

Edgar Filing: IDT CORP - Form 10-K

IDT CORP
Form 10-K
October 14, 2008
Table of Contents

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, 2008, 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

(State or other jurisdiction of incorporation

or organization)

22-3415036

(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

Common stock, par value \$.01 per share

New York Stock Exchange

Edgar Filing: IDT CORP - Form 10-K

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 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 stock held by non-affiliates of the registrant, based on the closing price on January 31, 2008 (the last business day of the registrant's most recently completed second fiscal quarter) of the Class B common stock of \$6.94 and of the common stock of \$6.50, as reported on the New York Stock Exchange, was approximately \$154,622,398.

As of October 6, 2008, the registrant had outstanding 51,220,823 shares of Class B common stock, 9,816,988 shares of Class A common stock, and 14,541,723 shares of common stock. Excluded from these numbers are 12,687,759 shares of Class B common stock and 10,533,137 shares of 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 17, 2008, is incorporated by reference into Part III of this Form 10-K to the extent described therein.

Table of Contents

Index

IDT Corporation

Annual Report on Form 10-K

<u>Part I</u>	1
Item 1. <u>Business</u>	1
Item 1A. <u>Risk Factors</u>	20
Item 1B. <u>Unresolved Staff Comments</u>	33
Item 2. <u>Properties</u>	33
Item 3. <u>Legal Proceedings</u>	34
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	36
<u>Part II</u>	37
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	37
Item 6. <u>Selected Financial Data</u>	40
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	41
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risks</u>	72
Item 8. <u>Financial Statements and Supplementary Data</u>	73
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	73
Item 9A. <u>Controls and Procedures</u>	73
Item 9B. <u>Other Information</u>	74
<u>Part III</u>	75
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	75
Item 11. <u>Executive Compensation</u>	75
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	76
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	76
Item 14. <u>Principal Accounting Fees and Services</u>	76
<u>Part IV</u>	77
Item 15. <u>Exhibits, Financial Statement Schedules</u>	77
<u>Signatures</u>	80

Table of Contents

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 2008 refers to the fiscal year ended July 31, 2008).

Item 1. Business.

OVERVIEW

We are a multinational holding company with subsidiaries spanning several industries. Our principal businesses consist of:

IDT Telecom, which provides telecommunications services to consumers and businesses, including prepaid and rechargeable calling cards, a range of voice over Internet protocol (VoIP) communications services, wholesale carrier services and local, long distance and wireless phone services;

IDT Energy, which operates our Energy Services Company, or ESCO, in New York State;

IDT Carmel, which manages receivables portfolios and performs debt collection services;

IDT Local Media, which is primarily comprised of CTM Media Group (formerly CTM Brochure Display), our brochure distribution company, other advertising-based new product initiatives focused on small to medium sized businesses, and the WMET-AM radio station in the Washington, D.C. metropolitan area;

IDT Internet Mobile Group is comprised of Zedge, which provides a web based, worldwide destination for free, user-generated mobile content distribution and sharing, and IDW Publishing, which is a comic book, graphic novel and children's book publisher that creates and licenses original intellectual property; and

Alternative Energy, which consists of American Shale Oil Corporation, or AMSO, our U.S. oil shale initiative, and other alternative energy initiatives.

We hold assets and operate other smaller or early-stage initiatives and operations, including the IDT Spectrum unit of IDT Capital, which holds a significant number of FCC licenses for commercial fixed wireless spectrum in the United States. We also own certain real estate investments.

We conduct our business through the following five reportable segments: Prepaid Products, Consumer Phone Services and Wholesale Telecommunications Services, which comprise IDT Telecom, IDT Energy and IDT Carmel. All other operating segments that are not reportable individually are collectively called IDT Capital. IDT Capital includes the following businesses: IDT Local Media, IDT Internet Mobile Group, Alternative Energy and various other smaller lines of business.

IDT Telecom. IDT Telecom's business consists principally of:

our Prepaid Products segment;

our Wholesale Telecommunications Services segment; and

our Consumer Phone Services segment.

Edgar Filing: IDT CORP - Form 10-K

Our Prepaid Products segment markets and sells prepaid and rechargeable calling cards in the United States and abroad. Our prepaid calling cards are marketed primarily to ethnic and immigrant communities in the United States, Europe, Latin America and Asia that generate high levels of international call volume. Our Prepaid Products segment also markets private label retail and promotional calling cards primarily to retail chains.

Our Prepaid Products segment also includes TúYo Mobile, the prepaid wireless unit of IDT Telecom that operates as a Mobile Virtual Network Operator, or MVNO, which markets prepaid wireless services.

Table of Contents

Our Wholesale Telecommunications Services segment carries our international telecommunications traffic and the international traffic of other telecommunications companies. Our Wholesale Telecommunications Services segment also includes our Voice over Internet Protocol, or VoIP, business, which consists primarily of our Net2Phone subsidiary. Net2Phone provides VoIP communications services to resellers, consumers, cable operators and service providers globally.

Our Consumer Phone Services segment offers bundled local and long distance phone service in the United States marketed under the brand name IDT America, and also provides long distance-only service to customers throughout the United States.

IDT Energy. IDT Energy operates our energy services company, or ESCO, which resells natural gas and electrical power to residential consumers and select small business customers in New York State. As an ESCO, IDT Energy does not own electrical power generation, transmission or distribution facilities, or natural gas production pipeline or distribution facilities, but instead purchases natural gas through wholesale suppliers and various utility companies, and buys electricity in the wholesale market in time-specific, bulk or block quantities, usually at fixed prices. IDT Energy also manages internally all of its energy procurement from its numerous suppliers.

IDT Carmel. IDT Carmel operates the Company's receivables portfolio management and collection businesses. IDT Carmel acquires portfolio assets at a discount to face value and services such portfolios in an effort to maximize ultimate cash recoveries. In addition, IDT Carmel provides debt collection services for debt portfolios owned by third parties for a service fee. IDT Carmel also outsources some of its portfolios for collection by other agencies.

IDT Capital. IDT Capital is responsible for developing, incubating and, in some cases, operating our newer businesses, as well as overseeing certain existing non-core businesses. IDT Capital includes the following businesses:

IDT Local Media, which is primarily comprised of CTM Media Group, our brochure distribution company, and WMET 1160 AM, our Washington, D.C.-based radio station;

IDT Internet Mobile Group is comprised of Zedge, which provides a web-based, worldwide destination for free, user-generated mobile content distribution and sharing, and IDW Publishing, which is a comic book, graphic novel and children's book publisher that creates and licenses original intellectual property;

Alternative Energy, which consists of American Shale Oil Corporation, the Company's U.S. oil shale business, and other alternative energy initiatives; and

Other smaller holdings and operations including IDT Spectrum, through which we hold a significant number of Federal Communications Commission, or FCC, licenses for commercial fixed wireless spectrum in the United States.

In the first quarter of fiscal 2008, Ethnic Grocery Brands and certain other businesses that were historically included in IDT Capital were transferred to IDT Telecom's Prepaid Products segment. In the second quarter of fiscal 2008, the Company began reporting IDT Carmel as a separate reportable segment; therefore, IDT Carmel is no longer included in IDT Capital.

Financial information by segment is presented below under the heading "Business Segment Information" in the Notes to our Consolidated Financial Statements in this Annual Report.

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

Edgar Filing: IDT CORP - Form 10-K

We make available free of charge through the investor relations page of our web site (www.idt.net/ir) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports, and all beneficial ownership reports on Forms 3, 4 and 5 filed by directors, officers and beneficial owners of more than 10% of our equity as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. We have adopted codes of business conduct

Table of Contents

and ethics for all of our employees, including our principal executive officer, principal financial officer and principal accounting officer. Copies of the codes of business conduct and ethics are available on our web site.

Our web site and the information contained therein or incorporated therein are not incorporated into this Annual Report on Form 10-K or our other filings with the Securities and Exchange Commission.

KEY EVENTS IN OUR HISTORY

We were incorporated in the state of Delaware in 1995. We entered the telecommunications business in 1990, providing international call re-origination service. In 1993, we began reselling the long distance services of other carriers. In 1995, we began selling access to the favorable international telephone rates we received as a result of our calling volume to other long distance carriers.

We completed an initial public offering of our common stock on March 15, 1996. Our common stock was quoted on the NASDAQ National Market until February 26, 2001, when it was listed on the New York Stock Exchange, where it now trades under the symbol IDT.C. On May 31, 2001, we distributed a stock dividend of one share of our Class B common stock for each outstanding share of our common stock, Class A common stock and Class B common stock. On June 1, 2001, our Class B common stock was listed on the New York Stock Exchange and now trades under the symbol IDT. On September 30, 2008 and October 8, 2008, we received notice from the New York Stock Exchange that we were no longer in compliance with the market capitalization threshold and the \$1.00 minimum price requirement, respectively, required for the continued listing of our stock on the New York Stock Exchange. We intend to submit a plan to the New York Stock Exchange on or before November 14, 2008, which will be reviewed and approved or rejected by the New York Stock Exchange. If such plan is rejected, the New York Stock Exchange will commence delisting procedures.

We entered the Internet telephony market in 1996 with our introduction, through Net2Phone, of PC2Phone, the first commercial service to connect voice calls between personal computers and telephones over the Internet.

We began marketing prepaid calling cards in January 1997.

In August 2000, we completed the sale of 14.9 million shares of Net2Phone common stock to at&t for approximately \$1.1 billion in cash. In March 2006, we consummated a merger with Net2Phone, in which we acquired all outstanding shares of Net2Phone that were not previously acquired by us in a tender offer for \$97.1 million.

In November 2004, we launched our retail energy business that provides natural gas and electricity to residential and select small business customers throughout New York State.

In March 2006, we sold our Russian telecom business, Corbina Telecom, to a Moscow-based consortium of private equity investors for net proceeds of \$129.9 million in cash.

Edgar Filing: IDT CORP - Form 10-K

In the first quarter of fiscal 2007, we completed the sale of our IDT Entertainment segment to Liberty Media Corporation for (i) 14.9 million shares of our Class B common stock and Liberty Media's approximate 4.8% interest in IDT Telecom, (ii) \$220.0 million in cash, net of certain working capital adjustments, (iii) the repayment of \$58.7 million of IDT Entertainment's intercompany indebtedness payable to IDT and (iv) the assumption of all of IDT Entertainment's existing indebtedness.

In the first quarter of fiscal 2007, we sold our U.K.-based consumer phone services business, which we marketed under the Toucan brand name, to Pipex Communications plc in exchange for \$38.4 million in cash and 43.2 million Pipex ordinary shares which we later sold for \$7.9 million. Our Netherlands consumer phone services business, also marketed under the Toucan brand name, was sold in early fiscal 2007, resulting in our exit from the consumer phone service business in Europe.

In the second quarter of fiscal 2007, FFPM Carmel Holdings I, LLC, which is 99% owned by IDT Carmel Portfolio Management, LLC, a subsidiary of the Company's IDT Capital division, committed to purchase 12 monthly forward flow credit card debt portfolios from a major commercial bank, all of which were purchased during fiscal 2007 and fiscal 2008.

Table of Contents

In the second quarter of fiscal 2007, we formed our Internet Mobile Group and acquired 90% of Norway-based Zedge.net, a social networking community for mobile users and provider of free mobile content. In June 2007, the Company acquired a controlling interest in IDW Publishing.

In February 2008, we formed our new division, the American Shale Oil Corporation, which manages IDT's oil shale ventures including our initial foray in our approximately 90% stake in E.G.L. Oil Shale LLC. Additionally, in the fourth quarter of fiscal 2008, we were granted a license in Israel to explore oil shale for potential production of shale oil.

RECENT DEVELOPMENTS

IDT Telecom

As set forth in detail on Item 3. Legal Proceedings below, in the fourth quarter of fiscal 2007, we reached a settlement with respect to our previously disclosed litigation with Aerotel Ltd. involving an alleged patent infringement. The settlement provides for a payment of \$15 million in cash to Aerotel, which we paid in the first quarter of fiscal 2008, and making available to Aerotel calling cards or PINs over time with potential termination costs of up to \$15 million, subject to certain other conditions. On May 13, 2008, Aerotel filed a complaint against IDT, which relates to a dispute concerning the Settlement Agreement between IDT and Aerotel and seeks damages in the amount of at least \$30 million. The parties are engaged in settlement discussions and the Magistrate Judge has directed the parties to report to him by October 17, 2008 regarding settlement. We intend to file a motion to dismiss Aerotel's complaint, and the Court has scheduled a pre-motion conference for October 31, 2008.

American Shale Oil Corporation

In the third quarter of fiscal 2008, our wholly owned subsidiary, American Shale Oil Corporation (AMSO), acquired a 75% equity interest in American Shale Oil, L.L.C. (AMSO LLC) f/k/a E.G.L. Oil Shale, LLC in exchange for cash of \$2.5 million and certain commitments for future funding of AMSO LLC's operations. As of April 22, 2008, IDT acquired an additional 14.9% equity interest in AMSO LLC in exchange for cash of \$3.0 million. AMSO LLC is one of three holders of 10-year leases granted by the U.S. Bureau of Land Management to research, develop and demonstrate in-situ technologies for potential commercial shale oil production in western Colorado. Once AMSO LLC demonstrates the economic and environmental viability of its technology, it will have the opportunity to expand its lease to 5,120 acres for commercial development. We have committed to a minimum total investment of \$11.0 million in AMSO, which includes the \$2.5 million used for our original purchase of the 75% interest in AMSO LLC. Our 75% equity interest is subject to reduction if we fail to meet further commitments to fund the research, development and demonstration plan.

Zedge

On September 23, 2008, we sold a 10% ownership interest, on a fully diluted basis, of Zedge Holdings, Inc. to Shaman II, L.P. for cash of \$1.0 million. One of the limited partners in Shaman II, L.P. was a former employee of ours.

Other Changes

In the third quarter of fiscal 2006, we initiated a company-wide cost-savings program to better align our infrastructure to our current business needs. We continued this cost-savings program through fiscal 2008 and into fiscal 2009. As of July 31, 2008, this program resulted in the termination of approximately 1,200 employees. These terminations resulted in approximately \$36.0 million and \$25.0 million in severance costs in fiscal 2008 and fiscal 2007, respectively.

STRATEGY

We are in the process of evaluating divestitures of non-core businesses and assets as well as reducing or eliminating the operations of certain of our non-profitable divisions and reducing corporate overhead. We are also focusing on continuing to streamline our core businesses and our businesses in which we believe there is potential for large enterprise value. In particular, we continue to reduce connectivity and other network-related costs at IDT Telecom. We also plan to make modest investments in a very limited number of closely managed opportunities. We have retained Jefferies & Company, Inc. to serve as our financial advisor to assist us with the potential monetization of non-core assets, explore opportunities in the capital markets to finance the growth of our core businesses, and advise us with respect to strengthening our core businesses through strategic partnerships.

Table of Contents

Where appropriate, we intend to make strategic acquisitions and dispositions with respect to our telecommunications businesses. We have placed our consumer phone service business in harvest mode, wherein we seek to retain existing customers but do not actively market to new customers, and to maximize its profits by optimally managing both the life-cycle of our customer base as well as the costs associated with operating this business. Additionally, we intend to continue expanding our direct relationships with mobile network providers, reflecting our belief that the trend of voice traffic transitioning from landline to mobile networks will continue. We also plan to leverage our existing sales channels by expanding customer relationships to include sales of our new products.

Our IDT Carmel segment may seek additional purchases of consumer debt businesses and/or portfolios. Additionally, we plan on improving collections in IDT Carmel. We also intend to make strategic investments and acquisitions to complement and/or expand our IDT Capital segment, which may include the continued expansion of our Zedge and IDW businesses, and continued investment in our AMSO business. We may also explore new technologies and the expansion of Fabrix TV Ltd., our majority-owned Israeli company developing a video content delivery and storage platform. In considering investments and acquisitions, we search for opportunities to profitably grow our existing businesses, to add qualitatively to the range of businesses in the IDT portfolio and to achieve operational synergies.

IDT TELECOM

Our Telecom business currently provides our customers with a variety of services, including:

prepaid product services;
wholesale carrier services; and
consumer phone services.

In fiscal 2008, IDT Telecom had revenues of \$1,528.5 million, representing 81.4% of our total consolidated revenues, and an operating loss of \$(40.1) million, as compared with revenues of \$1,765.7 million and operating loss of \$(63.2) million in fiscal 2007 and revenues of \$2,066.4 million and operating loss of \$(96.4) million in fiscal 2006.

Prepaid Product Services

Prepaid Debit and Rechargeable Calling Cards

We sell prepaid debit and rechargeable calling cards under the IDT, Entrix, DSA, LA LEYENDA, BOSS, Playball, GOOOL, RED, and other brand names, among others, providing telephone access to more than 230 countries and territories. We also sell select cards under the Net2Phone brand name, including the Net2Phone Direct and PennyTalk calling cards. We sell more than 1,000 different prepaid calling cards in the United States and more than 500 different cards abroad, with specific cards featuring favorable rates to specific international destinations.

Our prepaid calling cards are marketed primarily to the ethnic and immigrant communities in the United States, Europe, Asia and Latin America that tend to generate high levels of international volume. Specifically, a large portion of our U.S. calling cards are purchased by the Hispanic community, resulting in a significant proportion (76% in fiscal 2008, 76% in fiscal 2007 and 72% in fiscal 2006) of our international prepaid calling card minutes being terminated in Latin America.

Edgar Filing: IDT CORP - Form 10-K

We primarily market our prepaid calling cards to retail outlets in the United States through Union Telecard Alliance, LLC, or UTA, a joint venture which is owned 51% by us and 49% by the Gomez Family Trust. UTA utilizes a network of more than 850 sub-distributors that sell to retail outlets throughout most of the United States. UTA develops marketing and distribution strategies for our prepaid calling card products, including card design, pricing and market expansion opportunities. UTA generated \$348 million in revenues from its sale of IDT calling cards, representing 87% of UTA's total revenues, in fiscal 2008.

Our prepaid calling card business has traditionally been strongest in the northeastern United States because of UTA's extensive local distribution network and our competitive rates to countries that immigrants in the northeastern United States tend to call, such as Mexico, Dominican Republic, Peru, Guatemala, Nigeria and

Table of Contents

Ghana. In fiscal 2008, prepaid calling card sales in the northeastern United States were approximately 43% of our total U.S. prepaid calling card sales, as compared to 36% in fiscal 2007 and 28% in fiscal 2006.

We also sell prepaid calling cards in Europe, Latin America and Asia, as discussed in detail in the International Operations section below.

Our Prepaid Products segment also markets:

Customized (Private Label) Retail Calling Cards. We market these prepaid calling cards to major national retailers, who sell them primarily in high-traffic stores. We print these prepaid calling cards with the retailer's name and logo and provide them to the retailer, who in turn sells the cards to its customers.

IDT-Branded Retail Calling Cards. These prepaid calling cards are printed with the IDT logo and design and are sold to small and medium-sized retail chains, such as supermarkets, drug stores and convenience stores, for resale to their customers.

Our rechargeable calling cards, which are marketed to consumers and business customers nationwide, can be used by U.S. callers to call internationally from any phone, including a cell phone. In addition, callers can use the cards to make calls from over 30 countries around the world through international access numbers. At the customer's request, an account is automatically recharged with a credit card that the customer provides at the time of initial card activation.

Through UTA, we resell calling cards of other providers of telecommunications in the United States and the Dominican Republic. Additionally, we sell top up wireless cards, primarily to small and medium-sized retail chains. We also sell gift cards, primarily to major national retailers.

During fiscal 2008, our Prepaid Products segment worldwide generated \$778.4 million in revenues and had an operating loss of \$(86.2) million, as compared with \$971.8 million and \$(109.0) million in fiscal 2007 and \$1,206.6 million and \$(82.7) million in fiscal 2006. Our calling card businesses account for over 92.8% of the revenues of our Prepaid Products segment. During fiscal 2008, we sold 83% of our prepaid products in the United States, as compared to 85% and 87% in the United States in fiscal 2007 and fiscal 2006, respectively.

In all of our IDT Telecom businesses, particularly the calling card business, competitors continue to aggressively price their services. We believe that certain of our competitors in the calling card industry are overstating the number of minutes on their cards, thereby hurting our ability to compete effectively. In addition, there has been an ongoing shift in demand away from calling cards and toward wireless products, which has further eroded pricing power in our calling card business. In our wholesale markets as well, we have generally had to pass along portions of our per-minute cost savings to our customers in the form of lower prices. These trends have impacted our telecom businesses, and as a result we have generally experienced declines in our revenues, profits and overall per-minute price realizations.

Mobile Wireless Services

TúYo Mobile is a unit of IDT Telecom's Prepaid Products Segment that operates as a Mobile Virtual Network Operator, or MVNO, which markets wireless services utilizing another company's network.

Edgar Filing: IDT CORP - Form 10-K

TúYo Mobile launched commercial operations in November 2005. TúYo's handsets are presently distributed through third-party cellular distributors, and through local ethnic markets affiliated with UTA's distribution. Wireless top up cards, used to add minutes of use to existing handsets, are also sold at these locations as well as in electronic PIN distribution-only outlets (like Blackstone terminals).

Competition in the MVNO market has been fierce, and a number of other mobile wireless service providers have also targeted the Hispanic population. Such intense competition presents significant pricing pressures and results in relatively low margins, and many other MVNOs have already failed. In addition, due to the risk of high turnover of subscribers, the costs we incur in acquiring TúYo Mobile subscribers may not provide us with a reasonable return on investment. As a result of these market forces, we have lowered our investment spend behind TúYo Mobile and reduced both our marketing and other infrastructure costs, in an attempt to maximize profitability from the existing customer base. This strategy will likely hinder the future growth prospects for the TúYo Mobile business.

Table of Contents

During fiscal 2008, TúYo Mobile generated \$23.1 million in revenues, as compared with \$24.0 million in fiscal 2007. TúYo Mobile represents approximately 3.0% of the total revenues of our Prepaid Products segment.

In the first quarter of fiscal 2008, Ethnic Grocery Brands and certain other businesses that were historically included in IDT Capital were transferred to IDT Telecom's Prepaid Products segment.

Wholesale Telecommunications Services

Our Wholesale Telecommunications Services segment carries our international telecommunications traffic and the international traffic of other telecommunications companies. This segment also acts as the sales channel for all telecommunications services sold to our wholesale customers.

By utilizing our proprietary least-cost-routing system and capitalizing on our own high volume of international long distance telephone traffic generated by our calling card business, aggressive purchasing strategies and extensive experience in provisioning circuits, we are able to provide major carriers and niche carriers alike with rates that we believe are often lower than those traditionally available through other carriers.

During fiscal 2008, IDT Telecom terminated approximately 20 billion international minutes, making IDT one of the largest carriers of international minutes worldwide. Within our wholesale carrier services business, our Mobile Operator Services group provides mobile operators with data and voice products, and our VoIP Services group provides carriers with a quick and efficient expansion into the VoIP marketplace. Our strategy enables us to manage costs on a carrier-by-carrier basis, while diversifying our portfolio of product offerings to various regions around the world. Since the acquisition of Net2Phone in fiscal 2006, Net2Phone's network has now been fully integrated into IDT Telecom, resulting in us being able to better serve the needs of wholesale carrier customers who seek IP products and services.

In the first quarter of fiscal 2008, the Wholesale Telecommunications Services segment began charging for the telecommunications services it provides to other IDT segments. The Wholesale Telecommunications Services segment provides services primarily to our Prepaid Products segment and to external customers. For fiscal 2008, the Wholesale Telecommunications Services segment charged the Prepaid Products segment at a rate of cost plus an agreed mark-up for its services. IDT Telecom's senior management changed in the second half of fiscal 2008. As a result of the management change, in fiscal 2009 Wholesale Telecommunications Services ceased charging for the telecommunications services it provides to other segments. The costs of connectivity and operating the network assets associated with the termination of minute traffic, which historically were allocated to both the Prepaid Products and Wholesale Telecommunications Services segments, were allocated during fiscal 2008 exclusively to the Wholesale Telecommunications Services segment.

We believe that a direct connection from one of our switches to Tier 1 providers (which are the largest recognized licensed carriers in each country) both increases the quality of a call and reduces cost. We also believe that establishing such connections enables us to generate more traffic with higher margins to that foreign locale. During fiscal 2008, we expanded our existing direct relationships with Tier 1 providers, particularly in Asia and Africa. Additionally, we continued expanding our direct relationships with mobile network providers, reflecting our belief that the trend of voice traffic transitioning from landline to mobile networks will continue.

In addition to offering competitive rates to our carrier customers, we have also emphasized our ability to offer the high quality connections that these providers often require. To that end, we have broadened our wholesale carrier services offerings to include higher-priced, premium services in which we guarantee higher quality connections, based upon a set of predetermined quality-measuring criteria. These services meet a growing need for some of our customers, who are providing services to high-value, quality-conscious retail customers. As of July 31, 2008, our wholesale carrier services business had approximately 565 customers. Including vendors, IDT has over 634 carrier relationships globally.

In fiscal 2008, the Wholesale Telecommunications Services segment generated revenues from external customers only of \$662.1 million and operating income (loss) of \$26.7 million, as compared with \$645.1 million and \$(19.8) million, respectively, in fiscal 2007 and \$597.7 million and \$(14.3) million, respectively, in fiscal 2006. Operating income in fiscal 2008 includes a gain of \$40.0 million from an arbitration award, including accrued interest, related to Altice One's termination of cable telephony license agreements with Net2Phone that were entered into in November 2004.

Table of Contents

Consumer Phone Services

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 primarily 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 IDT 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. Due to changes in the U.S. regulatory environment in 2005 that affected our cost of providing bundled local/long distance phone services and increased competition, we significantly curtailed marketing activities for the service, and as a result, the revenues and number of customers have declined significantly.

As of July 31, 2008, we had approximately 46,300 active customers for our bundled local/long distance plans and approximately 133,300 customers for our metered long distance plans. Our highest customer concentrations are in large urban areas, with the greatest number of customers located in New York, New Jersey, Pennsylvania and California.

The Consumer Phone Services segment generated revenues of \$88.0 million in fiscal 2008 and operating income of \$19.3 million, as compared to \$148.8 million and \$65.6 million in fiscal 2007 and \$262.1 million and \$0.6 million in fiscal 2006. Operating income in fiscal 2007 includes a gain of \$44.7 million from the sale of our U.K.-based consumer phone services business, Toucan, to Pipex Communications plc in the first quarter of fiscal 2007.

International Operations

We maintain our European corporate and carrier operations in London, England, and our retail calling card business headquarters in Dublin, Ireland. IDT Europe operates satellite offices in Germany, the Netherlands, Belgium, Spain, Sweden and Greece.

In Europe, we market our prepaid calling cards in the United Kingdom, the Netherlands, Spain, Germany, Belgium, France, Ireland, Italy, Luxemburg, Sweden, Switzerland, Denmark, Norway, Portugal, Austria and Greece, seeking to capitalize on the opportunity presented by immigration from underdeveloped countries to Europe's developed nations. Because the immigrant market is fragmented, and due to the large number of markets in which we compete, we offer over 500 different prepaid calling cards in Europe. We also market our prepaid calling cards in Israel.

We also provide wholesale carrier services to European telecom companies, including foreign state-owned or state sanctioned post, telephone or telegraph companies and Tier-1 carriers, new and emerging telephone companies, and value-added service providers.

Our European operations generated \$341.3 million of revenues in fiscal 2008, a 3.5% decrease from the \$353.6 million of revenues generated during fiscal 2007. Our European operations' revenues constituted 22.3% of our Telecom revenues in fiscal 2008, as compared to 20.0% in fiscal 2007 and 20.3% in fiscal 2006. During fiscal 2008, prepaid calling cards constituted 27.3% of our European operations' revenues, while wholesale carrier services represented 70.8%.

We maintain Asia Pacific headquarters in Hong Kong and African headquarters in Johannesburg, South Africa. IDT Asia Pacific operates satellite offices in Singapore and Australia. We began our Asia Pacific regional operations in 2003, offering wholesale carrier services in the region and prepaid calling card distribution in Hong Kong. We have since expanded our prepaid calling card operations into Singapore, Australia, New Zealand, Japan, Korea and Malaysia. We have made significant inroads into key segments in both Hong Kong and Singapore,

Edgar Filing: IDT CORP - Form 10-K

the markets entered earliest. IDT Asia Pacific is currently one of the top providers to the Filipino segment and the Indonesian segment, the two largest overseas worker segments in Hong Kong. In Singapore, IDT Asia Pacific is the market share leader in the Indian segment, which is the largest ethnic segment in Singapore. In fiscal 2008, we generated \$14.0 million in revenues from the sale of calling cards in the Asia Pacific region.

Table of Contents

We maintain Latin American headquarters in Buenos Aires, Argentina. IDT Latin America currently sells cards in Argentina, Brazil, Peru, Chile, and Uruguay, and has launched consumer phone services and VoIP services in the same countries. In fiscal 2008, we generated \$17.1 million in revenues from the sale of calling cards in Latin America.

