IDT CORP
Form 10-K
October 14, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual report pursuant to section 13 or 15(d) of the securities exchange act of 1934

for the fiscal year ended July 31, 2016,

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

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

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

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

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

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

Large accelerated filer	Accelerated filer
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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant, based on the adjusted closing price on January 29, 2016 (the last business day of the registrant’s most recently completed second fiscal quarter) of the Class B common stock of $12.70 per share, as reported on the New York Stock Exchange, was approximately $254.5 million.

As of October 10, 2016, the registrant had outstanding 21,473,945 shares of Class B common stock and 1,574,326 shares of Class A common stock. Excluded from these numbers are 3,932,461 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 14, 2016, is incorporated by reference into Part III of this Form 10-K to the extent described therein.

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IDT Corporation

Annual Report on Form 10-K

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 2016 refers to the fiscal year ended July 31, 2016).

Item 1. Business.

OVERVIEW

We are a multinational holding company with operations primarily in the telecommunications and payment industries.

Since our inception, we have derived the majority of our revenues and operating expenses from IDT Telecom's businesses, with IDT Telecom's revenues representing 99.2% of our total revenues in fiscal 2016. IDT Telecom's primary businesses market and distribute multiple communications and payment services across four broad business verticals:

Retail Communications provides international long-distance calling products primarily to foreign-born communities worldwide, with its core markets in the United States;
Wholesale Carrier 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;
Payment Services provides payment offerings, including international and domestic airtime top-up and international money transfer; and
Hosted Platform Solutions provides customized communications services that leverage our proprietary networks, platforms and/or technology to cable companies and other service providers.

Our Retail Communications vertical provides prepaid international long distance calling services primarily to foreign-born and underbanked consumers in the United States, with smaller retail operations serving customers in Europe, Asia, South America and Canada. Retail Communications offerings include our flagship 'Boss Revolution' branded PIN-less international long distance prepaid calling offerings as well as traditional, disposable hard cards sold under a variety of brands. In the United States, the majority of our customers purchase Retail Communications offerings through one of our more than 35,000 Boss Revolution authorized resellers. These resellers are typically small, independent retailers serving foreign-born communities. Boss Revolution customers can also purchase calling services directly through our IVR (Interactive Voice Response) system, website (www.bossrevolution.com), or mobile app available free on both the iTunes App Store and on Google Play.

Our Wholesale Carrier Services business terminates international long distance calls for our retail customers and for other telecommunications companies, service providers, and resellers around the world. Our wholesale telecommunications network is comprised of interconnections that link virtually every country and significant carrier in the world.

Our Payment Services vertical includes international mobile top-up (IMTU) offerings sold through our retail network or directly from the Boss Revolution website and mobile app, as well as our Boss Revolution international money transfer and National Retail Solutions business. IMTU is sold under the Boss Revolution brand as well as through mobile operator top-up cards sold by Boss Revolution resellers. Our Boss Revolution international money transfer business includes remittances from the United States to 49 countries offered through certain Boss Revolution resellers as well as the Boss Revolution online/mobile platform. Our National Retail Solutions business provides point of sale (POS) terminals and related services, including consumer rewards programs, credit card processing and coupon program participation to independent retailers in the U.S. The Payment Services vertical also includes IDT Financial Services Ltd., our Gibraltar-based bank, that issues prepaid debit cards to program managers across the European Economic Area.

Our Hosted Platform Solutions' vertical includes voice over Internet protocol (VoIP) based offerings including cloud based telephony and SIP Trunking services under the Net2Phone and Picup brands, and residential telephony services provisioned to cable television providers under the Net2Phone Cable Telephony brand. Hosted Platform Solutions' offerings are delivered through several channels including cable operators (Net2Phone Cable Telephony) value added resellers (VARs), service providers, telecom agents and managed service providers (MSPs).

In addition, IDT Telecom operates a business that provides bundled local/long distance residential phone service in 11 states under the brand name IDT America.

Outside of our core telecommunications business, we also hold commercial real estate including our headquarters building and associated garage in Newark, New Jersey and an operations facility in Piscataway, New Jersey.

Our headquarters are located at 520 Broad Street, Newark, New Jersey 07102. The main telephone number at our headquarters is (973) 438-1000 and our corporate web site's home page is www.idt.net.

We make available free of charge 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 through the investor relations page of our web site (http://ir.idt.net/) as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. Our web site also contains information 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

1990 – Howard Jonas, our founder, launched International Discount Telephone to provide international call re-originations services.

1995 – We begin selling wholesale carrier services to other long distance carriers by leveraging our access to favorable international telephone rates generated by our retail calling traffic.

1996 – We successfully complete an initial public offering of our common stock.

1997 – We began marketing prepaid calling cards to provide convenient and affordable international long distance calls primarily to immigrant communities.

2000 – We complete the sale of a stake in our Net2Phone subsidiary, a pioneer in the development and commercialization of VoIP technologies and services, to AT&T for approximately $1.1 billion in cash.

2001 – Our common stock is listed on the New York Stock Exchange, or NYSE.

2003 – We begin offering local and long distance calling services to residential customers.

2004 – We launch a retail energy business to provide electricity and natural gas to residential and small business customers in New York.

2006 – We sell our Russian telecom business, Corbina, for $129.9 million in cash.

– We launch a regulated issuing bank based in Gibraltar.

2007 – We complete the sale of IDT Entertainment to Liberty Media for (i) 14.9 million shares of our Class B common stock, (ii) Liberty Media's approximate 4.8% interest in IDT Telecom, (iii) $220.0 million in cash, net of certain working capital adjustments, (iv) the repayment of $58.7 million of IDT Entertainment's intercompany indebtedness payable to us and (v) the assumption of all of IDT Entertainment's existing indebtedness.

– We sell our United Kingdom-based consumer phone service for approximately $46.3 million of cash and stock.

– We purchase a majority interest in Fabrix Systems Ltd., or Fabrix.

– We purchase a majority stake in Zedge, Inc. (formerly Zedge Holdings, Inc.), or Zedge, which provides one of the most popular content platforms for mobile device personalization including ringtones, wallpapers, home screen icons and notification sounds.

2008 – We enter the oil and gas exploration business with the acquisition of E.G.L. Oil Shale and are granted a license to explore for oil shale in Israel.

– We launch Boss Revolution PIN-less, a pay-as-you-go international calling service. Boss Revolution has since become our flagship brand, and the Boss Revolution platform has been expanded to include payment offerings.

2009 – We spin-off our CTM Media Holdings subsidiary to stockholders. CTM Media Holdings has been renamed IDW Media Holdings and is traded on the over-the-counter market with the ticker symbol "IDWM".

2011 – We spin-off our Genie Energy Ltd. subsidiary, which holds retail energy and oil and gas exploration businesses, to stockholders. Genie Energy is listed on the NYSE with the ticker symbols "GNE" and "GNE-PRA".

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2013 – We spin-off our Straight Path Communications, Inc. subsidiary to stockholders. Straight Path Communications is listed on the NYSE MKT with the ticker symbol “STRP”.

– We introduce the Boss Revolution mobile app for Android and iOS.

– We launch an international money transfer service on the Boss Revolution platform in select states. The service offers Boss Revolution customers a convenient, affordable means to send cash from the United States to friends and family overseas.

2014 – We sell our 78% stake in Fabrix to Ericsson for $69 million as part of Ericsson’s purchase of Fabrix for $95 million.

2015 – We become the first U.S.-based telecommunications company to terminate international long distance voice traffic directly to Cuba.

2016 – We spin-off our Zedge, Inc. subsidiary to stockholders. Zedge is listed on the NYSE MKT with the ticker symbol “ZDGE”.

– We launch National Retail Solutions to provide POS-based services to independent retailers in the United States.

DIVIDENDS AND DISTRIBUTIONS

We have made quarterly distributions to the holders of our Class A and Class B common stock since fiscal 2011. In fiscal 2016, we paid aggregate cash dividends of $0.75 per share on our Class A common stock and Class B common stock, or $17.4 million in total as detailed below. In fiscal 2015, we paid aggregate cash dividends of $2.03 per share on our Class A common stock and Class B common stock, or $47.6 million in total. The aggregate cash dividends in fiscal 2015 included special dividends of $0.68 per share and $0.64 per share paid in November 2014 and January 2015, respectively, to return to our stockholders a portion of the proceeds from the sale of Fabrix.

On October 15, 2015, we paid an ordinary cash dividend of $0.18 per share for the fourth quarter of fiscal 2015;

On December 18, 2015, we made an ordinary cash dividend of $0.19 per share for the first quarter of fiscal 2016;
On March 25, 2016, we paid an ordinary cash dividend of $0.19 per share for the second quarter of fiscal 2016; and
On June 17, 2016, we made an ordinary cash dividend of $0.19 per share for the third quarter of fiscal 2016.

On September 27, 2016, we declared a dividend of $0.19 per share for the fourth quarter of fiscal 2016 to holders of our Class A common stock and Class B common stock. The dividend will be paid on or about October 20, 2016 to stockholders of record as of the close of business on October 11, 2016.

We expect to continue making regular quarterly distributions commensurate with our cash generation and financial resources, business outlook and growth strategy.

OUR STRATEGY

History and Background

Since our founding, we have focused on value creation by leveraging potentially disruptive telecommunications, payment and other technologies to challenge entrenched business models. Outside of our core businesses, we have sought to select and incubate promising early stage businesses and, in some cases, have sold those businesses or spun them off to our stockholders.

In 2007 and 2008, in response to a long-term, industry-wide decline in the sale of prepaid, disposable calling cards, which was our dominant offering at the time, we initiated a fundamental restructuring of our businesses. We right-sized corporate overhead, reduced network costs at IDT Telecom, streamlined our operations, and refocused on the growth and profitability of our core telecommunications businesses. In 2009, 2011, 2013 and 2016, we spun off to our stockholders non-core businesses, CTM Media, Genie Energy, Straight Path Communications, and Zedge, respectively. In October 2014, we completed the sale of our interest in Fabrix, a network storage and processing technology business, to Ericsson for $69 million in cash as part of Ericsson’s purchase of Fabrix for $95 million.

Within IDT Telecom, we have reduced the cost of our infrastructure while leveraging our VoIP expertise and large retail network to develop new products and services. We also sharpened our retail focus to provide high-quality, cost-effective communications and payment services primarily to foreign-born consumers. This is a rapidly growing demographic and a historically underserved market that includes significant numbers of unbanked and under-banked consumers.

