IDT CORP
Form 10-Q
December 12, 2011

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 2011

or

| | |
|---|---|
| o | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |

Commission File Number: 1-16371

IDT CORPORATION
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 22-3415036<br>(I.R.S. Employer Identification Number) |
| 520 Broad Street, Newark, New Jersey<br>(Address of principal executive offices) | 07102<br>(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 x No o

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 o No o

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

| | | | |
|---|---|---|---|
| Large accelerated filer | o | Accelerated filer | x |
| Non-accelerated filer | o (Do not check if a smaller reporting company) | Smaller reporting company | o |

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

As of December 8, 2011, 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: | 21,168,970 shares outstanding (excluding 2,477,808 treasury shares) |

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IDT CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

IDT CORPORATION

CONSOLIDATED BALANCE SHEETS

| | October 31, 2011 (Unaudited) | July 31, 2011 (Note 1) |
|---|---|---|
| | (in thousands) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $129,114 | $220,426 |
| Restricted cash and cash equivalents | 6,333 | 4,128 |
| Certificates of deposit | — | 3,542 |
| Trade accounts receivable, net of allowance for doubtful accounts of $14,203 at October 31, 2011 and $15,375 at July 31, 2011 | 93,757 | 100,146 |
| Prepaid expenses | 17,990 | 21,920 |
| Investments—short-term | 208 | 198 |
| Other current assets | 10,871 | 13,720 |
| Assets of discontinued operations | — | 63,140 |
| Total current assets | 258,273 | 427,220 |
| Property, plant and equipment, net | 88,075 | 90,471 |
| Goodwill | 14,943 | 15,012 |
| Other intangibles, net | 2,470 | 2,661 |
| Investments—long-term | 8,111 | 8,721 |
| Restricted cash and cash equivalents—long-term | 11,092 | 12,241 |
| Other assets | 11,009 | 11,840 |
| Total assets | $393,973 | $568,166 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Trade accounts payable | $36,150 | $42,269 |
| Accrued expenses | 155,380 | 166,617 |
| Deferred revenue | 74,278 | 78,852 |
| Due to Genie Energy Ltd. | 11,892 | — |
| Income taxes payable | 823 | 2,257 |
| Capital lease obligations—current portion | 608 | 1,701 |
| Notes payable—current portion | 510 | 611 |
| Other current liabilities | 2,732 | 3,287 |
| Liabilities of discontinued operations | — | 25,826 |
| Total current liabilities | 282,373 | 321,420 |
| Notes payable—long-term portion | 29,615 | 29,564 |
| Income taxes payable—long-term | 3,781 | 3,781 |

| | | |
|---|---|---|
| Other liabilities | 7,709 | 9,611 |
| Total liabilities | 323,478 | 364,376 |
| Commitments and contingencies | | |
| Equity: | | |
| IDT Corporation stockholders’ equity: | | |
| Preferred stock, $.01 par value; authorized shares—10,000; no shares issued | — | — |
| Class A common stock, $.01 par value; authorized shares—35,000; 3,272 shares issued and 1,574 shares outstanding at October 31, 2011 and July 31, 2011 | 33 | 33 |
| Class B common stock, $.01 par value; authorized shares—200,000; 23,621 and 23,586 shares issued and 21,144 and 21,109 shares outstanding at October 31, 2011 and July 31, 2011, respectively | 236 | 236 |
| Additional paid-in capital | 392,399 | 520,732 |
| Treasury stock, at cost, consisting of 1,698 shares of Class A common stock and 2,477 shares of Class B common stock at October 31, 2011 and July 31, 2011 | (94,941) | (94,941) |
| Accumulated other comprehensive income | 1,780 | 3,027 |
| Accumulated deficit | (229,535) | (219,992) |
| Total IDT Corporation stockholders’ equity | 69,972 | 209,095 |
| Noncontrolling interests: | | |
| Noncontrolling interests | 523 | (4,305) |
| Receivable for issuance of equity | — | (1,000) |
| Total noncontrolling interests | 523 | (5,305) |
| Total equity | 70,495 | 203,790 |
| Total liabilities and equity | $393,973 | $568,166 |

See accompanying notes to consolidated financial statements.

