IDT CORP
Form 10-Q
June 14, 2010

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2010

or

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

Commission File Number: 1-16371

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

Delaware (State or other jurisdiction of incorporation or organization)	22-3415036 (I.R.S. Employer Identification Number)
520 Broad Street, Newark, New Jersey (Address of principal executive offices)	07102 (Zip Code)

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

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

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

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

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

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

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

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

IDT CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

IDT CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

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

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

See accompanying notes to condensed consolidated financial statements.

IDT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

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

Net income (loss)	$12,607	$(63,436)	$12,835	$(162,680)
Earnings per share attributable to IDT Corporation common stockholders:				
Basic:				
Income (loss) from continuing operations	$0.61	$(1.23)	$0.64	$(3.73)
Loss from discontinued operations	—	(1.65)	(0.01)	(3.32)
Net income (loss)	$0.61	$(2.88)	$0.63	$(7.05)
Weighted-average number of shares used in calculation of basic earnings per share	20,523	22,052	20,425	23,081
Diluted:				
Income (loss) from continuing operations	$0.58	$(1.23)	$0.61	$(3.73)
Loss from discontinued operations	—	(1.65)	(0.01)	(3.32)
Net income (loss)	$0.58	$(2.88)	$0.60	$(7.05)
Weighted-average number of shares used in calculation of diluted earnings per share	21,878	22,052	21,310	23,081

See accompanying notes to condensed consolidated financial statements.

IDT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

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

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

See accompanying notes to condensed consolidated financial statements.

IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Basis of Presentation

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

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

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

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

On April 1, 2010, the Company received notification from the New York Stock Exchange ("NYSE") that it had regained full compliance with the NYSE's quantitative continued listing standards by achieving market capitalization of $140.9 million on March 30, 2010 and 30 trading day trailing average market capitalization through and including March 30, 2010 of $120.8 million.

Note 2—Discontinued Operations

CTM Media Holdings, Inc.

On September 14, 2009, the Company completed a pro rata distribution of the common stock of CTM Media Holdings, Inc. ("CTM Holdings") to the Company's stockholders of record as of the close of business on August 3, 2009 (the "CTM Spin-Off"). CTM Holdings' businesses at the time of the CTM Spin-Off included CTM Media Group, IDW Publishing and WMET 1160AM. CTM Holdings and subsidiaries met the criteria to be reported as discontinued operations and accordingly, their assets, liabilities, results of operations and cash flows are classified as discontinued operations for all periods presented. As of September 14, 2009, each of the Company's stockholders of record as of the close of business on the record date received: (i) one share of CTM Holdings Class A common stock for every three shares of the Company's common stock; (ii) one share of CTM Holdings Class B common stock for every three shares of the Company's Class B common stock; (iii) one share of CTM Holdings Class C common stock for every three shares of the Company's Class A common stock; and (iv) cash in lieu of a fractional share of all classes of CTM Holdings' common stock.

In September 2009, prior to the CTM Spin-Off, the Company funded CTM Holdings with an additional $2.0 million in cash.

Prior to the CTM Spin-Off, the Company provided certain services to CTM Holdings' subsidiaries. The Company and CTM Holdings entered into a Master Services Agreement, dated September 14, 2009, pursuant to which, among other things, the Company provides certain administrative and other services to CTM Holdings on an interim basis. Such services include assistance with periodic reports required to be filed with the SEC as well as maintaining minutes, books and records of meetings of the Board of Directors and its committees, and assistance with corporate governance. In the three and nine months ended April 30, 2010, the Company's selling, general and administrative expenses were reduced by $0.2 million and $0.8 million, respectively, for the amounts charged to CTM Holdings. At April 30, 2010, other current assets included $0.1 million due from CTM Holdings.