As part of our effort to meet the changing demands of our target demographic, in 2008 we launched Boss Revolution PIN-less, a pay-as-you-go international long distance voice service. The service grew rapidly and eventually overtook sales of our traditional, disposable prepaid calling cards. We believe that Boss Revolution PIN-less has become the nation’s leading pay-as-you-go international calling service. We subsequently developed and introduced complementary payment services over the Boss Revolution platform, including international and domestic airtime top-up, gift cards, domestic bill payment and an international money transfer service. These additions represent significant milestones toward our goal of offering a comprehensive suite of voice and payment products under a single, global brand and platform targeted to under-banked, foreign-born consumers.

To simplify the Boss Revolution PIN-less calling experience and expand its reach, we introduced our Boss Revolution mobile app in 2013. The app is free to the consumer and is distributed through both the iTunes and Google Play app stores. In 2014, we deployed the Boss Revolution app for retailers. Our retail app enables a qualified individual in the United States with an Android or iOS smartphone to become a Boss Revolution retailer and to manage their Boss Revolution account virtually anywhere, anytime. We expect our retailer app to be replaced at the end of calendar 2016 and replaced with a Boss Revolution retailer portal that can accessed via the web browser on a mobile device.

Leveraging the high volumes of traffic to certain overseas destinations generated by our retail business, we have long been a significant operator in the global wholesale telecommunications market, carrying and terminating international calling traffic on behalf of other telecommunications companies and call aggregators. More recently, we have maintained our leadership in the wholesale market by leveraging VoIP technology and broadening our offerings with different levels of service quality.

Recent Strategic Developments

In August 2015, our Board of Directors approved a plan to reorganize into three separate entities by spinning off two business units to our stockholders, one of which was Zedge, which we completed on June 1, 2016. The remaining components of the reorganization are subject to change as well as both internal and third-party contingencies, and must receive final approval from our Board of Directors and certain third-parties. We continue to advance the effort on the remainder of the reorganization.

IDT Telecom

IDT Telecom’s largest offerings including its Boss Revolution prepaid PIN-less calling services and wholesale termination business face intense competitive pressures on revenues and margins. In response, IDT Telecom is pursuing a multi-pronged strategy that includes:

Reducing the cost of operating our network, streamlining operations, and right sizing overhead;
Expanding our national network of 35,000+ Boss Revolution retailers;
Building the Boss Revolution brand through direct to consumer marketing, promotions, and rewards programs;
Bringing new communications and payment services to the Boss Revolution platform and mobile app to create new sources of revenue;
Utilizing our direct and indirect sales force to deepen market penetration in certain foreign-born communities, focusing on geographies and ethnic communities where we have not traditionally been a leading provider;
Building on the early success of our Net2Phone brand's enterprise offerings including Session Initiation Protocol, or SIP, trunking and hosted private branch exchange, or PBX, services;
Investing to expand our early-stage international money transfer business with a focus on increasing the number of originating agents in the United States and our direct to consumer efforts via mobile; and
Investing in our National Retail Solutions business which provides merchant service offerings through point of sale (POS) terminals enabling independent retailers to participate in national coupon and other consumer goods promotional offerings, offer rewards programs, and access additional POS network benefits.

BUSINESS DESCRIPTION

IDT TELECOM

IDT Telecom is comprised of two reportable segments, Telecom Platform Services and Consumer Phone Service. Since our inception, we have derived the majority of our revenues and operating expenses from IDT Telecom’s businesses. In fiscal 2016, IDT Telecom had revenues of $1,484.8 million, representing 99.2% of our total consolidated revenues, and income from operations of $32.4 million, as compared with revenues of $1,581.3 million and income from operations of $28.3 million in fiscal 2015.

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TELECOM PLATFORM SERVICES

Our Telecom Platform Services segment, which represented 99.5% and 99.4% of IDT Telecom's total revenues in fiscal 2016 and fiscal 2015, respectively, markets and distributes multiple communications and payment services across four broad business verticals:

Retail Communications provides international long-distance calling products primarily to foreign-born communities worldwide, with its core markets in the United States;
Wholesale Carrier 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;
Payment Services provides payment offerings, including international and domestic airtime top-up and international money transfer; and
Hosted Platform Solutions provides customized communications services that leverage our proprietary networks, platforms and/or technology to cable companies and other service providers.

During fiscal 2016, our Telecom Platform Services segment generated $1,477.9 million in revenues worldwide and income from operations of $31.2 million, as compared with revenues of $1,572.7 million and income from operations of $27.0 million in fiscal 2015.

Retail Communications

Retail Communications' revenue was $672.2 million in fiscal 2016 compared to $735.0 million in fiscal 2015 (45.5% and 46.7% of Telecom Platform Services' revenue in fiscal 2016 and fiscal 2015, respectively).

The majority of Retail Communications' sales are generated by the Boss Revolution PIN-less international calling service. Other smaller lines of business contribute to Retail Communications sales, including (1) traditional, disposable prepaid calling cards sold under a variety of brand names both domestically and overseas, (2) private label and IDT branded prepaid and point of sale activated calling cards sold to large retailers, medium sized retail chains (e.g. supermarkets, drug stores), and smaller grocery stores and similar outlets, and (3) our PennyTalk international calling service. Other revenues generated using our Boss Revolution platform, including airtime top-up and international money transfer are reflected in the Payment Services vertical discussed below.

Boss Revolution PIN-less allows users to call their families and friends overseas without the need to enter a personal identification number, or PIN. To place a call, a customer must first establish a Boss Revolution prepaid account. Boss Revolution customers can access our network by first dialing a local access or toll-free number. Our platform recognizes the user's network-provided automatic number identification (ANI) and seamlessly links each call to the corresponding Boss Revolution account. Callers then enter their destination phone numbers. The dialing process is automated to provide one-touch dialing in the Boss Revolution mobile app.

Boss Revolution customers' account balances are typically debited at a fixed rate per minute. In contrast to many competitors, Boss Revolution does not charge connection, usage or breakage fees. Boss Revolution per minute rates can vary by the destination country, city, and whether the destination is a landline or mobile phone. Rates are published on the Boss Revolution consumer website and within the Boss Revolution mobile app. In addition to per minute prepaid plans, Boss Revolution offers unlimited calling plans for a flat monthly fee to some destinations.

Customers can add to, or top-up, their account balance at any Boss Revolution retailer using cash or a credit card. Customers with a credit or debit card can also add to their account balance directly by phone, online through the Boss Revolution consumer web site (www.bossrevolution.com), or through the Boss Revolution mobile app.

In the United States, we distribute many of our retail products through our network of distributors that, either directly or through sub-distributors, sells to retail locations. In addition, our internal sales force sells Boss Revolution platform products directly to retailers. Also, the Boss Revolution mobile app is available for download through both the iTunes and Google Play stores. Distributors, our internal sales people and retailers typically receive commissions based on the revenue generated by each transaction.

The Boss Revolution retailer portal enables retailers to create accounts for new customers, add funds to existing customer balances and execute sales transactions for the various products and services available on the portal. The Boss Revolution retailer portal also provides a direct, real-time interface with our retailers, resulting in a cost-effective and adaptable distribution model that can rapidly respond to changes in the business environment.

The Boss Revolution platform allows us to target and promote services directly to customers and retailers, and to introduce and cross-sell offerings. For example, the successful launches of international and domestic airtime top-up over the Boss Revolution platform leveraged our existing capabilities and distribution network to expand the scope of services we provide to our customers.

In the United States, the Boss Revolution brand is supported by national, regional and local marketing programs that include television and radio advertising, online advertising, print media, and grass roots marketing at community and sporting events. In addition, we work closely with distributors and retailers on in-store promotional programs and events.

Retail Communications' sales have traditionally been strongest in the Northeastern United States and in Florida because of our extensive local distribution network and their large foreign born populations. In addition to these geographic areas, we continue to grow distributor relationships and expand our retail network in other areas of the United States, including the Southwest and West Coast, where we historically have not had as strong of a market presence.

Wholesale Carrier Services

Wholesale Carrier Services' revenue was $555.1 million in fiscal 2016 compared to $590.9 million in fiscal 2015 (37.6% and 37.6% of Telecom Platform Services' revenue in fiscal 2016 and fiscal 2015, respectively).

Wholesale Carrier Services terminates international telecommunications traffic in more than 170 countries around the world. Our customers include IDT's Retail Communications business, major and niche carriers around the globe, mobile network operators, and other service providers such as call aggregators. For many of these customers, particularly the major carriers, we engage in buy-sell relationships, terminating their customers' traffic in exchange for terminating our wholesale and retail traffic with their customers.

We offer competitively priced international termination rates at several quality levels. We are able to offer competitively priced termination services in part because of the large volumes of originating minutes generated by our Retail Communications business, our global platform powered by proprietary software, our team of professional and experienced account managers, and an extensive network of interconnects around the globe.

IDT Telecom terminated 28.3 billion minutes in fiscal 2016, as compared to 29.3 billion minutes in fiscal 2015, making us one of the largest carriers of international long distance minutes worldwide. Wholesale Carrier Services accounted for 19.2 billion minutes and 19.4 billion minutes of the total IDT Telecom minutes in fiscal 2016 and fiscal 2015, 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, Europe and the Middle East. Tier 1 providers are the largest recognized licensed carriers in a country. Direct connections improve the quality of the telephone calls and reduce the cost, thereby enabling us to generate more traffic with higher margins to the associated foreign locales. We also have direct relationships with mobile network operators, reflecting their growing share of the voice traffic market.

Termination rates charged by Tier 1 and other providers of international long distance traffic have been declining for many years. Nevertheless, termination rates charged to us by individual Tier 1 carriers and mobile operators can be volatile. Termination price volatility on heavily trafficked routes can significantly impact our minutes of use and wholesale revenues. However, because of the small margins on these routes, the resulting change in the Wholesale Carrier Services business’s underlying profitability is often not material.

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 provide services to high-value, quality-conscious retail customers. As of July 31, 2016, Wholesale Carrier Services had more than 3,000 customers. IDT Telecom has over 600 carrier relationships globally.

Wholesale Carrier Services’ revenue is generated by sales to both postpaid and prepaid customers. Postpaid customers typically include Tier 1 carriers, mobile network operators and our most credit worthy customers. Prepaid customers are typically smaller telecommunication companies as well as independent call aggregators.

Payment Services

Payment Services’ revenue was $219.2 million in fiscal 2016 compared to $208.3 million in fiscal 2015 (14.8% and 13.3% of Telecom Platform Services’ revenue in fiscal 2016 and fiscal 2015, respectively).

The majority of Payment Services’ revenue is generated by international airtime top-up. Other products and services in this vertical include domestic airtime top-up, gift cards sold in the United States and Europe, domestic bill pay service, our international money transfer service and the operations of our Gibraltar-based bank. Payment Services’ offerings leverage our platform capabilities, our distribution reach into foreign-born communities and our global reach to provide convenient and affordable offerings, mostly over the Boss Revolution platform.