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IDT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended October 31, 2011 | Three Months Ended October 31, 2010 |
|---|---|---|
| | (in thousands, except per share data) | |
| Revenues | $376,777 | $309,767 |
| Direct cost of revenues (exclusive of depreciation and amortization) | (319,352) | (252,392) |
| Gross profit | 57,425 | 57,375 |
| Operating expenses: | | |
| Selling, general and administrative (i) | 51,783 | 49,151 |
| Depreciation and amortization | 4,442 | 5,679 |
| Research and development | 1,010 | 725 |
| Total operating expenses | 57,235 | 55,555 |
| Other operating (loss) gains | (11,252) | 2,520 |
| (Loss) income from operations | (11,062) | 4,340 |
| Interest expense, net | (478) | (1,241) |
| Other income, net | 189 | 6,022 |
| (Loss) income from continuing operations before income taxes | (11,351) | 9,121 |
| Benefit from income taxes | 3,263 | 4,052 |
| (Loss) income from continuing operations | (8,088) | 13,173 |
| Discontinued operations, net of tax: | | |
| Income from discontinued operations | 1,015 | 2,666 |
| Income on sale of discontinued operations | 2,000 | — |
| Total discontinued operations | 3,015 | 2,666 |
| Net (loss) income | (5,073) | 15,839 |
| Net loss (income) attributable to noncontrolling interests | 747 | (191) |
| Net (loss) income attributable to IDT Corporation | $(4,326) | $15,648 |
| Amounts attributable to IDT Corporation common stockholders: | | |
| (Loss) income from continuing operations | $(8,236) | $12,958 |
| Income from discontinued operations | 3,910 | 2,690 |
| Net (loss) income | $(4,326) | $15,648 |

| | | |
|---|---|---|
| Earnings per share attributable to IDT Corporation common stockholders: | | |
| Basic: | | |
| (Loss) income from continuing operations | $(0.40) | $0.63 |
| Income from discontinued operations | 0.19 | 0.13 |
| Net (loss) income | $(0.21) | $0.76 |
| Weighted-average number of shares used in calculation of basic earnings per share | 20,365 | 20,544 |
| Diluted: | | |
| (Loss) income from continuing operations | $(0.40) | $0.58 |
| Income from discontinued operations | 0.19 | 0.12 |
| Net (loss) income | $(0.21) | $0.70 |
| Weighted-average number of shares used in calculation of diluted earnings per share | 20,365 | 22,378 |
| Dividends declared per common share | $0.23 | $— |
| (i) Stock-based compensation included in selling, general and administrative expenses | $684 | $344 |

See accompanying notes to consolidated financial statements.

IDT CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Unaudited)

| | Three Months Ended October 31, 2011 | Three Months Ended October 31, 2010 |
|---|---|---|
| | (in thousands) | |
| Net (loss) income | $(5,073) | $15,839 |
| Other comprehensive loss: | | |
| Change in unrealized (loss) gain on available-for-sale securities | (2) | 131 |
| Foreign currency translation adjustments | (794) | (160) |
| Other comprehensive loss | (796) | (29) |
| Comprehensive (loss) income | (5,869) | 15,810 |
| Comprehensive loss (income) attributable to noncontrolling interests | 735 | (196) |
| Comprehensive (loss) income attributable to IDT Corporation | $(5,134) | $15,614 |

See accompanying notes to consolidated financial statements.