The Company and CTM Holdings entered into a Tax Separation Agreement, dated as of September 14, 2009, to provide for certain tax matters including the assignment of responsibility for the preparation and filing of tax returns, the payment of and indemnification for taxes, entitlement to tax refunds and the prosecution and defense of any tax controversies. Pursuant to this agreement, the Company indemnifies CTM Holdings from all liability for taxes of CTM Holdings and its subsidiaries for periods ending on or before September 14, 2009, and CTM Holdings indemnifies the Company from all liability for taxes of CTM Holdings and its subsidiaries accruing after September 14, 2009. Also, for periods ending on or before September 14, 2009, the Company shall have the right to control the conduct of any audit, examination or other proceeding brought by a taxing authority. CTM Holdings shall have the right to participate jointly in any proceeding that may affect its tax liability unless the Company has indemnified CTM Holdings. Finally, CTM Holdings and its subsidiaries agreed not to carry back any net operating losses, capital losses or credits for any taxable period ending after September 14, 2009 to a taxable period ending on or before September 14, 2009 unless required by applicable law, in which case any refund of taxes attributable to such carry back shall be for the account of the Company.

Hillview Avenue Realty, LLC

On July 31, 2009, Hillview Avenue Realty, LLC (“Hillview”), a majority owned subsidiary of the Company, closed on the sale of its property located at 3373 and 3375 Hillview Avenue in Palo Alto, California. The Company has a 69.27% ownership interest in Hillview. The property consisted of two interconnected office buildings located on 6.68 acres. The sales price was $62.7 million. The Company’s proceeds from the sale, after deduction of the mortgage debt secured by the property that was assumed by the buyer or repaid in connection with the sale, and transaction expenses were $4.4 million, which was received in August 2009. In November 2009, the Company paid $1.5 million of the proceeds to the minority owners of Hillview. This sale met the criteria to be reported as discontinued operations and accordingly, the assets, liabilities, results of operations and cash flows of the property are classified as discontinued operations for all periods presented.

Union Telecard Dominicana, S.A and Ethnic Grocery Brands LLC

On June 24, 2009, the Company acquired the 49% interest in Union Telecard Alliance, LLC (“UTA”) that it did not own in exchange for (a) $4.9 million in cash, (b) a promissory note in the principal amount of $1.2 million payable in thirty-six equal monthly installments, (c) the forgiveness of a note receivable in the amount of $1.2 million including principal and accrued interest, (d) the assignment of all of the interests in Union Telecard Dominicana, S.A. (“UTA DR”) held by UTA, (e) the assignment of an 80% ownership interest in Ethnic Grocery Brands LLC (“EGB”) held by UTA, and (f) other consideration of $0.4 million. UTA retained a 10% ownership interest in EGB. In addition, effective March 2010, the Company accrued an additional $1.6 million upon the resolution of post-closing contingencies that was recorded as goodwill. The aggregate purchase price was $11.3 million, which included the aggregate estimated fair value of the interests in UTA DR and EGB of $2.0 million. UTA is the distributor of the Company’s prepaid calling cards in the United States. UTA DR and EGB met the criteria to be reported as discontinued operations and accordingly, the assets, liabilities, results of operations and cash flows of UTA DR and EGB are classified as discontinued operations for all periods presented.

IDT Carmel

On January 30, 2009, IDT Carmel, Inc., IDT Carmel Portfolio Management LLC, and FFPM Carmel Holdings I LLC (all of which are subsidiaries of the Company) (collectively “IDT Carmel”) and Sherman Originator III LLC consummated the sale, pursuant to a Purchase and Sale Contract, of substantially all of IDT Carmel Portfolio Management LLC’s debt portfolios with an aggregate face value of $951.6 million for cash of $18.0 million. The Company exited the debt collection business in April 2009. IDT Carmel met the criteria to be reported as a discontinued operation and accordingly, IDT Carmel’s assets, liabilities, results of operations and cash flows are classified as discontinued operations for all periods presented. Loss on sale of discontinued operations in the three and nine months ended April 30, 2010 of less than $0.1 million and $0.2 million, respectively, included costs which arose from and were directly related to the operations of IDT Carmel prior to its disposal.

