "Company" or "IDT") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended January 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2019. The balance sheet at July 31, 2018 has been derived from the Company's audited consolidated financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2018, as filed with the U.S. Securities and Exchange Commission ("SEC").

The Company's fiscal year ends on July 31 of each calendar year. Each reference below to a fiscal year refers to the fiscal year ending in the calendar year indicated (e.g., fiscal 2019 refers to the fiscal year ending July 31, 2019).

Note 2—Revenue Recognition

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

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

Modified Retrospective Method of Adoption and Cumulative Effect Adjustment

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

Corrected Cumulative Effect Adjustment

ASC 606 changed the accounting for costs to obtain and fulfill contracts with customers such that incremental costs of obtaining and direct costs of fulfilling contracts with customers are deferred and amortized consistent with the transfer of the related good or service. In the second quarter of fiscal 2019, the Company determined that the cumulative effect of initially applying ASC 606 to defer these costs related to its net2phone-UCaaS business was $1.3 million. Accordingly, the Company corrected its cumulative effect adjustment as of August 1, 2018 and recorded an increase in “Other current assets” of $0.6 million and an increase in “Other assets” of $0.7 million, with an offsetting reduction to “Accumulated deficit” of $1.3 million.

Breakage Revenue: Methods, Inputs and Assumptions

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

Contracts with Customers

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

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

Boss Revolution international calling service direct-to-consumers

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

Boss Revolution international calling service sold through distributors and retailers

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

International and domestic mobile top-up

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

Carrier Services

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

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

The Company has not generally entered into contracts that have retroactive pricing features. Additionally, as the performance obligations are considered minute-by-minute obligations in the original contract, any modification of the original contract that leads to a conclusion that there is a new contract would not result in any adjustment related to the original contract’s consideration.

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

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

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

Disaggregated Revenues

The Company's core operations are mostly minute-based, paid-voice communications services, and revenue is primarily recognized at a point in time. The Company's Telecom & Payment Services' growth initiatives and net2phone-UCaaS are technology-driven, synergistic businesses that leverage the core assets, and revenue in some cases is recognized over time.

The following table shows the Company's revenues disaggregated by business segment and service offered to customers:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018	2019	2018
	(in thousands)			
Core Operations:				
Boss Revolution Calling	$122,146	$131,621	$245,659	$263,805
Carrier Services	127,896	170,804	270,118	339,634
Mobile Top-Up	64,276	62,131	129,623	123,615
Other	16,603	17,480	31,197	35,509
Growth	7,029	5,029	13,202	9,585
Total Telecom & Payment Services	337,950	387,065	689,799	772,148
net2phone-UCaaS	6,027	3,233	10,832	5,630
net2phone-Platform Services	5,496	5,066	11,158	10,457
Total net2phone	11,523	8,299	21,990	16,087
All Other	—	519	—	1,203
Total	$349,473	$395,883	$711,789	$789,438

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

(in thousands)	Telecom & Payment Services	net2phone	All Other	Total
Three Months Ended January 31, 2019				
United States	$225,706	$ 8,094	$ —	$233,800
Outside the United States:				
United Kingdom	49,075	8	—	49,083

Netherlands	48,057	—	—	48,057
Other	15,112	3,421	—	18,533
Total outside the United States	112,244	3,429	—	115,673
Total	$337,950	$ 11,523	$—	$349,473

(in thousands)	Telecom & Payment Services	net2phone	All Other	Total
Three Months Ended January 31, 2018				
United States	$265,072	$ 6,463	$ 519	$272,054
Outside the United States:				
United Kingdom	54,782	—	—	54,782
Netherlands	47,152	—	—	47,152
Other	20,059	1,836	—	21,895
Total outside the United States	121,993	1,836	—	123,829
Total	$387,065	$ 8,299	$ 519	$395,883

(in thousands)	Telecom & Payment Services	net2phone	All Other	Total
Six Months Ended January 31, 2019				
United States	$453,596	$ 16,024	$ —	$469,620
Outside the United States:				
United Kingdom	103,467	16	—	103,483
Netherlands	98,979	—	—	98,979
Other	33,757	5,950	—	39,707
Total outside the United States	236,203	5,966	—	242,169
Total	$689,799	$ 21,990	$ —	$711,789