Sales Marketing and Distribution

We market our prepaid calling cards primarily to retail outlets in the United States through an exclusive distribution agreement with our majority-owned subsidiary, UTA. In addition to UTA's sub-distributors, UTA is developing its own direct-to-retailer distribution network. We believe that our direct-to-retailer distribution network may take significant time to develop, and there is no assurance we can build such a network or that the development of this distribution network may not otherwise adversely affect our business. In addition, our customized retail calling cards and our IDT-branded retail calling cards are also marketed to retail chains and outlets primarily through our own internal sales force, although from time to time we may utilize third-party agents or brokers to acquire accounts. In Europe, we sell our prepaid calling cards and our customized retail and IDT-branded retail calling cards through independent distributors and our own internal sales force. Wholesale carrier services are sold through IDT's internal wholesale sales team. TúYo Mobile products are marketed through retail stores, national, regional and local wireless distributors and through UTA's distribution channels. These sales are supported by a combination of print, radio and television advertising.

Telecommunication Network Infrastructure

We maintain a global telecommunications switching and transmission infrastructure that enables us to provide an array of telecommunications services to our customers worldwide. Our network is continuously monitored by our Network Operations Centers in the United States and Europe.

We have historically made significant expenditures designed to expand and optimize our global telecommunications network. Since our acquisition of Net2Phone in March 2006, we greatly expanded the VoIP capabilities of our network by integrating the Net2Phone network into the IDT Telecom network. Due to this expansion of the VoIP capabilities of our network and a decrease in demand in traffic, we decommissioned a U.K.-based switch and started the decommission process on all remaining switches. We now operate a total of five international gateway switches, four in the United States and one in the United Kingdom. We expect the next US-based switch to be taken out of service in November 2008, and all legacy switches globally to be out of our network in fiscal 2009. In addition, we have extensive soft-switching capacity in the United States, United Kingdom, Argentina, Peru, Brazil and Hong Kong. We also maintain points of presence, or POPs, providing interconnect capabilities in numerous countries. Our global network is connected through leased and owned fiber connections.

We continue to focus on reducing costs by streamlining our global network by expanding our soft-switching capacity and expanding our VoIP traffic.

IDT ENERGY

In November 2004, we launched our retail energy business, which has since experienced significant growth. Today, IDT Energy operates as an energy service company, or ESCO, that resells natural gas and electricity to customers throughout seven utility markets in New York State, including those currently served by Con Edison, Orange and Rockland, Central Hudson, National Fuel, National Grid, Keyspan, and Rochester Gas and Electric.

As an ESCO, IDT Energy does not own electrical power generation, transmission, or distribution facilities, or natural gas production, pipeline or distribution facilities. IDT Energy purchases natural gas through wholesale bilateral contracts with suppliers and various utility companies. IDT

Edgar Filing: IDT CORP - Form 10-K

Energy buys electric capacity, energy and ancillary services through the wholesale markets administrated by the New York Independent System Operator, Inc., or NYISO. The NYISO performs real-time load balancing for each of the electrical power grids in which we operate. Similarly, load balancing is performed by the utilities or Local Distribution Companies, or LDCs, for each of the natural gas markets in which we operate. Load balancing ensures that the amount of electricity and natural gas we purchase is equal to the amount necessary to service our customers demands at any specific point in time. We are charged or credited by the NYISO for balancing the electricity and natural gas purchased and sold for our account.

Table of Contents

We manage the differences between the actual electricity and natural gas demands of our customers and our bulk or block purchases by buying and selling any shortfall or excess in the spot market, and through monthly cash settlements and/or adjustments to future deliveries in accordance with the load balancing performed by the utilities, LDCs and the NYISO.

Our customer contracts are primarily variable rate contracts which enable us to recover our costs for electricity and natural gas through rate adjustments. The electricity and natural gas we sell are generally metered and delivered to our customers by the local utilities. As such, IDT Energy does not maintain any maintenance or service staff for customer locations, as such services are provided by the local incumbent utility. These utilities may also provide billing and collection services for the majority of our customers on our behalf. Additionally, our receivables are generally purchased by the utilities in whose areas IDT Energy operates for approximately 98% of their face value; namely, Con Edison, Orange and Rockland, Central Hudson, National Fuel, National Grid, Keyspan and Rochester Gas and Electric, in exchange for the utility receiving a first priority lien in the customer receivable without recourse against IDT Energy.

The ESCO business, particularly the natural gas segment, is a seasonal business. Approximately 77% of annual natural gas revenues are generated during the Company's second and third fiscal quarters when heat load is highest. The load curve for electricity is not as seasonal as natural gas, but is higher during the Company's first and fourth fiscal quarters when air conditioning usage peaks. Electric revenues in the first and fourth quarters represent approximately 62% of annual electric revenues. Commodity prices are generally higher during these peak demand seasons, and, therefore contribute to the seasonal fluctuation in revenues.

We market our energy services primarily through direct marketing methods, including D2D (Door-to-Door) sales, outbound telemarketing, and Internet signup. The aggressive customer growth experienced can be attributed to IDT Energy's successful expansion into many of the LDC territories that comprise New York State. Additionally, the outsourced vendors that are relied upon for customer acquisition have significantly expanded their sales and support staff. The New York State Public Service Commission, or NYPSC published on its web site in March 2008 (for electric) and January 2008 (for gas) quotes that approximately 15.7% (electric) and 14.8% (gas) of eligible New York customers migrated from a utility to an ESCO. According to these statistics, IDT has captured approximately 25% of the migrated customers. Many of its customers reside in Con Edison territory with IDT capturing approximately 36% of the migrated customers.

In fiscal 2008, IDT Energy generated revenues of \$248.9 million, representing 13.3% of our total consolidated revenues, and operating income of \$6.0 million, as compared with revenues of \$190.8 million and operating income of \$11.4 million in fiscal 2007 and revenues of \$112.8 million and operating income of \$1.1 million in fiscal 2006. As of July 31, 2008, IDT Energy serviced approximately 376,000 meters in New York State, as compared to approximately 300,000 meters serviced at the end of fiscal 2007.

IDT CARMEL

IDT Carmel was launched in fiscal 2006, initially as a natural outgrowth of our internal collection activities, and is engaged in the acquisition and resolution of charged-off debt portfolios, and debt collection services. The Company acquires portfolio assets at a discount to face value and services such portfolios in an effort to maximize ultimate cash recoveries. IDT Carmel also provides debt collection services for debt portfolios owned by third parties for a service fee. IDT Carmel also outsources some of its portfolios for collection by other agencies.

IDT Carmel's initial entry into the third-party charged-off consumer receivables market has been focused on portfolios of credit-card issuers.

IDT Carmel Group is comprised of IDT Carmel Holdings, Inc. and its two wholly owned subsidiaries IDT Carmel Portfolio Management LLC (engaged in portfolio acquisitions) and IDT Carmel, Inc. (engaged in servicing and collecting debt portfolios).

On January 9, 2007, FFPM Carmel Holdings I, LLC, which is 99% owned by IDT Carmel Portfolio Management and 1% owned by First Financial Portfolio Management, Inc., committed to purchase 12 monthly forward flow credit card debt portfolios from a major commercial bank, all of which were purchased in fiscal 2007 and fiscal 2008. During fiscal 2007, IDT Carmel Portfolio Management purchased debt portfolios for \$78.4 million, including \$57.3 million of credit card debt through FFPM Carmel Holdings I, LLC.

Table of Contents

During fiscal 2008, IDT Carmel made significant changes in its management team by hiring an industry-experienced executive to lead its operations and continue its efforts to refine IDT Carmel's analytical platform and collections methodologies. At the same time, IDT Carmel terminated most of its employees in its Jerusalem, Israel office while expanding management in its Minneapolis, Minnesota collection office.

In fiscal 2008, IDT Carmel generated revenues of \$45.6 million, representing 2.4% of our total consolidated revenues, and an operating loss of \$(25.3) million, as compared with revenues of \$5.4 million and an operating loss of \$(10.7) million in fiscal 2007 and revenues of \$0.4 million and an operating loss of \$(2.3) million in fiscal 2006. The increase in IDT Carmel revenues in fiscal 2008 was primarily because IDT Carmel began using the effective yield method to recognize revenues effective August 1, 2007. Under the effective yield method, revenue is recognized on a level-yield basis over the expected life of the pool of portfolios. In fiscal 2007 and fiscal 2006, IDT Carmel used the cost recovery method to recognize revenues. Under the cost recovery method, no revenue is recognized until the cost of the portfolio is completely recovered or sold. The carrying value of the receivables in the portfolio management business as of July 31, 2008 was \$63.1 million after write downs of \$31.7 million.

IDT CAPITAL

IDT Capital is responsible for developing, incubating and, in some cases, operating our newer businesses, as well as overseeing certain existing non-core businesses. IDT Capital consists primarily of our IDT Local Media unit (which is primarily comprised of CTM Media Group and WMET radio), IDT Internet Mobile Group (which is comprised of Zedge and IDW), Alternative Energy including AMSO, our U.S. oil shale operations, IDT Spectrum, and other smaller holdings and operations including real estate investments.

During fiscal 2008, IDT Capital generated \$55.0 million in revenues, representing 2.9% of our total consolidated revenues, and an operating loss of \$(63.8) million, as compared with revenues of \$50.8 million and \$46.8 million in fiscal 2007 and fiscal 2006, respectively. Operating losses of IDT Capital were \$(26.6) million in fiscal 2007 and \$(59.8) million in fiscal 2006.

IDT Local Media

IDT Local Media includes CTM Media Group, our brochure distribution company, WMET 1160 AM, our Washington, D.C.-based radio station, and other smaller initiatives involving local level advertising.

During fiscal 2006, these businesses were pooled together as IDT Local Media, to better align our internal management focus on local level advertising with these various business units. In fiscal 2008, IDT Local Media had revenues of \$24.2 million and an operating loss of \$(8.0) million.

CTM is a distributor of travel and entertainment brochures in central and eastern United States, Puerto Rico and Canada. In fiscal 2008, CTM serviced over 3,500 clients and maintained more than 11,000 display locations, in over 35 states and provinces. CTM's display stands are located in travel and entertainment venues, including hotels, resorts, interstate highway rest areas, airports and local attractions. Through its local sales force, CTM sells brochure slots in these stands to local advertisers, maintains the stands and ensures placement and replenishment of brochures in the appropriate slots. In fiscal 2008, CTM generated revenues of \$20.5 million and operating income of \$0.2 million.

In accordance with IDT Local Media's plan to complement its traditional marketing services with new media internet based services, in September 2006 we acquired Local Pull, a nascent online directory listing business which creates customized search listings that are distributed to the leading local search engines. In fiscal 2008, the new media initiatives generated revenues of \$2.5 million, which included Local Pull

revenues of \$0.9 million.

We own and operate WMET 1160 AM, a radio station serving the Washington, D.C. metropolitan area, the nation's eighth-largest radio market, including the corridor from Baltimore, Maryland to Richmond, Virginia. WMET is primarily a reseller of radio broadcast time to outside parties. In this format, WMET earns revenues through the rental of airtime slots as well as the sale of advertising. In fiscal 2008, WMET generated revenues of \$1.2 million and an operating loss of \$(4.6) million.

IDT Internet Mobile Group

In the second quarter of fiscal 2007, we formed our Internet Mobile Group, under which we operate Zedge, which provides a web-based, worldwide destination for free, user-generated mobile content distribution and sharing. In December 2006, we acquired 90% of the Norway-based Zedge.net. As of July 2008, there were

Table of Contents

approximately 10.4 million registered users of Zedge.net who had downloaded more than half a billion lifestyle and entertainment pieces of content. Zedge has an average of 20,000 new members per day. In September 2008, a ten percent interest in Zedge was sold to Shaman II, L.P. for \$1 million. One of the limited partners in Shaman II, L.P. was a former employee of ours. We currently own approximately 82% of Zedge.

In June 2007, the Company acquired a controlling interest in IDW Publishing. IDW Publishing is currently an independent comic book, graphic novel and children's book publisher that creates and licenses original intellectual property.

American Shale Oil Corporation

In April 2008, our wholly owned subsidiary, AMSO, acquired a 75% equity interest in AMSO LLC in exchange for cash of \$2.5 million and certain commitments for future funding of AMSO LLC's operations. As of April 22, 2008, we acquired an additional 14.9% equity interest in AMSO LLC in exchange for cash of \$3.0 million. AMSO LLC is one of three holders of 10-year leases granted by the U.S. Bureau of Land Management to research, test and demonstrate the potential for commercial shale oil production in western Colorado. Utilizing a team of experienced experts in the field, AMSO LLC is currently in the research, development and demonstration stage of operations and once AMSO LLC can demonstrate the economic and environmental viability of its technology, it will have the opportunity to expand its lease to 5,120 acres for commercial development. We have committed to a minimum total investment of \$11.0 million in AMSO, which includes the \$2.5 million used for our original purchase of the 75% interest in AMSO LLC. Our 75% equity interest is subject to reduction if we fail to meet further commitments to fund the research, development and demonstration plan.

Real Estate Investment

IDT Capital has a controlling interest in a joint venture, which holds a 100% leasehold interest in two leased buildings totaling 120,000 square feet in Palo Alto, California.

COMPETITION

IDT Telecom

In our IDT Telecom businesses, our competitors continue to aggressively lower prices for their services. In addition, with particular regard to our calling card business, there has been a shift in demand industry-wide away from calling cards and into wireless products, which, among other things, may have further eroded pricing power. In our wholesale markets as well, we have generally had to pass along portions of our per-minute cost savings to our customers in the form of lower prices. These trends have impacted our telecom businesses, and as a result, we have generally experienced declines in both our revenues and overall per-minute price realizations. At times, though, we have chosen to raise prices, particularly within our calling card business, in an effort to increase per-minute price realizations, which generally results in a negative impact on minute volumes, thereby reducing revenues. We continue to adjust our prices on selected calling cards in order to maintain a balance between per-minute price realizations and level of revenues. We have seen a leveling-off of our calling card revenues in the fourth quarter of fiscal 2008 compared to the third quarter of fiscal 2008. We cannot predict whether we will experience further declines in our calling card business. However, we do not expect any such further declines to be as steep as those experienced in the past two fiscal years.

Calling Card Services

We believe success in providing our calling card services is dependent on our ability to provide low rates and reliable service to our customers, while efficiently distributing our calling cards to a geographically and culturally diverse customer base. The calling card industry is notable for its relative lack of regulation compared to the rest of the telecommunications industry, and for its ease of market entry. As calling rates continue

Edgar Filing: IDT CORP - Form 10-K

to decline and competition increases, thereby reducing the influence of pricing as a differentiating competitive factor, we will increasingly compete on the basis of our call quality, customer service and distribution capabilities.

We compete with other providers of calling cards as well as established carriers and numerous small or regional operators, and with providers of alternative telecommunications services. Many of the largest telecommunications providers, including at&t, Verizon and STi Prepaid, currently market prepaid calling cards, which in certain cases compete with our cards. Our largest competitors in the prepaid market are InComm, Blackhawk Network and Coinstar. In marketing prepaid calling cards to customers outside the United States,

Table of Contents

we compete with large foreign state-owned or state sanctioned post, telephone or telegraph companies. We believe that our interconnect and termination agreements, network infrastructure and least-cost-routing system provide us with the ability to offer low-cost, high quality services, while our distribution network provides us with access to customers, and that these factors represent competitive advantages. However, as some of our competitors have significantly greater financial resources and name recognition, and are capable of providing comparable call quality and service levels, our ability to maintain and/or to capture additional market share will remain dependent upon our ability to continue to provide competitively priced services.

We also believe that many of our calling card competitors in the United States are significantly overstating the number of minutes delivered by their cards. Accordingly, on March 8, 2007, we filed a civil anti-fraud action in the federal district court in Newark, New Jersey, claiming that these competitors have been misleading calling card customers, and as a result, negatively impacting our market share, resulting in a reduction of our revenues and profits. On July 22, 2008, we filed a deceptive practices and false advertising complaint in New York, New York, claiming that certain entities conspired together to deceive and/or mislead consumers who use prepaid calling cards. The details of these cases are set forth in Item 3. Legal Proceedings. We are uncertain, even with the potential of fair competition, whether we will be able to regain revenues lost over the past number of quarters.

TúYo Mobile

Competition in the MVNO market has been fierce, and a number of other mobile wireless service providers have also targeted the Hispanic population, including Movida Communications, DEXA Wireless and Azteca Mobile. Such intense competition presents significant pricing pressures and results in relatively low margins, and many other MVNOs have already failed. In addition, due to the risk of high turnover of subscribers, the costs we incur in acquiring TúYo Mobile subscribers may not provide us with a reasonable return on investment. As a result of these market forces, we have lowered our investment expenditures with respect to TúYo Mobile and reduced both our marketing and other infrastructure costs in an attempt to maximize profitability from the existing customer base. This strategy will likely hinder the future growth prospects for the TúYo Mobile business.

Wholesale Carrier Services

The wholesale carrier business has numerous entities competing for the same customers, primarily on the basis of price, products and quality of service. We believe that the industry consolidation will affect our wholesale carrier business by, among other things, reducing the number of customers to whom we can sell.

In the wholesale carrier services business, we compete with:

- interexchange carriers and other long distance resellers and providers, including large carriers such as at&t, Verizon and Qwest;
- foreign state-owned or state-sanctioned post, telephone or telegraph companies such as Telefonica, France Telecom and KDD;
- on-line, spot-market trading exchanges for voice minutes, such as Arbinet;
- other VoIP providers;
- other providers of international long distance services; and
- alliances between large multinational carriers that provide wholesale carrier services.

We believe that our extensive network of interconnect and termination agreements, as well as the significant volume of traffic to specific locations generated by our wholesale and calling card businesses, provide us with a competitive advantage and the ability to offer quality services at competitive prices. However, we have generally had to pass along portions of our per-minute cost savings to our customers in the form of lower prices.

Consumer Phone and Related Services

We offer consumer long distance phone services to residential and business customers in the United States. In 11 states we also offer local and long distance phone services bundled at a flat monthly rate. The U.S. consumer phone services industry is characterized by intense competition, with numerous providers competing for a relatively static number of customers, leading to a high churn rate because customers frequently change providers in response to offers of lower rates or promotional incentives.

Table of Contents

The regional bell operating companies, or RBOCs, remain our primary competitors in the local exchange market as well. Competing against the RBOCs is particularly challenging. Each of the RBOCs continues to enjoy a virtual monopoly as the Incumbent Local Exchange Carrier, or ILEC, in its respective territory, and most of the RBOCs are well funded and enjoy high levels of name brand recognition, which represent significant resources in the battle for market share. We are also increasingly competing with providers offering communications service over broadband connections using VoIP technology, such as the cable companies and independent VoIP providers.

Previously, our ability to provide local services to our customers was based upon our access to both the customers' premises and local switching infrastructure, which are owned by the incumbent provider in each local market, giving the ILEC a natural monopoly in its market. This access was provided to us via the FCC's UNE-P rules, which required the incumbent provider to offer access to the required network elements, at a mandated wholesale rate, to competitive providers. As discussed in the Regulation section below, a change in the FCC's UNE-P rules has resulted in the ILECs no longer being required to provide us access to the customers' premises and local switching infrastructure.

We have negotiated wholesale commercial agreements with the RBOCs in the territories in which our customers reside in order to procure cost-effective rates for our local phone service offering, albeit at higher rates than those previously provided under the UNE-P rules. We have signed long-term wholesale agreements with Verizon, at&t and BellSouth (acquired by at&t in December 2006). Due to these changes in the U.S. regulatory environment that affected our cost of provisioning bundled local/long distance phone services, and increased competition, our business has declined significantly. We expect this trend to continue in fiscal 2009.

In all aspects of the telecommunications industry, we face competition from an increasing number of market entrants such as cable television companies, fixed and mobile wireless system operators, operators of private networks built for large end users, and electric utilities. Cable television companies, who already possess access to the customers' premises, entered the telecommunications market by upgrading their networks with fiber optics and installing facilities to provide fully interactive transmission of broadband voice, video and data communications. Technology now permits companies to provide voice telephone services over broadband Internet connections, allowing users of these Internet services, such as Skype, to obtain communications services without subscribing to a conventional telephone line. Mobile wireless companies are deploying wireless technology as a substitute for traditional wireline local telephones. Electric utilities have existing assets (in the form of last mile connections to the customer's premises), very large back-office support organizations and access to low-cost capital that could allow them to enter a telecommunications market rapidly and accelerate network development.

Additionally, the World Trade Organization agreement on basic telecommunications services could increase the level of competition we face. Under this agreement, the United States and 68 other member states of the World Trade Organization are committed to opening their respective telecommunications markets, including permitting foreign companies to enter into basic telecommunications services markets. This development may increase the number of established foreign-based telecommunications carriers entering U.S. markets.

IDT Energy

We compete with the local utility companies in the areas where we provide service, including Con Edison, Orange and Rockland, Central Hudson, National Fuel, National Grid, Keyspan and Rochester Gas and Electric. In addition to the local utilities and their ESCO affiliates, we also compete with several large vertically integrated energy companies as well as many smaller ESCO companies. The fierce competition with the utilities and ESCOs allows us to potentially gain customers and at the same time exposes us to the risk of losing customers as well.

As of July 2008, there were over fifty licensed ESCOs in New York. In each major utility service territory there are at least eight ESCOs serving residential natural gas customers and at least seven ESCOs serving residential electric customers. While it is unclear whether new entrants will enter these markets, we believe ESCO competition in the residential market (which represents a significant market focus for IDT Energy) is not as intense as in the enterprise and commercial markets because the majority of ESCOs have focused their activities on the enterprise and

commercial markets, which are comprised of larger customers with longer contract terms.

Table of Contents

IDT Carmel

We compete for both portfolios and collection accounts with large buyers and collectors of debt who have developed certain key relationships with creditors and sellers of receivables and large entities with strong financial resources that purchase small to mid-size debt collection companies for strategic purposes.

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

Prepaid Products, Consumer Phone, Wholesale Telecommunications Services, and Spectrum

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. The FCC and the International Telecommunications Union, or ITU, set certain parameters on our domestic spectrum use. 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 (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 all of our contributions from our customers. In addition, based on the nature of our current business, we receive certain exemptions from federal Universal Service Fund and Other Funds 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 these exemptions become unavailable, it 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 development and growth of our business.

Interconnection and Unbundled Network Elements

The Communications Act of 1934, as amended, requires ILECs to allow competitors to interconnect with their networks in a nondiscriminatory manner at any technically feasible point on their networks at cost-based prices, which are more favorable than past pricing based on the historic regulated costs of the ILEC. Since the FCC's 1996 Local Competition Order, competitive local exchange carriers, or CLECs, have enjoyed the right to lease unbundled network elements at rates determined by state public utility commissions employing the FCC's TELRIC (Total Element Long Run Incremental Cost) forward looking, cost-based pricing model.

Table of Contents

In February 2005, the FCC eliminated the availability of unbundled local switching at TELRIC prices, and thereby eliminated the ability of CLECs to obtain a full UNE Platform that provides all elements of local dial-tone service at TELRIC prices. The FCC also limited the availability of high-capacity loops and dedicated transport elements at TELRIC prices.

The FCC's changes to its unbundling rules resulted in increased costs to purchase services and increased uncertainty regarding the financial viability of providing service using unbundled network elements. As a result, IDT has placed its 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 each ILEC, 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; accordingly, a substantial number of our interconnection agreements with ILECs will expire and require renegotiation in any given year. Each of these agreements provides for a holdover that continues the agreement on its current terms pending renegotiation. 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, 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 is intrastate, our costs of providing long distance services will increase. As a local exchange provider, we bill access charges to long distance providers for the origination and 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.

In April 2001, the FCC released a Notice of Proposed Rulemaking in which it proposed a fundamental re-examination of all currently regulated forms of intercarrier compensation. The FCC proposed that carriers transport and terminate local traffic on a bill-and-keep basis, rather than per minute reciprocal compensation charges. Several different industry groups have submitted access charge reform proposals to the FCC since the issuance of the Notice of Proposed Rulemaking. While the FCC has not yet acted on any of these proposals, and it is not yet known when it will act, these proposals would result in substantial reductions in access charge payments, and some would eliminate these payments entirely over a period of time. Because we both make payments to and receive payments from other carriers for exchange of local and long distance calls, at this time we cannot predict the effect that the FCC's determination may have upon our business.

Customer Proprietary Network Information

In 2007, the FCC increased its regulatory oversight of Customer Proprietary Network Information (CPNI). The Commission 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. IDT has 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.

International Telecommunications Services International Settlements

Edgar Filing: IDT CORP - Form 10-K

The FCC's International Settlements Policy (Policy) restricts the terms on which U.S.-based carriers and certain of their foreign correspondents settle the cost of terminating each other's traffic over their respective networks. Under this Policy, absent approval from the FCC, international telecommunications service agreements with dominant foreign carriers must be non-discriminatory, provide for settlement rates usually equal to one-half of the accounting rate, and require proportionate share of return traffic. This Policy, however, does

Table of Contents

not apply to arrangements with any non-dominant foreign carrier or, since March 30, 2005, with any dominant foreign carrier on routes where a demonstration has been made that at least one U.S. carrier has a settlement arrangement with the dominant foreign carrier that is compliant with the FCC's applicable benchmark settlement rates. This action has greatly lessened the number of instances in which the Policy applies, effectively granting U.S. and foreign carriers greater freedom to set rates and terms in their agreements. As a result, 164 countries currently are exempt from the Policy, representing over 90% of all U.S.-originated international traffic. Notwithstanding the foregoing, the FCC could find that we do not meet certain Policy requirements with respect to certain of our foreign carrier agreements. Although the FCC generally has not issued penalties in this area, it has issued a Notice of Apparent Liability to a U.S. company for violations of the Policy and it could, among other things, issue a cease and desist order, impose fines or allow the collection of damages if it finds that we are not in compliance with the Policy. Any of these events could have a material adverse effect on our business, financial condition, or results of operations.

On July 10, 2008, the FCC released a Notice of Apparent Liability (NAL) of \$1.3 million. The NAL claims that IDT violated section 220 of the Telecom Act, and section 43.51 of the Commission's rules by willfully and repeatedly failing to file with the Commission, within thirty days of execution, a copy of an agreement with Telecommunications D'Haiti S.A.M. and each of four amendments thereto governing, among other things, the exchange of services, routing of traffic, accounting rates, and division of tolls on the U.S.-Haiti route. IDT has yet to file its response to the NAL. It is our position, however, that our actions were consistent with applicable law and Commission policy. While it is our position that the NAL of \$1.3 million is unwarranted and should be eliminated altogether or reduced, because it is still pending, we cannot be certain of its ultimate outcome.

REGULATION OF TELECOM BY STATE PUBLIC UTILITY COMMISSIONS

Our telecommunications services that originate and terminate within the same state, including both local service and in-state long distance toll calls, 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. IDT is 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 originating and 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

International Licensing for Telecommunications Services

In connection with our international operations, we have obtained licenses or are otherwise authorized to provide telecommunications services in various foreign countries. We have obtained licenses or authorizations in Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Denmark, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Mexico, the Netherlands, Peru, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, the United Kingdom and Uruguay. In numerous countries where we operate or plan to operate, we are subject to many local laws and regulations that, among other things, may restrict or limit the ability of telecommunications companies to provide telecommunications services in competition with state-owned or state-sanctioned dominant carriers.

REGULATION OF INTERNET TELEPHONY

Edgar Filing: IDT CORP - Form 10-K

The use of the Internet and private IP networks to provide voice communications services is a relatively recent market development. Although the provision of such services is currently permitted by United States law and largely unregulated within the United States, 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. More aggressive regulation of the Internet in general, and Internet telephony providers and services specifically, may materially and adversely affect our business.

Table of Contents

In June 2006, the FCC announced that interconnected VoIP providers, such as Net2Phone, would be required to contribute to the federal Universal Service Fund (USF), beginning October 2006. As a result of the FCC's action, we now contribute to the USF for our interconnected VoIP revenue. If we fail to report our revenue and remit contributions to the USF on that revenue accurately, we may be subject to late fees, penalties or other actions, which could negatively affect our business.

The action by the FCC also expanded the possibility that our interconnected VoIP services may become subject to state regulation, which will likely lead to higher costs and reduce or eliminate the competitive advantage interconnected VoIP holds over traditional telecommunications services.

REGULATION OF IDT SPECTRUM

The FCC regulates the grant, administration, and renewal of spectrum licenses in the United States. The FCC and the International Telecommunications Union (ITU) also regulate a variety of spectrum interference, coordination, and power emission standards and authorizations. IDT Spectrum holds certain fixed wireless spectrum licenses and provides service over that spectrum. Some significant areas of regulation include:

Secondary Spectrum Markets: Spectrum Leasing

On May 15, 2003, the FCC adopted rules designed, in part, to assist in creating a secondary market in spectrum leasing. These rules established two categories of leases known as de facto transfer and spectrum manager leases by which licensees, like IDT Spectrum, can make their spectrum available to third parties upon application to the FCC. On July 8, 2004, the FCC amended its rules to streamline approval of leases and, in the case of spectrum manager leases and short-term leases, permit leasing following notification to the FCC. The FCC generally approves de facto transfer leasing arrangements within 30 days of application to the FCC. Licensees can lease spectrum according to specific point-to-point links, identified geographic areas and/or a subset of the licensed spectrum.