Our international airtime top-up products enable customers to purchase minutes for a prepaid mobile telephone in another country. They are sold both over our Boss Revolution platform and in hard card format. Our international airtime top-up offerings are focused on geographic corridors, such as the United States to various Central American countries, that tend to generate high volumes of business, and are part of a comprehensive product offering that includes product, marketing and distribution focused on those corridors.

International remittances are a significant economic activity among our target market of foreign-born residents and other under-banked communities. To serve that market, we began to roll-out an international money transfer service over our Boss Revolution platform in 2013. Prior to launch, we obtained the requisite licenses including those required by nearly every state, formalized relationships with national and local banks in the United States, developed a compliance operation to comply with applicable anti-money laundering laws and regulations, and assembled a disbursement network of banks, retailers, mobile money platforms and other points of payment overseas where beneficiaries can receive their transferred funds. Our international money transfer service is offered over the Boss Revolution platform, and like other payment services, utilizes our retail network and associated ability to serve unbanked customers. However, we expect that only a limited number of Boss Revolution retailers in the United States will eventually qualify to process international money transfer transactions.

Revenues from international money transfer are derived from a per-transaction fee charged to the customer and from foreign exchange differentials. Although we offer lower promotional rates from time to time, including as an incentive for customers to try the service, we generally charge the standard industry rates. Transaction costs include commissions paid to the retail agent, payment to the international disbursing agent, banking, compliance, and foreign currency exchange costs.

Payment Services also includes reloadable prepaid debit cards marketed across the European Economic Area and Bank Identification Number (BIN) sponsorship services offered by our Gibraltar-based bank.

Hosted Platform Solutions

Hosted Platform Solutions’ revenue was $31.4 million in fiscal 2016 compared to $38.5 million in fiscal 2015 (2.1% and 2.4% of Telecom Platform Services’ revenue in fiscal 2016 and fiscal 2015, respectively).

Hosted Platform Solutions’ revenue is generated primarily by VoIP products and services sold under the Net2Phone brand. Net2Phone’s channel-based business focuses primarily on the UCaaS (Unified Communications as a Service) enterprise market place. From a product perspective, Net2Phone continues to develop our Hosted PBX, SIP Trunking and other telephony cloud-based solutions. In fiscal 2016, the Net2Phone division successfully launched an alternate brand targeting the VSB (very small business)/business startup community with our self-serving, cloud pbx solution called Picup. In fiscal 2017, we expect to release new add-on features and functionality to the Picup brand and product set.

IDT continues to optimize and improve its cable telephony platform to reduce the underlying costs of service and speed deployment of its efficiencies.

International Operations

Internationally, we are a leading provider of prepaid calling cards including both private label and IDT-branded calling cards, which are sold through an extensive network of thousands of independent retailers as well as through our own internal sales force. Additionally, we sell Boss Revolution PIN-less international calling and domestic and international airtime top-up and payment services in select global markets both through retailers and directly to consumers. Wholesale Termination and related wholesale services are marketed and sold globally through our internal wholesale team.

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 outside of Europe to these developed nations. Because the immigrant market is fragmented, and due to the large number of markets in which we compete, we offer over 470 different prepaid calling cards in Europe. In addition, we sell Boss Revolution platform products through retailers, our mobile app, and direct-to-consumer web sites in Germany, Spain and the United Kingdom. In the United Kingdom, we sell the Prime Card, a leading prepaid MasterCard through select retailers and online directly to consumers.

Our operations in Europe also include Wholesale Carrier Services. We maintain our European corporate, Retail Communications and Wholesale Carrier Services operations in London, England. We also operate satellite offices in Germany, Belgium, Spain, Italy, Ireland and Greece.

Our European operations, including Wholesale Carrier Services and Retail Communications, generated $368.5 million of revenues in fiscal 2016, an increase from the $359.4 million of revenues generated during fiscal 2015. Our European operations' revenues constituted 24.9% of IDT Telecom's revenues from continuing operations in fiscal 2016, as compared to 22.7% in fiscal 2015.

In Asia, we sell Retail Communications products in Hong Kong, Singapore, Australia, Taiwan and Malaysia. In Hong Kong, we are one of the top providers of prepaid calling services to the Filipino, Indian and Indonesian populations, three of the largest overseas worker segments there. In addition, in Singapore, our Retail Communications products are a market leader to the Indian, Indonesian and Bangladeshi populations, which are among the largest ethnic segments in Singapore. We sell Boss Revolution platform products through retailers, our mobile app, and direct-to-consumer web sites in Australia, Hong Kong, and Singapore. In Asia, we also sell postpaid services direct to consumers and small businesses. In fiscal 2016, IDT Telecom generated $45.4 million in revenues from our operations in the Asia Pacific region compared to $57.6 million in fiscal 2015. Our operations in Asia also include Wholesale Carrier Services. We maintain our Asia Pacific headquarters in Hong Kong.

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 2016, IDT Telecom generated $13.3 million in revenues from the sale of Retail Communications products in Latin America compared to $19.0 million in fiscal 2015.

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 internal sales force. In addition, our private label calling cards as well as our IDT-branded calling cards are also marketed to retail chains and outlets through our 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 consumer website (www.bossrevolution.com) and mobile apps for iOS and Android.

Net2Phone, our VoIP division, focuses on the channel marketplace by partnering with service providers, distributors, system integrators, telecom agents and master agents domestically and internationally. These partners utilize Net2Phone's full suite of VoIP communication solutions - SIP Trunking, Hosted PBX, Broadband Telephony, and Mobile VoIP calling apps - allowing their enterprise and residential end users to capitalize on the growth, flexibility and cost advantages of IP-based calling.

In Europe, Asia Pacific and Latin America, we are a leading provider of prepaid calling cards including both private label and IDT-branded calling cards, which are sold through an extensive network of thousands of independent retailers as well as through our own internal sales force. Additionally, we sell Boss Revolution PIN-less international calling and domestic and international airtime top-up in select markets both through retailers and directly to consumers. In Asia, we also sell postpaid services direct to consumers and small businesses. In the United Kingdom, we sell the Prime Card, a leading prepaid MasterCard through select retailers and online directly to consumers. Wholesale Carrier Services are marketed and sold through our internal wholesale sales team. In Canada, we sell Boss Revolution platform products through retailers, our mobile app, and direct-to-consumer web sites.

Telecommunications Network Infrastructure

IDT Telecom operates a global network to provide an array of telecommunications and payment services to our customers worldwide using a combination of proprietary and third-party applications. Proprietary applications include call routing and rating, customer provisioning, call management, e-commerce sites, 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 VoIP and is interconnected, where needed, 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 and indirect interconnects. The network includes data centers located in the United States, the United Kingdom and Hong Kong, which house equipment used for both our voice and payment services, with smaller points of presence in several other countries. It is monitored and operated on a continual basis by our Network Operations Center in the United States. More recently, we started to make use of one of the leading cloud providers to serve as host for some of our application infrastructure.

CONSUMER PHONE SERVICES

Our Consumer Phone Services segment generated revenues of $6.9 million and income from operations of $1.2 million in fiscal 2016, as compared to revenues of $8.6 million and income from operations of $1.3 million in fiscal 2015.

During fiscal 2016, 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 2017.

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.

At July 31, 2016, we had approximately 4,200 active customers for our bundled local/long distance plans and approximately 18,100 customers for our long distance-only plans, compared to approximately 5,100 and 22,700 customers, respectively, on July 31, 2015. Our highest customer concentrations are in large urban areas, with the greatest number of customers located in New York, New Jersey, Pennsylvania and Massachusetts.

ALL OTHER

Operating segments that are not reportable individually are included in All Other. On June 1, 2016, we completed the Zedge Spin-Off, which was a pro rata distribution of the common stock that we held in our subsidiary Zedge to our stockholders. In connection with the Zedge Spin-Off, each of our stockholders received one share of Zedge Class A common stock for every three shares of our Class A common stock, and one share of Zedge Class B common stock for every three shares of our Class B common stock, held of record as of the close of business on May 26, 2016. Zedge is listed on the NYSE MKT with the ticker symbol "ZDGE". We received a legal opinion that the Zedge Spin-Off should qualify as a tax-free transaction for U.S. federal income tax purposes. The disposition of Zedge did not meet the criteria to be reported as a discontinued operation and accordingly, its assets, liabilities, results of operations and cash flows have not been reclassified.

At the time of its spin-off, Zedge’s principal business consisted of providing one of the most popular content platforms for mobile device personalization including ringtones, wallpapers, home screen icons and notification sounds. Its smartphone app, available in Google Play and iTunes, has been installed over 215 million times and has averaged among the top 25 most popular apps in the Google Play store in the U.S. for the past six years.

All Other also includes our real estate holdings, and other smaller businesses. Prior to its sale in October 2014, All Other also included Fabrix, a software development company offering a cloud-based scale-out storage and computing platform optimized for big data, virtualization and media storage, processing and delivery. The final sale price for 100% of the shares in Fabrix was $95 million in cash, excluding transaction costs and working capital and other adjustments. We owned approximately 78% of Fabrix on a fully diluted basis. Our share of the sale price was $69.2 million, after reflecting the impact of working capital and other adjustments. We recorded gain on the sale of our interest in Fabrix of $76.9 million and $1.1 million in fiscal 2015 and fiscal 2016, respectively.

On December 7, 2015, we approved an investment of up to $10 million in Cornerstone Pharmaceuticals (“Cornerstone), As of July 31, 2016, we funded $2.0 million of our potential $10 million investment in Cornerstone. On September 19, 2016, we funded the balance of $7.6 million, which was net of deductions for interim advances to Cornerstone as well as certain due diligence expenses related to the investment.

During fiscal 2016, All Other generated $11.5 million in revenues and income from operations of $4.2 million, compared to revenues of $15.4 million and income from operations of $78.0 million, including gain on the sale of interest in Fabrix of $76.9 million, in fiscal 2015.

Included in All Other during fiscal 2016 were Zedge revenues of $9.5 million and income from operations of $2.3 million compared to $9.0 million and $0.1 million, respectively, in fiscal year 2015. Prior to its sale, during fiscal 2015, Fabrix generated $4.2 million in revenues and income from operations of $0.9 million.