IDT Entertainment

In the first quarter of fiscal 2007, the Company completed the sale of IDT Entertainment to Liberty Media Corporation. Loss on sale of discontinued operations in the nine months ended April 30, 2009 of $0.2 million included compensation which arose from and was directly related to the operations of IDT Entertainment prior to its disposal.

Significant Accounting Policies of Discontinued Operations

IDT Carmel purchased debt portfolios that experienced deterioration of credit quality at a significantly lower price than their contractual amount. Upon acquisition of debt portfolios, static pools of accounts were established, which were aggregated based on certain common risk criteria. Each static pool was recorded at cost, which included external acquisition costs, and was accounted for as a single unit for the recognition of income, principal payments and loss provision. Once pools were established, they were not changed unless replaced, returned or sold.

The Company, through IDT Carmel, accounted for its purchased debt portfolios in accordance with the accounting standard relating to certain loans or debt securities acquired in a transfer, which provided for recognition of the excess of the undiscounted collections expected at acquisition over the cost of the purchased debt as income. Income was recognized on a level-yield basis over the expected life of the debt (the “effective yield method”) based on the expected internal rate of return (“IRR”). Subsequent increases in cash flows expected to be collected were generally recognized prospectively through an increase to the IRR over the debt’s remaining life. Decreases in cash flows expected to be collected were recognized as impairment. Recognition of income under the effective yield method was dependent on having a reasonable expectation about the timing and amount of cash flows expected to be collected. IDT Carmel used the cost recovery method to account for a portfolio if it could not reasonably predict the timing and amount of collections from the portfolio. Under the cost recovery method, no income was recognized until IDT Carmel fully collected the cost of the portfolio.

Summary Financial Data of Discontinued Operations

Revenues, (loss) income before income taxes and net (loss) income of CTM Holdings and subsidiaries, Hillview, UTA DR, EGB and IDT Carmel, which are included in discontinued operations, were as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2010	2009	2010	2009
	(in thousands)			
Revenues:				
CTM Holdings and subsidiaries	$—	$7,120	$4,045	$23,421
Hillview	—	1,655	—	4,968
UTA DR	—	16,939	—	46,360
EGB	—	6,384	—	19,408
IDT Carmel	—	933	—	16,535
Total	$—	$33,031	$4,045	$110,692
(Loss) income before income taxes:				
CTM Holdings and subsidiaries	$—	$(31,675)	$40	$(34,386)
Hillview	—	(1,921)	—	(2,087)
UTA DR	—	280	—	(171)
EGB	—	(396)	—	(1,716)
IDT Carmel	—	(3,039)	—	(38,998)
Total	$—	$(36,751)	$40	$(77,358)
Net (loss) income:				
CTM Holdings and subsidiaries	$—	$(31,322)	$(170)	$(34,190)
Hillview	—	(1,921)	—	(2,087)
UTA DR	—	280	—	(171)
EGB	—	(396)	—	(1,716)
IDT Carmel	—	(3,039)	—	(38,998)

Total	$—	$(36,398)	$(170)	$(77,162)

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The assets and liabilities of CTM Holdings and subsidiaries at July 31, 2009 included in discontinued operations consist of the following:

	(in thousands)
Assets	
Cash and cash equivalents	$6,480
Trade accounts receivable, net	3,908
Prepaid expenses	980
Investments-short-term	1,024
Other current assets	1,408
Property, plant and equipment, net	4,243
Licenses and other intangibles, net	588
Other assets	159
Assets of discontinued operations	$18,790
Liabilities	
Trade accounts payable	$1,024
Accrued expenses	1,427
Deferred revenues	1,731
Capital lease obligations-current portion	222
Other current liabilities	563
Capital lease obligations-long-term portion	526
Other liabilities	3
Liabilities of discontinued operations	$5,496

European Prepaid Payment Services Business

On July 9, 2009, the Company entered into an agreement for the sale of the capital stock of IDT Financial Services Holding Limited ("IDT Financial Services"), the Company's European prepaid payment services business. IDT Financial Services provides prepaid MasterCard® products in the United Kingdom under the "Prime Card" brand. In the fourth quarter of fiscal 2009, IDT Financial Services met the criteria to be classified as held for sale and reported as discontinued operations. On October 31, 2009, as a result of certain events that indicated that the buyer was unlikely to complete the transaction, the Company concluded that the sale was no longer probable. Therefore, IDT Financial Services no longer met the criteria to be classified as held for sale and reported as discontinued operations. Accordingly, the assets, liabilities, results of operations and cash flows of IDT Financial Services are classified as continuing operations for all periods presented. The Company currently intends to operate and further develop IDT Financial Services.