Renewal of 39 GHz and 28 GHz Local Multipoint Distribution Service (LMDS) Licenses and Extension of Substantial Service Deadline

IDT Spectrum's area-wide 39 GHz licenses (our major holdings) possess a 10-year term expiring on October 18, 2010. Our remaining 39 GHz Rectangular Service Area or RSA licenses expire at various times between December 2008 and October 2017. On August 8, 2008, the FCC adopted an order extending until June 1, 2012 the deadline by which IDT Spectrum will need to meet the FCC's substantial service performance obligations for all of our area-wide 39 GHz licenses and 103 of our 39 GHz RSA licenses. Since March, 2008, IDT Spectrum has filed applications to renew six of our 39 GHz RSA licenses and has filed requests to extend the substantial service deadline for those licenses. The FCC has not acted on these applications or requests. IDT Spectrum's New York City LMDS license was renewed for a 10-year term that expires February 1, 2016, and 14 of its other LMDS licenses were renewed for a 10-year term that expires August 10, 2018. IDT Spectrum's application to renew its San Francisco-Oakland-San Jose LMDS license is pending. On April 11, 2008, the FCC adopted an order extending until June 1, 2012 the deadline by which IDT Spectrum will need to meet the FCC's substantial service performance obligations for all of its LMDS licenses. Failure to obtain renewal of IDT Spectrum's licenses will result in the loss of such licenses. Failure to demonstrate substantial service by the deadline established by the FCC for any of IDT Spectrum's licenses will result in automatic cancellation of such licenses, in the absence of any further extensions or waivers that may be granted by the FCC. We cannot be assured that the FCC will renew or extend the construction deadline for any or all of our licenses. A failure by the FCC to renew or extend the construction deadline for our licenses in major markets could have a material adverse effect on those businesses.

REGULATION OF IDT ENERGY

Edgar Filing: IDT CORP - Form 10-K

IDT Energy operates as an ESCO exclusively in New York, which is an evolving market, affected by the actions of governmental agencies, mostly on the state level (such as the NYPSC), and other organizations (such as the NYISO) and indirectly the Federal Energy Regulatory Commission, or FERC. ESCOs are regulated primarily pursuant to retail access-related orders of the NYPSC as implemented by the retail access plans, programs, operating procedures and tariffs and rate schedules of the utilities in New York. In addition, IDT Energy is affected by and must comply with the applicable NYISO tariff terms and conditions related to Load Serving Entities that purchase electricity in the NYISO markets. ESCOs must also comply with certain limited provisions of the Home Energy Fair Practices Act, within the New York Public Service Law, and regulations promulgated thereunder. While New York is considered a leader in the restructuring of the energy industry

Table of Contents

from regulated vertically-integrated monopolies to competitive markets, IDT Energy may be subject to new laws, orders or regulations or the revision or interpretation of existing laws, orders or regulations.

REGULATION OF IDT CARMEL

Debt collection practices are governed by both federal and state law in the United States. The Fair Debt Collection Practices Act, or FDCPA, is the primary federal law governing debt collection practices. The FDCPA makes provision for aggrieved consumers to file private lawsuits against a collection agency that violates the law. Alternately, the Federal Trade Commission or a state Attorney General may take action against a noncompliant collection agency, including issuing fines, restitution to consumers, ordering damages, restricting the agency's operations or even closing it. Regulation of collection agencies occurs primarily at the individual state level as the majority of states have statutes that regulate collection agencies. In addition, many states have laws regulating debt collection activities. The FDCPA provides that a more restrictive state law will supersede any similar provision of the FDCPA. During fiscal 2007, some states began to take steps to regulate not only debt collection agencies but also companies that engage in debt portfolio acquisition and management activities.

REGULATION OF OTHER BUSINESSES

We operate other smaller or early-stage initiatives and operations which may be subject to federal, state, or local laws and regulations.

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 employees of IDT sign confidentiality agreements. These agreements provide that the employee may not use or disclose confidential Company information except as expressly permitted in connection with the performance of his or her duties for the Company, or in other limited circumstances. These agreements also state that, to the extent rights in any invention conceived of by the employee while employed by us do not vest in the Company automatically by operation of law, the employee is required to assign his or her rights to us.

IDT owns more than 280 trademark and service mark registrations and pending applications in the United States and additional registrations abroad. IDT protects its brands in the marketplace including the IDT 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's business units now have over 83 issued patents and 78 patent applications pending in the United States and abroad. Excluding those issued to Net2Phone, discussed below, we own 6 issued patents and 22 patent applications in the United States and 16 patents issued abroad with more than 34 patent applications pending abroad.

In fiscal 2008, IDT's business units have procured new issued patents and filed new patent applications in the United States and abroad. IDT's businesses also have modified or pruned their portfolios based on strategic initiatives, cost effectiveness and other factors.

IDT maintains 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. Our network is continuously monitored by our Network Operations Center based in Piscataway, New Jersey. IDT has domestic and foreign patents and patent applications regarding its infrastructure and or global telecommunication network for its international telecommunications traffic and the international traffic of other telecommunications companies.

Edgar Filing: IDT CORP - Form 10-K

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.

Table of Contents

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. Our technologies may not be able to withstand any third-party claims or rights against their use.

IDT Telecom

IDT Telecom currently owns 3 issued patents and has 8 pending patent applications in the United States. IDT Telecom has 13 foreign patent applications pending in various countries abroad.

Net2Phone currently owns 37 issued patents and has over 20 pending patent applications in the United States. Net2Phone has 33 foreign issued patents, and over 11 patent applications pending abroad. Many of these patents relate to VoIP communications.

See Item 3. Legal Proceedings for a description of our patent infringement lawsuit against eBay, Inc., Skype Technologies SA, Skype, Inc. and several as of yet unidentified business entities.

Net2Phone owns more than 22 trademark and service mark registrations in the United States. Net2Phone owns more than 135 trademark and service mark registrations and pending applications in various foreign countries. Net2Phone's most important mark is NET2PHONE. Net2Phone has made a significant investment in protecting this mark, and Net2Phone believes it has achieved recognition in the United States and abroad. Net2Phone is currently engaged in an international filing program to file trademark applications for trademark registrations of the mark NET2PHONE in a number of foreign countries.

IDT Capital

IDT Capital currently owns a combined total of 12 pending patent applications in the United States and in various countries abroad that relate to either business operations it oversees or businesses-in-development. IDT Capital also owns, or has licenses to, certain trademark and service mark registrations and pending applications in the United States and additional registrations abroad.

IDT Spectrum

IDT Spectrum currently owns 3 issued patents and one pending patent application in the United States as well as 14 foreign patents and 8 foreign patent applications pending in various countries abroad.

INTERNATIONAL SALES

In fiscal years 2008, 2007 and 2006, revenue from customers located outside of the United States accounted for approximately 36%, 31%, and 31% of our total revenues, respectively. We anticipate that revenues from international customers will continue to account for a significant percentage of our total revenues.

EMPLOYEES

As of October 1, 2008, we had a total of approximately 1,850 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 and common stock could decline due to any of these risks.

RISKS RELATED TO OUR TELECOMMUNICATIONS BUSINESSES

Each of our telecommunications business lines is highly sensitive to declining prices, which may adversely affect our revenues and margins.

The worldwide telecommunications industry has been characterized in recent years by intense price competition, which has resulted in a significant decline in both our average per-minute price realizations and our

Table of Contents

average per-minute termination costs, as well as more recent decreases in revenue in our calling cards division and consumer phone services division. Many of our competitors in all of the retail telecommunications market segments in which we operate continue to aggressively price their services. We believe that a factor in our competitors' ability to aggressively price their services in the calling card industry is attributable to misrepresentations made by certain of our competitors regarding their services, which led us to file a lawsuit against certain of our competitors in an attempt to level the playing field in the calling card industry. Our intense competition has led to continued erosion in our pricing power, both in our retail and wholesale markets, and we have generally had to pass along any savings we achieve on our per-minute costs to our customers in the form of lower prices. Any increase by us in pricing may result in our prices not being as attractive, which may result in a reduction of revenue. If these trends in pricing continues or intensifies, it could have a material adverse effect on the revenues generated by our telecommunications business lines or our ability to maintain our margins.

Because our calling cards generate a significant portion of our revenue, our growth and our results of operations are substantially dependent upon growth in this business, and we continue to face significant competition and other operational challenges in our calling card business which have adversely affected our revenue and profitability in recent years and may continue to adversely affect our revenue and profitability.

During fiscal 2008, our Prepaid Products segment generated \$778.4 million in revenues, which accounted for 50.9% of IDT Telecom's revenues and 41.5% of our total consolidated revenues. Our calling card businesses account for over 92.3% of the revenues of our Prepaid Products segment. Accordingly, our results of operations and future growth depend on the performance of this business. We compete in the prepaid calling card market with many of the established facilities-based carriers, such as at&t, Verizon and Sprint. 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 the prepaid calling card market could significantly impact our ability to compete against them successfully.

In addition to these larger competitors, we face significant competition from smaller calling card 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. We believe one of the reasons that certain of our competitors are able to offer lower pricing is because their cards do not deliver all the minutes they claim to sell. Accordingly, on March 8, 2007, we filed a civil anti-fraud action in the federal district court in Newark, New Jersey, claiming that these competitors have been misleading calling card customers, and as a result, negatively impacting our market share, resulting in a reduction of our revenues and profits. Although the judge in this case chose not to grant the preliminary injunction we requested, a decision which was affirmed on appeal, we are continuing with this lawsuit. We are uncertain, even with the potential of fair competition, whether we will be able to regain revenues lost over the past number of quarters. Additionally, we cannot be assured that our actions will adjust the market so that we can better compete.

The continued growth of the use of wireless services, largely due to lower pricing of such services, has adversely affected the sales of our prepaid calling cards as customers migrate from using prepaid calling cards to wireless services. We expect pricing of wireless services to continue to decrease, resulting in increased substitution of prepaid calling cards by wireless services and increased pricing pressure on our prepaid calling cards.

We believe that recent immigration trends in the United States may be decreasing our potential customer base. We believe that the recent focus by federal, state and local governments on illegal immigration, particularly from Mexico and other Latin American countries, has decreased the amount of such immigrants both legal and illegal that come to the United States each year. Since these immigrants are a target customer base for our prepaid calling card business, their absence has adversely affected our revenues and profitability in that business. If these immigration trends continue or accelerate, our calling card revenues and profitability will continue to be adversely affected.

Edgar Filing: IDT CORP - Form 10-K

The contract for one of our largest private label calling card customers is set to expire in October 2008. While we are confident that the customer will renew its contract with us, there can be no assurances that the contract will be renewed or that the contract will be renewed on terms and conditions that are favorable to us.

Table of Contents

If we are not able to increase or maintain our revenue generated by prepaid calling cards and the associated margins of such revenue, our overall results of operations could continue to materially suffer. Further, if our competitors continue to utilize their greater resources or operate at lower levels of profitability in order to more aggressively market their products and services, or continue to mislead calling card customers, this significant portion of our business could continue to be adversely affected and could continue to generate losses.

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 expansion, we may need to obtain additional termination capacity or destinations. We may not be able to obtain sufficient termination capacity from high-quality carriers to particular destinations or may have to pay significant amounts to obtain such capacity. This could result in our not being able to support our minutes-of-use demands or in a higher cost-per-minute to particular destinations, which could adversely affect our revenues and margins.

The termination of our carrier agreements with foreign partners or our inability to enter into carrier agreements in the future could materially and adversely affect our ability to compete, which could reduce our revenues and profits.

We rely upon our carrier agreements with foreign partners in order to provide our telecommunications services to our customers. These carrier agreements are for finite terms and, therefore, there can be no guarantee that these agreements will be renewed at all or on favorable terms to us. Our ability to compete would be adversely affected if our carrier agreements were terminated or we were unable to enter into carrier agreements in the future to provide our telecommunications services to our customers, which could result in a reduction of our revenues and profits.

Our customers, particularly our wholesale carrier customers, could experience financial difficulties, which could adversely affect our revenues and profitability if we experience difficulties in collecting our receivables.

As a provider of international long distance services, we depend upon sales of transmission and termination of traffic to other long distance providers and the collection of receivables from these customers. The wholesale market continues to feature many smaller, less financially stable companies. If continued weakness in the telecommunications industry reduces our ability to collect our accounts receivable from our major customers, particularly our wholesale carrier customers, our profitability may be substantially reduced. Moreover, the after effects of the recent collapse of the mortgage-backed credit markets may affect our customers' access to liquidity and impair our ability to collect on receivables. While our most significant customers vary from quarter to quarter, our five largest wholesale carrier customers accounted for 5.6% of our total consolidated revenues in fiscal 2008 compared with 5.4% in fiscal 2007. This concentration of revenues increases our exposure to non-payment by our larger customers, and we may experience significant write-offs related to the provision of wholesale carrier services if any of our large customers fail to pay their outstanding balances, which could adversely affect our revenues and profitability.

Our revenues will continue to suffer if our distributors and sales representatives, particularly UTA, fail to effectively market and distribute our prepaid calling card products and other services.

We currently rely on our distributors and representatives for marketing and distribution of our prepaid calling card products and other services. We hold a 51% ownership interest in UTA, which utilizes a network of more than 1,000 sub-distributors (ranging from large companies to sole proprietors) that sell to retail outlets throughout the United States to distribute our prepaid calling cards. Subject to provisions of early termination, our exclusive distribution agreement with UTA is set to expire on April 24, 2009. In addition to UTA's sub-distributors, UTA is in the early stages of developing its own direct-to-retailer distribution network in order to increase revenues and margins by, among other things, driving sales with an increased brand identity. We believe that the development of UTA's own direct-to-retailer distribution network may take significant time, and there is no assurance UTA can successfully or cost-effectively build such a network or that the development of UTA's distribution network may not otherwise adversely affect our business.

Edgar Filing: IDT CORP - Form 10-K

In foreign countries, we are dependent upon our distributors and independent sales representatives, many of which also sell services or products of 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 retailers and sales representatives in new markets that we may enter. If our distributors or sales representatives fail to effectively market or distribute our prepaid calling card products and other services, our ability to generate revenues and grow our customer base could be substantially impaired.

Table of Contents

Increased competition in the consumer and business telephone market, particularly from the regional bell operating companies, or RBOCs, and cable operators, could accelerate our customer churn rate, revenue declines and profit declines in that business.

We offer stand-alone long distance phone service to residential and business subscribers throughout the United States and we offer local service, bundled with long distance service, to residential subscribers in 11 states. The U.S. consumer phone services industry is characterized by numerous entities competing for a relatively static number of customers, leading to a high customer turnover rate because customers frequently change service providers in response to offers of lower rates or promotional incentives. Competition in the United States to provide phone services is intense. Our primary competitors in the long distance market include major long distance carriers and the RBOCs. The three RBOCs are (i) at&t, (ii) Qwest and (iii) Verizon. Each of the RBOCs continues to enjoy a virtual monopoly as the Incumbent Local Exchange Carrier, or ILEC, in its respective territory and the RBOCs are well funded. In a battle for market share, the RBOCs have considerable resources and we expect the RBOCs to continue to increase their share of the long distance market. Some of our competitors offer products and services available as part of their bundled service offerings, such as wireless services, high speed Internet access and television, that we do not presently offer as a bundled service offering.

We also compete in the consumer phone services market with cable operators. Many cable operators market their cable telephony product as a VoIP service, so they do not charge certain fees, such as the Subscriber Line Charge and the Federal Excise Tax, to subscribers, thus permitting the cable operators to provide their service at highly competitive rates. Cable operators also offer television and high-speed Internet access along with their telephony product, providing a one stop shopping service. In addition, we are at a disadvantage vis-à-vis cable operators because cable operators have their own network and are not reliant on ILEC facilities to provide service and are not affected by regulatory uncertainty facing access to and the cost of ILEC facilities. In particular, we face an additional competitive challenge because Cablevision and Time Warner two cable operators that have been particularly aggressive in rolling out a cable telephony product have clusters of cable franchises that overlap areas where a high percentage of our local telephony subscribers are located.

In the consumer phone services market, we also compete with stand-alone VoIP operators such as Vonage and Skype, who provide service over a customer's existing broadband Internet connection. While these operators have captured a relatively small portion of the overall market to date, their share is growing.

This increased competition could accelerate our customer churn rate, revenue declines and profit declines in the consumer and business telephone markets, thereby reducing the duration that we can harvest the business.

We rely on the RBOCs for access to our consumer customers' premises, and if that access is not maintained, or if the cost to us to gain such access becomes more expensive, our ability to offer local telephone service will be constrained.

We rely on utilizing the RBOCs' networks to gain access to our customers' premises to provide the local portion of our bundled local and long distance services. That access was previously assured by the UNE-P rules of the Federal Communications Commission, or FCC, which mandated that the RBOCs make their networks available to alternate service providers, such as us, at set rates. In February 2005, the FCC effectively repealed the UNE-P rules, which has constrained our ability to compete. We have entered into agreements with Verizon, at&t and BellSouth (acquired by at&t in December 2006) granting us access to their respective networks, albeit at higher rates than we paid under the UNE-P system. This has impaired our overall ability to offer our bundled service at competitive rates and has led to a decline in our consumer phone services business and our overall revenues. Additionally, we recently received notification from at&t alleging that we owe them an unknown amount of money for payment of access charges related to our local access prepaid calling cards. Further, as the consumer bundled service has higher margins than does most of our other telecom offerings, the decrease in the proportions of our overall revenues from that source has negatively affected our overall profit margins.

We have invested and are continuing to invest significant time and resources in an attempt to grow the business and subscriber base of our TúYo Mobile wireless unit, which ultimately may not be profitable.

Edgar Filing: IDT CORP - Form 10-K

Although we have invested significant time and resources into the growth of TúYo Mobile, such investments may not be realized and the business may not be profitable. Competition in the MVNO market has been fierce, and a number of other mobile wireless service providers have also targeted the Hispanic population. Such intense competition presents significant pricing pressures and results in relatively low margins, and many other

Table of Contents

MVNOs have already failed. In addition, the costs we incur in acquiring TúYo Mobile subscribers may not provide us with a reasonable return on investment, due to the risk of high turnover of subscribers.

RISKS RELATED TO IDT ENERGY

In the event that certain best practices and programs in which we participate and with which we comply were to be revised, it could disrupt our operations and adversely affect our results and operations.

Certain retail access best practices and programs proposed and/or required by the NYPSC have been implemented by utilities in several service territories in which IDT Energy operates. IDT Energy utilizes and has incorporated these practices and programs in its current business plan. These practices include: ESCO referral programs, purchase of receivables, access to customer data, and alignment of utility incentives. In particular, we participate in purchase of receivables programs under which certain utilities purchase the customer receivables for approximately 98% of their face value in exchange for a first priority lien in the customer receivable without recourse against IDT Energy. This program is a key component of our control of bad debt risk in our ESCO business. In the event that any of these best practices or programs were to be revised or eliminated by the NYPSC or the individual utilities, we would need to adjust IDT Energy's current strategy regarding customer acquisition and its focus on the growth of its customer base. We would also need to adjust our current business plan to reduce our exposure to existing customers who may pose a bad debt risk. Any failure to properly respond to changing conditions could adversely affect our results of operations and profitability. Last year, the NYPSC initiated a proceeding in order to generically examine the utility programs and practices it directed in recent years to advance the development of the competitive retail market for electricity and natural gas in New York. According to the NYPSC's Notice in this proceeding, the NYPSC stated that it may be appropriate at this time to review these programs and practices given the existence of numerous ESCOs providing competitive retail services and the current condition of the market. Recently, the NYPSC also initiated a proceeding to examine potential revisions to the Uniform Business Practices applicable to all ESCOs operating in New York. This proceeding plans to address ESCO marketing activities by providing standard and acceptable ESCO marketing practices and appropriate customer protections and remedies. The NYPSC has yet to issue an order in either proceeding. It is unclear when and how the NYPSC may rule on the utility programs and practices currently in place or may revise the Uniform Business Practices, and whether IDT Energy may be adversely affected by any related rulings or rate proceedings of the specific utility.

Our current strategy with respect to our energy business is based on current regulatory and market conditions and assumptions, which could change or prove to be incorrect.

Our current approach to the ESCO business is to aggressively seek to add customers through active marketing. We believe that is the proper strategy based on market conditions, the financial results of the business and our ability to manage our costs and risk profile. All of those factors are subject to change based on changes in the relatively young industry, weather conditions and the prices for energy which are subject to market, regulatory, geopolitical and other factors out of our control. Milder weather than expected could reduce demand for our services. With respect to the regulatory environment, regulation over the electricity and natural gas markets has been in flux at the state and federal levels. In particular, the pricing for capacity, energy and ancillary services in the NYISO markets continues to evolve as the NYISO filed changes to its market rules involving Installed Capacity in New York City with FERC to address market power mitigation issues. To the extent these and other NYISO market changes are adopted by FERC, they may be subject to rehearing, judicial review and complaints by market participants or the NYISO. In addition, New York State joined in the Regional Green House Gas Initiative which requires short-term reductions in greenhouse gas, or GHG, emissions and will implement its first emission credit auction this fall. Although Federal GHG legislation proposals have failed to date, new Federal legislation may be forthcoming. Any proposed NYISO market changes or changes in state or Federal laws or regulations may affect the prices at which IDT Energy purchases electricity for its customers. While we seek to pass along increases in energy costs to our customers pursuant to our variable rate customer contracts, we may not always be able to do so due to competitive market forces and the risk of losing our customer base. Any changes in these factors, or if the industry development changes significantly, could have an adverse effect on the revenues, profitability and growth of this business or call into question the viability of our current growth strategy.

The ESCO business is dependent on access to capital and liquidity, which may be limited under current circumstances.

Edgar Filing: IDT CORP - Form 10-K

Our business involves entering into contracts to purchase large quantities of electricity or natural gas. Because of seasonal fluctuations, we generally are required to purchase electricity or natural gas in advance and finance

Table of Contents

that purchase until we can recover such amounts from revenues. Currently, IDT Corporation finances those purchases. In the event that IDT Corporation is unable or unwilling to provide the financial resources and liquidity necessary for IDT Energy to purchase the energy that IDT Energy sells to its customers, IDT Energy would be required to finance such purchases through third parties. There can be no assurance that we will be able to obtain such financing on commercially reasonable terms or on terms currently provided by IDT Corporation. Even if IDT Energy were to obtain third party financing, its margins may be significantly reduced as a result of higher financing costs and IDT Energy may be unable to effectively compete in the ESCO market. Difficulty in obtaining adequate liquidity on commercially reasonable terms may affect our business, prospects and financial conditions.

The ESCO business, and our participation in this market, are relatively new and evolving factors could adversely impact the market and our performance.

The ESCO business grew out of the deregulation of the energy market in the State of New York, which only began in 2000. Further, IDT only entered the market in 2004. Accordingly, the entire market is still evolving and we are continuing to hone our operations and strategy. We cannot predict how the market will develop or if our focus on customer acquisition and growth will prove to be the proper strategy. If our presumptions prove to be incorrect, the results of operations of this business could be adversely affected. Moreover, the ESCO business is fiercely competitive and competitors often engage in unfair business practices to sign up new customers. Such unfair practices by other companies can adversely affect our ability to grow or maintain our customer base. In addition, the NYPSC recently adopted an Energy Efficiency Portfolio Standard, or EEPS, for New York, adopting a goal of gradually reducing electricity usage by 15% statewide by 2015 and requiring the utilities to file energy efficiency programs consistent with the policies and cost/benefit factors adopted by the NYPSC. We cannot predict the impact of the EEPS on the electricity usage of IDT Energy's customers. There could be an adverse effect on the result of operations of our ESCO business if the EEPS results in a reduction in the aggregate amount of customer load served by IDT Energy.

RISKS RELATED TO AMSO

AMSO may not be able to develop an environmentally and economically viable technology for the extraction of shale oil.

AMSO is in the early stages of researching and developing technological solutions for the extraction of shale oil. The costs of doing so may be substantial. AMSO may not be able to develop an environmentally and economically viable technological solution for the extraction of shale oil, resulting in us not being able to extract shale oil on terms that are commercially viable, which could result in the loss of all or substantially all of our investment in AMSO.

In-situ technology for the extraction of shale oil is in its early stages and has not been proven to be commercially viable.

In-situ extraction of shale oil, by AMSO and others, is in the early stages of research, development and demonstration. It is difficult, if not impossible, to currently predict in advance of drilling and testing whether any particular drilling prospect will yield sufficient quantities of shale oil to recover drilling and completion costs or to be economically viable. Special geological characteristics of shale require the use of less-established technologies that make it difficult for us to determine the economic viability of AMSO's development efforts without extensive research and experimentation. The estimated cost of extracting shale oil is currently higher than the cost of extracting conventional crude oil, and such costs are expected to remain higher for the foreseeable future. If the cost of crude oil substantially decreases, the cost of extracting shale oil may exceed its economic benefit. For these reasons, we may be unable to produce commercially viable quantities of shale oil on economically viable terms.

AMSO is subject to regulatory and political risks that may limit AMSO's operations.

AMSO's operations may be affected by political developments and by federal, state and local laws and regulations, changes in taxes, royalties and other amounts payable to governments or governmental agencies and environmental protection laws and regulations. The various stages of

Edgar Filing: IDT CORP - Form 10-K

testing and drilling for shale oil by AMSO will require multiple federal, state and local governmental approvals and permits, as well as regulatory compliance. There can be no assurance that AMSO will be able to obtain these governmental approvals or permits, or be able to comply fully with applicable governmental regulations, and any such failure could prohibit AMSO from being able to test its technologies or commercially pursue shale oil extraction.

Table of Contents

RISKS RELATED TO IDT CARMEL

IDT Carmel may not be able to collect the expected amounts on its consumer receivables portfolios, which would adversely affect our revenues and results of operations.

Many factors affect our ability to recover on the debt portfolios that we purchased through IDT Carmel, many of which are out of our control. For example, our ability to recover on the debt portfolios purchased through IDT Carmel may decrease in a weak economic cycle. Furthermore, a weak economic cycle contributes to depressed portfolio market prices thus reducing the value of existing portfolios in our inventory, and such trend may continue. Current developments in the financial world, including the continuing credit crisis may make it more difficult for us to realize value on our portfolios. We may need to write off on our financial statements certain debt portfolios if collections do not meet expectations. The inability to recover on our debt portfolios at the rates anticipated would adversely affect our revenues and results of operations.

In addition, IDT Carmel's ability to collect on debt portfolios is subject to further impact by the actions of others, including certain joint venture partners that have been charged with managing the activities of the joint venture. In one case, Carmel has taken legal action seeking damages from its joint venture partner for mismanaging the joint venture and to assume management control of the joint venture. The outcome of any such litigation, however, cannot be predicted.

IDT Carmel Portfolio Management may not be able to purchase consumer receivables portfolios at appropriate prices, and a decrease in our ability to purchase portfolios of receivables could adversely affect our ability to generate revenue and profits.

Our success depends, in part, on the continued availability of consumer receivable portfolios that meet our purchasing criteria and our ability to identify and finance the purchase of such portfolios. The availability of consumer receivable portfolios at favorable prices and on terms acceptable to us depend on many factors outside of our control, including, but not limited to, the continuation of the current growth trend in consumer debt and the continued volume of consumer receivable portfolios available for sale. We may not be able to continue to acquire receivables in sufficient amounts to operate efficiently and profitably.

The debt collection business is heavily regulated and highly competitive, which could adversely affect our operations.

Any change in laws, rules, regulations and ordinances may negatively limit our ability to acquire, recover and/or enforce our rights with respect to receivables and may create compliance exposure. Increased regulation of debt portfolio companies at the state level may limit our ability to acquire and manage debt portfolios through our IDT Carmel Portfolio Management, LLC subsidiary. Debtors and regulatory authorities frequently sue violators, including via class action lawsuits under consumer credit, collections, employment, securities and other laws.

The consumer debt collection industry is highly competitive and fragmented. We compete in the acquisition of portfolios and collection accounts with a wide range of other purchasers of consumer receivables, third party collection agencies, large buyers of debt who have developed certain key relationships with sellers of receivables and large entities with strong financial resources that purchase small to mid-size debt collection companies for strategic purposes. Some of our competitors may have substantially greater personnel, capital and financial resources. The potential entry of new competitors, including companies that historically focused on the acquisition of different asset types, and the expected increase in competition from current market participants may reduce our access to consumer receivable portfolios. Aggressive pricing by our competitors could raise the price of consumer receivable portfolios above levels that we are willing to pay, which could reduce the number of consumer receivable portfolios suitable for us to purchase or if purchased by us, reduce the profits, if any, generated by such portfolios. If we are unable to purchase receivable portfolios at favorable prices or at all, our finance income and earnings could be materially reduced and substantially hinder our ability to grow the business. Furthermore, in this highly competitive industry, maintaining skilled and motivated collectors is essential to being competitive, and is increasingly difficult. Our failure to compete effectively for skilled collectors and portfolios can adversely affect the development, growth and profitability of this business.

IDT Carmel's collections may decrease if bankruptcy filings increase or if bankruptcy laws change.

During times of economic hardship or recession, the amount of charged-off consumer receivables generally increases, which contributes to an increase in the amount of personal bankruptcy filings. Under certain bankruptcy filings, a debtor's assets are sold to repay creditors, but since the charged-off consumer receivables we

Table of Contents

are attempting to collect are generally unsecured or secured on a second or third priority basis, we often would not be able to collect on those receivables. Our collections may decline with an increase in bankruptcy filings or if the bankruptcy laws change in a manner adverse to our business, in which case, our financial condition and results of operations could be materially adversely affected.