COMPETITION

IDT Telecom

Telecom Platform Services

Retail Communications

Like all international calling services, our Boss Revolution PIN-less service is subject to fierce competition, and we do not expect to continue to grow revenues and margins without a successful strategy and sound execution. While virtually any company offering retail voice services is a competitor of our Retail Communications offerings, we face particularly strong competition from Tier 1 mobile network operators who offer flat rate international calling plans, other PIN-less prepaid voice offerings, prepaid calling card providers, mobile virtual network operators (or MVNOs) with aggressive international rate plans, and VoIP and other “over the top” (or OTT) service providers. Outside the United States, we also compete with large foreign state-owned or state sanctioned telephone companies.

In our view, our ability to compete successfully against these operators depends on several factors. Our interconnect and termination agreements, network infrastructure and least-cost-routing system enable us to offer low-cost, high quality services. Our extensive distribution and retail networks provide us with a strong presence in communities of foreign born residents, a significant portion of which purchase our services with cash. Our Boss Revolution brand is often highly visible in these communities and has a reputation for quality service and competitive, transparent pricing. Finally, we also offer synergistic payment services over the Boss Revolution platform that customers can conveniently access from their accounts. In our view, these factors represent competitive advantages.

However, some of our competitors have significantly greater financial resources and name recognition, and are capable of providing comparable service levels and pricing through established brands. Consequently, our ability to maintain and/or to capture additional market share will remain dependent upon our ability to continue to provide competitively priced services, expand our distribution and retail networks, improve our ability to reach and sell to customers through mobile devices, develop successful new products and services to fit the evolving needs of our customers, and continue to build the brand equity of Boss Revolution.

Wholesale Carrier Services

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

In our Wholesale Carrier Services business, we participate in a global market place with:

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

Our Wholesale Carrier Services business derives a competitive advantage from several inter-related factors: our Retail Communications business generates large volumes of originating minutes, which represents a desirable, tradable asset that helps us win return traffic and obtain beneficial pricing which we can offer in the wholesale arena; the proprietary technologies powering our wholesale platform and in particular, the software that drives voice over internet protocols enables us to scale up at a lower cost than many of our competitors; our professional and experienced account management; and our extensive network of interconnects around the globe, with the ability to connect in whichever format (IP or TDM) is most feasible. In aggregate, these factors provide us with a competitive advantage over some participants on certain routes.

Payment Services

The major competitors to Payment Services' 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;
- 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; and
- international money transfer services such as Western Union and MoneyGram that target foreign born communities in the United States.

Hosted Platform Solutions

Some of the major competitors to our UCaaS (Unified Communications as a Service) offerings include other UCAAS and or hosted voice providers such as Vonage Business, Nextiva, and Ring Central. Due to their longevity in the space, these providers carry a more advanced product set including features such as video, chat, collaboration, and analytics. These competitors, in addition to possessing a more recognized brand, also support integration of their services with other well-known 3rd-party vendors such as SalesForce, SugarCRM & Google applications.

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 11states. 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.

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.

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 our business. We cannot be certain of the stability of the contribution factors for the Other Funds. 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.

Straight Path Spectrum LLC

On September 20, 2016, we received a letter of inquiry from the Enforcement Bureau of the FCC requesting certain information and materials related to an investigation of potential violations by Straight Path Spectrum LLC (formerly a subsidiary of ours and currently a subsidiary of Straight Path) in connection with licenses to operate on the 28 GHz and 39 GHz bands of the Fixed Microwave Services. We intend to cooperate with the FCC in this matter and we are in the process of responding to the letter of inquiry. The FCC could seek to fine or impose regulatory penalties or civil liability on us related to activities during the period of ownership by us. Further, should the FCC impose liability on Straight Path, we could be the subject of a claim from Straight Path related to that liability.

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, Belgium, Brazil, Canada, Chile, Denmark, Germany, Hong Kong, Italy, Japan, Mexico, the Netherlands, Peru, 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

Our consumer payment services offerings include money transfer and various network branded (also called “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 payment 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 have actively pursued our own money transmitter licenses. At July 31, 2016, we had received a money transmitter license in 45 of the 47 U.S. states that require such a license, as well as in Puerto Rico and Washington, D.C., and had an application pending in one additional state. During the last quarter of fiscal 2016, New Mexico and South Carolina issued legislations that require money transmitter licenses, and we are in the process of applying for such 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 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 approximately 100 trademark and service mark registrations and pending applications in the United States and at least 360 registrations and pending applications 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 12 issued patents and 5 patent applications in the United States and 14 patents issued abroad with 4 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, our Net2Phone subsidiary currently owns 29 issued patents and has 3 pending patent applications in the United States. Net2Phone has 5 foreign issued patents, and no patent applications pending abroad.

Net2Phone owns at least 15 trademark and service mark registrations and at least 2 pending applications in the United States. Net2Phone owns at least 115 trademark and service mark registrations and at least 2 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.

Other

We also currently own three 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 nil, $1.7 million and $10.0 million on research and development during fiscal 2016, fiscal 2015 and fiscal 2014, respectively, all related to Fabrix.

EMPLOYEES

As of October 1, 2016, we had a total of 1,159 employees, of which 1,134 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 is characterized by intense price competition, which has resulted in declines in both our average per-minute price realizations and our average per-minute termination costs. 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. In the case of some international calling locations, when average per minute termination cost declines to a nominal amount, indirect competitors such as wireless carriers may include calling those locations at no extra cost adding increased risk of losing customers. For example, following regulatory changes intended to increase domestic competition in the Mexican telecommunications market, the cost of terminating international calls to Mexico declined significantly. As a result, many of our competitors, including some of the large U.S. mobile operators, began offering unlimited Mexico calling as part of their monthly pricing plans, which caused a decline in our minutes of use and revenue. In July 2016, we significantly reduced Boss Revolution's U.S. to Mexico calling rate, which accelerated the decline in our revenue.

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 Boss Revolution and other retail products generate a significant portion of our revenue, our growth and our results of operations are substantially dependent upon growth in these products.

We compete in the international prepaid calling market with many of the established facilities-based carriers, such as AT&T, Verizon, T-Mobile 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 Internet protocol-based calling (Over-The-Top) services, such as WhatsApp, has adversely affected the sales of Boss Revolution and our other prepaid calling services. We expect the popularity of IP-based services - many of which offer voice communications for free provided both the caller and recipient have a broadband connection - to continue to increase, which may result in increased substitution and pricing pressure on our Boss Revolution and other international prepaid calling service offerings.

Certain 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. These plans now include some of our most popular international destinations. The growth of these “international unlimited” plans adversely affects our revenues as these operators gain subscriber market share.

We may be unable to achieve some, all or any of the benefits that we expect to achieve from our preliminary plan to separate our businesses into three separate entities.

On June 1, 2016, we completed the separation of one of our businesses via a pro rata distribution of the common stock that we held in our subsidiary Zedge to our stockholders of record as of the close of business on May 26, 2016. We believe that as a stand-alone, independent public company, we will benefit by, among other things, allowing management to design and implement corporate policies and strategies that are based solely on the characteristics of our business, focusing our financial resources solely on our own operations, and implementing and maintaining a capital structure designed to meet our own specific needs. However, we may not be able to achieve some or all of the benefits expected.

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Additionally, by separating entities such as Zedge from us, there is a risk that we may be more susceptible to stock market fluctuations and other adverse events than we would have been due to a reduction in market diversification.

Following the spin-offs, we expect to have sufficient liquidity to support the development of our business for the medium term, but there can no assurance of such liquidity. In the future, however, we may require additional financing for capital requirements and growth initiatives. Accordingly, we will depend on our ability to generate cash flows from operations and to borrow funds and issue securities in the capital markets to maintain and expand our business. We may need to incur debt on terms and at interest rates that may not be as favorable as those historically enjoyed by us. If additional financing is not available when required or is not available on acceptable terms, we may be unable to operate our business as planned or at all, fund our expansion, successfully promote our business, develop or enhance our products and services, take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our products and business, financial condition and results of operations.

We expect that the aggregate market value of the three separate companies will exceed the market capitalization of all of the businesses being operated by us because investors will be able to invest in a particular company that they are attracted to without having to also invest in the other two companies. However, this expectation may be incorrect, and the aggregate value of the three separate companies may be less than the market capitalization of the businesses being operated by us.

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 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 more competitors offer international airtime top-up service, our ability to secure competitive direct or indirect, exclusive or non-exclusive, agreements with international wireless operators could become more difficult or less attractive, thereby having an adverse effect on our revenues and operations.

Our customers, particularly our Wholesale Carrier 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 telecommunications 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. While our most significant customers, from a revenue perspective, vary from quarter to quarter, our five largest Wholesale Carrier Services customers collectively accounted for 6.3% and 5.7% of total consolidated revenues in fiscal 2016 and fiscal 2015, respectively. Our Wholesale Carrier Services customers with the five largest receivables balances collectively accounted for 21.5% and 24.1% of the consolidated gross trade accounts receivable at July 31, 2016 and 2015, respectively. This concentration of revenues and receivables increases our exposure to non-payment by our larger customers, and we may experience significant write-offs 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 Boss Revolution voice and payment services, as well as our traditional disposable calling cards.

We rely on our distributors and representatives to market and distribute our Boss Revolution products, our traditional disposable prepaid calling card products, our international airtime top-up offerings and other payment services. We utilize a network of several hundred sub-distributors that sell our Boss Revolution products, traditional disposable prepaid calling cards, 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 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 Boss Revolution products, prepaid calling card 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 loss of revenue, 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. If the services of any one of them were 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. We have researched the situations and do not believe any material information, internal or customer has been compromised.

Network disruptions, security breaches and other significant failures of the above-described systems could (i) disrupt the proper functioning of our 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 and processes; (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 payment 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 payment 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 services in addition to services and products that are solely telecommunications related, those operations may be subject to different and more stringent requirements by regulators and trade organizations in various jurisdictions. Our payment 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 may not be able to comply with all such requirements in a timely manner or remain in compliance. If we are not in compliance, we could be subject to penalties or the termination of our rights to participate in such payment systems or provide such services, which could have a material negative impact on our ability to carry on and grow our Retail Communications and Payment Services operations.

Risks Related to Our Financial Condition

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

At July 31, 2016, we had cash, cash equivalents and marketable securities of $162.5 million and restricted cash and cash equivalents of $98.8 million. At July 31, 2016, we also had $8.1 million in investments in hedge funds, which were included in “Investments” in our consolidated balance sheet. 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 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 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. At July 31, 2016, our accrued expenses included $47.5 million for these regulatory fees for the years covered by the audit and subsequent years through fiscal 2016. 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.

On September 20, 2016, we received a letter of inquiry from the Enforcement Bureau of the FCC requesting certain information and materials related to an investigation of potential violations by Straight Path Spectrum LLC (formerly a subsidiary of ours and currently a subsidiary of Straight Path) in connection with licenses to operate on the 28 GHz and 39 GHz bands of the Fixed Microwave Services. We intend to cooperate with the FCC in this matter and we are in the process of responding to the letter of inquiry. The FCC could seek to fine or impose regulatory penalties or civil liability on us related to activities during the period of ownership by us. Further, should the FCC impose liability on Straight Path, we could be the subject of a claim from Straight Path related to that liability.