Note 3—Marketable Securities

The Company classifies all of its marketable securities as "available-for-sale" securities. Marketable securities are stated at fair value, with unrealized gains and losses in such securities reflected, net of tax, in "Accumulated other comprehensive income" in the accompanying consolidated balance sheets. The Company's marketable securities at April 30, 2010 and July 31, 2009 included auction rate securities with an original cost of $14.3 million and an estimated fair value of $0.6 million. In fiscal 2009 and fiscal 2008, the Company recorded an aggregate $13.9 million loss after determining that there were other than temporary declines in the value of these auction rate securities.

The following is a summary of marketable securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
April 30, 2010:				
Available-for-sale securities:				
Debt securities	$353	$234	$—	$587
July 31, 2009:				
Available-for-sale securities:				
Corporate and other debt securities	$5,508	$232	$(52)	$5,688
Equity securities	15	—	(1)	14
Total	$5,523	$232	$(53)	$5,702

Proceeds from sales and maturities of available-for-sale securities and the gross realized gains that have been included in earnings as a result of those sales and maturities in the nine months ended April 30, 2010 were $4.6 million and $0.3 million, respectively. Proceeds from sales and maturities of available-for-sale securities and the gross realized losses that have been included in earnings as a result of those sales and maturities in the nine months ended April 30, 2009 were $145.3 million and $(10.7) million, respectively. The Company uses the specific identification method in computing the gross realized gains and gross realized losses on the sales of marketable securities.

The contractual maturities of the Company's available-for-sale debt securities at April 30, 2010 were as follows:

	Fair Value (in thousands)
Within one year	$3
After one year through five years	—
After five years through ten years	—
After ten years	584
Total	$587

At April 30, 2010, there were no securities in an unrealized loss position. At July 31, 2009, the following available-for-sale securities were in an unrealized loss position for which other-than-temporary impairments had not been recognized:

	Unrealized Losses	Fair Value
	(in thousands)	
Corporate and other debt securities	$52	$5,103
Equity securities	1	14
Total	$53	$5,117

At April 30, 2010 and July 31, 2009, there were no securities in a continuous unrealized loss position for 12 months or longer.

Note 4—Fair Value Measurements

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis:

	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
		(in thousands)		
April 30, 2010:				
Assets:				
Debt securities	$3	$—	$584	$587
Liabilities:				
Derivative contracts	$91	$—	$200	$291

July 31, 2009:				
Assets:				
Corporate and other debt securities	$3	$—	$5,685	$5,688
Equity securities	14	—	—	14
Total marketable securities	$17	$—	$5,685	$5,702
Liabilities:				
Derivative contracts	$493	$—	$686	$1,179

(1) – quoted prices in active markets for identical assets or liabilities
(2) – observable inputs other than quoted prices in active markets for identical assets and liabilities
(3) – no observable pricing inputs in the market

The Company's marketable securities at April 30, 2010 and July 31, 2009 included auction rate securities with an original cost of $14.3 million. The underlying asset for these securities is preferred stock of the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation. The fair values of the auction rate securities, which cannot be corroborated by the market, were estimated based on the value of the underlying assets and the Company's assumptions, and are therefore classified as Level 3.

The Company’s investments in hedge funds, which are included in “Investments—short-term” and “Investments—long-term” i the accompanying condensed consolidated balance sheets, are accounted for using the equity method unless the Company’s interest is so minor that it has virtually no influence over operating and financial policies pursuant to the accounting standards relating to investments in limited partnerships and in limited liability companies. The Company’s investments in hedge funds are therefore excluded from the fair value measurements table above.