RISKS RELATED TO OUR FINANCIAL PERFORMANCE AND GROWTH STRATEGY

We have incurred significant losses since our inception, and continued losses in the future could cause the trading price of our stock to decline further or have a material adverse effect on our results of operations, financial condition, our ability to pay our debts as they become due and cash flows.

We have incurred significant losses since inception. During fiscal 2008, we had a consolidated net loss of \$(224.3) million. If we are not able to achieve overall profitability or maintain any profitability that we do achieve, the trading price of our stock could continue to decline and our financial condition could worsen as we could, among other things, continue to deplete our cash, cash equivalents and marketable securities.

We incurred a loss from continuing operations in each of the five years in the period ended July 31, 2008. We incurred a net loss in fiscal 2008, fiscal 2006, fiscal 2005 and fiscal 2004, and we would have incurred a net loss in fiscal 2007 except for a gain on the sale of a discontinued operation. We also had negative cash flow from operating activities in each of the three years in the period ended July 31, 2008. We had an accumulated deficit at July 31, 2008 of \$96.5 million. In the three years in the period ended July 31, 2008, we satisfied our cash requirements primarily through a combination of our existing cash and cash equivalents, proceeds from the sale of businesses, proceeds from the sales and maturities of marketable securities and investments, arbitration awards and litigation settlements, and borrowings from third parties. We currently expect that our operations in fiscal 2009 and the balance of cash, cash equivalents, marketable securities and pooled investment vehicles including hedge funds that we held as of July 31, 2008 will provide sufficient cash resources to meet our currently anticipated working capital and capital expenditure requirements, and to fund any potential operating cash flow deficits within any of our segments for at least the next twelve months. If we do not have sufficient funds to pay such expenses, if there is a significant unanticipated liquidity demand (including the need to pay the IRS immediately), we may be required to sell assets or incur indebtedness in order to pay such expenses. We cannot assure you that we will be able to sell assets or obtain financing on commercially reasonable terms, or at all. Failure to generate sufficient revenue and operating income or to meet the goals in our fiscal 2009 operating budget, possess sufficient cash and cash equivalents, liquidate cash equivalents or to achieve any of these alternatives could have a material adverse effect on our results of operations, financial condition, our ability to pay our obligations as they become due and cash flows.

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

As of July 31, 2008, we had approximately \$343.3 million of cash, cash equivalents, marketable securities, and investments. As discussed below in the Quantitative and Qualitative Disclosure of Market Risk section, due to the variety of financial instruments that we hold we are exposed to various market risks. In particular, we are exposed to changes in interest rates primarily from our investments in cash equivalents and marketable debt securities. Recently, we have incurred losses in order to exit from unprofitable investments. In addition, we hold auction rate notes with a par value of \$14.3 million that are not currently liquid and have declined in value. Our auction rate notes are auction rate securities for which the underlying asset is preferred stock of Fannie Mae or Freddie Mac. As of July 31, 2008, the estimated fair value of the notes was \$7.1 million. Furthermore, we hold a portion of our total asset portfolio (included in investments) in holdings of pooled investment vehicles, including hedge funds that we hold for strategic and speculative purposes; as of July 31, 2008, the carrying value of our investments in such pooled investment vehicles was approximately \$60.5 million. This carries a degree of risk, as there can be no assurance that we can redeem these investments at any time and that the managers of the hedge funds in which we have invested 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.

Table of Contents

Our growth strategy depends, in part, on our acquiring complementary businesses and assets and expanding our existing operations, which we may be unable to do.

Our growth strategy is based, in part, on our ability to acquire businesses and assets that are typically complimentary to our existing operations. The success of this acquisition strategy will depend, in part, on our ability to accomplish the following:

- identify suitable businesses or assets to buy;
- complete the purchase of those businesses on terms acceptable to us;
- complete the acquisitions in the time frames we expect;
- improve the results of operations of the businesses that we buy and successfully integrate their operations into our own; and
- avoid or overcome any concerns expressed by regulators, including antitrust concerns.

There can be no assurance that we will be successful in pursuing any or all of these steps. Our failure to implement our acquisition strategy could have an adverse effect on other aspects of our business strategy and our business in general. We may not be able to find appropriate acquisition candidates, acquire those candidates that we find or integrate acquired businesses effectively or profitably.

Our acquisition program and strategy may lead us to contemplate acquisitions of companies in distress or in bankruptcy, which entail additional risks and uncertainties. Such risks and uncertainties include, without limitation, that, before assets may be acquired, customers may leave in search of more stable providers and vendors may terminate key relationships. Also, assets are generally acquired on an as is basis, with no recourse to the seller if the assets are not as valuable as may be represented. Finally, while distressed or bankrupt companies may be acquired for comparatively less money, the cost of continuing the operations may significantly exceed expectations.

We have in the past used, and may continue to use, our capital stock as payment for all or a portion of the purchase price for acquisitions. If we issue significant amounts of our capital stock for such acquisitions, this could result in substantial dilution of the equity interests of our stockholders.

Our auditors identified a material weakness in our internal control over financial reporting.

During the audit of our financial statements as of July 31, 2008 and for the fiscal year then ended, a material weakness was identified relating to our lack of internal expertise and resulting failure to properly execute control procedures designed to prepare and evaluate the annual testing for impairment of goodwill and other intangible assets not subject to amortization for our Wholesale, Rechargeable, and Carmel reporting units as required by SFAS No. 142, *Goodwill and Other Intangible Assets*. This material weakness resulted in a material audit adjustment aggregating \$25.3 million for an impairment charge with respect to goodwill for our Wholesale, Rechargeable, and Carmel reporting units. Consequently, our consolidated financial statements as of July 31, 2008 and for the fiscal year then ended properly reflected the results of the goodwill impairment in accordance with U.S. GAAP.

To remediate this material weakness we plan to implement changes that we believe should be adequate to address the material weakness. We will continue to evaluate and monitor our efforts to remediate the material weakness and we intend to take all appropriate action when and as necessary to ensure we have effective internal controls over financial reporting. However, we can give no assurances that any future measures we may take will remediate the material weaknesses identified or that any additional material weaknesses will not arise in the future due to our failure to implement and maintain adequate internal controls over financial reporting. If our internal controls or disclosure controls and procedures are not effective, there may be material errors in our financial statements that are not identified in a timely manner and that could require restatement, or our filings may not be timely, and investors may lose confidence in our reported financial information, any of which could lead to a decline in our stock price. Any such failure could also adversely affect the results of periodic management evaluations and annual

Edgar Filing: IDT CORP - Form 10-K

auditor attestation reports regarding disclosure controls and the effectiveness of our internal control over financial reporting.

Table of Contents

INTELLECTUAL PROPERTY, TAX AND REGULATORY RISKS

We may be adversely affected if we fail to protect our proprietary technology.

We depend on proprietary technology and other intellectual property rights in conducting our various business operations. We rely on a combination of patents, copyrights, trademarks and trade secret protection and contractual rights to establish and protect our proprietary rights. Failure of our patents, copyrights, trademarks and trade secret protection, non-disclosure agreements and other measures to provide protection of our technology and our intellectual property rights could enable our competitors to more effectively compete with us and have an adverse effect on our business, financial condition and results of operations.

In addition, we may be required to litigate in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Any such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our business, financial condition or results of operations, and there can be no assurances that we will be successful in any such litigation. To date, we have not obtained a recovery from litigation claiming infringement of certain patents owned by our Net2Phone subsidiary relating to VoIP technology.

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.

IDT is subject to tax and regulatory audits which could result in the imposition of liabilities that may or may not have been reserved against.

IDT is subject to audit by taxing and regulatory authorities with respect to certain of its 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 IDT's positions are not accepted by the auditing entity. Our financial statements contain reserves against certain of such liabilities, but we do not reserve against liabilities that we do not reasonably expect to be imposed.

On February 10, 2006, Universal Service Administrative Company, or USAC, notified us that it issued an Audit Report from its Internal Audit Division, or IAD. In calendar year 2005, the IAD audited our FCC Form 499-A filings for calendar years 2000 through 2004 related to the payments to the Universal Service Fund, and concluded that we incorrectly reported certain revenues on Forms 499-A. USAC directed us to refile our Forms 499-A for calendar years 2002 through 2004 in a manner consistent with the IAD's findings. We did not refile the Forms 499-A, as we believed the IAD is mistaken in certain conclusions regarding the treatment of our revenues. USAC, however, filed the forms on our behalf, which we believe to be impermissible under the FCC's rules and regulations.

On June 5, 2007, we were notified by USAC that it intended to audit our FCC Form 499-A filings for calendar years 2005 and 2006. This audit took place over the subsequent months and on April 30, 2008 USAC issued an Audit Report from its IAD finding, as it found in its prior Audit Report, that we incorrectly reported certain revenues on Forms 499-A. USAC directed us to refile our Forms 499-A for calendar year 2005 in a manner consistent with the IAD's findings. We did not refile the Forms 499-A, as we believed the IAD is mistaken in certain conclusions regarding the treatment of our revenues. Whereas USAC filed certain Forms 499-A on our behalf over our objection in the first audit, USAC has not yet filed any Forms 499-A on our behalf as a result of the second audit. However, we think it is likely they will do so in the future. It remains

Edgar Filing: IDT CORP - Form 10-K

IDT's position that for USAC to file on IDT's behalf would be impermissible under the FCC's rules and regulations. We filed with the FCC a Request for Review of the Audit Report, which remains pending as of the date we are filing this Annual Report.

USAC's revisions in both audits to our filing methodology resulted in additional regulatory payments for the years covered by the audit. Because we believe in the accuracy of our filing methodology and our Request remains pending, we have not revised our methodology for post-audit Form 499-A filings. We have accrued

Table of Contents

for all regulatory fees we believe may be incurred under IAD's methodology from 2002 through the present, in the event our Request is denied and/or our methodology is not upheld on appeal, and we have made payments on amounts that have been invoiced to us by USAC and/or other agencies. We anticipate receiving additional invoices in the near future for our more recent audit. If we receive such invoices, we will remit payment for those invoices while our Requests for Review remain pending. The accrual amount for the years covered by the audit and subsequent years, as of July 31, 2008, was \$22.9 million. Until a final decision has been reached in our disputes, we will continue to accrue in accordance with IAD's methodology. Our total accrual will likely continue to increase unless we remit certain payments to avoid late fees and/or penalties in spite of our pending appeal. 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.

The Internal Revenue Service, in the ordinary course of business, may audit some or all of our tax filings. In fiscal 2006, the IRS commenced an audit of our U.S. federal tax returns for fiscal years 2001, 2002, 2003 and 2004. We previously established reserves of approximately \$132 million representing management's best estimate of additional amounts of taxes and interest that we could be required to pay. On June 19, 2008, after discussions with the IRS, we received notices of Income Tax Examination Changes from the IRS claiming that, for fiscal years 2001, 2002, 2003 and 2004, we owed approximately \$75 million in taxes for fiscal 2001 and approximately \$1 million for adjustments carried forward to fiscal 2005 and 2006. These amounts do not include applicable interest. In August 2008, we signed the notices acknowledging the IRS determination and the notices have been countersigned by the IRS. In connection therewith, in July 2008 we paid \$10.0 million and in October 2008 we paid \$20.0 million of the amount noted. On August 27, 2008, we received a Notice of Tax Due from the IRS setting the interest owed at \$39.5 million. We have entered into discussions with the IRS regarding the timing of payment. The IRS has informed us that it intends to commence an audit of the Company's federal tax returns for fiscal years 2005, 2006 and 2007 in the near future. Our pre-tax (loss) income for those years was \$(37.5) million, \$(176.1) million and \$62.2 million, respectively.

We are currently subject to audits by different European taxing authorities, including audits relating to VAT we have not collected from calling cards sold to distributors who, in turn, resell such cards in various jurisdictions in Europe. 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. An additional audit of our VAT payments and our taxes is ongoing in the Netherlands.

On September 2, 2008, the County Administrative Court of Vänersborg, Sweden granted an application made by the Swedish Tax Agency to seize SEK 100 million (approximately \$15.5 million) of assets owned by one of our subsidiaries, Inter Direct Tel Ltd, as security for payment of VAT. It is our position that the County Administrative Court's seizure order is inconsistent with applicable law and that it is not likely that the Tax Agency's VAT claim will be upheld. Therefore, Inter Direct Tel appealed the seizure order to the Swedish Administrative Court of Appeal and on October 6, 2008, the Administrative Court of Appeal reversed the County Administrative Court's seizure order. Because the time for the tax authority to appeal this decision has not yet expired, we can not be certain of its ultimate outcome.

Imposition of assessments as a result of tax and regulatory audits could have an adverse affect on our results of operations, cash flows and financial condition.

Federal, state, local and international government regulations may reduce our ability to provide services or make our business less profitable.

We are subject to varying degrees of regulation by federal, state, local and foreign regulators in each of our businesses. The implementation, modification, interpretation and enforcement of these laws and regulations vary and can limit our ability to provide many of our services. Our ability to compete in our target markets depends, in part, upon favorable regulatory conditions and the favorable interpretations of existing laws and regulations.

Edgar Filing: IDT CORP - Form 10-K

In addition, pursuant to rules adopted by the FCC, our consumer phone services business is required to contribute to the Universal Service Fund. The FCC has proceedings underway to evaluate possible changes to the current rules for assessing contributions for the Universal Service Fund. Any change in the current assess-

Table of Contents

ment calculation procedure could result in higher fees payable by our consumer phone services business and could adversely affect our revenues and margins in consumer phone services.

We are subject to various taxes, fees and charges imposed pursuant to the different regulations to which we are subject. We believe that the reserves we have allocated for such taxes, fees and charges are adequate, but there can be no assurance that our assumptions and calculations used in determining the size of the reserves will be agreed with by the applicable regulatory bodies. In addition, such reservations and the amounts we are obligated to pay are based upon our positions under, and the interpretations we have taken of, complex regulatory schemes. Any changes to such regulations or in our business that affect our positions under such regulations could result in an increase in the amounts we are obligated to pay (on a prospective basis and, potentially, retroactively), and could have an adverse effect on our financial condition.

We may become subject to increased price competition from other carriers due to federal regulatory changes in determining international settlement rates.

Revenues from, and payments made in connection with, international service reflect payments under agreements between us and foreign telecommunications administrations or private carriers, which are influenced by the guidelines of the international tariff and trade regulations and cover virtually all international calls to and from the United States. Various factors, including declining settlement rates, could affect the amount of net settlement payments from carriers to us in future years. These include changes in the proportion of outgoing as opposed to incoming calls. Any federal regulatory change to international telecommunications policy and/or settlement rates, may adversely affect our revenues costs and profitability.

Federal and state regulations may be passed that could harm Net2Phone's business.

Net2Phone's ability to provide VoIP communications services at attractive rates arises in large part from the fact that VoIP services are not currently subject to the same level of regulation as traditional, switch-based telephony. As such, VoIP providers can currently avoid paying some of the charges that traditional telephone companies must pay. Local exchange carriers are lobbying the FCC and the states to regulate VoIP on the same basis as traditional telephone services. Congress, the FCC and several states are examining this issue. If these regulators decide to increase VoIP regulations, they may impose surcharges, taxes or additional regulations upon providers of Internet telephony. These surcharges could include access charges payable to local exchange carriers to carry and terminate traffic or other charges and fees. The imposition of any such additional fees, charges, taxes and regulations on IP communications services could materially increase our costs and may limit or eliminate our competitive pricing advantages. In addition, we expect that regulations requiring compliance with the Communications Assistance for Law Enforcement Act (CALEA), or provision of 911 services required for traditional telecommunications providers, could place a significant financial burden on us depending on the technical changes required to accommodate the requirements. As a result of recent FCC actions regarding interconnect VoIP, we believe states may attempt to impose new or additional regulatory obligations and require us to pay additional charges and taxes. As a result, our business, financial condition and results of operations could be materially and adversely affected.

Our ability to offer services outside 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

Edgar Filing: IDT CORP - Form 10-K

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,

Table of Contents

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 **Business Regulation** included elsewhere in this Annual Report on Form 10-K.

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 and our 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 and holders of our common stock are entitled to one vote per share. As a result, the ability of holders of our Class B common stock to influence the management of our Company is limited.

IDT is controlled by its principal stockholder, which limits the ability of other stockholders to affect the management of IDT.

Howard S. Jonas, our Chairman of the Board and founder, has voting power over 11,642,130 shares of our common stock (which includes 9,816,988 shares of our Class A common stock, which are convertible into shares of our common stock on a 1-for-1 basis) and 5,076,684 shares of our Class B common stock, representing approximately 64.7% of the combined voting power of our outstanding capital stock, as of October 6, 2008. In addition, the Compensation Committee of the Board of Directors of the Company approved amendments to Mr. Jonas' employment agreement on September 3, 2008 and September 29, 2008 that will result in additional grants to Mr. Jonas of 1,704,545 shares of Common Stock and 3,518,518 shares of Common Stock, respectively. Such grants had not been made as of October 6, 2008 and are not included in Mr. Jonas' holdings as of such date. 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 the management of our Company is limited.

RISKS RELATED TO OUR PUBLICLY TRADED EQUITY

The price of our common and Class B Common Stock has decreased significantly, and may continue to decrease and be subject to volatility.

The price of our common stock and our Class B Common Stock have depreciated significantly during the past fiscal year, and more so during the past few months and have been subject to substantial volatility. As of the close of business on October 6, 2008, the price of our common stock and Class B Common Stock were \$.56 and \$.68, respectively. See Part II, Item 5 (Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities) of this annual report for more information on the history of the closing prices of our common stock and our Class B Common Stock. The prices of our common stock and our Class B Common Stock may continue to decrease and may continue to be subject to substantial volatility.

The New York Stock Exchange (NYSE) has notified us that we are not in compliance with its continued listing criteria. If we are delisted by the NYSE, the price and liquidity of our common stock and class B common stock will be negatively affected.

On September 30, 2008, we received notice from the NYSE stating that we are not in compliance with the NYSE's continued listing standard relating to maintaining an average global market capitalization of \$100,000,000 over a consecutive 30 trading-day period. Under NYSE rules, we have the ability to submit a plan to the NYSE outlining our effort to cure this deficiency on or before November 14, 2008. We intend to submit this plan in the near future. Under the NYSE rules, if this plan is accepted by the NYSE, we will have 18 months in which to restore compliance with the market capitalization listing standard or our common stock and class B common stock will be delisted from the NYSE.

Edgar Filing: IDT CORP - Form 10-K

During that timeframe, the NYSE will continually monitor our performance under the plan. The NYSE can start the delisting process at any time that it decides that we are not meeting the quarterly benchmarks that are set forth in the plan.

On October 2, 2008 and October 8, 2008, the Company's common stock and Class B common stock, respectively, fell below another NYSE listing standard, namely that the average closing price of each of its common stock and Class B common stock fell below \$1.00 over a consecutive thirty (30) day trading period. The Company's common and Class B common stock must achieve compliance with the NYSE's \$1.00 stock

Table of Contents

price requirements within six (6) months from the date that the Company received notice of non-compliance from the NYSE, which was received on October 8, 2008. Should the Company fail to meet these standards at the expiration of the six (6) month period, the NYSE will commence suspension and delisting procedures.

Our Class B common stock and common stock remain listed on the NYSE under the symbols IDT and IDT.C respectively, but have been assigned a ".BC" indicator by the NYSE to signify that the Company is not currently in compliance with the NYSE's continued listing standards.

We cannot assure you that the NYSE will maintain our listing in the future. In the event that our common stock and class B common stock are delisted by the NYSE, or if it becomes apparent to us that we will be unable to meet the NYSE's continued listing criteria in the foreseeable future, we may seek to have our stock listed or quoted on another national securities exchange or quotation system. However, we cannot assure you that, if our common stock and class B common stock are listed or quoted on such other exchange or system, the market for our common stock and class B common stock will be as liquid as it has been on the NYSE. As a result, if we are delisted by the NYSE or transfer our listing to another exchange or quotation system, the market price for our common stock and class B common stock may become more volatile than it has been historically.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our headquarters are located in Newark, New Jersey in an approximately 484,000 square foot facility that we acquired in third quarter of fiscal 2008. Our headquarters house our executive offices, administrative, finance and marketing functions, carrier and customer service departments and our various developing operations, and serve as the headquarters for each of our operating segments.

We also occupy space in both leased and owned properties in New Jersey, Los Angeles, California, and other locations in metropolitan areas primarily to house telecommunications equipment.

We lease office space in Washington D.C., previously occupied by our federal, legal and government relations personnel. This space is currently vacant.

We lease office space in Silver Spring, MD, which houses WMET's studio.

We own a building of approximately 45,000 square feet in Puerto Rico, 35% of which is occupied, the remainder of which is vacant.

Edgar Filing: IDT CORP - Form 10-K

The Company is in discussions with regard to the sale of all or the majority of its 86,100 square foot building in Jerusalem, which houses the call center operations that were transferred to the management of that division on July 31, 2008. The Company anticipates completion of the sale in fiscal 2009.

AMSO LLC is one of three holders of research, development and demonstration leases granted by the U.S. Bureau of Land Management in Colorado. The lease provides AMSO LLC with the ability to research, test and demonstrate the potential for commercial shale oil production on 160 acres in western Colorado. The lease includes the right to convert over to a commercial lease for up to 5,120 contiguous acres if AMSO LLC can demonstrate viable production of commercial quantities of shale oil without unacceptable environmental consequences. AMSO LLC has 10 years (the term of the research, development and demonstration lease) to convert over to the commercial lease; however, the 10 year period can be extended for an additional five years if AMSO LLC is in compliance with the terms of the lease.

We maintain our European headquarters in London, England (corporate and carrier operations) and Dublin, Ireland (retail operations). We also maintain various international office locations and telecommunications facilities in portions of Europe, South America, Central America, the Middle East, Asia and Africa where we conduct operations.

Table of Contents

IDT Capital has a controlling interest in a joint venture, which holds a 100% leasehold interest in two leased buildings totaling 120,000 square feet in Palo Alto, California.

Item 3. Legal Proceedings.

On or about August 27, 2003, Aerotel, Ltd., Aerotel U.S.A., and Aerotel U.S.A., LLC (Aerotel) filed a complaint against the Company in the United States District Court, Southern District of New York, seeking damages for alleged infringement of a patent. The parties reached a settlement and pursuant to a stipulation of dismissal all claims and counterclaims have been dismissed. The settlement provided for a payment of \$15 million in cash to Aerotel, which the Company paid in the first quarter of fiscal 2008, and making available to Aerotel calling cards or PINs over time with potential termination costs of up to \$15 million, subject to certain other conditions. In connection with this settlement, the Company accrued an expense of \$24.0 million in the fourth quarter of fiscal 2007 that is included in the Prepaid Products segment's selling, general and administrative expenses. On May 13, 2008, Aerotel, Ltd. filed a complaint against the Company in the United States District Court Southern District of New York related to a dispute concerning the settlement agreement between the Company and Aerotel. The complaint alleges Breach of Contract, Anticipatory Breach, and Breach of Covenant of Good Faith and Fair Dealing. Aerotel, Ltd. is seeking damages in the amount of at least \$30 million. The parties are engaged in settlement discussions and the Magistrate Judge has directed the parties to report to him by October 17, 2008 regarding settlement. The Company intends to file a motion to dismiss Aerotel's complaint, and the Court has scheduled a pre-motion conference for October 31, 2008. In connection with this matter, the Company accrued an additional expense of \$6.0 million in the fourth quarter of fiscal 2008 that is included in the Prepaid Products segment's selling, general and administrative expenses.

On April			Total other
securities	22,913	21,889 - 1,024	FNMA 7,973 7,810 - 163
securities	7,973	7,810 - 163	Total mortgage-backed
			Total \$30,886 \$29,699 \$- \$1,187

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table summarizes the Company's portfolio of securities available for sale at June 30, 2018:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
(In thousands)				
Corporate	\$ 110,000	\$ 100,532	\$ -	\$ 9,468
Municipals	100,576	101,608	1,063	31
Mutual funds	11,427	11,427	-	-
Other	1,188	1,188	-	-
Total other securities	223,191	214,755	1,063	9,499
REMIC and CMO	342,394	332,381	80	10,093
GNMA	847	898	51	-
FNMA	133,359	129,222	54	4,191
FHLMC	52,925	51,367	12	1,570
Total mortgage-backed securities	529,525	513,868	197	15,854
Total securities available for sale	\$ 752,716	\$ 728,623	\$ 1,260	\$ 25,353

The following table summarizes the Company's portfolio of securities available for sale at December 31, 2017:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
(In thousands)				
Corporate	\$ 110,000	\$ 102,767	\$ -	\$ 7,233
Municipals	101,680	103,199	1,519	-
Mutual funds	11,575	11,575	-	-
Collateralized loan obligations	10,000	10,053	53	-
Other	1,110	1,110	-	-
Total other securities	234,365	228,704	1,572	7,233
REMIC and CMO	328,668	325,302	595	3,961
GNMA	1,016	1,088	72	-
FNMA	136,198	135,474	330	1,054
FHLMC	48,103	47,786	18	335
Total mortgage-backed securities	513,985	509,650	1,015	5,350
Total securities available for sale	\$ 748,350	\$ 738,354	\$ 2,587	\$ 12,583

Mortgage-backed securities shown in the table above include one private issue collateralized mortgage obligation (“CMO”) that is collateralized by commercial real estate mortgages with an amortized cost and market value of \$21,000 at December 31, 2017. We did not hold any private issue CMO’s that are collateralized by commercial real estate mortgages at June 30, 2018.

The corporate securities held by the Company at June 30, 2018 and December 31, 2017 are issued by U.S. banking institutions.

- 8 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following tables detail the amortized cost and fair value of the Company's securities classified as held-to-maturity and available for sale at June 30, 2018, by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities held-to-maturity:	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$1,353	\$1,353
Due after ten years	21,777	19,928
Total other securities	23,130	21,281
Mortgage-backed securities	7,963	7,373
Total	\$31,093	\$28,654

Securities available for sale:	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$-	\$-
Due after one year through five years	4,248	4,269
Due after five years through ten years	125,569	116,201
Due after ten years	81,947	82,858
Total other securities	211,764	203,328
Mutual funds	11,427	11,427
Mortgage-backed securities	529,525	513,868
Total	\$752,716	\$728,623

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following tables show the Company's securities with gross unrealized losses and their fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at the dates indicated:

	At June 30, 2018						
		Total		Less than 12 months		12 months or more	
	Coun	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
		(Dollars in thousands)					
Held-to-maturity securities							
Municipals	1	\$ 19,928	\$ 1,849	\$ -	\$ -	\$ 19,928	\$ 1,849
Total other securities	1	19,928	1,849	-	-	19,928	1,849
FNMA	1	7,373	590	7,373	590	-	-
Total mortgage-backed securities	1	7,373	590	7,373	590	-	-
Total	2	\$ 27,301	\$ 2,439	\$ 7,373	\$ 590	\$ 19,928	\$ 1,849
Available for sale securities							
Corporate	14	\$ 100,532	\$ 9,468	\$ 9,394	\$ 606	\$ 91,138	\$ 8,862
Municipals	2	5,088	31	5,088	31	-	-
Total other securities	16	105,620	9,499	14,482	637	91,138	8,862
REMIC and CMO	48	312,201	10,093	231,236	5,860	80,965	4,233
FNMA	23	126,338	4,191	110,983	3,445	15,355	746
FHLMC	2	42,830	1,570	39,920	1,438	2,910	132
Total mortgage-backed securities	73	481,369	15,854	382,139	10,743	99,230	5,111
Total	89	\$ 586,989	\$ 25,353	\$ 396,621	\$ 11,380	\$ 190,368	\$ 13,973

	At December 31, 2017						
	Total			Less than 12 months		12 months or more	
	Coun	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)						
Held-to-maturity securities							
Municipals	1	\$20,844	\$ 1,024	\$20,844	\$ 1,024	\$-	\$ -

Edgar Filing: IDT CORP - Form 10-K

Total other securities	1	20,844	1,024	20,844	1,024	-	-
FNMA	1	7,810	163	7,810	163	-	-
Total mortgage-backed securities	1	7,810	163	7,810	163	-	-
Total securities held-to-maturity	2	\$28,654	\$ 1,187	\$28,654	\$ 1,187	\$-	\$ -
Available for sale securities							
Corporate	14	\$102,767	\$ 7,233	\$9,723	\$ 277	\$93,044	\$ 6,956
Total other securities	14	102,767	7,233	9,723	277	93,044	6,956
REMIC and CMO	36	249,596	3,961	162,781	1,406	86,815	2,555
FNMA	17	120,510	1,054	109,258	850	11,252	204
FHLMC	2	46,829	335	43,258	294	3,571	41
Total mortgage-backed securities	55	416,935	5,350	315,297	2,550	101,638	2,800
Total securities available for sale	69	\$519,702	\$ 12,583	\$325,020	\$ 2,827	\$194,682	\$ 9,756

- 10 -

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

OTTI losses on impaired securities must be fully recognized in earnings if an investor has the intent to sell the debt security or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost. However, even if an investor does not expect to sell a debt security in an unrealized loss position, the investor must evaluate the expected cash flows to be received and determine if a credit loss has occurred. In the event that a credit loss has occurred, only the amount of impairment associated with the credit loss is recognized in earnings in the Consolidated Statements of Income. Amounts relating to factors other than credit losses are recorded in accumulated other comprehensive loss (“AOCL”) within Stockholders’ Equity. Unrealized losses on available for sale securities, that are deemed to be temporary, are recorded in AOCL, net of tax.