IDT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three Months Ended October 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands) | |
| Operating activities | | |
| Net (loss) income | $(5,073) | $15,839 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Net income from discontinued operations | (3,015) | (2,666) |
| Depreciation and amortization | 4,442 | 5,679 |
| Severance and other payments | — | (257) |
| Deferred income taxes | (997) | — |
| Provision for doubtful accounts receivable | 1,108 | 1,294 |
| Gain on settlement of auction rate securities arbitration claim | — | (5,379) |
| Gain on proceeds from insurance | — | (1,863) |
| Interest in the equity of investments | 256 | (338) |
| Stock-based compensation | 684 | 344 |
| Change in assets and liabilities: | | |
| Trade accounts receivable | (1,053) | (23,206) |
| Prepaid expenses, other current assets and other assets | 7,276 | 2,667 |
| Trade accounts payable, accrued expenses, other current liabilities and other liabilities | (11,276) | (337) |
| Income taxes payable | (1,434) | (1,373) |
| Deferred revenue | (4,277) | 13,184 |
| Net cash (used in) provided by operating activities | (13,359) | 3,588 |
| Investing activities | | |
| Capital expenditures | (1,926) | (3,298) |
| Increase in investments | — | (50) |
| Proceeds from sale and redemption of investments | 343 | 534 |
| (Increase) decrease in restricted cash and cash equivalents | (1,056) | 1,074 |
| Proceeds from sale of building | — | 100 |
| Proceeds from insurance | — | 2,687 |
| Proceeds from marketable securities | — | 5,731 |
| Purchases of certificates of deposit | — | (4,407) |
| Proceeds from maturities of certificates of deposit | 3,540 | — |
| Net cash provided by investing activities | 901 | 2,371 |
| Financing activities | | |
| Dividends paid | (5,217) | — |
| Cash of subsidiaries deconsolidated as a result of the Genie spin-off | (92,351) | — |
| Distributions to noncontrolling interests | (350) | (550) |
| Repayments of capital lease obligations | (1,092) | (1,438) |
| Repayments of borrowings | (160) | (152) |

| | | |
|---|---|---|
| Net cash used in financing activities | (99,170) | (2,140) |
| Discontinued operations | | |
| Net cash (used in) provided by operating activities | (889) | 2,030 |
| Net cash used in investing activities | (2,048) | (1,519) |
| | | |
| Net cash (used in) provided by discontinued operations | (2,937) | 511 |
| Effect of exchange rate changes on cash and cash equivalents | (622) | 805 |
| | | |
| Net (decrease) increase in cash and cash equivalents | (115,187) | 5,135 |
| Cash and cash equivalents (including discontinued operations) at beginning of period | 244,301 | 221,753 |
| | | |
| Cash and cash equivalents (including discontinued operations) at end of period | 129,114 | 226,888 |
| Less cash and cash equivalents of discontinued operations at end of period | — | (25,118) |
| | | |
| Cash and cash equivalents (excluding discontinued operations) at end of period | $129,114 | $201,770 |
| | | |
| Supplemental schedule of non-cash investing and financing activities | | |
| Contribution due to Genie in connection with the spin-off | $11,892 | $— |
| | | |
| Net assets excluding cash and cash equivalents of subsidiaries deconsolidated as a result of the Genie spin-off | $30,695 | $— |

See accompanying notes to consolidated financial statements.

IDT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Basis of Presentation

The accompanying unaudited consolidated financial statements of IDT Corporation and its subsidiaries (the "Company" or "IDT") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and 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 months ended October 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2012. The balance sheet at July 31, 2011 has been derived from the Company's audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2011, 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 2012 refers to the fiscal year ending July 31, 2012).