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.

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 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.

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, our regulated retailers 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.

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.

We may 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.

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, with 47 states requiring a license as of July 31, 2016. At July 31, 2016, we had obtained licenses to operate as a money transmitter in 45 U.S. states, Washington, D.C. and Puerto Rico, and had an application pending in one additional state. On January 1, 2017, an additional state (New Mexico) will require such a license, and we have an application pending for the license. In June 2017, an additional state (South Carolina) will also require such a license, and we plan to submit an application there. 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 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 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 that 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 European Union 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. In fiscal 2016, a referendum took place in the United Kingdom in which a majority voted in favor of the United Kingdom's exit from the European Union – commonly referred to as "Brexit". As a bank licensed in Europe, our bank in Gibraltar currently benefits from its ability to passport its license to operate in any European Union member state. However, as a British territory, if Brexit occurs, and no alternative arrangements are established with respect to licensing of British banks in the European Union, our bank in Gibraltar may not be able to passport its license into European Union member states.

We receive, store, process 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.

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

Our 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 and founder, has voting power over 2,332,301 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 757,975 shares of our Class B common stock), representing approximately 70.0% of the combined voting power of our outstanding capital stock, as of October 10, 2016. 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.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our headquarters is located in a building that we own in Newark, New Jersey. The building is approximately 500,000 square feet. We occupy approximately 20% of the building. We also own an 800-car parking garage located across the street from the building.

In addition, we own a building in Piscataway, New Jersey that is used partially by IDT Telecom for certain of its operations and a 12,400 square foot condominium interest in a building in Jerusalem, Israel.

We lease space in New York, New York for corporate purposes as well as a number of other locations in metropolitan areas. These leased spaces are utilized primarily to house telecommunications equipment and retail operations.

We maintain our European headquarters in London, England. We also maintain other various international office locations and telecommunications facilities in regions of Europe, South America, Central America, the Middle East, Asia and Africa where we conduct operations.

Item 3. Legal Proceedings.

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) on a global undersea fiber optic network that Tyco was deploying at that time. After extensive proceedings, including several decisions and appeals, the New York Court of Appeals affirmed a lower court decision to dismiss our claim and denied our motion for re-argument of that decision. On June 23, 2015, we filed a new summons and complaint against Tyco in the Supreme Court of the State of New York, County of New York alleging that Tyco breached the settlement agreement. In September 2015, Tyco filed a motion to dismiss the complaint, which we opposed. Oral arguments were held on March 9, 2016. The parties are awaiting a decision from the Court.

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, we believe that 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 June 1, 2016, we completed the Zedge Spin-Off, in which each of our stockholders received one share of Zedge Class A common stock for every three shares of our Class A common stock and one share of Zedge Class B common stock for every three shares of our Class B common stock held of record as of the close of business on May 26, 2016.

	High	Low
Fiscal year ended July 31, 2015		
First Quarter	$16.93	$14.00
Second Quarter	$23.24	$16.40
Third Quarter	$22.90	$16.10
Fourth Quarter	$19.99	$15.95
Fiscal year ended July 31, 2016		
First Quarter	$17.85	$12.57
Second Quarter	$14.90	$10.76
Third Quarter	$16.57	$11.66
Fourth Quarter	$16.29	$11.78

On October 5, 2016, there were 490 holders of record of our Class B common stock and 1 holder of record of our Class A common stock. All shares of Class A common stock are beneficially owned by Howard Jonas. The number of holders of record of our Class B common stock does not include the number of persons whose shares are in nominee or in “street name” accounts through brokers. On October 5, 2016, the last sales price reported on the New York Stock Exchange for the Class B common stock was $17.35 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 16 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, 2016, 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, 2016. The graph and table assume that $100 was invested on July 31, 2011 (the last day of trading for the fiscal year ended July 31, 2011) in shares of our Class B common stock, 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, the NYSE Composite Index and the S&P Telecommunication Services Index are based on our fiscal year.

	7/11	**7/12**	**7/13**	**7/14**	**7/15**	**7/16**
IDT Corporation	100.00	78.98	173.49	160.13	194.94	220.89
NYSE Composite	100.00	99.97	125.40	143.37	148.94	151.55
S&P Telecommunication Services	100.00	130.65	137.93	150.04	147.44	186.39

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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 2016.

	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, 2016	–	$ –	–	8,000,000
June 1 - 30, 2016	–	$ –	–	8,000,000
July 1 - 31, 2016	–	$ –	–	8,000,000
Total	–	$ –	–	

(1) On January 22, 2016, our Board of Directors approved a stock repurchase program to purchase up to 8.0 million shares of our Class B common stock and cancelled the previous stock repurchase program originally approved by the Board of Directors on June 13, 2006, which had 4,636,741 shares remaining available for repurchase.

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, 2016 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 millions, except per share data)	2016	2015	2014	2013	2012
STATEMENT OF OPERATIONS DATA:					
Revenues	$1,496.3	$1,596.8	$1,651.5	$1,620.6	$1,506.3
Income from continuing operations (a)	25.4	86.1	21.0	18.1	30.9
Income from continuing operations per common share—basic	1.03	3.69	0.85	0.77	1.45
Income from continuing operations per common share—diluted	1.03	3.63	0.82	0.72	1.36
Cash dividends declared per common share (b)	0.75	2.03	0.51	0.83	0.66

As of July 31, (in millions)	2016	2015	2014	2013	2012
BALANCE SHEET DATA:					
Total assets	$469.7	$485.7	$480.9	$435.4	$451.1
Note payable—long term portion	—	—	6.4	6.6	29.7

(a) Included in income from continuing operations in fiscal 2016 was gain on sale of member interest in Visa Europe Ltd. of $7.5 million and gain on sale of interest in Fabrix Systems Ltd. of $1.1 million. Included in income from continuing operations in fiscal 2015 was gain on sale of interest in Fabrix Systems Ltd. of $76.9 million.

(b) Cash dividends declared per common share in fiscal 2015 included special dividends of $0.68 per share and $0.64 per share paid in November 2014 and January 2015, respectively.

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

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that contain the words "believes," "anticipates," "expects," "plans," "intends" and similar words and phrases. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results projected in any forward-looking statement. In addition to the factors specifically noted in the forward-looking statements, other important factors, risks and uncertainties that could result in those differences include, but are not limited to, those discussed under Item 1A to Part I "Risk Factors" in this Annual Report. The forward-looking statements are made as of the date of this Annual Report, and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Investors should consult all of the information set forth in this report and the other information set forth from time to time in our reports filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, including our reports on Forms 10-Q and 8-K.

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

OVERVIEW

We are a multinational holding company with operations primarily in the telecommunications and payment industries. We have two reportable business segments, Telecom Platform Services and Consumer Phone Services. Telecom Platform Services provides retail telecommunications and payment offerings as well as wholesale international long distance traffic termination. Consumer Phone Services provides consumer local and long distance services in certain U.S. states. Telecom Platform Services and Consumer Phone Services comprise our IDT Telecom division. Operating segments not reportable individually are included in All Other. Prior to the Zedge Spin-Off, All Other included Zedge, which provides a content platform that enables consumers to personalize their mobile devices with free, high quality ringtones, wallpapers, home screen app icons and notification sounds. All Other also includes our real estate holdings and other smaller businesses. Until the sale of Fabrix in October 2014, All Other also included Fabrix, a software development company offering a cloud-based scale-out storage and computing platform optimized for big data, virtualization and media storage, processing and delivery.

On June 1, 2016, we completed a pro rata distribution of the common stock that we held in our subsidiary Zedge to our stockholders of record as of the close of business on May 26, 2016. The disposition of Zedge did not meet the criteria to be reported as a discontinued operation and accordingly, its assets, liabilities, results of operations and cash flows have not been reclassified. In connection with the Zedge Spin-Off, each of our stockholders received one share of Zedge Class A common stock for every three shares of our Class A common stock, and one share of Zedge Class B common stock for every three shares of our Class B common stock, held of record as of the close of business on May 26, 2016. We received a legal opinion that the Zedge Spin-Off should qualify as a tax-free transaction for U.S. federal income tax purposes.

We entered into various agreements with Zedge prior to the Zedge Spin-Off including (1) a Separation and Distribution Agreement to effect the separation and provide a framework for our relationship with Zedge after the Zedge Spin-Off, (2) a Tax Separation Agreement, which sets forth the responsibilities of us and Zedge with respect to, among other things, liabilities for federal, state, local and foreign taxes for periods before and including the Zedge Spin-Off, the preparation and filing of tax returns for such periods and disputes with taxing authorities regarding taxes for such periods, and (3) a Transition Services Agreement, which provides for certain services to be performed by us to facilitate Zedge's transition into a separate publicly-traded company. Pursuant to the Separation and Distribution Agreement, among other things, the Company indemnifies Zedge and Zedge indemnifies the Company for losses related to the failure of the other to pay, perform or otherwise discharge, any of the liabilities and obligations set forth in the agreement. Pursuant to the Tax Separation Agreement, among other things, Zedge indemnifies the Company from all liability for taxes of Zedge and any of Zedge's subsidiaries or relating to Zedge's business accruing after the Zedge Spin-Off, and the Company indemnifies Zedge from all liability for taxes of Zedge and any of Zedge's subsidiaries or relating to Zedge's business with respect to taxable periods ending on or before the Zedge Spin-Off. Pursuant to the Transition Services Agreement, we provide to Zedge certain administrative and other services, among other things, including services relating to payroll processing and employee benefits administration, finance, accounting, tax, internal audit, investor relations and legal.

In August 2015, our Board of Directors approved a plan to reorganize us into three separate entities by spinning off two business units to our stockholders, one of which was Zedge. The remaining components of the reorganization are subject to change as well as both internal and third party contingencies, and must receive final approval from our Board of Directors and certain third parties. We continue to advance the effort on the remainder of the reorganization.