The Company reviewed each investment that had an unrealized loss at June 30, 2018 and December 31, 2017. The unrealized losses in held-to-maturity municipal securities at June 30, 2018 and December 31, 2017 were caused by illiquidity in the market and movements in interest rates. The unrealized losses in held-to-maturity FNMA securities at June 30, 2018 and December 31, 2017 were caused by movements in interest rates. The unrealized losses in securities available for sale at June 30, 2018 and December 31, 2017 were caused by movements in interest rates.

It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company’s investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities’ amortized cost basis. This conclusion is based upon considering the Company’s cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2018 and December 31, 2017.

The Company did not sell any securities during the three and six months ended June 30, 2018 and 2017.

5.Loans

Loans are reported at their outstanding principal balance net of any unearned income, charge-offs, deferred loan fees and costs on originated loans and unamortized premiums or discounts on purchased loans. Loan fees and certain loan origination costs are deferred. Net loan origination costs and premiums or discounts on loans purchased are amortized into interest income over the contractual life of the loans using the level-yield method. Prepayment penalties received

on loans which pay in full prior to their scheduled maturity are included in interest income in the period they are collected.

Interest on loans is recognized on the accrual basis. The accrual of income on loans is generally discontinued when certain factors, such as contractual delinquency of 90 days or more, indicate reasonable doubt as to the timely collectability of such income. Uncollected interest previously recognized on non-accrual loans is reversed from interest income at the time the loan is placed on non-accrual status. A non-accrual loan can be returned to accrual status when contractual delinquency returns to less than 90 days delinquent. Payments received on non-accrual loans that do not bring the loan to less than 90 days delinquent are recorded on a cash basis. Payments can also be applied first as a reduction of principal until all principal is recovered and then subsequently to interest, if in management's opinion, it is evident that recovery of all principal due is likely to occur.

The Company recognizes a loan as non-performing when the borrower has demonstrated the inability to bring the loan current, or due to other circumstances which, in management's opinion, indicate the borrower will be unable to bring the loan current within a reasonable time. All loans classified as non-performing, which includes all loans past due 90 days or more, are classified as non-accrual unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. Prior to a loan becoming 90 days delinquent, an updated appraisal is ordered and/or an internal evaluation is prepared.

A loan is considered impaired when, based upon current information, the Company believes it is probable that it will be unable to collect all amounts due, both principal and interest, in accordance with the original terms of the loan. Impaired loans are measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or, as a practical expedient, the fair value of the collateral if the loan is collateral dependent. All non-accrual loans are considered impaired.

The Company maintains an allowance for loan losses at an amount, which, in management's judgment, is adequate to absorb probable estimated losses inherent in the loan portfolio. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available. An unallocated component may at times be maintained to cover uncertainties that could affect management's estimate of probable losses. When necessary an unallocated component of the allowance will reflect the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The allowance is established through charges to earnings in the form of a provision for loan losses based on management's evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), current economic conditions, delinquency and non-accrual trends, classified loan levels, risk in the portfolio and volumes and trends in loan types, recent trends in charge-offs, changes in underwriting standards, experience, ability and depth of the Company's lenders, collection policies and experience, internal loan review function and other external factors. Increases and decreases in the allowance other than charge-offs and recoveries are included in the provision for loan losses. When a loan or a portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance, and subsequent recoveries, if any, are credited to the allowance.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately.

The Company reviews each impaired loan on an individual basis to determine if either a charge-off or a valuation allowance needs to be allocated to the loan. The Company does not charge-off or allocate a valuation allowance to loans for which management has concluded the current value of the underlying collateral will allow for recovery of the loan balance through the sale of the loan or by foreclosure and sale of the property.

The Company considers fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The 85% is based on the actual net proceeds the Bank has received from the sale of other real estate owned (“OREO”) as a percentage of OREO’s appraised value. For collateral dependent taxi medallion loans, the Company considers fair value to be the value of the underlying medallion based upon the most recently reported arm’s length sales transaction. When there is no recent sale activity, the fair value is calculated using capitalization rates. For both collateral dependent mortgage loans and taxi medallion loans, the amount by which the loan’s book value exceeds fair value is charged-off. During the three months ended June 30, 2018, the fair value of Chicago taxi medallion loans was reduced from \$60,000 per medallion to \$25,000 per medallion, based upon recent sales transactions. At June 30, 2018, our exposure to the Chicago taxi medallion portfolio totals \$0.2 million and to all taxi medallion loans held \$6.2 million, which is 0.12% of total loans.

The Company segregated its loans into two portfolios based on year of origination. One portfolio was reviewed for loans originated after December 31, 2009 and a second portfolio for loans originated prior to January 1, 2010. Our decision to segregate the portfolio based upon origination dates was based on changes made in our underwriting standards during 2009. By the end of 2009, all loans were being underwritten based on revised and tightened underwriting standards. Loans originated prior to 2010 have a higher delinquency rate and loss history. Each of the years in the portfolio for loans originated prior to 2010 has a similar delinquency rate. During the three months ended June 30, 2018, the Loss Emergence Period (“LEP”) used was 1.33 years for the Residential portfolio and 1.58 years for the Commercial portfolio. In the prior quarter, a blended LEP of 1.33 years was used for both portfolios. The Company’s Board of Directors reviews and approves management’s evaluation of the adequacy of the allowance for loan losses on a quarterly basis.

The Company evaluates the underlying collateral through a third party appraisal, or when a third party appraisal is not available, the Company will use an internal evaluation. The internal evaluations are prepared using an income approach or a sales approach. The income approach is used for income producing properties and uses current revenues less operating expenses to determine the net cash flow of the property. Once the net cash flow is determined, the value of the property is calculated using an appropriate capitalization rate for the property. The sales approach uses comparable sales prices in the market. When an internal evaluation is used, we place greater reliance on the income approach to value the collateral.

The Company may restructure a loan to enable a borrower experiencing financial difficulties to continue making payments when it is deemed to be in the Company's best long-term interest. This restructure may include reducing the interest rate or amount of the monthly payment for a specified period of time, after which the interest rate and repayment terms revert to the original terms of the loan. We classify these loans as Troubled Debt Restructured ("TDR").

These restructurings have not included a reduction of principal balance. The Company believes that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. All loans classified as TDR are considered impaired, however TDR loans which have been current for six consecutive months at the time they are restructured as TDR remain on accrual status and are not included as part of non-performing loans. Loans which were delinquent at the time they are restructured as a TDR are placed on non-accrual status and reported as non-accrual performing TDR loans until they have made timely payments for six consecutive months.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The allocation of a portion of the allowance for loan losses for a performing TDR loan is based upon the present value of the future expected cash flows discounted at the loan's original effective rate, or for a non-performing TDR loan which is collateral dependent, the fair value of the collateral. At June 30, 2018, there were no commitments to lend additional funds to borrowers whose loans were modified to a TDR. The modification of loans to a TDR did not have a significant effect on our operating results, nor did it require a significant allocation of the allowance for loan losses.

The Company did not modify any loans as TDR during the three and six months ended June 30, 2018.

The following tables shows loans modified and classified as TDR during the periods indicated:

(Dollars in thousands)	For the three and six months ended June 30, 2017		Modification description
	Number	Balance	
Taxi medallion	5	\$4,289	Three received a below market interest rate and a loan amortization extension, while two received an amortization extension.
Total	5	\$4,289	

The recorded investment of the loans modified and classified as TDR presented in the table above, were unchanged as there was no principal forgiven in this modification.

The following table shows our recorded investment for loans classified as TDR that are performing according to their restructured terms at the periods indicated:

(Dollars in thousands)	June 30, 2018	December 31, 2017
	Number of recorded investment	Number of recorded investment

Edgar Filing: IDT CORP - Form 10-K

	contracts		contracts	
Multi-family residential	9	\$ 2,488	9	\$ 2,518
Commercial real estate	-	-	2	1,986
One-to-four family - mixed-use property	5	1,726	5	1,753
One-to-four family - residential	3	562	3	572
Taxi medallion	19	5,482	20	5,916
Commercial business and other	2	351	2	462
Total performing troubled debt restructured	38	\$ 10,609	41	\$ 13,207

During the six months ended June 30, 2018, we sold one commercial real estate TDR loan totaling \$1.8 million, for a loss of \$0.3 million and foreclosed on one taxi medallion TDR loan of \$35,000, which is included in “Other Assets”. There were no TDR loans that defaulted during the period, which were within 12 months of their modification date.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows our recorded investment for loans classified as TDR that are not performing according to their restructured terms at the periods indicated:

(Dollars in thousands)	June 30, 2018 Number of Recorded investment contracts	December 31, 2017 Number of Recorded investment contracts
Multi-family residential	1 \$ 383	1 \$ 383
Total troubled debt restructurings that subsequently defaulted	1 \$ 383	1 \$ 383

There were no TDR loans transferred to non-performing status during the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2017.

The following table shows our non-performing loans at the periods indicated:

(In thousands)	June 30, 2018	December 31, 2017
Loans ninety days or more past due and still accruing:		
Commercial real estate	\$-	\$ 2,424
Construction	730	-
Total	730	2,424
Non-accrual mortgage loans:		
Multi-family residential	2,165	3,598
Commercial real estate	1,448	1,473
One-to-four family - mixed-use property	2,157	1,867
One-to-four family - residential	6,969	7,808
Co-operative apartments	575	-
Total	13,314	14,746

Non-accrual non-mortgage loans:

Small Business Administration	-	46
Taxi medallion	743	918
Commercial business and other	2	-
Total	745	964
 Total non-accrual loans	 14,059	 15,710
 Total non-performing loans	 \$14,789	 \$ 18,134

- 14 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following is a summary of interest foregone on non-accrual loans and loans classified as TDR for the periods indicated:

	For the three months ended June 30, 2018		For the six months ended June 30, 2017	
	2018	2017	2018	2017
	(In thousands)			
Interest income that would have been recognized had the loans performed in accordance with their original terms	\$390	\$433	\$798	\$848
Less: Interest income included in the results of operations	156	141	315	268
Total foregone interest	\$234	\$292	\$483	\$580

The following tables show an age analysis of our recorded investment in loans, including loans past maturity, at the periods indicated:

(In thousands)	June 30, 2018				Current	Total Loans
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due		
Multi-family residential	\$2,887	\$410	\$2,165	\$5,462	\$2,242,390	\$2,247,852
Commercial real estate	4,139	3,206	1,448	8,793	1,463,101	1,471,894
One-to-four family - mixed-use property	2,080	-	2,157	4,237	560,237	564,474
One-to-four family - residential	767	400	6,969	8,136	179,605	187,741
Co-operative apartments	-	-	575	575	7,264	7,839
Construction loans	-	-	730	730	33,096	33,826
Small Business Administration	1,537	-	-	1,537	12,868	14,405
Taxi medallion	-	-	-	-	6,225	6,225
Commercial business and other	562	761	2	1,325	782,579	783,904
Total	\$11,972	\$4,777	\$14,046	\$30,795	\$5,287,365	\$5,318,160

Edgar Filing: IDT CORP - Form 10-K

(In thousands)	December 31, 2017				Current	Total Loans
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due		
Multi-family residential	\$2,533	\$279	\$3,598	\$6,410	\$2,267,185	\$2,273,595
Commercial real estate	1,680	2,197	3,897	7,774	1,360,338	1,368,112
One-to-four family - mixed-use property	1,570	860	1,867	4,297	559,909	564,206
One-to-four family - residential	1,921	680	7,623	10,224	170,439	180,663
Co-operative apartments	-	-	-	-	6,895	6,895
Construction loans	-	-	-	-	8,479	8,479
Small Business Administration	-	-	-	-	18,479	18,479
Taxi medallion	-	108	-	108	6,726	6,834
Commercial business and other	2	-	-	2	732,971	732,973
Total	\$7,706	\$4,124	\$16,985	\$28,815	\$5,131,421	\$5,160,236

- 15 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following tables show the activity in the allowance for loan losses for the three month periods indicated:

June 30, 2018

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Unallocated	Total
Allowance for credit losses:										
Beginning balance	\$ 5,750	\$ 4,602	\$ 2,470	\$ 1,041	\$ 191	\$ 675	\$ -	\$ 5,813	\$ -	\$ 20,542
Charge-off's	(28)	-	-	-	-	(27)	(353)	(8)	-	(416)
Recoveries	-	-	79	4	-	9	-	2	-	94
Provision (Benefit)	(184)	124	(252)	(42)	73	(108)	353	25	11	-
Ending balance	\$ 5,538	\$ 4,726	\$ 2,297	\$ 1,003	\$ 264	\$ 549	\$ -	\$ 5,832	\$ 11	\$ 20,220

June 30, 2017

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Unallocated	Total
Allowance for credit losses:										
Beginning balance	\$ 5,907	\$ 4,485	\$ 2,691	\$ 979	\$ 94	\$ 315	\$ 2,213	\$ 4,712	\$ 815	\$ 22,211
Charge-off's	(148)	(4)	(1)	(170)	-	(24)	-	(3)	-	(350)
Recoveries	201	-	68	-	-	10	-	17	-	296
Provision (Benefit)	(43)	207	(190)	181	36	5	117	(58)	(255)	-
Ending balance	\$ 5,917	\$ 4,688	\$ 2,568	\$ 990	\$ 130	\$ 306	\$ 2,330	\$ 4,668	\$ 560	\$ 22,157

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following tables show the activity in the allowance for loan losses for the six month periods indicated:

June 30, 2018

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Unallocated	Total
Allowance for credit losses:										
Beginning balance	\$ 5,823	\$ 4,643	\$ 2,545	\$ 1,082	\$ 68	\$ 669	\$ -	\$ 5,521	\$ -	\$ 20,351
Charge-off's	(81)	-	-	(1)	-	(52)	(353)	(14)	-	(501)
Recoveries	2	-	79	112	-	15	-	9	-	217
Provision (Benefit)	(206)	83	(327)	(190)	196	(83)	353	316	11	153
Ending balance	\$ 5,538	\$ 4,726	\$ 2,297	\$ 1,003	\$ 264	\$ 549	\$ -	\$ 5,832	\$ 11	\$ 20,220

June 30, 2017

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family - residential	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Unallocated	Total
Allowance for credit losses:										
Beginning balance	\$ 5,923	\$ 4,487	\$ 2,903	\$ 1,015	\$ 92	\$ 481	\$ 2,243	\$ 4,492	\$ 593	\$ 22,229
Charge-off's	(162)	(4)	(35)	(170)	-	(89)	(54)	(15)	-	(529)
Recoveries	231	68	68	-	-	49	-	41	-	457
Provision (Benefit)	(75)	137	(368)	145	38	(135)	141	150	(33)	-
Ending balance	\$ 5,917	\$ 4,688	\$ 2,568	\$ 990	\$ 130	\$ 306	\$ 2,330	\$ 4,668	\$ 560	\$ 22,157

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following tables show the manner in which loans were evaluated for impairment at the periods indicated:

June 30, 2018

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family-residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other	Unallocated	Total
Financing Receivables:											
Ending Balance	\$2,247,852	\$1,471,894	\$564,474	\$187,741	\$7,839	\$33,826	\$14,405	\$6,225	\$783,904	\$-	\$5,318,611
Ending balance:											
individually evaluated for impairment	\$6,482	\$4,967	\$5,625	\$8,733	\$-	\$730	\$49	\$6,225	\$16,136	\$-	\$48,947
Ending balance:											
collectively evaluated for impairment	\$2,241,370	\$1,466,927	\$558,849	\$179,008	\$7,839	\$33,096	\$14,356	\$-	\$767,768	\$-	\$5,269,664
Allowance for credit losses:											
Ending balance:											
individually evaluated for impairment	\$147	\$-	\$159	\$53	\$-	\$-	\$-	\$-	\$4	\$-	\$363
Ending balance:											
collectively evaluated for impairment	\$5,391	\$4,726	\$2,138	\$950	\$-	\$264	\$549	\$-	\$5,828	\$11	\$19,857

December 31, 2017

Unallocated

Edgar Filing: IDT CORP - Form 10-K

(In thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family- residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi medallion	Commercial business and other		
Financing Receivables:											
Ending Balance	\$2,273,595	\$1,368,112	\$564,206	\$180,663	\$6,895	\$8,479	\$18,479	\$6,834	\$732,973	\$-	\$5,160,230
Ending balance: individually evaluated for impairment	\$7,311	\$9,089	\$5,445	\$9,686	\$-	\$-	\$137	\$6,834	\$661	\$-	\$39,163
Ending balance: collectively evaluated for impairment	\$2,266,284	\$1,359,023	\$558,761	\$170,977	\$6,895	\$8,479	\$18,342	\$-	\$732,312	\$-	\$5,121,070
Allowance for credit losses:											
Ending balance: individually evaluated for impairment	\$205	\$177	\$198	\$56	\$-	\$-	\$-	\$-	\$6	\$-	\$642
Ending balance: collectively evaluated for impairment	\$5,618	\$4,466	\$2,347	\$1,026	\$-	\$68	\$669	\$-	\$5,515	\$-	\$19,709

- 18 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows our recorded investment, unpaid principal balance and allocated allowance for loan losses for impaired loans at the periods indicated:

	June 30, 2018			December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(In thousands)					
With no related allowance recorded:						
Mortgage loans:						
Multi-family residential	\$4,285	\$4,814	\$ -	\$5,091	\$5,539	\$ -
Commercial real estate	4,967	4,967	-	7,103	7,103	-
One-to-four family mixed-use property	4,419	4,676	-	4,218	4,556	-
One-to-four family residential	8,326	9,281	-	9,272	10,489	-
Construction	730	730	-	-	-	-
Non-mortgage loans:						
Small Business Administration	49	58	-	137	151	-
Taxi medallion	6,225	17,450	-	6,834	18,063	-
Commercial business and other	15,829	16,198	-	313	682	-
Total loans with no related allowance recorded	44,830	58,174	-	32,968	46,583	-
With an allowance recorded:						
Mortgage loans:						
Multi-family residential	2,197	2,197	147	2,220	2,220	205
Commercial real estate	-	-	-	1,986	1,986	177
One-to-four family mixed-use property	1,206	1,206	159	1,227	1,227	198
One-to-four family residential	407	407	53	414	414	56
Non-mortgage loans:						
Commercial business and other	307	307	4	348	348	6
Total loans with an allowance recorded	4,117	4,117	363	6,195	6,195	642
Total Impaired Loans:						
Total mortgage loans	\$26,537	\$28,278	\$ 359	\$31,531	\$33,534	\$ 636
Total non-mortgage loans	\$22,410	\$34,013	\$ 4	\$7,632	\$19,244	\$ 6

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows our average recorded investment and interest income recognized for impaired loans for the three months ended:

	June 30, 2018		June 30, 2017	
	Average	Interest	Average	Interest
	Recorded	Recognized	Recorded	Recognized
	Investment	Investment	Investment	Investment
	(In thousands)			
With no related allowance recorded:				
Mortgage loans:				
Multi-family residential	\$4,431	\$ 16	\$2,730	\$ 22
Commercial real estate	5,847	52	6,438	59
One-to-four family mixed-use property	4,397	39	5,560	41
One-to-four family residential	8,382	10	10,263	30
Construction	365	10	602	-
Non-mortgage loans:				
Small Business Administration	74	1	160	2
Taxi medallion	6,421	86	4,352	25
Commercial business and other	7,954	308	2,187	43
Total loans with no related allowance recorded	37,871	522	32,292	222
With an allowance recorded:				
Mortgage loans:				
Multi-family residential	2,203	30	2,471	50
Commercial real estate	-	-	2,043	24
One-to-four family mixed-use property	1,212	15	1,450	16
One-to-four family residential	409	4	424	4
Non-mortgage loans:				
Small Business Administration	-	-	-	-
Taxi medallion	-	-	14,216	50
Commercial business and other	318	4	391	6
Total loans with an allowance recorded	4,142	53	20,995	150
Total Impaired Loans:				
Total mortgage loans	\$27,246	\$ 176	\$31,981	\$ 246
Total non-mortgage loans	\$14,767	\$ 399	\$21,306	\$ 126

- 20 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table shows our average recorded investment and interest income recognized for impaired loans for the six months ended:

	June 30, 2018		June 30, 2017	
	Average	Interest	Average	Interest
	Recorded	Recognized	Recorded	Recognized
	Investment	Investment	Investment	Investment
	(In thousands)			
With no related allowance recorded:				
Mortgage loans:				
Multi-family residential	\$4,651	\$ 36	\$3,040	\$ 45
Commercial real estate	6,266	126	5,788	154
One-to-four family mixed-use property	4,337	80	5,851	78
One-to-four family residential	8,678	25	10,028	56
Construction	243	10	401	7
Non-mortgage loans:				
Small Business Administration	95	2	245	4
Taxi medallion	6,559	168	3,679	55
Commercial business and other	5,407	310	2,148	87
Total loans with no related allowance recorded	36,236	757	31,180	486
With an allowance recorded:				
Mortgage loans:				
Multi-family residential	2,208	59	2,401	79
Commercial real estate	662	-	2,049	48
One-to-four family mixed-use property	1,217	24	1,758	34
One-to-four family residential	411	8	425	8
Non-mortgage loans:				
Small Business Administration	-	-	507	-
Taxi medallion	-	-	14,126	93
Commercial business and other	328	9	401	12
Total loans with an allowance recorded	4,826	100	21,667	274
Total Impaired Loans:				
Total mortgage loans	\$28,673	\$ 368	\$31,741	\$ 509
Total non-mortgage loans	\$12,389	\$ 489	\$21,106	\$ 251

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

In accordance with our policy and the current regulatory guidelines, we designate loans as “Special Mention,” which are considered “Criticized Loans,” and “Substandard,” “Doubtful,” or “Loss,” which are considered “Classified Loans”. If a loan does not fall within one of the previous mentioned categories then the loan would be considered “Pass.” Loans that are non-accrual are designated as Substandard, Doubtful or Loss. These loan designations are updated quarterly. We designate a loan as Substandard when a well-defined weakness is identified that may jeopardize the orderly liquidation of the debt. We designate a loan Doubtful when it displays the inherent weakness of a Substandard loan with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate a loan as Loss if it is deemed the debtor is incapable of repayment. The Company does not hold any loans designated as Loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. We designate a loan as Special Mention if the asset does not warrant classification within one of the other classifications, but does contain a potential weakness that deserves closer attention.

The following table sets forth the recorded investment in loans designated as Criticized or Classified at the periods indicated:

(In thousands)	June 30, 2018				
	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	\$3,432	\$ 3,994	\$ -	\$ -	\$7,426
Commercial real estate	4,475	4,206	-	-	8,681
One-to-four family - mixed-use property	1,223	3,899	-	-	5,122
One-to-four family - residential	883	7,597	-	-	8,480
Co-operative apartments	-	575	-	-	575
Construction loans	-	730	-	-	730
Small Business Administration	879	45	-	-	924
Taxi medallion	-	6,225	-	-	6,225
Commercial business and other	10,927	16,852	-	-	27,779
Total loans	\$21,819	\$ 44,123	\$ -	\$ -	\$65,942

(In thousands)	December 31, 2017				
	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	\$6,389	\$ 4,793	\$ -	\$ -	\$11,182
Commercial real estate	2,020	8,871	-	-	10,891

Edgar Filing: IDT CORP - Form 10-K

One-to-four family - mixed-use property	2,835	3,691	-	-	6,526
One-to-four family - residential	2,076	9,115	-	-	11,191
Small Business Administration	548	108	-	-	656
Taxi medallion	-	6,834	-	-	6,834
Commercial business and other	14,859	545	-	-	15,404
Total loans	\$28,727	\$ 33,957	\$ -	\$ -	\$62,684

Commitments to extend credit (principally real estate mortgage loans) and lines of credit (principally home equity lines of credit and business lines of credit) amounted to \$25.2 million and \$300.8 million, respectively, at June 30, 2018.

- 22 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

6.Loans held for sale

Loans held for sale are carried at the lower of cost or estimated fair value. At June 30, 2018 and December 31, 2017, the Bank did not have any loans held for sale.

The Company has implemented a strategy of selling certain delinquent and non-performing loans. Once the Company has decided to sell a loan, the sale usually closes in a short period of time, generally within the same quarter. Loans designated held for sale are reclassified from loans held for investment to loans held for sale. Terms of sale include cash due upon the closing of the sale, no contingencies or recourse to the Company and servicing is released to the buyer. Additionally, at times the Company may sell participating interests in performing loans.

The following tables show loans sold during the period indicated:

(Dollars in thousands)	For the three months ended June 30, 2018			
	Loans sold	Proceeds	Net gain	
Delinquent and non-performing loans				
Commercial real estate	2	\$ 2,065	\$ 28	
Total	2	\$ 2,065	\$ 28	
Performing loans				
Small Business Administration	9	\$ 5,671	\$ 393	
Total	9	\$ 5,671	\$ 393	

(Dollars in thousands)	For the three months ended June 30, 2017			
	Loans sold	Proceeds	Net charge-offs	Net gain (loss)

Delinquent and non-performing loans

Commercial	1	\$335	\$	(4))	\$-
------------	---	-------	----	-----	---	-----

Total	1	\$335	\$	(4))	\$-
-------	---	-------	----	-----	---	-----

Performing loans

Multi-family residential	2	\$6,080	\$	-		\$(14)
--------------------------	---	---------	----	---	--	--------

Commercial real estate	5	8,451		-		(21)
------------------------	---	-------	--	---	--	------

Small Business Administration	4	1,519		-		69
-------------------------------	---	-------	--	---	--	----

Total	11	\$16,050	\$	-		\$34
-------	----	----------	----	---	--	------

- 23 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

(Dollars in thousands)	For the six months ended June 30, 2018			
	Loans sold	Proceeds	Net gain (loss)	
Delinquent and non-performing loans				
Multi-family - residential	3	\$ 964	\$-	
Commercial real estate	3	3,565	(235)	
Total	6	\$ 4,529	\$(235)	
Performing loans				
Small Business Administration	9	\$ 5,671	\$ 393	
Total	9	\$ 5,671	\$ 393	

(Dollars in thousands)	For the six months ended June 30, 2017				
	Loans sold	Proceeds	Net charge-offs		Net gain (loss)
Delinquent and non-performing loans					
One-to-four family- residential	5	\$ 1,790	\$ (33)		\$-
Commercial real estate	1	335	(4)		-
Total	6	\$ 2,125	\$ (37)		\$-
Performing loans					
Multi-family residential	2	\$ 6,080	\$ -		\$(14)
Commercial real estate	5	8,451	-		(21)
Small Business Administration	7	4,919	-		250
Total	14	\$ 19,450	\$ -		\$216

- 24 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

7. Other Real Estate Owned

OREO are included in other assets on the Company's Consolidated Statements of Financial Condition. The following table shows changes in OREO during the periods indicated:

	For the three months ended June 30, 2018		For the six months ended June 30, 2017	
	2018	2017	2018	2017
	(In thousands)			
Balance at beginning of period	\$638	\$ -	\$ -	\$533
Acquisitions	-	-	638	-
Sales	(638)	-	(638)	(533)
Balance at end of period	\$ -	\$ -	\$ -	\$ -

The following table shows the gross gains, gross losses and write-downs of OREO reported in the Consolidated Statements of Income during the periods indicated:

	For the three months ended June 30, 2018		For the six months ended June 30, 2017	
	2018	2017	2018	2017
	(In thousands)		(In thousands)	
Gross gains	\$ 27	\$ -	\$ 27	\$ 50

During the six months ended June 30, 2018 we foreclosed on one residential real estate property for \$0.6 million. During the three months ended June 30, 2018 and the three and six months ended June 30, 2017, we did not foreclose

on any consumer mortgages through in-substance repossession. We did not hold any foreclosed residential real estate properties at June 30, 2018 and December 31, 2017. Included within net loans as of June 30, 2018 and December 31, 2017 was a recorded investment of \$9.8 million and \$10.5 million, respectively, of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

8. Stock-Based Compensation

For the three months ended June 30, 2018 and 2017, the Company's net income, as reported, includes \$1.2 million and \$1.0 million, respectively, of stock-based compensation costs and \$0.3 million and \$0.4 million of income tax benefits, respectively, related to the stock-based compensation plans in each of the periods. For the six months ended June 30, 2018 and 2017, the Company's net income, as reported, includes \$4.6 million and \$4.1 million, respectively, of stock-based compensation costs and \$1.0 million and \$1.2 million of income tax benefits, respectively, related to the stock-based compensation plans in each of the periods. During the three months ended June 30, 2018, the Company granted 5,600 restricted stock units. The Company did not grant any restricted stock units during the three months ended June 30, 2017. During the six months ended June 30, 2018 and 2017, the Company granted 280,590 and 276,900 restricted stock units, respectively. There were 600 stock options exercised during the three and six months ended June 30, 2018 and 4,400 stock options exercised during the three and six months ended June 30, 2017. The Company has not granted stock options since 2009. At June 30, 2018, the Company had 600 stock options, all 100% vested, outstanding, at an average exercise price of \$8.44 per share.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The Company uses the fair value of the common stock on the date of award to measure compensation cost for restricted stock unit awards. Compensation cost is recognized over the vesting period of the award using the straight-line method.