Certain prior year amounts have been reclassified to conform to the current period's presentation:

- In the consolidated balance sheet, cash and cash equivalents of $9.9 million and restricted cash and cash equivalents of $2.3 million at July 31, 2011 previously included in "Cash and cash equivalents" and "Restricted cash and cash equivalents", respectively, have been reclassified to "Restricted cash and cash equivalents-long-term";
- In the consolidated balance sheet, deposits of $1.8 million at July 31, 2011 previously included in "Other current assets" have been reclassified to "Other assets";
- In the consolidated balance sheet, income taxes payable of $3.8 million at July 31, 2011 previously included in "Income taxes payable" have been reclassified to "Income taxes payable-long-term portion"; and
- In the consolidated statement of operations, commission expense of $2.1 million in the three months ended October 31, 2010 previously included in "Selling, general and administrative expenses" has been reclassified as a reduction of revenues.

The Company records Universal Service Fund ("USF") charges that are billed to customers on a gross basis in its results of operations, and records other taxes and surcharges on a net basis. USF charges in the amount of $0.3 million and $0.4 million in the three months ended October 31, 2011 and 2010, respectively, were recorded on a gross basis and included in "Revenues" and "Direct cost of revenues" in the accompanying consolidated statements of operations.

Note 2— Discontinued Operations

Genie Energy Ltd.

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

The Company has received a private letter ruling from the Internal Revenue Service ("IRS") substantially to the effect that, for U.S. federal income tax purposes, the Genie spin-off will qualify as tax-free under Section 355 of the Internal Revenue Code of 1986 (the "Code"). In addition to obtaining the IRS ruling, the Company has received an opinion from PricewaterhouseCoopers LLP, confirming the tax-free status of the spin-off for U.S. federal income tax purposes, including confirming the satisfaction of the requirements under Section 355 of the Code not specifically addressed in the IRS ruling.

In October 2011, prior to the spin-off, the Company funded Genie with $70.3 million so that Genie held $94.0 million in cash and cash equivalents and $0.1 million in restricted cash at the time of the spin-off. In November and December 2011, the Company funded Genie with an additional $11.9 million so that Genie was capitalized with a total of $106.0 million in aggregate cash and cash equivalents, including restricted cash. As of October 31, 2011, the Company recorded an $11.9 million payable to Genie which is classified as “Due to Genie Energy Ltd.” with an offset to additional paid-in capital in the accompanying consolidated balance sheet.

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

IDT Entertainment

In connection with the sale of IDT Entertainment to Liberty Media Corporation in the first quarter of fiscal 2007, the Company was eligible to receive additional consideration from Liberty Media based upon any appreciation in the value of IDT Entertainment over the five-year period that ended in August 2011 or a shorter period under specified circumstances (“Contingent Value”), equal to 25% of the excess, if any, of the net equity value of IDT Entertainment over $453 million. However, the Company would have to pay Liberty Media up to $3.5 million if the Contingent Value did not exceed $439 million. In September 2011, the Company and Liberty Media executed an agreement to settle and resolve all claims related to the Contingent Value and certain other disputes and claims. Liberty Media paid the Company $2.0 million in September 2011 in consideration for the settlement and related releases, which is included in “Income on sale of discontinued operations” in the accompanying consolidated statement of operations.

Summary Financial Data of Discontinued Operations

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

| | Three Months Ended October 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands) | |
| Revenues | $45,796 | $45,508 |
| | | |
| Income before income taxes | $2,609 | $5,578 |

| | | |
|---|---|---|
| Net income | $1,015 | $2,666 |

The assets and liabilities of Genie and subsidiaries at July 31, 2011 included in discontinued operations consist of the following:

| (in thousands) | |
|---|---|
| Assets | |
| Cash and cash equivalents | $23,875 |
| Restricted cash and cash equivalents | 163 |
| Trade accounts receivable, net | 26,124 |
| Prepaid expenses | 2,158 |
| Deferred income taxes, net-current portion | 1,019 |
| Other current assets | 3,001 |
| Property, plant and equipment, net | 335 |
| Goodwill | 3,663 |
| Deferred income taxes, net-long-term portion | 1,795 |
| Other assets | 1,007 |
| Assets of discontinued operations | $63,140 |
| Liabilities | |
| Trade accounts payable | $16,537 |
| Accrued expenses | 7,475 |
| Income taxes payable | 1,663 |
| Other current liabilities | 91 |
| Other liabilities | 60 |
| Liabilities of discontinued operations | $25,826 |