On December 7, 2015, we approved an investment of up to $10 million in Cornerstone Pharmaceuticals, Inc., or Cornerstone, which is a clinical stage, oncology-focused pharmaceutical company committed to the development and commercialization of therapies targeting cancer metabolism that exploit the metabolic differences between normal cells and cancer cells. The initial $2 million investment was funded as follows: $500,000 upon signing the Subscription and Loan Agreement on January 21, 2016, $50,000 on March 23, 2016, and $1.45 million on April 14, 2016. The initial $2 million investment was in exchange for Cornerstone’s 3.5% convertible promissory notes due 2018. The remaining $8 million was funded in August and September 2016. In September 2016, Cornerstone issued to our controlled 50%-owned subsidiary, CS Pharma Holdings, LLC, or CS Pharma, a convertible promissory note with a principal amount of $10 million (the Series D Note) representing the $8 million investment funded on such date plus the conversion of the $2 million principal amount convertible promissory notes issued in connection with the previous funding. The Cornerstone Series D Note earns interest at 3.5% per annum, with principal and accrued interest due and payable on September 16, 2018. The Series D Note is convertible at the holder’s option into shares of Cornerstone’s Series D Preferred Stock. The Series D Note also includes a mandatory conversion into Cornerstone common stock upon a qualified initial public offering, and conversion at the holder’s option upon an unqualified financing event. In all cases, the Series D Note conversion price is based on the applicable financing purchase price. We and CS Pharma were issued warrants to purchase shares of capital stock of Cornerstone representing up to 56% of the then issued and outstanding capital stock of Cornerstone, on an as-converted and fully diluted basis. The right to exercise warrants as to the first $10 million thereof is held by CS Pharma and the remainder is owned by us. The minimum initial and subsequent exercises of the warrant shall be for such number of shares that will result in at least $5 million of gross proceeds to Cornerstone, or such lesser amount as represents 5% of the outstanding capital stock of Cornerstone, or such lesser amount as may then remain unexercised. The warrant will expire upon the earlier of December 31, 2020 or a qualified initial public offering or liquidation event.

In addition to interests issued to us, CS Pharma has issued member interests to third parties in exchange for cash investment in CS Pharma of $10 million. At July 31, 2016, CS Pharma had received $8.8 million of such investment and the remaining $1.2 million was received in September 2016. We hold a 50% interest in CS Pharma and we are the managing member. It is expected that CS Pharma will use its cash to invest in Cornerstone.

Howard Jonas, our Chairman of the Board and former Chief Executive Officer, is a director of Cornerstone and was appointed its Chairman of the Board in April 2016. Howard and Deborah Jonas jointly own $525,000 of Series C Convertible Notes of Cornerstone, and The Howard S. and Deborah Jonas Foundation owns an additional $525,000 of Series C Notes.

Cornerstone is a variable interest entity, however, we have determined that we are not the primary beneficiary as we do not have the power to direct the activities of Cornerstone that most significantly impact Cornerstone’s economic performance.

IDT Telecom

Since our inception, we have derived the majority of our revenues and operating expenses from IDT Telecom’s businesses. IDT Telecom’s revenues represented 99.2%, 99.0% and 98.5% of our total revenues from continuing operations in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

Telecom Platform Services, which represented 99.5%, 99.4% and 99.3% of IDT Telecom’s total revenues in fiscal 2016, fiscal 2015 and fiscal 2014, respectively, markets and distributes multiple communications and payment services across four broad business verticals:

Retail Communications provides international long-distance calling products primarily to foreign-born communities worldwide, with its core markets in the United States;
Wholesale Carrier 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;
Payment Services provides payment offerings, including international and domestic airtime top-up and international money transfer; and
Hosted Platform Solutions provides customized communications services that leverage our proprietary networks, platforms and/or technology to cable companies and other service providers.

Boss Revolution PIN-less, which allows our customers to call overseas without the need to enter a PIN, has largely replaced revenues from our traditional disposable calling cards. International airtime top-up, which enables customers to purchase airtime for a prepaid mobile telephone in another country, 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. Boss Revolution PIN-less and international airtime top-up represent successful efforts to leverage our existing capabilities and distribution. Although Boss Revolution PIN-less and international airtime top-up generally have lower gross margins than our traditional disposable calling cards, we believe that customers tend to continue using these products over a longer period of time thereby allowing us to generate higher revenues and longer lifetime value per user. The Boss Revolution platform provides us with a direct, real-time relationship with all of our participating retailers, resulting in a cost-effective and adaptable distribution model that can rapidly respond to changes in the business environment.

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

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

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

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

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

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

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

Concentration of Customers

Our most significant customers typically include telecom carriers to whom IDT Telecom provides wholesale telecommunications services and distributors of IDT Telecom's international prepaid calling products. While they may vary from quarter to quarter, our five largest customers collectively accounted for 11.2%, 11.2% and 12.0% of total consolidated revenues in fiscal 2016, fiscal 2015 and fiscal 2014, respectively. Our customers with the five largest receivables balances collectively accounted for 23.0% and 24.1% of the consolidated gross trade accounts receivable at July 31, 2016 and 2015, respectively. This concentration of customers increases our risk associated with nonpayment by those customers. In an effort to reduce our risk, we perform ongoing credit evaluations of our significant retail, wholesale and cable telephony customers, and in some cases, do not offer credit terms to customers, choosing instead to require prepayment. Historically, when we have issued credit, we have not required collateral to support trade accounts receivables from our customers. However, when necessary, IDT Telecom has imposed stricter credit restrictions on its customers. In some cases, this has resulted in IDT Telecom sharply curtailing, or ceasing completely, sales to certain customers. IDT Telecom attempts to mitigate its credit risk related to specific wholesale carrier services customers by also buying services from the customer, in order to create an opportunity to offset its payables and receivables with the customer. In this way, IDT Telecom can continue to sell services to these customers while reducing its receivable exposure risk. When it is practical to do so, IDT Telecom will increase its purchases from wholesale carrier services customers with receivable balances that exceed IDT Telecom's applicable payables in order to maximize the offset and reduce its credit risk.

CRITICAL ACCOUNTING POLICIES

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

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses that result from the inability or unwillingness of our customers to make required payments. The allowance for doubtful accounts was $4.8 million and $5.6 million at July 31, 2016 and 2015, respectively. The allowance for doubtful accounts as a percentage of gross trade accounts receivable increased to 8.9% at July 31, 2016 from 8.8% at July 31, 2015 as a result of a 15.7% decrease in the gross accounts receivable balance and a 14.6% decline in the allowance balance. Our allowance is determined based on known troubled accounts, historical experience and other currently available evidence. Our estimates of recoverability of customer accounts may change due to new developments, changes in assumptions or changes in our strategy, which may impact our allowance for doubtful accounts balance. We continually assess the likelihood of potential amounts or ranges of recoverability and adjust our allowance accordingly; however, actual collections and write-offs of trade accounts receivables may materially differ from our estimates.

Goodwill

Our goodwill balance of $11.2 million at July 31, 2016 was attributable to our Retail Communications reporting unit in our Telecom Platform Services segment. Goodwill and other intangible assets deemed to have indefinite lives are not amortized. These assets are reviewed annually (or more frequently under various conditions) for impairment using a fair value approach. Intangible assets with finite useful lives are amortized over their estimated useful lives.

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

We have the option to perform a qualitative assessment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. However, we may elect to perform the two-step quantitative goodwill impairment test even if no indications of a potential impairment exist.

For Retail Communications’ annual impairment test in fiscal 2016, since its estimated fair value substantially exceeded its carrying value in Step 1, it was not necessary to perform Step 2. For Retail Communications’ annual impairment test in fiscal 2015, we qualitatively assessed whether it was more likely than not that a goodwill impairment existed and concluded that a goodwill impairment did not exist. In fiscal 2015, Zedge’s estimated fair value substantially exceeded its carrying value in Step 1, therefore it was not necessary to perform Step 2. In addition, we do not believe Retail Communications is currently at risk of failing Step 1. Calculating the fair value of the reporting units, and allocating the estimated fair value to all of the tangible assets, intangible assets and liabilities, requires significant estimates and assumptions by management. Should our estimates or assumptions regarding the fair value of our reporting units prove to be incorrect, we may be required to record impairments of goodwill in future periods and such impairments could be material.

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

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

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

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

Income Taxes and Regulatory Agency Fees

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

The valuation allowance on our deferred income tax assets was $158.4 million and $155.4 million at July 31, 2016 and 2015, respectively. In fiscal 2014, we determined that our valuation allowance on the losses of IDT Global, a U.K. subsidiary, were no longer required due to an internal reorganization that generated income and a projection that the income would continue. We recorded a benefit from income taxes of $4.1 million in fiscal 2014 from the full recognition of the IDT Global deferred tax assets.

We have not recorded U.S. income tax expense for foreign earnings, as such earnings are permanently reinvested outside the United States. The cumulative undistributed foreign earnings are included in accumulated deficit in our consolidated balance sheets, and consisted of approximately $324 million and $353 million at July 31, 2016 and 2015, respectively. Upon distribution of these foreign earnings to our domestic entities, we may be subject to U.S. income taxes and withholding of foreign taxes, however, it is not practicable to determine the amount, if any, which would be paid.

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 IAD of USAC, which concluded that we incorrectly reported certain revenues on Forms 499-A. USAC’s revisions to our filing methodology resulted in additional regulatory payments for the years covered by the audits. While we believe in the accuracy of our filing methodology and our Request for Review remains pending, we have implemented some of the revisions set forth in the IAD’s filings beginning with our calendar year 2010 Form 499-A. We have accrued for all regulatory fees we believe may be incurred under IAD’s methodology from 2002 through the present, in the event our Request for Review is denied and/or our methodology is not upheld on appeal, and we have made certain payments on amounts that have been invoiced to us by USAC and/or other agencies. As of July 31, 2016 and 2015, our accrued expenses included $47.5 million and $49.9 million, respectively, for these regulatory fees for the years covered by the audit and subsequent years. Until a final decision is 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.

IDT Telecom Direct Cost of Revenues—Disputed Amounts

IDT Telecom’s direct cost of revenues includes estimated amounts for pending disputes with other carriers. The billing disputes typically arise from differences in minutes of use and/or rates charged by carriers that provide service to us. At July 31, 2016 and 2015, there was $21.3 million and $22.6 million, respectively, in outstanding carrier payable disputes, for which we recorded direct cost of revenues of $9.0 million and $9.6 million, respectively. We consider various factors to determine the amount to accrue for pending disputes, including (1) our historical experience in dispute resolution, (2) the basis of disputes, (3) the financial status and our current relationship with vendors and (4) our aging of prior disputes. Subsequent adjustments to our estimates may occur when disputes are resolved or abandoned, but these adjustments are generally not material to our results of operations. However, there can be no assurance that revisions to our estimates will not be material to our results of operations in the future.