The Company’s derivative contracts are valued using quoted market prices or significant unobservable inputs. These contracts consist of (1) natural gas and electricity forward contracts to fix the price that IDT Energy will pay for specified amounts of natural gas and electricity on specified dates, which are classified as Level 1, (2) an option to purchase shares of a subsidiary, which is classified as Level 3, and (3) an embedded derivative in a structured note that must be bifurcated, which was classified as Level 3 at July 31, 2009. The stock option was granted in April 2010 by the Company’s subsidiary, Genie Energy Corporation (“Genie”). The Genie stock option is exercisable until April 9, 2015 at an exercise price of $5.0 million, and was fully vested on the date of grant. The fair value of the Genie stock option was estimated using a Black-Scholes valuation model. The fair values of the structured note and the embedded derivative were estimated primarily based on pricing information from the counterparty. The structured note, which was included in marketable securities and was classified as Level 3 at July 31, 2009, matured in November 2009.

The following tables summarize the change in the balance of the Company’s assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Three Months Ended April 30, 2010		Three Months Ended April 30, 2009	
	Assets	Liabilities	Assets	Liabilities
	(in thousands)			
Balance, beginning of period	$429	$—	$5,619	$(2,843)
Total gains (losses) (realized or unrealized):				
Included in earnings in “Other income (expense), net”	—	—	(100)	371
Included in other comprehensive loss	155	—	23	—
Purchases, sales, issuances and settlements	—	(200)	—	—
Transfers in (out) of Level 3	—	—	—	—
Balance, end of period	$584	$(200)	$5,542	$(2,472)
The amount of total gains or losses for the period included in earnings in “Other income (expense), net” attributable to the change in unrealized gains or losses relating to assets or liabilities still held at the end of the period	$—	$—	$(100)	$371

	Nine Months Ended April 30, 2010		Nine Months Ended April 30, 2009	
	Assets	Liabilities	Assets	Liabilities
	(in thousands)			
Balance, beginning of period	$5,685	$(686)	$53,265	$(155)
Total gains (losses) (realized or unrealized):				
Included in earnings in “Other income (expense), net”	(156)	286	(8,671)	(2,317)
Included in other comprehensive loss	55	—	3,028	—
Purchases, sales, issuances and settlements	(5,000)	200	(42,080)	—
Transfers in (out) of Level 3	—	—	—	—

Balance, end of period	$584	$(200)	$5,542	$(2,472)
The amount of total gains or losses for the period included in earnings in “Other income (expense), net” attributable to the change in unrealized gains or losses relating to assets or liabilities still held at the end of the period	$—	$—	$(6,750)	$(2,317)

Fair Value of Other Financial Instruments

The estimated fair value of the Company’s other financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting this data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. At April 30, 2010 and July 31, 2009, the carrying value of the Company’s financial instruments included in trade accounts receivable, prepaid expenses, investments-short-term, other current assets, trade accounts payable, accrued expenses, deferred revenue, income taxes payable, capital lease obligations—current portion, notes payable—current portion and other current liabilities approximate fair value because of the short period of time to maturity. At April 30, 2010 and July 31, 2009, the carrying value of the long term portion of the Company’s notes payable and capital lease obligations and the Company’s other non-current liabilities approximate fair value as their contractual interest rates approximate market yields for similar debt instruments.

The Company's investments-long-term at April 30, 2010 and July 31, 2009 included investments in the equity of certain privately held entities that are accounted at cost. It is not practicable to estimate the fair value of these investments because of the lack of a quoted market price for the shares of these entities, and the inability to estimate their fair value without incurring excessive cost. The carrying value of these investments was $0.9 million and $3.1 million at April 30, 2010 and July 31, 2009, respectively, which the Company believes was not impaired.