Note 3—Other Operating (Loss) Gains

The following table summarizes the other operating (loss) gains by business segment:

| | Three Months Ended October 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands) | |
| Telecom Platform Services-loss on settlements of litigation | $(11,252) | $— |
| All Other-gain on insurance claim | — | 1,863 |
| All Other-gain on settlement of other claims | — | 657 |
| Total | $(11,252) | $2,520 |

Telecom Platform Services

On October 12, 2011, the Company entered into a binding term sheet with T-Mobile USA, Inc. ("T-Mobile") to settle litigation related to an alleged breach of a wholesale supply agreement (see Note 8). In consideration of the settlement of all disputes between the parties, on October 13, 2011, the Company paid T-Mobile $10 million. The Company incurred legal fees of $1.0 million in fiscal 2012 in connection with this matter. In addition, in the three months ended October 31, 2011, the Company recorded a $0.2 million loss on the settlement of an unrelated claim.

All Other

In the three months ended October 31, 2010, the Company received proceeds from insurance of $2.7 million related to water damage to portions of the Company’s building and improvements at 520 Broad Street, Newark, New Jersey. The damaged portion of the building and improvements had an estimated carrying value of $1.1 million. The Company recorded a gain of $1.9 million in the three months ended October 31, 2010 from this insurance claim. The Company received aggregate proceeds of $4.0 million in fiscal 2011 and fiscal 2010 and recorded an aggregate gain of $2.6 million in fiscal 2011 from this insurance claim.

In November 2011, the Company entered into an agreement to sell eight of its spectrum licenses for $6.8 million, subject to regulatory approval and other closing conditions.

Note 4—Fair Value Measurements

At October 31, 2011 and July 31, 2011, the Company did not have any assets or liabilities measured at fair value on a recurring basis. At October 31, 2011 and July 31, 2011, the Company had $5.1 million and $5.7 million, respectively, in investments in hedge funds, of which $0.2 million and $0.2 million, respectively, were included in "Investments—short-term" and $4.9 million and $5.5 million, respectively, were included in "Investments—long-term" in the accompanying consolidated balance sheets. The Company's investments in hedge funds are accounted for using the equity method or the cost method, therefore investments in hedge funds are not measured at fair value.

The Company's marketable securities during the three months ended October 31, 2010 included auction rate securities for which the underlying asset was preferred stock of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. The fair values of the auction rate securities, which could not be corroborated by the market, were estimated based on the value of the underlying assets and the Company's assumptions, and were therefore classified as Level 3.

The following table summarizes the change in the balance of the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| | Three Months Ended October 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands) | |
| Balance, beginning of period | $— | $218 |
| Total gains (losses) (realized or unrealized): | | |
| Included in earnings in "Other income, net" | — | 5,379 |
| Included in earnings in "Selling, general and administrative expense" | — | — |
| Included in other comprehensive (loss) | — | 131 |
| Purchases, sales, issuances and settlements: | | |
| Sales | — | (5,728) |
| Transfers in (out) of Level 3 | — | — |
| Balance, end of period | $— | $— |
| The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets or liabilities still held at the end of the period: | | |
| Included in "Other income, net" | $— | $— |
| Included in "Selling, general and administrative expense" | $— | $— |

Fair Value of Other Financial Instruments

The estimated fair value of the Company's other financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting this data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. At October 31, 2011 and July 31, 2011, the carrying value of the Company's financial instruments included in certificates of deposit, trade accounts receivable, prepaid expenses, investments-short-term, other current assets, trade accounts payable, accrued expenses, deferred revenue, due to Genie Energy Ltd., income taxes payable, capital lease obligations and other current liabilities approximate fair value because of the short period of time to maturity. At October 31, 2011 and July 31, 2011, the carrying value of the Company's notes payable and other non-current liabilities approximate fair value as their contractual interest rates approximate market yields for similar debt instruments.