The following table summarizes the Company's restricted stock unit ("RSU") awards at or for the six months ended June 30, 2018:

	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at December 31, 2017	497,322	\$ 22.46
Granted	280,590	28.19
Vested	(239,599)	23.64
Forfeited	(7,110)	25.27
Non-vested at June 30, 2018	531,203	\$ 24.91
Vested but unissued at June 30, 2018	234,799	\$ 25.14

As of June 30, 2018, there was \$10.8 million of total unrecognized compensation cost related to RSU awards granted. That cost is expected to be recognized over a weighted-average period of 3.1 years. The total fair value of awards vested for the three months ended June 30, 2018 and 2017 was \$28,000 and \$40,000, respectively. The total fair value of awards vested for the six months ended June 30, 2018 and 2017 was \$6.7 and \$4.8 million, respectively. The vested but unissued RSU awards consist of awards made to employees and directors who are eligible for retirement. According to the terms of these awards, which provide for vesting upon retirement, these employees and directors have no risk of forfeiture. These shares will be issued at the original contractual vesting and settlement dates.

Phantom Stock Plan: The Company maintains a non-qualified phantom stock plan as a supplement to its profit sharing plan for officers who have achieved the designated level and completed one year of service. The Company adjusts its liability under this plan to the fair value of the shares at the end of each period.

The following table summarizes the Phantom Stock Plan at or for the six months ended June 30, 2018:

Phantom Stock Plan	Shares	Fair Value
Outstanding at December 31, 2017	89,180	\$27.50
Granted	8,946	27.75
Forfeited	-	-
Distributions	(32)	27.18
Outstanding at June 30, 2018	98,094	\$26.10
Vested at June 30, 2018	97,515	\$26.10

The Company recorded stock-based compensation benefit for the Phantom Stock Plan of \$0.1 million for the each of the three month periods ended June 30, 2018 and 2017. The total fair value of the distributions from the Phantom Stock Plan was less than \$1,000 for each of the three month periods ended June 30, 2018 and 2017.

For the six months ended June 30, 2018 and 2017, the company recorded stock-based compensation benefit for the Phantom Stock Plan of \$0.1 million for each of the six month periods ended June 30, 2018 and 2017. The total fair value of the distributions from the Phantom Stock Plan was \$1,000 and \$6,000 for the six months ended June 30, 2018 and 2017, respectively.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

9. Pension and Other Postretirement Benefit Plans

The following table sets forth information regarding the components of net expense for the pension and other postretirement benefit plans.

(In thousands)	Three months ended June 30, 2018		Six months ended June 30, 2018	
	2018	2017	2018	2017
Employee Pension Plan:				
Interest cost	\$ 195	\$ 216	\$ 390	\$ 432
Amortization of unrecognized loss	156	174	311	348
Expected return on plan assets	(363)	(348)	(726)	(696)
Net employee pension (benefit) expense	\$(12)	\$ 42	\$(25)	\$ 84
Outside Director Pension Plan:				
Service cost	\$ 11	\$ 10	\$ 22	\$ 20
Interest cost	20	23	40	46
Amortization of unrecognized gain	(23)	(23)	(46)	(46)
Amortization of past service liability	3	10	6	20
Net outside director pension expense	\$ 11	\$ 20	\$ 22	\$ 40
Other Postretirement Benefit Plans:				
Service cost	\$ 88	\$ 79	\$ 176	\$ 158
Interest cost	77	76	154	152
Amortization of past service credit	(12)	(21)	(25)	(42)
Net other postretirement expense	\$ 153	\$ 134	\$ 305	\$ 268

The Company previously disclosed in its Consolidated Financial Statements for the year ended December 31, 2017 that it expects to contribute \$0.2 million to each of the Outside Director Pension Plan (the “Outside Director Pension Plan”) and the other postretirement benefit plans (the “Other Postretirement Benefit Plans”), during the year ending December 31, 2018. The Company does not expect to make a contribution to the Employee Pension Plan (the “Employee Pension Plan”). As of June 30, 2018, the Company has contributed \$48,000 to the Outside Director Pension Plan and \$56,000 in contributions were made to the Other Postretirement Benefit Plans. As of June 30, 2018, the Company has not revised its expected contributions for the year ending December 31, 2018.

10. Fair Value of Financial Instruments

The Company carries certain financial assets and financial liabilities at fair value in accordance with GAAP which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establishes a framework for measuring fair value and expands disclosures about fair value measurements. GAAP permits entities to choose to measure many financial instruments and certain other items at fair value. At June 30, 2018, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$14.0 million and \$39.6 million, respectively. At December 31, 2017, the Company carried financial assets and financial liabilities under the fair value option with fair values of \$14.3 million and \$37.0 million, respectively. The Company did not elect to carry any additional financial assets or financial liabilities under the fair value option during the three and six months ended June 30, 2018.

- 27 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table presents the financial assets and financial liabilities reported at fair value under the fair value option, and the changes in fair value included in the Consolidated Statement of Income – Net gain (loss) from fair value adjustments, at or for the periods ended as indicated:

	Fair Value Measurements at June 30, 2018	Fair Value Measurements at December 31, 2017	Changes in Fair Values For Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
			Three Months Ended		Six Months Ended	
			June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
(In thousands)						
Mortgage-backed securities	\$ 1,426	\$ 1,590	\$-	\$(3)	\$(11)	\$(10)
Other securities	12,615	12,685	(62)	112	(200)	144
Borrowed funds	39,566	36,986	(867)	(595)	(2,548)	(1,165)
Net loss from fair value adjustments ⁽¹⁾⁽²⁾			\$(929)	\$(486)	\$(2,759)	\$(1,031)

The net loss from fair value adjustments presented in the above table does not include net gains (losses) of \$0.7 (1) million and (\$0.7) million for the three months ended June 30, 2018 and 2017, respectively, from the change in the fair value of interest rate swaps.

The net loss from fair value adjustments presented in the above table does not include net gains (losses) of \$2.4 (2) million and (\$0.5) million for the six months ended June 30, 2018 and 2017, respectively, from the change in the fair value of interest rate swaps.

Included in the fair value of the financial assets and financial liabilities selected for the fair value option is the accrued interest receivable or payable for the related instrument. The Company reports as interest income or interest expense in the Consolidated Statement of Income, the interest receivable or payable on the financial instruments selected for the fair value option at their respective contractual rates.

The borrowed funds had a contractual principal amount of \$61.9 million at both June 30, 2018 and December 31, 2017. The fair value of borrowed funds includes accrued interest payable of \$0.2 million at June 30, 2018 and

December 31, 2017.

The Company generally holds its earning assets, other than securities available for sale, to maturity and settles its liabilities at maturity. However, fair value estimates are made at a specific point in time and are based on relevant market information. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular instrument. Accordingly, as assumptions change, such as interest rates and prepayments, fair value estimates change and these amounts may not necessarily be realized in an immediate sale.

Disclosure of fair value does not require fair value information for items that do not meet the definition of a financial instrument or certain other financial instruments specifically excluded from its requirements. These items include core deposit intangibles and other customer relationships, premises and equipment, leases, income taxes and equity.

Further, fair value disclosure does not attempt to value future income or business. These items may be material and accordingly, the fair value information presented does not purport to represent, nor should it be construed to represent, the underlying "market" or franchise value of the Company.

Financial assets and financial liabilities reported at fair value are required to be measured based on either: (1) quoted prices in active markets for identical financial instruments (Level 1); (2) significant other observable inputs (Level 2); or (3) significant unobservable inputs (Level 3).

A description of the methods and significant assumptions utilized in estimating the fair value of the Company's assets and liabilities that are carried at fair value on a recurring basis are as follows:

Level 1 – where quoted market prices are available in an active market. At June 30, 2018 and December 31, 2017, Level 1 included one mutual fund.

Level 2 – when quoted market prices are not available, fair value is estimated using quoted market prices for similar financial instruments and adjusted for differences between the quoted instrument and the instrument being valued. Fair value can also be estimated by using pricing models, or discounted cash flows. Pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices and credit spreads. In addition to observable market information, models also incorporate maturity and cash flow assumptions. At June 30, 2018 and December 31, 2017, Level 2 included mortgage related securities, corporate debt, municipals and interest rate swaps.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

Level 3 – when there is limited activity or less transparency around inputs to the valuation, financial instruments are classified as Level 3. At June 30, 2018 and December 31, 2017, Level 3 included trust preferred securities owned and junior subordinated debentures issued by the Company.

The methods described above may produce fair values that may not be indicative of net realizable value or reflective of future fair values. While the Company believes, its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies, assumptions and models to determine fair value of certain financial instruments could produce different estimates of fair value at the reporting date.

The following table sets forth the assets and liabilities that are carried at fair value on a recurring basis and their respective category in the fair value hierarchy, at June 30, 2018 and December 31, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Other Unobservable Inputs (Level 3)		Total carried at fair value on a recurring basis	
	2018	2017	2018	2017	2018	2017	2018	2017
(In thousands)								
Assets:								
Mortgage-backed Securities	\$-	\$-	\$513,868	\$509,650	\$-	\$-	\$513,868	\$509,650
Other securities	11,427	11,575	202,140	216,019	1,188	1,110	214,755	228,704
Interest rate swaps	-	-	27,398	7,388	-	-	27,398	7,388
Total assets	\$11,427	\$11,575	\$743,406	\$733,057	\$1,188	\$1,110	\$756,021	\$745,742
Liabilities:								
Borrowings	\$-	\$-	\$-	\$-	\$39,566	\$36,986	\$39,566	\$36,986
Interest rate swaps	-	-	1,128	3,758	-	-	1,128	3,758
Total liabilities	\$-	\$-	\$1,128	\$3,758	\$39,566	\$36,986	\$40,694	\$40,744

Edgar Filing: IDT CORP - Form 10-K

The following tables sets forth the Company's assets and liabilities that are carried at fair value on a recurring basis, classified within Level 3 of the valuation hierarchy for the periods indicated:

	For the three months ended			
	June 30, 2018		June 30, 2017	
	Trust	Junior	Trust	Junior
	preferred	subordinated	preferred	subordinated
	securities	debentures	securities	debentures
	(In thousands)			
Beginning balance	\$1,162	\$ 38,692	\$7,394	\$ 34,536
Net gain from fair value adjustment of financial assets ⁽¹⁾	25	-	48	-
Net loss from fair value adjustment of financial liabilities ⁽¹⁾	-	867	-	594
Increase in accrued interest receivable	1	-	-	-
Increase in accrued interest payable	-	26	-	7
Change in unrealized gains (losses) included in other comprehensive income	-	(19)	2	-
Ending balance	\$1,188	\$ 39,566	\$7,444	\$ 35,137
Changes in unrealized gains (losses) held at period end	\$-	\$ (19)	\$2	\$ -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

	For the six months ended			
	June 30, 2018		June 30, 2017	
	Trust	Junior	Trust	Junior
	preferred	subordinated	preferred	subordinated
	securities	debentures	securities	debentures
	(In thousands)			
Beginning balance	\$1,110	\$ 36,986	\$7,361	\$ 33,959
Net gain from fair value adjustment of financial assets ⁽¹⁾	77	-	81	-
Net loss from fair value adjustment of financial liabilities ⁽¹⁾		2,548	-	1,165
Increase in accrued interest receivable	1	-	-	-
Increase in accrued interest payable	-	51	-	13
Change in unrealized gains (losses) included in other comprehensive income	-	(19)	2	-
Ending balance	\$1,188	\$ 39,566	\$7,444	\$ 35,137
Changes in unrealized gains (losses) held at period end	\$-	\$ (19)	\$2	\$ -

Totals in the table above are presented in the Consolidated Statement of Income under net gains (losses) from fair value adjustments.

During the three and six months ended June 30, 2018 and 2017, there were no transfers between Levels 1, 2 and 3.

The following tables present the quantitative information about recurring Level 3 fair value of financial instruments and the fair value measurements at the periods indicated:

	June 30, 2018				Weighted Average
	Fair Value	Valuation Technique	Unobservable Input	Range	
	(Dollars in thousands)				
Assets:					

Trust preferred securities	\$1,188	Discounted cash flows	Discount rate	n/a	5.5 %
----------------------------	---------	-----------------------	---------------	-----	-------

Liabilities:

Junior subordinated debentures	\$39,566	Discounted cash flows	Discount rate	n/a	5.5 %
--------------------------------	----------	-----------------------	---------------	-----	-------

December 31, 2017

Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
(Dollars in thousands)				

Assets:

Trust preferred securities	\$1,110	Discounted cash flows	Discount rate	n/a	5.7 %
----------------------------	---------	-----------------------	---------------	-----	-------

Liabilities:

Junior subordinated debentures	\$36,986	Discounted cash flows	Discount rate	n/a	5.7 %
--------------------------------	----------	-----------------------	---------------	-----	-------

The significant unobservable inputs used in the fair value measurement of the Company's trust preferred securities and junior subordinated debentures valued under Level 3 at June 30, 2018 and December 31, 2017, are the effective yields used in the cash flow models. Significant increases or decreases in the effective yield in isolation would result in a significantly lower or higher fair value measurement.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth the Company's assets and liabilities that are carried at fair value on a non-recurring basis and their respective category in the fair value hierarchy at June 30, 2018 and December 31, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Other Unobservable Inputs (Level 3)		Total carried at fair value on a recurring basis	
	2018	2017	2018	2017	2018	2017	2018	2017
	(In thousands)							
Assets:								
Impaired loans	\$-	\$ -	\$ -	\$ -	\$14,102	\$16,027	\$14,102	\$16,027
Other repossessed assets	-	-	-	-	35	-	35	-
Total assets	\$-	\$ -	\$ -	\$ -	\$14,137	\$16,027	\$14,137	\$16,027

The following tables present the qualitative information about non-recurring Level 3 fair value of financial instruments and the fair value measurements at the periods indicated:

	June 30, 2018 Fair Value	Valuation Technique (Dollars in thousands)	Unobservable Input	Range	Weighted Average
Assets:					
Impaired loans	\$1,531	Income approach	Capitalization rate Reduction for planned expedited disposal	6.5% to 7.5% 15.0%	7.0 % 15.0 %
Impaired loans	\$8,655	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-50.0% to 16.2% -40.6% to 15.0%	-1.5 % 10.4 %

Edgar Filing: IDT CORP - Form 10-K

			Reduction for planned expedited disposal				
Impaired loans	\$3,916	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-30.0% to	25.0%	-0.8	%
			Capitalization rate	5.0% to	9.8%	7.1	%
			Reduction for planned expedited disposal	15.0%		15.0	%
Other repossessed assets	\$35	Sales approach	Reduction for planned expedited disposal	15.0%		15.0	%

- 31 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

	December 31, 2017 Fair Value (Dollars in thousands)	Valuation Technique	Unobservable Input	Range	Weighted Average
Assets:					
Impaired loans	\$1,818	Income approach	Capitalization rate	6.5% to 7.5%	6.8 %
			Reduction planned for expedited disposal	15.0%	15.0 %
Impaired loans	\$10,003	Sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-50.0% to 16.2%	-0.8 %
			Reduction planned for expedited disposal	-30.9% to 15.0%	8.7 %
Impaired loans	\$4,206	Blended income and sales approach	Adjustment to sales comparison value to reconcile differences between comparable sales	-30.0% to 25.0%	-1.2 %
			Capitalization rate	5.0% to 9.8%	7.2 %
			Reduction planned for expedited disposal	15.0%	15.0 %

The Company did not have any liabilities that were carried at fair value on a non-recurring basis at June 30, 2018 and December 31, 2017.

The methods and assumptions used to estimate fair value at June 30, 2018 and December 31, 2017 are as follows:

Securities:

The fair values of securities are contained in Note 4 of Notes to Consolidated Financial Statements. Fair value is based upon quoted market prices, where available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities and adjusted for differences between the quoted instrument and the instrument being valued. When there is limited activity or less transparency around inputs to the valuation, securities are valued using discounted cash flows.

Impaired Loans:

For non-accruing loans, fair value is generally estimated by discounting management's estimate of future cash flows with a discount rate commensurate with the risk associated with such assets or, for collateral dependent loans, 85% of the appraised or internally estimated value of the property, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the most recent reported arm's length transaction. When there is no recent sale activity, the fair value is calculated using capitalization rates.

Other Real Estate Owned and Other Repossessed Assets:

OREO and other repossessed assets are carried at fair value less selling costs. The fair value for OREO is based on appraised value through a current appraisal, or sometimes through an internal review, additionally adjusted by the estimated costs to sell the property. The fair value for other repossessed assets are based upon the most recently reported arm's length sales transaction. When there is no recent sale activity, the fair value is calculated using capitalization rates.

Junior Subordinated Debentures:

The fair value of the junior subordinated debentures was developed using a credit spread based on the subordinated debt issued by the Company adjusting for differences in the junior subordinated debt's credit rating, liquidity and time to maturity. The unrealized net gain/loss attributable to changes in our own credit risk was determined by adjusting the fair value as determined in the proceeding sentence by the average rate of default on debt instruments with a similar debt rating as our junior subordinated debentures, with the difference from the original calculation and this calculation resulting in the instrument-specific unrealized gain/loss.

Interest Rate Swaps:

The fair value of interest rate swaps is based upon broker quotes.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following tables set forth the carrying amounts and estimated fair values of selected financial instruments based on the assumptions described above used by the Company in estimating fair value at the periods indicated:

	June 30, 2018				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Assets:					
Cash and due from banks	\$42,805	\$42,805	\$42,805	\$-	\$-
Securities held-to-maturity					
Mortgage-backed securities	7,963	7,373	-	7,373	-
Other securities	23,130	21,281	-	-	21,281
Securities available for sale					
Mortgage-backed securities	513,868	513,868	-	513,868	-
Other securities	214,755	214,755	11,427	202,140	1,188
Loans	5,333,807	5,291,398	-	-	5,291,398
FHLB-NY stock	57,384	57,384	-	57,384	-
Accrued interest receivable	24,184	24,184	38	1,980	22,166
Interest rate swaps	27,398	27,398	-	27,398	-
Liabilities:					
Deposits	\$4,609,659	\$4,601,283	\$3,157,643	\$1,443,640	\$-
Borrowings	1,250,732	1,241,294	-	1,201,728	39,566
Accrued interest payable	4,573	4,573	-	4,573	-
Interest rate swaps	1,128	1,128	-	1,128	-

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

	December 31, 2017				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Assets:					
Cash and due from banks	\$51,546	\$51,546	\$51,546	\$-	\$-
Securities held-to-maturity					
Mortgage-backed securities	7,973	7,810	-	7,810	-
Other securities	22,913	21,889	-	-	21,889
Securities available for sale					
Mortgage-backed securities	509,650	509,650	-	509,650	-
Other securities	228,704	228,704	11,575	216,019	1,110
Loans	5,176,999	5,169,108	-	-	5,169,108
FHLB-NY stock	60,089	60,089	-	60,089	-
Accrued interest receivable	21,405	21,405	16	1,916	19,473
Interest rate swaps	7,388	7,388	-	7,388	-
Liabilities:					
Deposits	\$4,383,278	\$4,380,174	\$3,031,345	\$1,348,829	\$-
Borrowings	1,309,653	1,310,487	-	1,273,501	36,986
Accrued interest payable	2,659	2,659	-	2,659	-
Interest rate swaps	3,758	3,758	-	3,758	-

11. Derivative Financial Instruments

At June 30, 2018 and December 31, 2017, the Company's derivative financial instruments consist of interest rate swaps. The Company's interest rate swaps are used for three purposes: 1) to mitigate the Company's exposure to rising interest rates on a portion (\$18.0 million) of its floating rate junior subordinated debentures that have a contractual value of \$61.9 million, at June 30, 2018 and December 31, 2017; 2) to mitigate the Company's exposure to rising interest rates on certain fixed rate loans totaling \$279.8 million and \$280.2 million at June 30, 2018 and December 31, 2017, respectively; and 3) to mitigate exposure to rising interest rates on certain short-term advances totaling \$441.5 million at June 30, 2018 and December 31, 2017.

At June 30, 2018 and December 31, 2017, we held derivatives designated as cash flow hedges, fair value hedges and certain derivatives not designated as hedges.

The Company's derivative instruments are carried at fair value in the Company's financial statements as part of Other Assets for derivatives with positive fair values and Other Liabilities for derivatives with negative fair values. The accounting for changes in the fair value of a derivative instrument is dependent upon whether or not it qualifies and has been designated as a hedge for accounting purposes, and further, by the type of hedging relationship.

At June 30, 2018 and December 31, 2017, derivatives with a combined notional amount of \$36.3 million were not designated as hedges. At June 30, 2018 and December 31, 2017, derivatives with a combined notional amount of \$261.4 million and \$261.9 million were designated as fair value hedges. At June 30, 2018 and December 31, 2017, derivatives with a combined notional amount of \$441.5 million were designated as cash flow hedges.

For cash flow hedges, the effective portion of changes in the fair value of the derivative is reported in AOCL, net of tax, with the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. Amounts in accumulated other comprehensive income are reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. During the three and six months ended June 30, 2018, \$0.3 million and \$0.4 million, respectively, was reclassified from accumulated other comprehensive loss to interest expense.

Changes in the fair value of interest rate swaps not designated as hedges are reflected in "Net gain/loss from fair value adjustments" in the Consolidated Statements of Income.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following table sets forth information regarding the Company's derivative financial instruments at the periods indicated:

(In thousands)	June 30, 2018		December 31, 2017	
	Notional Amount	Net Carrying Value ⁽¹⁾	Notional Amount	Net Carrying Value ⁽¹⁾
Interest rate swaps (fair value hedge)	\$259,747	\$15,677	\$199,341	\$6,971
Interest rate swaps (fair value hedge)	1,694	(12)	62,564	(921)
Interest rate swaps (cash flow hedge)	441,500	11,721	250,000	417
Interest rate swaps (cash flow hedge)	-	-	191,500	(7)
Interest rate swaps (non-hedge)	36,321	(1,116)	36,321	(2,830)
Total derivatives	\$739,262	\$26,270	\$739,726	\$3,630

⁽¹⁾ Derivatives in a net positive position are recorded as "Other assets" and derivatives in a net negative position are recorded as "Other liabilities" in the Consolidated Statements of Financial Condition.

The following table sets forth the effect of derivative instruments on the Consolidated Statements of Income for the periods indicated:

(In thousands)	For the three months ended		For the six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017

Financial Derivatives:

Interest rate swaps (non-hedge)	\$438	\$(493)	\$1,714	\$(260)
Interest rate swaps (fair value hedge)	224	(180)	678	(246)
Net gain (1)	\$662	\$(673)	\$2,392	\$(506)

(1) Net gains and losses are recorded as part of “Net gain/loss from fair value adjustments” in the Consolidated Statements of Income.

During the three and six months ended June 30, 2018 and 2017, the Company did not record any hedge ineffectiveness.

The Company’s interest rate swaps are subject to master netting arrangements between the Company and its two designated counterparties. The Company has not made a policy election to offset its derivative positions.

- 35 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The following tables present the effect of the master netting arrangements on the presentation of the derivative assets and liabilities in the Consolidated Statements of Condition as of the dates indicated:

June 30, 2018

(In thousands)	Gross Amount of Recognized Assets	Gross Amount Offset in the Statement of Condition	Net Amount of Assets Presented in the Statement of Condition	Gross Amounts Not Offset in the Consolidated Statement of Condition		
				Financial Instruments	Cash Collateral Received	Net Amount
Interest rate swaps	\$27,398	\$ -	\$ 27,398	\$ -	\$ 25,440	\$ 1,958

(In thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Statement of Condition	Net Amount of Liabilities Presented in the Statement of Condition	Gross Amounts Not Offset in the Consolidated Statement of Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Interest rate swaps	\$ 1,128	\$ -	\$ 1,128	\$ -	\$ -	\$ 1,128

December 31, 2017

(In thousands)	Gross Amounts Not Offset in the Consolidated Statement of Condition					
	Gross Amount of Recognized Assets	Gross Amount Offset in the Statement of Condition	Net Amount of Assets Presented in the Statement of Condition	Financial Instruments	Cash Collateral Received	Net Amount
Interest rate swaps	\$7,388	\$ -	\$ 7,388	\$ -	\$ 3,660	\$ 3,728

- 36 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

(In thousands)	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Statement of Condition	Net Amount of Liabilities Presented in the Statement of Condition	Gross Amounts Not Offset in the Consolidated Statement of Condition		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Interest rate swaps	\$ 3,758	\$ -	\$ 3,758	\$ -	\$ -	\$ 3,758

12. Income Taxes

Flushing Financial Corporation files consolidated Federal and combined New York State and New York City income tax returns with its subsidiaries, with the exception of the Company's trusts, which file separate Federal income tax returns as trusts, and Flushing Preferred Funding Corporation, which files a separate Federal income tax return as a real estate investment trust. Additionally, the Bank files New Jersey State tax returns.

Income tax provisions are summarized as follows:

(In thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Federal:				
Current	\$3,755	\$6,653	\$6,165	\$9,605
Deferred	(444)	(1,077)	(247)	720
Total federal tax provision	3,311	5,576	5,918	10,325
State and Local:				
Current	1,499	1,618	1,689	1,419

Deferred	(321)	(419)	(168)	285
Total state and local tax provision	1,178	1,199	1,521	1,704
Total income tax provision	\$4,489	\$6,775	\$7,439	\$12,029

13. Accumulated Other Comprehensive Income (Loss):

The following tables sets forth the changes in accumulated other comprehensive income (loss) by component for the periods indicated:

- 37 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

For the three months ended June 30, 2018

	Unrealized Gains (Losses) on Available for Sale Securities (In thousands)	Unrealized Gains (Losses) on Cash flow Hedges	Defined Benefit Pension Items	Fair Value Option Elected on Liabilities	Total
Beginning balance, net of tax	\$ (13,487)	\$ 5,942	\$ (4,409)	\$ 779	\$ (11,175)
Other comprehensive income before reclassifications, net of tax	(3,014)	1,898	-	13	(1,103)
Amounts reclassified from accumulated other comprehensive income, net of tax	-	187	84	-	271
Net current period other comprehensive income (loss), net of tax	(3,014)	2,085	84	13	(832)
Ending balance, net of tax	\$ (16,501)	\$ 8,027	\$ (4,325)	\$ 792	\$ (12,007)

For the three months ended June 30, 2017

	Unrealized Gains (Losses) on Available for Sale Securities (In thousands)	Unrealized Gains (Losses) on Cash flow Hedges	Defined Benefit Pension Items	Total
Beginning balance, net of tax	\$ (2,711)	\$ -	\$ (4,423)	\$ (7,134)
Other comprehensive income before reclassifications, net of tax	601	(124)	-	477
	-	-	81	81

Edgar Filing: IDT CORP - Form 10-K

Amounts reclassified from accumulated other comprehensive income, net of tax

Net current period other comprehensive income (loss), net of tax	601	(124)	81	558
Ending balance, net of tax	\$(2,110)	\$ (124)	\$(4,342)	\$(6,576)

- 38 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

	For the six months ended June 30, 2018				
	Unrealized Gains (Losses) on Available for Sale Securities (In thousands)	Unrealized Gains (Losses) on Cash flow Hedges	Defined Benefit Pension Items	Fair Value Option Elected on Liabilities	Total
Beginning balance, net of tax	\$(5,522)	\$ 231	\$(3,695)	\$ -	\$(8,986)
Reclassification of the Income Tax Effects of the Tax Cuts and Jobs Act from AOCL to Retained Earnings	(1,325)	50	(798)	-	(2,073)
Impact of adoption of Accounting Standard Update 2016-01	-	-	-	779	779
Other comprehensive income before reclassifications, net of tax	(9,654)	7,505	-	13	(2,136)
Amounts reclassified from accumulated other comprehensive income (loss), net of tax	-	241	168	-	409
Net current period other comprehensive income, net of tax	(9,654)	7,746	168	13	(1,727)
Ending balance, net of tax	\$(16,501)	\$ 8,027	\$(4,325)	\$ 792	\$(12,007)

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

	For the six months ended June 30, 2017			
	Unrealized Gains (Losses) on Available for Sale Securities (In thousands)	Unrealized Gains (Losses) on Cash flow Hedges	Defined Benefit Pension Items	Total
Beginning balance, net of tax	\$(3,859)	\$ -	\$(4,503)	\$(8,362)
Other comprehensive income before reclassifications, net of tax	1,749	(124)	-	1,625
Amounts reclassified from accumulated other comprehensive income, net of tax	-	-	161	161
Net current period other comprehensive income (loss), net of tax	1,749	(124)	161	1,786
Ending balance, net of tax	\$(2,110)	\$ (124)	\$(4,342)	\$(6,576)

The following tables set forth significant amounts reclassified from accumulated other comprehensive income (loss) by component for the periods indicated:

For the three months ended June 30, 2018

Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss (In thousands)	Affected Line Item in the Statement Where Net Income is Presented
---	--	--

Cash flow hedges:

Interest rate swaps	\$ (273)	Other interest expense
	86	Tax expense
	\$ (187)	Net of tax

Amortization of defined benefit pension items:

Actuarial losses	\$ (133)	(1)	Other operating expense
Prior service credits	9	(1)	Other operating expense
	(124)		Total before tax
	40		Tax expense
	\$ (84)		Net of tax

- 40 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

For the three months ended June 30, 2017

Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss (In thousands)	Affected Line Item in the Statement Where Net Income is Presented
Amortization of defined benefit pension items:		
Actuarial losses	\$ (151) (1)	Other operating expense
Prior service credits	11 (1)	Other operating expense
	(140)	Total before tax
	59	Tax benefit
	\$ (81)	Net of tax

For the six months ended June 30, 2018

Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss (In thousands)	Affected Line Item in the Statement Where Net Income is Presented
Cash flow hedges:		
Interest rate swaps	\$ (351)	Interest expense
	110	Tax benefit
	\$ (241)	Net of tax
Amortization of defined benefit pension items:		
Actuarial losses	\$ (265) (1)	Other operating expense
Prior service credits	19 (1)	Other operating expense
	(246)	Total before tax

78	Tax benefit
\$ (168)	Net of tax

For the six months ended June 30, 2017

Details about Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss (In thousands)	Affected Line Item in the Statement Where Net Income is Presented
---	--	--

Amortization of defined benefit pension items:

Actuarial losses	\$ (302)	(1)	Other operating expense
Prior service credits	22	(1)	Other operating expense
	(280)		Total before tax
	119		Tax benefit
	\$ (161)		Net of tax

These accumulated other comprehensive loss components are included in the computation of net periodic pension (1)cost (See Note 9 of the Notes to Consolidated Financial Statements “Pension and Other Postretirement Benefit Plans”).)