Note 5—Derivative Instruments

The primary risks managed by the Company using derivative instruments are commodity price risk. Natural gas and electricity forward contracts are entered into to fix the price that IDT Energy will pay for specified amounts of natural gas and electricity on specified dates. An interest rate swap was used until June 2009 to achieve a fixed interest rate on a portion of the Company's variable-rate debt. In addition, one of the Company's marketable securities was a structured note that contained an embedded derivative feature. The structured note had a par value of $5.0 million and matured in November 2009.

IDT Energy has entered into forward contracts as hedges against unfavorable fluctuations in natural gas and electricity prices. These contracts do not qualify for hedge accounting treatment and therefore, the changes in fair value are recorded in earnings. As of April 30, 2010, IDT Energy had the following outstanding forward contracts:

Commodity	Settlement Date	Volume
Electricity	April 2010	8,800 MWh
Electricity	May 2010	8,000 MWh
Natural gas	November 2010	75,000 mmbtu
Natural gas	December 2010	77,500 mmbtu
Natural gas	January 2011	77,500 mmbtu
Natural gas	February 2011	70,000 mmbtu
Natural gas	March 2011	77,500 mmbtu

The Company's subsidiary, Genie Energy Corporation, granted an option to purchase shares of its common stock in April 2010 that is subject to derivative accounting. The Genie stock option is exercisable until April 9, 2015 at an exercise price of $5.0 million, and was fully vested on the date of grant.

The Company had an interest rate swap related to the variable rate obligations secured by a building. In June 2009, the building was sold, at which time the obligation was repaid and the interest rate swap was settled.

The fair value of outstanding derivative instruments recorded as liabilities in the accompanying condensed consolidated balance sheets were as follows:

Liability Derivatives	Balance Sheet Location	April 30, 2010	July 31, 2009
		(in thousands)	
Derivatives not designated or not qualifying as hedging instruments:			
Energy contracts	Other current liabilities	$ 91	$ 493
Structured note embedded derivative	Other current liabilities	—	686
Genie stock option	Other liabilities	200	—
Total liability derivatives		$ 291	$ 1,179

The effects of derivative instruments on the condensed consolidated statements of operations were as follows:

		Amount of Gain (Loss) Recognized on Derivatives			
		Three Months Ended April 30,		Nine Months Ended April 30,	
Derivatives not designated or not qualifying as hedging instruments	Location of Gain (Loss) Recognized on Derivatives	2010	2009	2010	2009
		(in thousands)			
Energy contracts	Direct cost of revenues	$ 48	$ (290)	$ 402	$ (1,067)
Interest rate contracts	Other income (expense), net	—	54	—	(321)
Structured note embedded derivative	Other income (expense), net	—	317	286	(1,996)
Total		$ 48	$ 81	$ 688	$ (3,384)

The Company is exposed to credit loss in the event of nonperformance by counterparties on certain of the above derivative instruments. Although nonperformance is possible, the Company does not anticipate nonperformance by any of these parties primarily because the contracts are with counterparties that the Company considers creditworthy.

Note 6—Investment in American Shale Oil, LLC

In April 2008, American Shale Oil Corporation (“AMSO”), a wholly-owned subsidiary of the Company, acquired a 75% equity interest in American Shale Oil, L.L.C. (“AMSO, LLC”), in exchange for cash of $2.5 million and certain commitments for future funding of AMSO, LLC’s operations. In a separate transaction in April 2008, the Company acquired an additional 14.9437% equity interest in AMSO, LLC in exchange for cash of $3.0 million.

AMSO, LLC is one of three holders of leases granted by the U.S. Bureau of Land Management (“BLM”) to research, develop and demonstrate in-situ technologies for potential commercial shale oil production (“RD&D Leases”) in western Colorado. The RD&D Lease awarded to AMSO, LLC by the BLM covers an area of 160 acres. The lease runs for a ten year period beginning on January 1, 2007, and is subject to an extension of up to five years if AMSO, LLC can demonstrate that a process leading to the production of commercial quantities of shale oil is diligently being pursued. Once AMSO, LLC demonstrates the economic and environmental viability of its technology, it will have the opportunity to submit a one time payment pursuant to the Oil Shale Management Regulations and convert its RD&D Lease to a commercial lease on 5,120 acres which overlap and are contiguous with the 160 acres in its RD&D Lease.