The Company's investments-long-term at October 31, 2011 and July 31, 2011 included investments in the equity of certain privately held entities that are accounted for at cost. It is not practicable to estimate the fair value of these investments because of the lack of a quoted market price for the shares of these entities, and the inability to estimate their fair value without incurring excessive cost. The carrying value of these investments was $3.5 million at October 31, 2011 and July 31, 2011 which the Company believes was not impaired.

Note 5—Equity

Changes in the components of equity were as follows:

| | Three Months Ended October 31, 2011 | | |
|---|---|---|---|
| | Attributable to IDT Corporation | Noncontrolling Interests | Total |
| | | (in thousands) | |
| Balance, July 31, 2011 | $209,095 | $(5,305) | $203,790 |
| Dividends declared ($0.23 per share) | (5,217) | — | (5,217) |
| Genie spin-off | (129,734) | 6,688 | (123,046) |
| Distributions to noncontrolling interests | — | (350) | (350) |
| Other | — | 225 | 225 |
| Stock-based compensation | 962 | — | 962 |
| Comprehensive income: | | | |
| Net loss | (4,326) | (747) | (5,073) |
| Other comprehensive loss | (808) | 12 | (796) |
| Comprehensive loss | (5,134) | (735) | (5,869) |
| Balance, October 31, 2011 | $69,972 | $523 | $70,495 |

Dividend Payments

On October 12, 2011, the Company paid a cash dividend of $0.23 per share for the fourth quarter of fiscal 2011 to stockholders of record at the close of business on October 3, 2011 of the Company's Class A common stock and Class B common stock. The aggregate dividends paid were $5.2 million.

On December 12, 2011, the Company's Board of Directors declared a $0.13 per share dividend payable on January 5, 2012 to stockholders of record of the Company's Class A common stock and Class B common stock as of the close of business on December 22, 2011.

Stock-Based Compensation

On November 22, 2011, the Company entered into an Employment Agreement with Mr. Bill Pereira, the Chief Executive Officer of IDT Telecom and formerly the Company's Chief Financial Officer. Pursuant to this agreement, among other things, the Company (i) will employ Mr. Pereira until December 31, 2014, (ii) granted Mr. Pereira options to purchase 7,750 shares of the Company's Class B common stock, with an exercise price of $12.67 per share, which was equal to the fair market value on the date of grant and (iii) granted Mr. Pereira 25,000 restricted shares of the Company's Class B common stock. The options and restricted shares were granted on November 22, 2011 under the Company's 2005 Stock Option and Incentive Plan. The options and restricted shares vest in three equal annual installments beginning on November 22, 2012. If the Company terminates Mr. Pereira's employment without cause (as defined in the employment agreement) or Mr. Pereira terminates his employment for good reason (as defined in the employment agreement), then all options will immediately vest and the restrictions on all shares will lapse on the day immediately prior to the date of termination. The fair value of the options and restricted shares on the grant date of $41,000 and $0.3 million, respectively, is expected to be recognized as compensation expense over the vesting period that ends on November 22, 2014. The fair value of the options was estimated using a Black-Scholes valuation model and the following assumptions: (1) expected volatility of 66% based on the historical volatility of comparable companies and other factors, (2) a discount rate of 1.06%, (3) expected term of 6 years and (4) an expected dividend yield of 4.4%. The fair value of the restricted shares was determined based on the closing price of the Company's Class B common stock on the date of grant. No compensation cost was recognized related to this agreement in the three months ended October 31, 2011.