RECENTLY ISSUED ACCOUNTING STANDARD NOT YET ADOPTED

In May 2014, the Financial Accounting Standards Board, or FASB, and the International Accounting Standards Board jointly issued a comprehensive new revenue recognition standard that will supersede most of the current revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards, or IFRS. The goals of the revenue recognition project were to clarify and converge the revenue recognition principles under U.S. GAAP and IFRS and to develop guidance that would streamline and enhance revenue recognition requirements. We will adopt this standard on August 1, 2018. Entities have the option of using either a full retrospective or modified retrospective approach for the adoption of the standard. We are evaluating the impact that the standard will have on our consolidated financial statements.

In January 2016, the FASB issued an Accounting Standards Update, or ASU, to provide more information about recognition, measurement, presentation and disclosure of financial instruments. The amendments in the ASU include, among other changes, the following: (1) equity investments (except those accounted for under the equity method or that result in consolidation) will be measured at fair value with changes in fair value recognized in net income, (2) a qualitative assessment each reporting period to identify impairment of equity investments without readily determinable fair values, (3) financial assets and financial liabilities will be presented separately by measurement category and form of financial asset on the balance sheet or the notes to the financial statements, and (4) an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. Entities will no longer be able to recognize unrealized holding gains and losses on equity securities classified as available-for-sale in other comprehensive income. In addition, a practicability exception will be available for equity investments that do not have readily determinable fair values and do not qualify for the net asset value practical expedient. These investments may be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Entities will have to reassess at each reporting period whether an investment qualifies for this practicability exception. We will adopt the amendments in this ASU on August 1, 2018. We are evaluating the impact that the ASU will have on our consolidated financial statements.

In February 2016, the FASB issued an ASU related to the accounting for leases. The new standard establishes a right-of-use, or ROU, model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. We will adopt the new standard on August 1, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are evaluating the impact that the new standard will have on our consolidated financial statements.

In March 2016, the FASB issued an ASU to improve the accounting for employee share-based payments. The new standard simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. We will adopt the new standard on August 1, 2017. We are evaluating the impact that the new standard will have on our consolidated financial statements.

In June 2016, the FASB issued an ASU that changes the impairment model for most financial assets and certain other instruments. For receivables, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except the losses will be recognized as allowances instead of reductions in the amortized cost of the securities. In addition, an entity will have to disclose significantly more information about allowances, credit quality indicators and past due securities. The new provisions will be applied as a cumulative-effect adjustment to retained earnings. We will adopt the new standard on August 1, 2020. We are evaluating the impact that the new standard will have on our consolidated financial statements.

RESULTS OF OPERATIONS

Year Ended July 31, 2016 compared to Years Ended July 31, 2015 and 2014

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

Year ended July 31,	2016		2015		2014	
REVENUES:						
IDT Telecom	99.2	%	99.0	%	98.5	%
All Other	0.8		1.0		1.5	
TOTAL REVENUES	100.0		100.0		100.0	

COSTS AND EXPENSES:			
Direct cost of revenues (exclusive of depreciation and amortization)	83.3	83.2	82.8
Selling, general and administrative	13.7	13.9	13.9
Depreciation and amortization	1.4	1.2	1.0
Research and development	—	0.1	0.6
Severance	0.4	0.5	—
TOTAL COSTS AND EXPENSES	98.8	98.9	98.3
Gain on sale of member interest in Visa Europe, Ltd	0.5	—	—
Gain on sale of interest in Fabrix Systems, Ltd	0.1	4.8	—
Other operating (losses) gains, net	—	(0.1)	0.1
INCOME FROM OPERATIONS	1.8	5.8	1.8
Interest income (expense), net	0.1	—	—
Other income (expense), net	0.1	—	(0.3)
INCOME BEFORE INCOME TAXES	2.0 %	5.8 %	1.5 %

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

IDT Telecom—Telecom Platform Services and Consumer Phone Services Segments

(in millions)				2016 change from 2015		2015 change from 2014	
Year ended July 31,	2016	2015	2014	$	%	$	%
Revenues							
Telecom Platform Services	$1,477.9	$1,572.7	$1,615.6	$(94.8)	(6.0)%	$(42.9)	(2.7)%
Consumer Phone Services	6.9	8.6	11.0	(1.7)	(20.3)	(2.4)	(21.7)
Total revenues	$1,484.8	$1,581.3	$1,626.6	$(96.5)	(6.1)%	$(45.3)	(2.8)%

Revenues. IDT Telecom revenues decreased in fiscal 2016 and fiscal 2015 compared to the prior fiscal year due to decreases in both Telecom Platform Services' and Consumer Phone Services' revenues. Telecom Platform Services' revenues, minutes of use and average revenue per minute for fiscal 2016, fiscal 2015 and fiscal 2014 consisted of the following:

(in millions, except revenue per minute)				2016 change from 2015		2015 change from 2014	
Year ended July 31,	2016	2015	2014	$/#	%	$/#	%
Telecom Platform Services Revenues							
Retail Communications	$672.2	$735.0	$695.8	$(62.8)	(8.6)%	$39.2	5.6 %
Wholesale Carrier Services	555.1	590.9	672.3	(35.8)	(6.1)	(81.4)	(12.1)
Payment Services	219.2	208.3	202.3	10.9	5.2	6.0	3.0
Hosted Platform Solutions	31.4	38.5	45.2	(7.1)	(18.5)	(6.7)	(14.9)
Total Telecom Platform Services revenues	$1,477.9	$1,572.7	$1,615.6	$(94.8)	(6.0)%	$(42.9)	(2.7)%
Minutes of use							
Retail Communications	8,351	9,138	9,638	(787)	(8.6)%	(500)	(5.2)%
Wholesale Carrier Services	19,226	19,443	19,345	(217)	(1.1)	98	0.5
Hosted Platform Solutions	673	728	798	(55)	(7.5)	(70)	(8.7)
Total minutes of use	28,250	29,309	29,781	(1,059)	(3.6)%	(472)	(1.6)%
Average revenue per minute							
Retail Communications	$0.0805	$0.0804	$0.0722	$0.0001	0.1 %	$0.0082	11.4 %
Wholesale Carrier Services	0.0289	0.0304	0.0348	(0.0015)	(5.0)	(0.0044)	(12.5)

Retail Communications' revenue decreased 8.6% in fiscal 2016 compared to fiscal 2015. Revenue from our Boss Revolution international calling service, which is Retail Communications' most significant offering, declined 2.9% in fiscal 2016 compared to fiscal 2015 due primarily to a decline in minutes of use and revenue from calls made in the U.S. and terminating in Mexico. Following regulatory changes intended to increase domestic competition in the Mexican telecommunications market, the cost of terminating international calls to Mexico declined significantly. As a result, many of our competitors, including some of the large U.S. mobile operators, began offering unlimited Mexico calling as part of their monthly pricing plans, which caused a decline in our minutes of use and revenue. In July 2016, we significantly reduced Boss Revolution's U.S. to Mexico calling rate, which accelerated the decline in our revenue. In addition, the decrease in Retail Communications' revenue in fiscal 2016 compared to fiscal 2015 was due to continuing revenue declines in Europe, South America and Asia, and continuing revenue declines from traditional disposable calling cards in the U.S. Retail Communications' minutes of use decreased 8.6% in fiscal 2016 compared to fiscal 2015 because of decreases in Boss Revolution and traditional disposable calling cards' minutes of use. In addition, minutes of use decreased in Europe, South America and Asia in fiscal 2016 compared to fiscal 2015. We are currently beta testing the next version of the Boss Revolution app that includes free peer-to-peer voice calling and instant messaging. We expect the updated app will increase Boss Revolution's market penetration and enhance the brand. Retail Communications' revenues grew 5.6% in fiscal 2015 compared to fiscal 2014 due to increased penetration of Boss Revolution within our U.S. retail distribution network, partially offset by continued declines in sales of traditional disposable calling cards and retail sales in Europe. Retail Communications minutes of use decreased 5.2% in fiscal 2015 compared to fiscal 2014 because the increase in Boss Revolution minutes of use in the U.S. was more than offset by the decrease in traditional disposable calling cards' minutes of use plus the decrease in minutes of use in Europe and Asia. Retail Communications revenue comprised 45.5%, 46.7% and 43.1% of Telecom Platform Services' revenue in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

Wholesale Carrier Services' revenues declined 6.1% and 12.1% in fiscal 2016 and fiscal 2015, respectively, compared to the prior fiscal year. In fiscal 2016 and fiscal 2015 compared to the prior fiscal year, the traffic mix shifted towards lower revenue per minute destinations and certain exchange rate driven arbitrage-pricing opportunities in Latin America declined. Wholesale Carrier Services minutes of use decreased 1.1% in fiscal 2016 compared to fiscal 2015 and increased 0.5% in fiscal 2015 compared to fiscal 2014. The decrease in fiscal 2016 minutes of use compared to fiscal 2015 was primarily due to a decrease in carrier sales partially offset by an increase in our web-based prepaid termination service. The increase in fiscal 2015 minutes of use compared to fiscal 2014 was primarily due to a slight increase in carrier sales as well as an increase in our web-based prepaid termination service. Wholesale Carrier Services revenue comprised 37.6%, 37.6% and 41.6 % of Telecom Platform Services' revenue in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

Payment Services' revenues grew 5.2% and 3.0% in fiscal 2016 and fiscal 2015, respectively, compared to the prior fiscal year. The increase in fiscal 2016 compared to fiscal 2015 was primarily due to an increase in international airtime top-up revenue, as well as an increase in revenue from our international money transfer service. The increase in fiscal 2015 compared to fiscal 2014 was due to an increase in international and domestic airtime top-up revenue, as well as increases in revenue from our international money transfer service and from IDT Financial Services Ltd., our Gibraltar-based bank. In fiscal 2014, we initiated an international money transfer service on a limited basis over our Boss Revolution platform. At July 31, 2016, we had money transmitter licenses in 45 of the 47 U.S. states that require such a license, as well as in Puerto Rico and Washington, D.C., and have an application pending in one additional state. Future growth is expected from geographic expansion of our international money transfer service, as well as from the launch of a Boss Revolution mobile app for payments, including money transfer and international airtime top-up. Payment Services revenue comprised 14.8%, 13.3% and 12.5% of Telecom Platform Services' revenue in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

Hosted Platform Solutions' revenues declined 18.5% and 14.9% in fiscal 2016 and fiscal 2015, respectively, compared to the prior fiscal year. The declines were due to decreases in revenues from managed services and from our cable telephony business. Within our cable telephony business, we renewed multi-year contracts with key cable telephony customers in the second half of fiscal 2014, but at lower rates, reflecting the long-term decline in the underlying costs of hosted telephony services. In addition, several of our other hosted managed services operators are continuing to experience attrition in their customer base. From a product perspective, we continue to develop our Net2Phone Hosted PBX, SIP trunking and other telephony cloud-based solutions to try to increase our revenues. Hosted Platform Solutions revenue comprised 2.1%, 2.4% and 2.8% of Telecom Platform Services' revenues in fiscal 2016, fiscal 2015 and fiscal 2014, respectively. Hosted Platform Solutions minutes of use decreased 7.5% and 8.7% in fiscal 2016 and fiscal 2015, respectively, compared to the prior fiscal year. In fiscal 2016 compared to fiscal 2015, the decrease was primarily the result of the decline in minutes of use from managed services. In fiscal 2015 compared to fiscal 2014, the decrease was primarily a result of the decline in minutes of use from managed services and cable telephony customers. In general, since our Hosted Platform Solutions business' revenues and cash flows are driven far more by the number of existing subscribers in the form of a per-subscriber fee rather than by subscriber minutes of use, we do not view Hosted Platform Solutions minutes of use as a significant metric for evaluating that business' performance.