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

14. Regulatory Capital

Under current capital regulations, the Bank is required to comply with four separate capital adequacy standards. As of June 30, 2018, the Bank continues to be categorized as “well-capitalized” under the prompt corrective action regulations and continues to exceed all regulatory capital requirements. In 2016, a Capital Conservation Buffer (“CCB”) requirement became effective for banks. The CCB is designed to establish a capital range above minimum capital requirements and impose constraints on dividends, share buybacks and discretionary bonus payments when capital levels fall below prescribed levels. The minimum CCB in 2018 is 1.875% and increases 0.625% annually through 2019 to 2.5%. The CCB for the Bank at June 30, 2018 was 5.79%.

Set forth below is a summary of the Bank’s compliance with banking regulatory capital standards.

	June 30, 2018		December 31, 2017	
	Amount	Percent of Assets	Amount	Percent of Assets
	(Dollars in thousands)			
Tier I (leverage) capital:				
Capital level	\$644,880	9.90 %	\$631,285	10.11 %
Requirement to be well capitalized	325,697	5.00	312,343	5.00
Excess	319,183	4.90	318,942	5.11
Common Equity Tier I risk-based capital:				
Capital level	\$644,880	13.37 %	\$631,285	13.87 %
Requirement to be well capitalized	313,524	6.50	295,937	6.50
Excess	331,356	6.87	335,348	7.37
Tier 1 risk-based capital:				
Capital level	\$644,880	13.37 %	\$631,285	13.87 %
Requirement to be well capitalized	385,876	8.00	364,230	8.00
Excess	259,004	5.37	267,055	5.87
Total risk-based capital:				
Capital level	\$665,100	13.79 %	\$651,636	14.31 %
Requirement to be well capitalized	482,345	10.00	455,288	10.00

Excess	182,755	3.79	196,348	4.31
--------	---------	------	---------	------

- 42 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Notes to Consolidated Financial Statements**

(Unaudited)

The Holding Company is subject to the same regulatory capital requirements as the Bank. As of June 30, 2018, the Holding Company continues to be categorized as “well-capitalized” under the prompt corrective action regulations and continues to exceed all regulatory capital requirements. The CCB for the Holding Company at June 30, 2018 was 5.84%.

Set forth below is a summary of the Holding Company’s compliance with banking regulatory capital standards.

	June 30, 2018		December 31, 2017	
	Amount	Percent of Assets	Amount	Percent of Assets
	(Dollars in thousands)			
Tier I (leverage) capital:				
Capital level	\$572,189	8.79 %	\$563,426	9.02 %
Requirement to be well capitalized	325,615	5.00	312,278	5.00
Excess	246,574	3.79	251,148	4.02
Common Equity Tier I risk-based capital:				
Capital level	\$534,036	11.07 %	\$527,727	11.59 %
Requirement to be well capitalized	313,460	6.50	295,865	6.50
Excess	220,576	4.57	231,862	5.09
Tier 1 risk-based capital:				
Capital level	\$572,189	11.87 %	\$563,426	12.38 %
Requirement to be well capitalized	385,797	8.00	364,141	8.00
Excess	186,392	3.87	199,285	4.38
Total risk-based capital:				
Capital level	\$667,409	13.84 %	\$658,777	14.47 %
Requirement to be well capitalized	482,246	10.00	455,177	10.00
Excess	185,163	3.84	203,600	4.47

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

15. New Authoritative Accounting Pronouncements

Accounting Standards Adopted in 2018:

In February 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220).” As a result of the Tax Cuts and Jobs Act (the “TCJA”), concerns arose regarding the guidance which requires deferred tax assets and liabilities to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. The amendments in this ASU require a reclassification for stranded tax effects from accumulated other comprehensive income to retained earnings, furthermore eliminating the stranded tax effects resulting from the TCJA. The amount of the reclassification is the difference between the previous corporate income tax rate of 35% and the newly enacted corporate income tax rate of 21%. The amendments of this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted in any interim period or fiscal year before the effective date. We have elected to early adopt this guidance as of January 1, 2018. Our Consolidated Statements of Financial Condition reflect adoption of this ASU and reclassification of \$2.1 million in stranded tax effects from accumulated other comprehensive income to retained earnings. See Note 12 “Income Taxes” for additional information.

In August 2016, the FASB issued ASU No. 2016-15 “Classification of Certain Cash Receipts and Cash Payments”, to clarify how certain cash receipts and cash payments are presented and classified in the statements of cash flows. The amendments are intended to reduce diversity in practice by clarifying whether the following items should be categorized as operating, investing or financing in the statement of cash flows: (i) debt prepayments and extinguishment costs, (ii) settlement of zero-coupon debt, (iii) settlement of contingent consideration, (iv) insurance proceeds, (v) settlement of corporate-owned life insurance (COLI) and bank-owned life insurance (BOLI) policies, (vi) distributions from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) receipts and payments with aspects of more than one class of cash flows. The ASU will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. This ASU was adopted on January 1, 2018 and did not have a significant impact on the presentation of our cash flows.

In January 2016, FASB issued ASU No. 2016-01 “Financial Instruments” which requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in other comprehensive income the

changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available for sale debt securities in combination with other deferred tax assets. The ASU provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The ASU also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. This ASU became effective for us on January 1, 2018. The adoption of the guidance resulted in a cumulative-effect adjustment totaling \$0.8 million and did not have a significant impact on our results of operations, financial condition and cash flows.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. This ASU establishes a comprehensive revenue recognition standard for virtually all industries under GAAP, including those that previously followed industry-specific guidance such as real estate, construction and software industries. The revenue standard’s core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. The guidance in this ASU for public companies is effective for the annual periods beginning after December 15, 2016, including interim periods therein. In August 2015, the FASB approved a one-year delay of the effective date of this standard to reporting periods beginning after December 15, 2017. This ASU allows for either full retrospective adoption or modified retrospective adoption. This ASU became effective for us on January 1, 2018. We adopted this standard through the modified retrospective transition method. The modified retrospective method requires application of ASU 2014-09 to uncompleted contracts at the date of adoption; however, periods prior to the date of adoption have not been retrospectively revised as the impact of the new standard on uncompleted contracts as the date of adoption was not material as such a cumulative effective adjustment to opening retained earnings was not deemed necessary.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Topic 606 does not apply to the majority of our revenue streams which are primarily comprised of interest and dividend income and associated fees within those revenue streams. The revenue streams derived by the Company that are within the scope of Topic 606 are primarily certain banking service fees, including wire transfer fees, ATM fees, account maintenance fees, overdraft fees and other deposit fees. We generally satisfy our performance obligations on contracts with customers as services are rendered, and the transaction prices are typically fixed and charged either on a periodic basis or based on activity. Being that performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. Additionally, the Company will receive revenue from the sale of investment products through a third party as part of a revenue sharing agreement. This revenue is included in “Other Income” in the Consolidated Statements of Income. These fees are remitted to the Company monthly as our performance obligation is satisfied. We have evaluated the nature of our contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is present in the Consolidated Statements of Income was not necessary.

Accounting Standards Pending Adoption:

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815)” providing targeted improvements to the accounting for hedging activities, which is effective January 1, 2019, with early adoption permitted in any interim period or fiscal year before the effective date. The guidance introduces a number of amendments, several of which are optional, that are designed to simplify the application of hedge accounting, improve financial statement transparency and more closely align hedge accounting with an entity’s risk management strategies. This ASU eliminates the requirement to separately measure and report hedge ineffectiveness and changes the presentation so that all items that affect earnings are in the same income statement line as the hedged item. We are currently evaluating the impact of adopting this new guidance on our consolidated results of operations, financial condition and cash flows.

In March 2017, the FASB issued ASU No. 2017-08, “Premium Amortization on Purchased Callable Debt Securities” which shortens the amortization period for premiums on purchased callable debt securities to the earliest call date, rather than amortizing over the full contractual term. The ASU does not change the accounting for securities held at a discount. The amendments in this ASU require companies to reset the effective yield using the payment terms of the debt security if the call option is not exercised on the earliest call date. If the security has additional future call dates, any excess of the amortized cost basis over the amount repayable by the issuer at the next call date should be amortized to the next call date. The amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as

of the beginning of the fiscal year that includes that interim period. The guidance is not expected to have an impact on the Company's financial positions, results of operations or disclosures.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. Under this ASU, the Company should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The impairment charge is limited to the amount of goodwill allocated to that reporting unit. The amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for goodwill impairment tests performed on testing dates after January 1, 2017. The guidance is not expected to have a significant impact on the Company's financial positions, results of operations or disclosures.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses” which sets forth a “current expected credit loss” (“CECL”) model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and will apply to the measurement of credit losses on financial assets measured at amortized cost and to some off-balance sheet credit exposures. This ASU will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company has begun collecting and evaluating data and system requirements to implement this standard. The adoption of this update could have a material impact on the Company’s consolidated results of operations and financial condition. The extent of the impact is still unknown and will depend on many factors, such as the composition of the Company’s loan portfolio and expected loss history at adoption. Management has engaged consultants to assess the preparedness of the Company and has developed inter-departmental steering and working committees to evaluate and implement CECL.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

In February 2016, the FASB issued ASU No. 2016-02, “Leases”. From the lessee's perspective, the new standard establishes a right-of-use (“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 for a lessee. From the lessor's perspective, the new standard requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor doesn't convey risks and rewards or control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. 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. A modified retrospective transition approach is required for lessors for sales-type, direct financing, 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. The Company has not adopted a new accounting policy as of the filing date. Management is continuing to evaluate the standard and the Company's outstanding inventory of leases determining the effect of recognizing most operating leases on the Consolidated Statements of Financial Condition is expected to be material. The Company expects to recognize right-of-use assets and lease liabilities for substantially all of its operating lease commitments based on the present value of unpaid lease payments as of the date of adoption.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Management’s Discussion and Analysis of

Financial Condition and Results of Operations

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report should be read in conjunction with the more detailed and comprehensive disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2017. In addition, please read this section in conjunction with our Consolidated Financial Statements and Notes to Consolidated Financial Statements contained herein.

As used in this Quarterly Report, the words “we,” “us,” “our” and the “Company” are used to refer to Flushing Financial Corporation and its direct and indirect wholly owned subsidiaries, Flushing Bank (the “Bank”), Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc.

Statements contained in this Quarterly Report relating to plans, strategies, objectives, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be 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. Forward-looking information is inherently subject to risks and uncertainties and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed elsewhere in this Quarterly Report and in other documents filed by us with the Securities and Exchange Commission from time to time, including, without limitation, our Annual Report on Form 10-K for the year ended December 31, 2017. Forward-looking statements may be identified by terms such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “forecast,” “potential” or “continue” or similar terms or the negative of these terms. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

Executive Summary

We are a Delaware corporation organized in May 1994. The Bank was organized in 1929 as a New York State-chartered mutual savings bank. Today the Bank operates as a full-service New York State commercial bank. The Bank’s primary regulator is the New York State Department of Financial Services, and its primary federal regulator is the Federal Deposit Insurance Corporation (“FDIC”). Deposits are insured to the maximum allowable amount by the

FDIC. Additionally, the Bank is a member of the Federal Home Loan Bank system. The primary business of Flushing Financial Corporation has been the operation of the Bank. The Bank owns three subsidiaries: Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc. The Bank also operates an internet branch, which operates under the brands of iGObanking.com® and BankPurely® (the “Internet Branch”). The activities of Flushing Financial Corporation are primarily funded by dividends, if any, received from the Bank, issuances of subordinated debt, junior subordinated debt, and issuances of equity securities. Flushing Financial Corporation’s common stock is traded on the NASDAQ Global Select Market under the symbol “FFIC.”

Our principal business is attracting retail deposits from the general public and investing those deposits together with funds generated from ongoing operations and borrowings, primarily in (1) originations and purchases of multi-family residential loans, commercial business loans, commercial real estate mortgage loans and, to a lesser extent, one-to-four family loans (focusing on mixed-use properties, which are properties that contain both residential dwelling units and commercial units); (2) Small Business Administration (“SBA”) loans and other small business loans; (3) construction loans, primarily for residential properties; (4) mortgage loan surrogates such as mortgage-backed securities; and (5) U.S. government securities, corporate fixed-income securities and other marketable securities. We also originate certain other consumer loans including overdraft lines of credit. Our results of operations depend primarily on net interest income, which is the difference between the income earned on our interest-earning assets and the cost of our interest-bearing liabilities. Net interest income is the result of our interest rate margin, which is the difference between the average yield earned on interest-earning assets and the average cost of interest-bearing liabilities, adjusted for the difference in the average balance of interest-earning assets as compared to the average balance of interest-bearing liabilities. We also generate non-interest income primarily from loan fees, service charges on deposit accounts, mortgage servicing fees, and other fees, income earned on Bank Owned Life Insurance (“BOLI”), dividends on Federal Home Loan Bank of New York stock and net gains and losses on sales of securities and loans. Our operating expenses consist principally of employee compensation and benefits, occupancy and equipment costs, other general and administrative expenses and income tax expense. Our results of operations also can be significantly affected by changes in the fair value of financial assets and financial liabilities for which changes in value are recorded through earnings, our periodic provision for loan losses and specific provision for losses on real estate owned.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Management’s Discussion and Analysis of

Financial Condition and Results of Operations

Our strategy is to continue our focus on being an institution serving consumers, businesses, and governmental units in our local markets. In furtherance of this objective, we intend to:

- increase core deposits and continue to improve funding mix to manage cost of funds;
- increase net interest income by leveraging loan pricing opportunities and portfolio mix;
- enhance earnings power by improving scalability and efficiency;
- manage credit risk;
- remain well capitalized;
- increase our commitment to the multi-cultural marketplace, with a particular focus on the Asian community in Queens;
- manage enterprise-wide risk.

There can be no assurance that we will be able to effectively implement this strategy. Our strategy is subject to change by the Board of Directors.

Our investment policy, which is approved by the Board of Directors, is designed primarily to manage the interest rate sensitivity of our overall assets and liabilities, to generate a favorable return without incurring undue interest rate risk and credit risk, to complement our lending activities and to provide and maintain liquidity. In establishing our investment strategies, we consider our business and growth strategies, the economic environment, our interest rate risk exposure, our interest rate sensitivity “gap” position, the types of securities to be held and other factors. We classify our investment securities as available for sale or held-to-maturity.

We carry a portion of our financial assets and financial liabilities at fair value and record changes in their fair value through earnings in non-interest income on our Consolidated Statements of Income and Comprehensive Income. A description of the financial assets and financial liabilities that are carried at fair value through earnings can be found in Note 10 of the Notes to the Consolidated Financial Statements.

One of the Company's strategic objectives is the emphasis of rate over volume regarding loan originations. To that end, we decided to allow over \$70 million of loan participations with another financial institution to prepay as the rates being offered through the refinancing process did not meet our lending criteria. Consequently, during the three months ended June 30, 2018, our loan growth was 0.4% compared to loan growth of 2.6% for the three months ended March 31, 2018. We believe emphasizing rate over volume is a long-term winning strategy and we are beginning to see tangible results as the yield in the loan portfolio has risen 10 basis points to 4.31% for the three months ended June 30, 2018 from 4.21% for the three months ended March 31, 2018.

However during the three months ended June 30, 2018, deposit pressures outstripped the gains on the loan side as net interest margin pressure continued. The cost of funds increased 14 basis points to 1.41% for the three months ended June 30, 2018, from 1.27% for the three months ended March 31, 2018. However the combination of improved loan yields and mitigation strategies that we put in place on the liability side of the balance sheet have decelerated the pace of net interest margin compression from 11 basis points experienced in the first quarter of 2018 compared to the fourth quarter of 2017, to three basis points experienced in the three months ended June 30, 2018, compared to the three months ended March 31, 2018.

As we've continued to improve loan yields we have retained our focus on credit quality. Non-performing assets decreased by 18.3% since December 31, 2017. At June 30, 2018, the allowance for loan losses to gross loans was 0.38% while the allowance for loan losses to non-performing was 136.7%. The loan-to-value ratio on our non-performing real estate loans at June 30, 2018 remains conservative at 35.1%. The net charge offs of \$322,000 for the quarter reflect the change in the fair value of Chicago taxi medallions from \$60,000 to \$25,000 per medallion, based upon recent sales transactions. Currently, the Chicago taxi medallion portfolio totals \$0.2 million. Our exposure to taxi medallion loans in Chicago and NYC totals \$6.2 million, which is 0.12% of total loans.

The Bank and Company are subject to the same regulatory capital requirements. See Note 14 of the Notes to the Consolidated Financial Statements "Regulatory Capital."

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED

JUNE 30, 2018 AND 2017

General. Net income for the three months ended June 30, 2018 was \$13.9 million, an increase of \$1.2 million, or 9.4%, compared to \$12.7 million for the three months ended June 30, 2017. Diluted earnings per common share were \$0.48 for the three months ended June 30, 2018, an increase of \$0.04, or 9.1%, from \$0.44 for the three months ended June 30, 2017.

Return on average equity increased to 10.5% for the three months ended June 30, 2018 from 9.6% for the three months ended June 30, 2017. Return on average assets increased to 0.9% for the three months ended June 30, 2018 from 0.8% for the three months ended June 30, 2017.

Interest Income. Total interest and dividend income increased \$5.0 million, or 8.5%, to \$63.3 million for the three months ended June 30, 2018 from \$58.3 million for the three months ended June 30, 2017. The increase in interest income was primarily attributable to an increase of 16 basis points in the yield of interest-earning assets to 4.10% for the three months ended June 30, 2018 from 3.94% in the comparable prior year period, combined with an increase of \$262.2 million in the average balance of interest-earning assets to \$6,181.2 million for the three months ended June 30, 2018 from \$5,919.0 million for the comparable prior year period. The increase in the yield on interest-earning assets of 16 basis points was primarily due to an increase of 15 basis points in the yield of total loans, net to 4.31% for the three months ended June 30, 2018 from 4.16% for the comparable prior year period. Additionally, interest income increased due to an increase of \$353.3 million in the average balance of total loans, net, which have a higher yield than the yield of total interest-earning assets. Excluding prepayment penalty income and recovered interest from loans, the yield on total loans, net, would have increased 14 basis points to 4.19% for the three months ended June 30, 2018 from 4.05% for the three months ended June 30, 2017.

Interest Expense. Interest expense increased \$6.0 million, or 40.5%, to \$20.7 million for the three months ended June 30, 2018 from \$14.7 million for the three months ended June 30, 2017. The increase in interest expense was primarily due to an increase of 39 basis points in the average cost of interest-bearing liabilities to 1.50% for the three months ended June 30, 2018 from 1.11% for the three months ended June 30, 2017, combined with an increase of \$227.9 million in the average balance of interest-bearing liabilities to \$5,515.6 million for the three months ended June 30, 2018, from \$5,287.7 million for the comparable prior year period. The 39 basis point increase in the cost of interest-bearing liabilities was primarily due to the Bank raising the rates we pay on some of our deposit products to

stay competitive within our market and an increase in borrowing costs from recent increases in the Fed Funds rate.

Net Interest Income. For the three months ended June 30, 2018, net interest income was \$42.6 million, a decrease of \$1.0 million, or 2.2%, from \$43.6 million for the three months ended June 30, 2017. The decrease in net interest income was primarily due to the 39 basis point increase in the cost of interest-bearing liabilities to 1.50% for the three months ended June 30, 2018 from 1.11% for the comparable prior year period, partially offset by an increase of 16 basis points in the yield of interest-earning assets to 4.10% for the three months ended June 30, 2018 as compared to 3.94% for the three months ended June 30, 2017. The effects of the above on both the net interest spread and net interest margin were decreases of 23 basis points to 2.60% and 19 basis points to 2.76%, respectively, for the quarter ended June 30, 2018, compared to the quarter ended June 30, 2017. Included in net interest income was prepayment penalty income from loans for the three months ended June 30, 2018 and 2017 totaling \$1.6 million and \$1.0 million, respectively, recovered interest from non-accrual loans totaling \$0.2 million and \$0.3 million, respectively, and accelerated accretion of discount upon the call of CLO securities totaling none and \$0.4 million, respectively. Without the prepayment penalty income, recovered interest and accelerated discount upon call, the net interest margin for the three months ended June 30, 2018 would have been 2.64%, a decrease of 19 basis points, as compared to 2.83% for the three months ended June 30, 2017.

Provision for Loan Losses. There was no provision for loan losses recorded for the three months ended June 30, 2018 and 2017. No provision was recorded due to the Company's analysis of the adequacy of the allowance for loan losses indicating that the reserve was at an appropriate level. During the three months ended June 30, 2018, the Bank recorded net charge-offs totaling \$0.3 million, while non-accrual loans decreased \$1.7 million to \$14.1 million at June 30, 2018 from \$15.7 million at December 31, 2017. The current average loan-to-value ratio for our non-performing loans collateralized by real estate was 35.1% at June 30, 2018. The Bank continues to maintain conservative underwriting standards. We anticipate that we will continue to see low loss content in our loan portfolio. See Note 5 of the Notes to the Consolidated Financial Statements "Loans" and "ALLOWANCE FOR LOAN LOSSES."

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

Non-Interest Income. Non-interest income for the three months ended June 30, 2018 was \$3.2 million, an increase of \$1.2 million, or 62.6%, from \$1.9 million for the three months ended June 30, 2017. The increase in non-interest income was primarily due to a decline of \$0.9 million in net losses from fair value adjustments to \$0.3 million for the three months ended June 30, 2018 from \$1.2 million for the comparable prior year period and an increase in net gains from the sale of loans of \$0.4 million to \$0.4 million for the three months ended June 30, 2018 from \$34,000 for the comparable prior year period.

Non-Interest Expense. Non-interest expense was \$27.4 million for the three months ended June 30, 2018, an increase of \$1.3 million, or 5.1%, from \$26.1 million for the three months ended June 30, 2017. The increase in non-interest expense was primarily due increased legal consulting and depreciation expense due to the growth of the Bank.

Income before Income Taxes. Income before the provision for income taxes decreased \$1.1 million, or 5.6%, to \$18.4 million for the three months ended June 30, 2018 from \$19.5 million for the three months ended June 30, 2017, for the reasons discussed above.

Provision for Income Taxes. The provision for income taxes was \$4.5 million for the three months ended June 30, 2018, a decrease of \$2.3 million, or 33.7%, from \$6.8 million for the three months ended June 30, 2017. The effective tax rate decreased to 24.4% for the three months ended June 30, 2018 from 34.7% in the comparable prior year period primarily due to the impact of the top federal tax rate declining to 21% in 2018 from 35% in 2017, as a result of the Tax Cuts and Jobs Act (the "TCJA").

COMPARISON OF OPERATING RESULTS FOR THE SIX MONTHS ENDED

JUNE 30, 2017 AND 2016

General. Net income for the six months ended June 30, 2018 was \$25.3 million, an increase of \$0.4 million, or 1.4%, compared to \$25.0 million for the six months ended June 30, 2017. Diluted earnings per common share were \$0.88 for the six months ended June 30, 2018, an increase of \$0.02, or 2.3%, from \$0.86 for the six months ended June 30, 2017.

Return on average equity was 9.5% for the six months ended June 30, 2018 and 2017. Return on average assets was 0.8% for the six months ended June 30, 2018 and 2017.

Interest Income. Total interest and dividend income increased \$8.5 million, or 7.4%, to \$124.1 million for the six months ended June 30, 2018 from \$115.6 million for the six months ended June 30, 2017. The increase in interest income was primarily attributable to an increase of \$243.7 million in the average balance of interest-earning assets to \$6,140.2 million for the six months ended June 30, 2018 from \$5,896.5 million for the comparable prior year period, combined with an increase of 12 basis points in the yield of interest-earning assets to 4.04% for the six months ended June 30, 2018. The increase in the yield on interest-earning assets was primarily due to a nine basis point increase in the yield of total loans, net to 4.26% for the six months ended June 30, 2018 from 4.17% for the six months ended June 30, 2017. The yield on interest-earning assets was also positively impacted by an increase of \$358.3 million in the average balance of total loans, net, which have a higher yield than the yield of total interest-earning assets, combined with a decrease of \$126.2 million in the average balance of total securities, which have a lower yield than the yield of total interest-earning assets. In addition, the yield of interest-earning assets improved due to increases of three basis points in the yield of total securities to 2.85% for the six months ended June 30, 2018 from 2.82% for the comparable prior year period and 70 basis points in the yield of interest-earning deposits and federal funds sold to 1.45% for the six months ended June 30, 2018 from 0.75% for the comparable prior year period. The nine basis point increase in the yield on the total loans, net was primarily due to new loans being originated at a higher rate than the average yield of the existing loan portfolio and adjustable rate loans repricing higher. Excluding prepayment penalty income and recovered interest from loans, the yield on total loans, net, would have increased nine basis points to 4.15% for the six months ended June 30, 2018 from 4.06% for the six months ended June 30, 2017.

Interest Expense. Interest expense increased \$10.3 million, or 35.9%, to \$38.8 million for the six months ended June 30, 2018 from \$28.6 million for the six months ended June 30, 2017. The increase in interest expense was primarily due to an increase of 34 basis points in the average cost of interest-bearing liabilities to 1.42% for the six months ended June 30, 2018 from 1.08% for the six months ended June 30, 2017, combined with an increase of \$208.0 million in the average balance of interest-bearing liabilities to \$5,479.3 million for the six months ended June 30, 2018 from \$5,271.3 million for the comparable prior year period. The 34 basis point increase in the cost of interest-bearing liabilities was primarily due to the Bank raising the rates we pay on some of our deposit products to stay competitive within our market and an increase in borrowing costs from recent increases in the Fed Funds rate.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Management’s Discussion and Analysis of

Financial Condition and Results of Operations

Net Interest Income. For the six months ended June 30, 2018, net interest income was \$85.2 million, a decrease of \$1.8 million, or 2.0%, from \$87.0 million for the six months ended June 30, 2017. The decrease in net interest income was primarily due to the 34 basis point increase in the cost of interest-bearing liabilities to 1.42% for the six months ended June 30, 2018 from 1.08% for the comparable prior year period, partially offset by an increase of 12 basis points in the yield of interest-earning assets to 4.04% for the six months ended June 30, 2018 as compared to 3.92% for the six months ended June 30, 2017. The effects of the above on both the net interest spread and net interest margin were decreases of 22 basis points to 2.62% and 17 basis points to 2.78%, respectively, for the six months ended June 30, 2018, compared to the six months ended June 30, 2017. Included in net interest income was prepayment penalty income from loans and securities for the six months ended June 30, 2018 and 2017 totaling \$2.5 million and \$2.1 million, respectively, recovered interest from non-accrual loans totaling \$0.4 million and \$0.8 million, respectively, and accelerated accretion of discount upon the call of CLO securities totaling none and \$0.4 million respectively. Without the prepayment penalty income, recovered interest and accelerated discount upon call, the net interest margin for the six months ended June 30, 2018 would have been 2.67%, a decrease of 17 basis points, as compared to 2.84% for the six months ended June 30, 2017.

Provision for Loan Losses. During the six month ended June 30, 2018, a provision of \$0.2 million was recorded compared to no provision for loan losses recorded during the comparable prior year period. The \$0.2 million provision was recorded during the six months ended June 30, 2018 due to the quarterly analysis of the adequacy of the allowance for loan losses indicating that the provision was necessary to maintain the reserve at an appropriate level. During the six months ended June 30, 2018, the Bank recorded net charge-offs totaling \$0.3 million, while non-accrual loans decreased \$1.7 million to \$14.1 million at June 30, 2018 from \$15.7 million at December 31, 2017. The current average loan-to-value ratio for our non-performing loans collateralized by real estate was 35.1% at June 30, 2018. The Bank continues to maintain conservative underwriting standards. We anticipate that we will continue to see low loss content in our loan portfolio. See Note 5 of the Notes to the Consolidated Financial Statements “Loans” and “ALLOWANCE FOR LOAN LOSSES.”