(in thousands)	Telecom & Payment Services	net2phone	All Other	Total
Six Months Ended January 31, 2018				
United States	$522,269	$ 12,443	$1,203	$535,915
Outside the United States:				
United Kingdom	115,313	—	—	115,313
Netherlands	96,861	—	—	96,861
Other	37,705	3,644	—	41,349
Total outside the United States	249,879	3,644	—	253,523
Total	$772,148	$ 16,087	$1,203	$789,438

Remaining Performance Obligations

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

Accounts Receivable and Contract Balances

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

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

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

	Three Months Ended January 31, 2019	Six Months Ended January 31, 2019
	(in thousands)	
Revenue recognized in the period from amounts included in the contract liability balance at the beginning of the period	$16,488	$ 18,624

Deferred Customer Contract Acquisition and Fulfillment Costs

ASC 606 changed the accounting for costs to obtain and fulfill contracts with customers such that incremental costs of obtaining and direct costs of fulfilling contracts with customers are deferred and amortized consistent with the transfer of the related good or service. The Company's incremental costs of obtaining a customer contract are sales commissions paid to acquire customers. For Telecom & Payment Services, the Company applies the practical expedient whereby the Company primarily charges these costs to expense when incurred because the amortization period would be one year or less for the asset that would have been recognized from deferring these costs. For net2phone-UCaaS sales, employees and third parties receive commissions on sales to end users. The Company amortizes the deferred costs over the expected life of the contract with the customer when the contract is expected to exceed one year.

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

On August 1, 2018, the Company adopted ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, related to the classification and presentation of changes in restricted cash in the statement of cash flows. The following table provides a reconciliation of cash, cash equivalents, and restricted cash and cash equivalents reported in the consolidated balance sheet that equals the total of the same amounts reported in the consolidated statement of cash flows:

	January 31, 2019	July 31, 2018
	(in thousands)	
Cash and cash equivalents	$74,445	$68,089
Restricted cash included in other current assets	566	285
Cash and cash equivalents included in current assets held for sale (see Note 4)	5,372	5,892
Restricted cash and cash equivalents included in current assets held for sale (see Note 4)	158,881	128,931
Total cash, cash equivalents, and restricted cash and cash equivalents	$239,264	$203,197

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

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

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

	January 31, 2019	July 31, 2018
	(in thousands)	
Current assets held for sale:		
Cash and cash equivalents	$5,372	$5,892
Restricted cash and cash equivalents	158,881	128,931
Trade accounts receivable, net of allowance for doubtful accounts of $1,715 and $2,192 at January 31, 2019 and July 31, 2018, respectively	2,110	1,265
Prepaid expenses	487	1,016
Other current assets	233	168
Total current assets held for sale	$167,083	$137,272
Noncurrent assets held for sale:		
Property, plant and equipment, net	$4	$12
Other intangibles, net	176	190
Other assets	5,782	5,504
Total noncurrent assets held for sale	$5,962	$5,706
Current liabilities held for sale:		
Trade accounts payable	$631	$776
Accrued expenses	279	407
Deferred revenue	58	12
Customer deposits	158,272	127,571
Other current liabilities	8	4
Total current liabilities held for sale	$159,248	$128,770
Noncurrent liabilities held for sale:		
Other liabilities	$433	$542
Total noncurrent liabilities held for sale	$433	$542

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018	2019	2018
	(in thousands)			
Loss before income taxes	$(437)	$(559)	$(470)	$(1,009)
Loss before income taxes attributable to IDT Corporation	$(437)	$(559)	$(470)	$(1,009)

Note 5—Acquisition of Versature Corp.

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

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

Trade accounts receivable	$370
Prepaid expenses	65
Property, plant and equipment	1,826
Non-compete agreement	600
Customer relationships	2,930
Tradename	490
Other assets	486
Trade accounts payable	(81)
Accrued expenses	(523)
Other liabilities	(710)
Net assets excluding cash acquired	$5,453
Supplemental information:	
Cash paid	$5,870

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

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018	2019	2018
	(in thousands)			
Revenues	$349,473	$397,362	$712,673	$792,284
Net income (loss)	$489	$1,641	$(867)	$(319)

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Note 6—Rafael Holdings, Inc. Spin-Off

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

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018	2019	2018
	(in thousands)			
Loss before income taxes	$ —	$(680)	$ —	$(1,220)
Loss before income taxes attributable to IDT Corporation	$—	$(548)	$—	$(1,046)

Note 7—Debt Securities

The following is a summary of marketable debt securities:

Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

	(in thousands)			
Available-for-sale securities:				
January 31, 2019:				
U.S. Treasury notes	$749	$ —	$ —	$ 749
Municipal bonds	302	—	—	