On October 28, 2011, the Company entered into an Employment Agreement with Mr. Liore Alroy, the Company's Deputy Chairman and formerly the Chief Executive Officer of IDT Telecom. Pursuant to this agreement, among other things, the Company (i) will employ Mr. Alroy until October 28, 2014 and (ii) granted Mr. Alroy options on November 22, 2011 under the Company's 2005 Stock Option and Incentive Plan to purchase 0.2 million shares of the Company's Class B common stock, with an exercise price of $12.67 per share, which was equal to the fair market value on the date of grant. The options vest in eight equal annual installments beginning on November 22, 2012. If the Company terminates Mr. Alroy's employment without cause (as defined in the employment agreement), or the term of Mr. Alroy's employment expires and the Company does not offer to extend the term, or Mr. Alroy terminates his employment for good reason (as defined in the employment agreement), then (i) three-eighths of the unvested options will vest on the first anniversary of the date of termination, (ii) one-half of the unvested options will vest on the second anniversary of the date of termination and (iii) the remaining unvested options will vest on the third anniversary of the date of termination. The fair value of the options on the grant date of $1.2 million is expected to be recognized as compensation expense over the vesting period that ends on November 22, 2019. The fair value was estimated using a Black-Scholes valuation model and the following assumptions: (1) expected volatility of 66% based on the historical volatility of comparable companies and other factors, (2) a discount rate of 1.62%, (3) expected term of 7.25 years and (4) an expected dividend yield of 4.4%. No compensation cost was recognized related to this agreement in the three months ended October 31, 2011.

As of October 31, 2011, there were fully vested outstanding options to purchase 0.5 million shares of the Company's Class B common stock, with various exercise prices and expiration dates. The exercise prices of all of such options were above the market price for the Company's Class B common stock on such date. On November 22, 2011, in connection with the Genie spin-off, the exercise price of each outstanding option to purchase the Company's Class B common stock was reduced by 43.8% of the exercise price based on the change in the trading price of the Company's Class B common stock following the spin-off. Further, each option holder shared ratably in a pool of options to purchase 50,000 shares of Genie Class B common stock, meaning that each option holder received an option to purchase one-tenth of a share of Genie Class B common stock for each option to purchase one share of the Company's Class B common stock held as of the Genie spin-off. The November 2011 reduction in the exercise price of the Company's outstanding stock options and the grant of new options in Genie will be accounted for by the Company as a modification in the second quarter of fiscal 2012. The modification affected approximately 120 of the Company's employees. The Company does not expect to record a stock-based compensation charge as a result of this modification.

In December 2010, January 2011 and October 2011, an aggregate of 0.2 million restricted shares of the Company's Class B common stock was granted to certain of the Company's directors, officers and employees. Total unrecognized compensation cost on the grant date was $6.4 million. The equity awards were measured using the grant date fair value of the Company's Class B common stock and are not remeasured at the end of each reporting period. The unrecognized compensation cost of $4.1 million at October 31, 2011 is expected to be recognized over the remaining vesting period that ends in October 2014. The Company recognized compensation cost related to these shares of $0.5 million and nil in the three months ended October 31, 2011 and 2010, respectively.

On October 31, 2008, the Company entered into an Amended and Restated Employment Agreement with Mr. Howard S. Jonas, the Company's Chairman of the Board and as of October 22, 2009 the Company's Chief Executive Officer. Pursuant to this agreement (i) the term of Mr. Jonas' employment with the Company runs until December 31, 2013 and (ii) Mr. Jonas was granted 1.2 million restricted shares of the Company's Class B common stock and 0.9 million restricted shares of the Company's common stock in lieu of a cash base salary beginning January 1, 2009 through December 31, 2013. The restricted shares vest in different installments throughout the term of Mr. Jonas' employment as delineated in the agreement, and all of the restricted shares paid to Mr. Jonas under the agreement automatically vest in the event of (i) a change in control of the Company; (ii) Mr. Jonas' death; or (iii) if Mr. Jonas is terminated without cause or if he terminates his employment for good reason as defined in the agreement. A pro rata portion of the restricted shares will vest in the event of terminat