In March 2009, pursuant to a Member Interest Purchase Agreement entered into on December 19, 2008, TOTAL E&P Research & Technology USA, (“Total”), a subsidiary of TOTAL S.A., the world’s fifth largest integrated oil and gas company, acquired a 50% interest in AMSO, LLC in exchange for cash paid to the Company of $3.2 million and Total’s commitment to fund the majority of AMSO, LLC’s research, development and demonstration expenditures. The Company recognized a gain of $2.6 million in the three months ended April 30, 2009 in connection with the sale. While AMSO is the operator of the project during the RD&D phase, Total will provide a majority of the funding during the RD&D phase, and technical assistance throughout the life of the project. Total will lead the planning of the commercial development and will assume management responsibilities during the subsequent commercial phase.

The Company consolidated AMSO, LLC prior to the closing of the transaction with Total. Beginning with the closing, the Company accounts for its 50% ownership interest in AMSO, LLC using the equity method since the Company has the ability to exercise significant influence over its operating and financial matters, although it no longer controls AMSO, LLC. AMSO, LLC is a variable interest entity, however, the Company is not the primary beneficiary because it will not absorb a majority of the expected losses or receive a majority of the expected residual returns.

The following table summarizes the change in the balance of the Company's Investment in AMSO, LLC beginning with Total's acquisition of a 50% interest in AMSO, LLC.

	Nine Months Ended April 30, 2010	Period from March 2, 2009 to July 31, 2009
	(in thousands)	
Balance, beginning of period	$278	$(65)
Capital contributions	744	1,074
Equity in net loss of AMSO, LLC	(1,148)	(731)
Balance, end of period	$(126)	$278

On May 3, 2010, AMSO made an additional capital contribution to AMSO, LLC of $0.5 million.

The investment in AMSO, LLC is included in the consolidated balance sheet in current liabilities at April 30, 2010 and in "Investments-long-term" at July 31, 2009, and equity in net loss of AMSO, LLC is included in "Other income (expense), net" in the consolidated statement of operations.

In accordance with the agreement between the parties, AMSO has committed to a total investment of $10.0 million in AMSO, LLC, subject to certain exceptions described below where the amount could be greater or lesser. Total has the option of withdrawing from AMSO, LLC and terminating its obligation to make capital contributions at the end of the first phase, and in that case AMSO's commitment would be reduced to $5.3 million.

Although, subject to certain exceptions, AMSO and Total are not obligated to make additional contributions beyond their respective shares (which for AMSO is $10.0 million), they could dilute or forfeit their ownership interests in AMSO, LLC if they fail to contribute their respective shares for additional funding.

Total can increase AMSO's initial required funding commitment of $10.0 million up to an additional $8.75 million if Total wishes to continue to fund the pilot test up to an agreed upon commitment level.

At April 30, 2010, the Company's estimated maximum exposure to additional loss as a result of its required investment in AMSO, LLC was $7.4 million. The Company's estimated maximum exposure to additional loss will increase as AMSO's commitment to fund AMSO, LLC increases. The estimated maximum exposure at April 30, 2010 was determined as follows:

	(in thousands)
AMSO's total committed investment in AMSO, LLC	$10,000
Less: 20% of capital contributions to AMSO, LLC prior to March 2, 2009	(807)
Less: cumulative capital contributions to AMSO, LLC on and after March 2, 2009	(1,818)
Estimated maximum exposure to additional loss	$7,375

AMSO's total committed investment in AMSO, LLC and its estimated maximum exposure to additional loss is subject to certain exceptions where the amounts could be greater. One exception is the additional funding that may be necessary to fund the pilot test as described above. The other significant exception is additional capital contributions that may be required to fund unexpected liabilities, in the event they occur, outside the purview of the traditional research, development and demonstration operations incorporated in AMSO, LLC's budgeting and planning. However, a