Consumer Phone Services' revenues declined 20.3% and 21.7% in fiscal 2016 and fiscal 2015, respectively, compared to the prior fiscal year, as we continued to operate the business in harvest mode. This strategy has been in effect since calendar 2005 when the FCC decided to terminate the UNE-P pricing regime, which resulted in significantly inferior economics in the operating model for this business. The customer base for our bundled, unlimited local and long distance services business was approximately 4,200 at July 31, 2016 compared to 5,100 at July 31, 2015 and 6,200 at July 31, 2014. We currently offer local service in the following 11 states: New York, New Jersey, Pennsylvania, Maryland, Delaware, Massachusetts, New Hampshire, West Virginia, Maine, Rhode Island and California. In addition, the customer base for our long distance-only services was approximately 18,100 at July 31, 2016 compared to 22,700 at July 31, 2015 and 28,500 at July 31, 2014. We anticipate that Consumer Phone Services' customer base and revenues will continue to decline. Minutes of use relating to our Consumer Phone Services segment is not tracked as a meaningful business metric as the domestic traffic generated by this segment is not carried on our network, and the international traffic generated by this segment, though carried on our own network, is insignificant.

(in millions)				2016 change from 2015		2015 change from 2014	
Year ended July 31,	2016	2015	2014	$	%	$	%
Direct cost of revenues							
Telecom Platform Services	$1,242.5	$1,322.3	$1,358.6	$(79.8)	(6.0)%	$(36.3)	(2.7)%
Consumer Phone Services	3.1	4.0	4.9	(0.9)	(23.6)	(0.9)	(17.9)
Total direct cost of revenues	$1,245.6	$1,326.3	$1,363.5	$(80.7)	(6.1)%	$(37.2)	(2.7)%

Year ended July 31,	2016	2015	2014	2016 change from 2015	2015 change from 2014
Direct cost of revenues as a percentage of revenues					
Telecom Platform Services	84.1 %	84.1 %	84.1 %	—%	—%
Consumer Phone Services	44.9	46.8	44.6	(1.9)	2.2
Total	83.9 %	83.9 %	83.8 %	—%	0.1 %

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Direct Cost of Revenues. Direct cost of revenues in Telecom Platform Services decreased in fiscal 2016 and fiscal 2015 compared to the prior fiscal year mainly due to the decreases in Telecom Platform Services' revenues and minutes of use in fiscal 2016 and fiscal 2015 compared to the prior fiscal year. Direct cost of revenues as a percentage of revenues in Telecom Platform Services was unchanged in fiscal 2016 and fiscal 2015 compared to the prior fiscal year. The loss of revenue from the relatively high margin exchange-rate driven arbitrage pricing opportunities in Latin American, the decline in margin contribution from the cable telephony business, and pricing pressure on airtime top-up offerings in fiscal 2016 and fiscal 2015 compared to the prior fiscal year were offset by an increase in Retail Communications' average revenue per minute.

Direct cost of revenues in our Consumer Phone Services segment decreased in fiscal 2016 and fiscal 2015 compared to the prior fiscal year primarily because of the declining customer base.

(in millions)				2016 change from 2015		2015 change from 2014	
Year ended July 31,	2016	2015	2014	$	%	$	%
Selling, general and administrative expenses							
Telecom Platform Services	$186.6	$199.6	$198.8	$(13.0)	(6.5)%	$0.8	0.4%
Consumer Phone Services	2.6	3.3	4.3	(0.7)	(22.9)	(1.0)	(22.6)
Total selling, general and administrative expenses	$189.2	$202.9	$203.1	$(13.7)	(6.8)%	$(0.2)	(0.1)%

Selling, General and Administrative. Selling, general and administrative expenses in our Telecom Platform Services segment decreased in fiscal 2016 compared to fiscal 2015 primarily due to decreases in employee compensation, marketing and advertising costs, call center expenses, internal sales commissions and facilities expense. The decrease in employee compensation was the result of headcount reductions in fiscal 2015 that were partially offset by annual payroll increases. Selling, general and administrative expenses in our Telecom Platform Services segment increased slightly in fiscal 2015 compared to fiscal 2014 primarily due to increases in marketing, advertising and internal commission costs partially offset by a decrease in employee compensation. The employee compensation decrease was the result of the workforce reduction in February and March 2015 that was partially offset by annual payroll increases. As a percentage of Telecom Platform Services' revenues, Telecom Platform Services' selling, general and administrative expenses were 12.6%, 12.7% and 12.3% in fiscal 2016, fiscal 2015 and fiscal 2014, respectively.

Selling, general and administrative expenses in our Consumer Phone Services segment decreased in fiscal 2016 and fiscal 2015 compared to the prior fiscal year as the cost structure for this segment continued to be right-sized to the needs of its declining revenue base.

(in millions)	2016 change from 2015	2015 change from 2014

Year ended July 31,	2016	2015	2014	$	%	$	%
Depreciation and amortization							
Telecom Platform Services	$18.5	$16.2	$13.8	$2.3	14.7%	$2.4	17.4%
Consumer Phone Services	—	—	—	—	—	—	—
Total depreciation and amortization	$18.5	$16.2	$13.8	$2.3	14.7%	$2.4	17.4%

Depreciation and Amortization. The increase in depreciation and amortization expense in fiscal 2016 and fiscal 2015 compared to the prior fiscal year was due to increases in depreciation of capitalized costs of consultants and employees developing internal use software.

(in millions)				2016 change from 2015		2015 change from 2014	
Year ended July 31,	2016	2015	2014	$	%	$	%
Severance expense							
Telecom Platform Services	$6.2	$7.7	$ —	$(1.5)	(19.4)%	$7.7	nm
Consumer Phone Services	—	—	—	—	—	—	—
Total severance expense	$6.2	$7.7	$ —	$(1.5)	(19.4)%	$7.7	nm

nm—not meaningful

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Severance Expense. In July 2016, we completed a reduction of our workforce, and IDT Telecom incurred severance expense of $6.2 million. In addition, in February and March 2015, we completed a reduction of our workforce. As a result, IDT Telecom incurred severance expense of $5.8 million in fiscal 2015. In addition, severance expense in fiscal 2015 included $1.9 million due to a downsizing of certain Telecom Platform Services' sales and administrative functions in Europe and the U.S.

(in millions) Year ended July 31,	2016	2015	2014
Telecom Platform Services:			
Gain on sale of member interest in Visa Europe Ltd.	$ 7.5	$ —	$ —

Gain on Sale of Member Interest in Visa Europe Ltd. In June 2016, Visa Inc. acquired Visa Europe Limited for cash, shares of Visa Inc. Series C preferred stock and a deferred cash payment. IDT Financial Services Ltd., our Gibraltar-based bank, was a member of Visa Europe and received cash of €5.0 million ($5.6 million on the acquisition date), 1,830 shares of Series C preferred stock and deferred payment receivable of €0.4 million ($0.5 million on the acquisition date). At July 31, 2016, the carrying value of the shares of Visa Inc. Series C preferred stock was $1.6 million. The 1,830 shares of Visa Inc. Series C preferred stock are convertible into 25,532 shares of Visa Inc. Class A common stock. The shares of preferred stock become fully convertible in 2028. Beginning in 2020, Visa Inc. will assess whether it is appropriate to effect a partial conversion. The preferred stock shares may only be transferred to other former Visa Europe members, or to existing qualifying holders of Visa Inc.'s Class B common stock. In addition, the preferred stock will not be registered under the U.S. Securities Act of 1933 and therefore is not transferable unless such transfer is registered or an exemption from registration is available. The deferred payment receivable plus 4% compounded annual interest is due in June 2019. In fiscal 2016, we recorded a gain of $7.5 million in our Telecom Platform Services segment from the sale of our member interest in Visa Europe, which is included in the segment's income from operations.

(in millions) Year ended July 31,	2016	2015	2014
Telecom Platform Services-Other operating (loss) gain:			
Loss on disposal of property, plant and equipment	$ (0.3)	$ —	$ —
Gain related to a legal matter	—	—	0.7
Total other operating (loss) gain	$ (0.3)	$ —	$ 0.7

Other Operating (Loss) Gain. The Telecom Platform Services segment's income from operations in fiscal 2016 included a loss on disposal of property, plant and equipment of $0.3 million due to the write-off of capitalized costs of certain projects that were terminated prior to completion. The Telecom Platform Services segment's income from operations in fiscal 2014 included a gain of $0.7 million related to a legal matter.

(in millions)

Year ended July 31,	2016	2015	2014	2016 change from 2015 $	%	2015 change from 2014 $	%
Income from operations							
Telecom Platform Services	$31.2	$27.0	$45.1	$4.2	15.8%	$(18.1)	(40.2)%
Consumer Phone Services	1.2	1.3	1.8	(0.1)	(3.2)	(0.5)	(30.0)
Total income from operations	$32.4	$28.3	$46.9	$4.1	15.0%	$(18.6)	(39.8)%

All Other

Currently, we report aggregate results for all of our operating businesses other than IDT Telecom in All Other. On June 1, 2016, we completed the Zedge Spin-Off. The disposition of Zedge did not meet the criteria to be reported as a discontinued operation and accordingly, its assets, liabilities, results of operations and cash flows have not been reclassified. In addition, Fabrix was included in All Other until it was sold in October 2014. Therefore, in fiscal 2015, All Other included two months of Fabrix' results of operations compared to none in fiscal 2016 and twelve months in fiscal 2014.

(in millions)				2016 change from 2015		2015 change from 2014	
Year ended July 31,	2016	2015	2014	$	%	$	%
Revenues	$11.5	$15.4	$24.9	$ (3.9)	(25.5)%	$ (9.5)	(38.3)%
Direct cost of revenues	(1.0)	(2.0)	(3.7)	1.0	49.3	1.7	45.8
Selling, general and administrative	(5.4)						