Non-Interest Income. Non-interest income for the six months ended June 30, 2018 was \$6.4 million, an increase of \$0.7 million, or 13.0%, from \$5.6 million for the six months ended June 30, 2017. The increase in non-interest income was primarily due to a decline of \$1.2 million in net losses from fair value adjustments to \$0.4 million for the three months ended June 30, 2018 from \$1.5 million for the comparable prior year period, partially offset by a decrease of \$0.4 million in gains from life insurance claims to \$0.8 million for the six months ended June 30, 2018 from \$1.2 million for the comparable prior year period.

Non-Interest Expense. Non-interest expense was \$58.7 million for the six months ended June 30, 2018, an increase of \$3.1 million, or 5.5%, from \$55.6 million for the six months ended June 30, 2017. The increase in non-interest

expense was primarily due to increases in salaries and benefits, legal, consulting, depreciation, data processing and FDIC insurance premiums all due to the growth of the Bank.

Income before Income Taxes. Income before the provision for income taxes decreased \$4.2 million, or 11.5%, to \$32.8 million for the six months ended June 30, 2018 from \$37.0 million for the six months ended June 30, 2017 for the reasons discussed above.

Provision for Income Taxes. The provision for income taxes for the six months ended June 30, 2018 was \$7.4 million, a decrease of \$4.6 million, or 38.2%, from \$12.0 million for the comparable prior year period. The decrease was primarily due to a decrease in the effective tax rate to 22.7% for the six months ended June 30, 2018 from 32.5% in the comparable prior year period and the \$4.2 million decrease in income before income taxes. The decrease in the effective tax rate reflects the impact of the TCJA on the tax provision for the six months ended June 30, 2018.

FINANCIAL CONDITION

Assets. Total assets at June 30, 2018 were \$6,467.6 million, an increase of \$168.3 million, or 2.7%, from \$6,299.3 million at December 31, 2017. Total loans, net increased \$156.9 million, or 3.0%, during the six months ended June 30, 2018 to \$5,313.6 million from \$5,156.6 million at December 31, 2017. Loan originations and purchases were \$597.2 million for the six months ended June 30, 2018, an increase of \$69.5 million, or 13.2%, from \$527.7 million for the six months ended June 30, 2017. During the six months ended June 30, 2018, we continued to focus on the origination of multi-family residential, commercial real estate and commercial business loans with a full banking relationship. The loan pipeline totaled \$322.9 million at June 30, 2018 compared to \$359.8 million at December 31, 2017.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations**

The following table shows loan originations and purchases for the periods indicated:

(In thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Multi-family residential ⁽¹⁾	\$70,972	\$63,469	\$152,153	\$190,177
Commercial real estate ⁽²⁾	64,890	123,559	136,444	159,291
One-to-four family – mixed-use property ⁽³⁾	12,294	13,656	28,362	32,198
One-to-four family – residential ⁽⁴⁾	6,974	4,860	23,942	10,780
Co-operative apartments	1,500	-	1,500	-
Construction	9,940	4,429	24,619	6,973
Small Business Administration	228	1,870	2,195	2,511
Commercial business and other ⁽⁵⁾	88,612	49,312	228,019	125,796
Total	\$255,410	\$261,155	\$597,234	\$527,726

Includes purchases of \$0.8 million and \$15.8 million for the three months ended June 30, 2018 and 2017, (1) respectively. Includes purchases of \$14.1 million and \$22.5 million for the six months ended June 30, 2018 and 2017, respectively.

(2) Includes purchases of \$5.8 million for the three and six-month periods ended June 30, 2018 and \$25.9 million for the three and six-month periods ended June 30, 2017, respectively.

(3) Includes purchases of \$0.7 million for the three and six-month periods ended June 30, 2018, respectively.

(4) Includes purchases of \$0.9 million for six months ended June 30, 2018.

Includes purchases of \$34.0 million and \$1.1 million for the three months ended June 30, 2018 and 2017, (5) respectively. Includes purchases of \$88.7 million and \$10.0 million for the six months ended June 30, 2018 and 2017, respectively.

The Bank maintains its conservative underwriting standards that include, among other things, a loan-to-value ratio of 75% or less and a debt coverage ratio of at least 125%. Multi-family residential (excluding underlying co-operative mortgages), commercial real estate and one-to-four family mixed-use property mortgage loans originated and purchased during the three months ended June 30, 2018 had an average loan-to-value ratio of 46.3% and an average debt coverage ratio of 186%.

The Bank’s non-performing assets totaled \$14.8 million at June 30, 2018, a decrease of \$3.3 million, or 18.3%, from \$18.1 million at December 31, 2017. Total non-performing assets as a percentage of total assets were 0.23% at June 30, 2018 compared to 0.29% at December 31, 2017. The ratio of allowance for loan losses to total non-performing

loans was 136.72% at June 30, 2018 and 112.23% at December 31, 2017.

During the six months ended June 30, 2018, mortgage-backed securities including held-to-maturity increased \$4.2 million, or 0.8%, to \$521.8 million from \$517.6 million at December 31, 2017. The increase in mortgage-backed securities during the six months ended June 30, 2018 was primarily due to purchases of \$57.1 million at an average yield of 3.39%, partially offset by principal repayments of \$40.8 million and a decline in the fair value of \$11.3 million.

During the six months ended June 30, 2018, other securities, including held-to-maturity, decreased \$13.7 million, or 5.5%, to \$237.9 million from \$251.6 million at December 31, 2017. The decrease in other securities during the six months ended June 30, 2018 was primarily due to the call of one CLO security at par for \$10.0 million and a decline in fair value of \$3.0 million. At June 30, 2018, other securities primarily consist of securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds and corporate bonds.

Liabilities. Total liabilities were \$5,929.6 million at June 30, 2018, an increase of \$162.9 million, or 2.8%, from \$5,766.7 million at December 31, 2017. During the six months ended June 30, 2018, due to depositors increased \$218.2 million, or 5.0%, to \$4,558.9 million, due to increases of \$118.1 million in non-maturity deposits and \$100.1 million in certificates of deposit. The increase in non-maturity deposits was due to increases of \$89.9 million, \$89.5 million and \$3.2 million in money market, NOW and demand accounts, respectively, partially offset by a decrease of \$64.5 million savings accounts. Borrowed funds decreased \$58.9 million during the six months ended June 30, 2018. The decrease in borrowed funds was primarily due to a decrease in FHLB short-term borrowings as funding needs were provided by increased deposits.

Equity. Total stockholders' equity increased \$5.4 million, or 1.0%, to \$538.0 million at June 30, 2018 from \$532.6 million at December 31, 2017. Stockholders' equity increased primarily due to net income of \$25.3 million and the net impact of vesting and exercising of shares of employee and director stock plans totaling \$5.2 million. These increases were partially offset by the purchase of 445,444 treasury shares, at an average cost of \$26.58 per share, totaling \$11.8 million, the declaration and payment of dividends on the Company's common stock of \$0.40 per common share totaling \$11.5 million and a decrease of \$3.0 million in other comprehensive loss. Book value per common share was \$19.00 at June 30, 2018 compared to \$18.63 at December 31, 2017.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Management’s Discussion and Analysis of

Financial Condition and Results of Operations

Cash flow. During the six months ended June 30, 2018, funds provided by the Company's operating activities amounted to \$36.7 million. These funds, combined with \$139.1 million provided from financing activities and \$51.5 million available from the beginning of the period, were utilized to fund net investing activities of \$184.6 million. The Company's primary business objective is the origination and purchase of multi-family residential loans, commercial business loans and commercial real estate mortgage loans and to a lesser extent one-to-four family (including mixed-use properties) and SBA loans. During the six months ended June 30, 2018, the net total of loan originations and purchases less loan repayments and sales was \$181.4 million. During the six months ended June 30, 2018, the Company also funded \$57.3 million in purchases of securities available for sale and \$0.4 million of securities held-to-maturity. During the six months ended June 30, 2018, funds were provided by net increases in total deposits of \$226.1 million and short-term borrowed funds of \$73.5 million, as well as proceeds from new long-term borrowing of \$25.0 million. In addition to funding loan growth, these funds were used to repay \$160.1 million in long-term borrowings. The Company also used funds of \$13.9 million and \$11.6 million for purchases of treasury stock and dividend payments, respectively, during the six months ended June 30, 2018.

INTEREST RATE RISK

The Consolidated Statements of Financial Position have been prepared in accordance with generally accepted accounting principles in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in fair value of certain investments due to changes in interest rates. Generally, the fair value of financial investments such as loans and securities fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of the Company’s interest-earning assets which could adversely affect the Company’s results of operations if such assets were sold, or, in the case of securities classified as available for sale, decreases in the Company’s stockholders’ equity, if such securities were retained.

The Company manages the mix of interest-earning assets and interest-bearing liabilities on a continuous basis to maximize return and adjust its exposure to interest rate risk. On a quarterly basis, management prepares the “Earnings and Economic Exposure to Changes in Interest Rate” report for review by the Asset Liability Committee of the Board of Directors, as summarized below. This report quantifies the potential changes in net interest income and net portfolio value should interest rates go up or down (shocked) 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other. The Company’s regulators currently place focus on the net portfolio value, focusing on a rate shock up or down of 200 basis points. Net portfolio value is defined as the market value of assets net of the market value of liabilities. The market value of assets and liabilities is determined using a discounted cash flow calculation. The net portfolio value ratio is the ratio of the net portfolio value to the market value of assets. All changes in income and value are measured as percentage changes from the projected net interest income and net

portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at June 30, 2018. Various estimates regarding prepayment assumptions are made at each level of rate shock. However, prepayment penalty income is excluded from this analysis. Actual results could differ significantly from these estimates. At June 30, 2018, the Company was within the guidelines set forth by the Board of Directors for each interest rate level.

The following table presents the Company's interest rate shock as of June 30, 2018:

Change in Interest Rate	Projected Percentage Change In		
	Net Interest Income	Net Portfolio Value	Net Portfolio Value Ratio
-200 Basis points	4.90 %	9.97 %	13.41 %
-100 Basis points	3.17	3.81	13.06
Base interest rate	0.00	0.00	12.92
+100 Basis points	-4.04	-4.87	12.63
+200 Basis points	-7.93	-9.44	12.34

- 53 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations****AVERAGE BALANCES**

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amount of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them. The following tables sets forth certain information relating to the Company's Consolidated Statements of Financial Condition and Consolidated Statements of Income for the three and six months ended June 30, 2018 and 2017, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees which are considered adjustments to yields.

	For the three months ended June 30,					
	2018			2017		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
(Dollars in thousands)						
Assets						
Interest-earning assets:						
Mortgage loans, net	\$4,509,778	47,673	4.23 %	\$4,297,697	\$44,879	4.18 %
Other loans, net	806,255	9,649	4.79	665,037	6,752	4.06
Total loans, net ⁽¹⁾	5,316,033	57,322	4.31	4,962,734	51,631	4.16
Taxable securities:						
Mortgage-backed securities	533,088	3,754	2.82	532,938	3,418	2.57
Other securities	122,601	1,023	3.34	217,599	2,171	3.99
Total taxable securities	655,689	4,777	2.91	750,537	5,589	2.98
Tax-exempt securities: ⁽²⁾						
Other securities	124,058	856	2.76	145,812	966	2.65
Total tax-exempt securities	124,058	856	2.76	145,812	966	2.65
Interest-earning deposits and federal funds sold	85,406	338	1.58	59,898	129	0.86
Total interest-earning assets	6,181,186	63,293	4.10	5,918,981	58,315	3.94
Other assets	303,696			299,091		
Total assets	\$6,484,882			\$6,218,072		
Liabilities and Equity						
Interest-bearing liabilities:						
Deposits:						
Savings accounts	\$235,564	285	0.48	\$279,723	399	0.57

Edgar Filing: IDT CORP - Form 10-K

NOW accounts	1,444,889	3,364	0.93	1,517,726	2,331	0.61
Money market accounts	1,110,690	3,983	1.43	858,066	1,651	0.77
Certificate of deposit accounts	1,519,348	7,118	1.87	1,410,295	5,099	1.45
Total due to depositors	4,310,491	14,750	1.37	4,065,810	9,480	0.93
Mortgagors' escrow accounts	77,343	38	0.20	73,838	30	0.16
Total deposits	4,387,834	14,788	1.35	4,139,648	9,510	0.92
Borrowed funds	1,127,746	5,865	2.08	1,148,072	5,188	1.81
Total interest-bearing liabilities	5,515,580	20,653	1.50	5,287,720	14,698	1.11
Non interest-bearing deposits	370,790			336,036		
Other liabilities	66,485			64,865		
Total liabilities	5,952,855			5,688,621		
Equity	532,027			529,451		
Total liabilities and equity	\$6,484,882			\$6,218,072		
Net interest income / net interest rate spread		\$42,640	2.60%		\$43,617	2.83%
Net interest-earning assets / net interest margin	\$665,606		2.76%	\$631,261		2.95%
Ratio of interest-earning assets to interest-bearing liabilities			1.12 X			1.12 X

Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late (1) charges, and prepayment penalties) of approximately \$0.3 million for the three months ended June 30, 2018 and 2017.

(2) Interest income on tax-exempt securities does not include the tax benefit of the tax-exempt securities.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations**

	For the six months ended June 30,					
	2018			2017		
	Average		Yield/	Average		Yield/
	Balance	Interest	Cost	Balance	Interest	Cost
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Mortgage loans, net	\$4,476,509	93,785	4.19%	\$4,255,822	\$89,308	4.20%
Other loans, net	797,430	18,554	4.65	659,830	13,208	4.00
Total loans, net ⁽¹⁾	5,273,939	112,339	4.26	4,915,652	102,516	4.17
Taxable securities:						
Mortgage-backed securities	528,922	7,261	2.75	531,448	6,784	2.55
Other securities	126,816	2,144	3.38	228,412	4,053	3.55
Total taxable securities	655,738	9,405	2.87	759,860	10,837	2.85
Tax-exempt securities: ⁽²⁾						
Other securities	124,091	1,710	2.76	146,155	1,934	2.65
Total tax-exempt securities	124,091	1,710	2.76	146,155	1,934	2.65
Interest-earning deposits and federal funds sold	86,405	625	1.45	74,847	282	0.75
Total interest-earning assets	6,140,173	124,079	4.04	5,896,514	115,569	3.92
Other assets	304,191			297,082		
Total assets	\$6,444,364			\$6,193,596		
Liabilities and Equity						
Interest-bearing liabilities:						
Deposits:						
Savings accounts	\$250,646	674	0.54	\$267,059	706	0.53
NOW accounts	1,492,413	6,512	0.87	1,542,857	4,538	0.59
Money market accounts	1,068,443	7,058	1.32	859,415	3,150	0.73
Certificate of deposit accounts	1,432,342	12,581	1.76	1,407,528	10,039	1.43
Total due to depositors	4,243,844	26,825	1.26	4,076,859	18,433	0.90
Mortgagors' escrow accounts	68,202	73	0.21	64,280	57	0.18
Total deposits	4,312,046	26,898	1.25	4,141,139	18,490	0.89
Borrowed funds	1,167,222	11,932	2.04	1,130,132	10,073	1.78
Total interest-bearing liabilities	5,479,268	38,830	1.42	5,271,271	28,563	1.08
Non interest-bearing deposits	367,903			333,142		
Other liabilities	66,531			65,525		
Total liabilities	5,913,702			5,669,938		
Equity	530,662			523,658		
Total liabilities and equity	\$6,444,364			\$6,193,596		

Net interest income /

Edgar Filing: IDT CORP - Form 10-K

net interest rate spread	\$85,249	2.62%	\$87,006	2.84%
Net interest-earning assets / net interest margin	\$660,905	2.78%	\$625,243	2.95%
Ratio of interest-earning assets to interest-bearing liabilities		1.12X		1.12X

Loan interest income includes loan fee income (which includes net amortization of deferred fees and costs, late (1) charges, and prepayment penalties) of approximately \$0.4 million and \$1.0 million for the six months ended June 30, 2018 and 2017, respectively.

(2) Interest income on tax-exempt securities does not include the tax benefit of the tax-exempt securities.

- 55 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations****LOANS**

The following table sets forth the Company's loan originations (including the net effect of refinancing) and the changes in the Company's portfolio of loans, including purchases, sales and principal reductions for the periods indicated.

(In thousands)	For the six months ended	
	June 30, 2018	2017
Mortgage Loans		
At beginning of period	\$4,401,950	\$4,187,818
Mortgage loans originated:		
Multi-family residential	138,064	167,647
Commercial real estate	130,644	133,364
One-to-four family – mixed-use property	27,677	32,198
One-to-four family – residential	23,067	10,780
Co-operative apartments	1,500	-
Construction	24,619	6,973
Total mortgage loans originated	345,571	350,962
Mortgage loans purchased:		
Multi-family residential	14,089	22,530
Commercial real estate	5,800	25,927
One-to-four family – mixed-use property	685	-
One-to-four family – residential	875	-
Total mortgage loans purchased	21,449	48,457
Less:		
Principal and other reductions	249,996	184,858
Loans transferred to held for sale	-	30,565
Loans transferred to OREO	638	-
Sales	4,710	16,508
At end of period	\$4,513,626	\$4,355,306

Non-Mortgage Loans

At beginning of period	\$758,286	\$631,316
Other loans originated:		
Small Business Administration	2,195	2,511
Commercial business	138,229	114,628
Other	1,099	1,194
Total other loans originated	141,523	118,333
Other loans purchased:		
Commercial business	88,691	9,974
Total other loans purchased	88,691	9,974
Less:		
Principal and other reductions	178,640	81,764
Sales	5,266	4,703
Other	60	-
At end of period	\$804,534	\$673,156

- 56 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management’s Discussion and Analysis of****Financial Condition and Results of Operations****TROUBLED DEBT RESTRUCUTURED (“TDR”) AND NON-PERFORMING ASSETS**

The following table shows loans classified as TDR that are performing according to their restructured terms at the periods indicated:

	June 30, 2018	March 31, 2018	December 31, 2017
(In thousands)			
Accrual Status:			
Multi-family residential	\$2,488	\$2,503	\$2,518
Commercial real estate	-	-	1,986
One-to-four family - mixed-use property	1,726	1,740	1,753
One-to-four family - residential	562	567	572
Commercial business and other	351	407	462
Total	5,127	5,217	7,291
Non-Accrual Status:			
Taxi medallion	5,482	5,712	5,916
Total	5,482	5,712	5,916
Total performing troubled debt restructured	\$10,609	\$10,929	\$13,207

- 57 -

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations**

The following table shows non-performing assets at the periods indicated:

	June 30, 2018	March 31, 2018	December 31, 2017
(In thousands)			
Loans 90 days or more past due and still accruing:			
Commercial real estate	\$-	\$1,668	\$2,424
Construction	730	-	-
Total	730	1,668	2,424
Non-accrual loans:			
Multi-family residential	2,165	2,193	3,598
Commercial real estate	1,448	1,894	1,473
One-to-four family - mixed-use property	2,157	2,396	1,867
One-to-four family - residential	6,969	7,542	7,808
Co-operative apartments	575	-	-
Small business administration	-	41	46
Taxi medallion	743	906	918
Commercial business and other	2	-	-
Total	14,059	14,972	15,710
Total non-performing loans	14,789	16,640	18,134
Other non-performing assets:			
Real estate acquired through foreclosure	-	638	-
Other assets acquired through foreclosure	35	106	-
Total	35	744	-
Total non-performing assets	\$14,824	\$17,384	\$18,134
Non-performing assets to total assets	0.23 %	0.27 %	0.29 %
Allowance for loan losses to non-performing loans	136.72 %	123.45 %	112.23 %

Included in loans over 90 days past due and still accruing were one loan for \$0.7 million, two loans totaling \$1.7 million and three loans totaling \$2.4 million at June 30, 2018, March 31, 2018 and December 31, 2017, respectively, which are past their respective maturity dates and are still remitting payments. The Bank actively works with borrowers to extend the loans maturity or have the loan repaid when loans go past their contractual maturity date.

Included in non-performing loans was one multi-family loan totaling \$0.4 million at June 30, 2018, March 31, 2018 and December 31, 2017 which was restructured as TDR and not performing in accordance with its restructured terms.

- 58 -

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

Management’s Discussion and Analysis of

Financial Condition and Results of Operations

CRITICIZED AND CLASSIFIED ASSETS

Our policy is to review our assets, focusing primarily on the loan portfolio, OREO and the investment portfolios, to ensure that credit quality is maintained at the highest levels. See Note 5 of the Notes to the Consolidated Financial Statements “Loans” for a description of how loans are determined to be criticized or classified and a table displaying criticized and classified loans at June 30, 2018 and December 31, 2017. The Company had classified other assets acquired through foreclosure totaling \$35,000 at June 30, 2018 and none at December 31, 2017. The Company did not hold any criticized or classified investment securities at June 30, 2018 and December 31, 2017. Our total Criticized and Classified assets were \$65.9 million at June 30, 2018, an increase of \$3.3 million from \$62.7 million at December 31, 2017.

On a quarterly basis, all collateral dependent loans that are classified as Substandard or Doubtful are internally reviewed for impairment, based on updated cash flows for income producing properties, or updated independent appraisals. The loan balances of collateral dependent loans reviewed for impairment are then compared to the loans updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the value of the underlying medallion based upon the most recently reported arm’s length transaction. When there is no recent sale activity, the fair value is calculated using the income approach. All taxi medallion loans are classified impaired. For collateral dependent mortgage loans and taxi medallion loans, the portion of the loan balance which exceeds fair value is generally charged-off. At June 30, 2018, the current average loan-to-value ratio on our collateral dependent loans reviewed for impairment was 46.5%.

ALLOWANCE FOR LOAN LOSSES

The ALL represents the expense charged to earnings based upon management’s quarterly analysis of credit risk. The amount of the ALL is based upon multiple factors that reflect management’s assessment of the credit quality of the loan portfolio. The factors are both quantitative and qualitative in nature including, but not limited to, historical losses, economic conditions, trends in delinquencies, value and adequacy of underlying collateral, volume and portfolio mix, and internal loan processes.

Management has developed a comprehensive analytical process to monitor the adequacy of the ALL. The process and guidelines were developed using, among other factors, the guidance from federal banking regulatory agencies and GAAP. The results of this process, along with the conclusions of our independent loan review officer, support management's assessment as to the adequacy of the ALL at each balance sheet date. See Note 5 of the Notes to the Consolidated Financial Statements "Loans" for a detailed explanation of management's methodology and policy.

As a component of the credit risk assessment, the Bank has established an Asset Classification Committee which carefully evaluates loans which are past due 90 days and/or are classified. The Asset Classification Committee thoroughly assesses the condition and circumstances surrounding each loan meeting the criteria. The Bank also has a Delinquency Committee that evaluates loans meeting specific criteria. The Bank's loan policy requires loans to be placed into non-accrual status once the loan becomes 90 days delinquent unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future.

During the three months ended June 30, 2018, the portion of the ALL related to the loss history declined, while the qualitative factors increased slightly, primarily due to growth in the loan portfolio. Charge-offs recorded in the past twelve quarters were minimal, with the exception of taxi medallion charge-offs recorded in the fourth quarter of 2017, as credit conditions remained stable. The percentage of loans originated prior to 2009, compared to the total loan portfolio, decreased as scheduled amortization and repayments occurred. As disclosed in Note 5 of the Notes to the Consolidated Financial Statements "Loans", the loans originated prior to 2009 have a higher delinquency and loss rate. The impact from the above resulted in the ALL totaling \$20.2 million, a decrease of \$0.1 million, or 0.6%, from December 31, 2017. Based upon management consistently applying the ALL methodology and review of the loan portfolio, management concluded a charge to earnings to increase the ALL was not warranted. The ALL at June 30, 2018 and December 31, 2017, represented 0.38% and 0.39% of gross loans outstanding, respectively. The ALL represented 136.7% of non-performing loans at June 30, 2018 compared to 112.2% at December 31, 2017.

Management recommends to the Board of Directors the amount of the ALL quarterly. The Board of Directors approves the ALL.

PART I – FINANCIAL INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations**

The following table sets forth the activity in the Company's allowance for loan losses for the periods indicated:

(Dollars in thousands)	At or for the six months ended June 30,	
	2018	2017
Balance at beginning of period	\$20,351	\$22,229
Provision for loan losses	153	-
Loans charged-off:		
Multi-family residential	(81)	(162)
Commercial real estate	-	(4)
One-to-four family – mixed-use property	-	(35)
One-to-four family – residential	(1)	(170)
Small Business Administration	(52)	(89)
Taxi medallion	(353)	(54)
Commercial business and other	(14)	(15)
Total loans charged-off	(501)	(529)
Recoveries:		
Multi-family residential	2	231
Commercial real estate	-	68
One-to-four family – mixed-use property	79	68
One-to-four family – residential	112	-
Small Business Administration	15	49
Commercial business and other	9	41
Total recoveries	217	457
Net charge-offs	(284)	(72)
Balance at end of period	\$20,220	\$22,157
Ratio of net charge-offs during the period to average loans outstanding during the period	0.01 %	- %
Ratio of allowance for loan losses to gross loans at end of period	0.38 %	0.44 %
Ratio of allowance for loan losses to non-performing assets at end of period	136.40 %	143.33 %

Ratio of allowance for loan losses to non-performing
loans at end of period

136.72% 143.33%

- 60 -

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of the qualitative and quantitative disclosures about market risk, see the information under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations - Interest Rate Risk."

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2018, the design and operation of these disclosure controls and procedures were effective. During the period covered by this Quarterly Report, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION**FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES****ITEM 1. LEGAL PROCEEDINGS**

The Company is a defendant in various lawsuits. Management of the Company, after consultation with outside legal counsel, believes that the resolution of these various matters will not result in any material adverse effect on the Company's consolidated financial condition, results of operations and cash flows.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information regarding the shares of common stock repurchased by the Company during the three months ended June 30, 2018:

Period	Total Number of Shares Purchased	Average Price Paid 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
April 1 to April 30, 2018	24,422	\$26.28	24,422	1,011,995
May 1 to May 31, 2018	193,348	25.97	193,348	818,647
June 1 to June 30, 2018	9,811	26.75	9,811	808,836
Total	227,581	26.04	227,581	

During the quarter ended June 30, 2018, the Company repurchased 227,581 shares of the Company's common stock at an average cost of \$26.04 per share. On June 30, 2018, 808,836 shares may still be repurchased under the currently authorized stock repurchase program. Stock will be purchased under the current stock repurchase programs from time to time, in the open market or through private transactions, subject to market conditions. There is no expiration or maximum dollar amount under these authorizations.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

- 62 -

PART II – OTHER INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1 P	Certificate of Incorporation of Flushing Financial Corporation (1)
<u>3.2</u>	<u>Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (3)</u>
<u>3.3</u>	<u>Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (5)</u>
<u>3.4</u>	<u>Certificate of Designations of Series A Junior Participating Preferred Stock of Flushing Financial Corporation (4)</u>
<u>3.5</u>	<u>Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock of Flushing Financial Corporation (2)</u>
<u>3.6</u>	<u>Amended and Restated By-Laws of Flushing Financial Corporation (6)</u>
4.1	Flushing Financial Corporation has outstanding certain long-term debt. None of such debt exceeds ten percent of Flushing Financial Corporation's total assets; therefore, copies of constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request.
<u>31.1</u>	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer (filed herewith)</u>
<u>31.2</u>	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer (filed herewith)</u>
<u>32.1</u>	<u>Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Executive Officer (furnished herewith)</u>
<u>32.2</u>	<u>Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Financial Officer (furnished herewith)</u>
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)
(1)	Incorporated by reference to Exhibits filed with the Registration Statement on Form S-1 filed September 1, 1995, Registration No. 33-96488. (P: Indicates a filing submitted in paper)
(2)	Incorporated by reference to Exhibit filed with Form 8-K filed September 27, 2006.
(3)	Incorporated by reference to Exhibits filed with Form S-8 filed May 31, 2002.
(4)	Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended September 30, 2002.
(5)	Incorporated by reference to Exhibit filed with Form 10-K for the year ended December 31, 2011.
(6)	Incorporated by reference to Exhibit filed with Form 10-Q for the quarter ended June 30, 2014.

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Flushing Financial Corporation,

Dated: August 7, 2018 By: /s/John R. Buran
John R. Buran
President and Chief Executive Officer

Dated: August 7, 2018 By: /s/Susan K. Cullen
Susan K. Cullen
Senior Executive Vice President, Treasurer and
Chief Financial Officer

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES

EXHIBIT INDEX

Exhibit No.	Description
3.1 P	Certificate of Incorporation of Flushing Financial Corporation (1)
<u>3.2</u>	<u>Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (3)</u>
<u>3.3</u>	<u>Certificate of Amendment to Certificate of Incorporation of Flushing Financial Corporation (5)</u>
<u>3.4</u>	<u>Certificate of Designations of Series A Junior Participating Preferred Stock of Flushing Financial Corporation (4)</u>
<u>3.5</u>	<u>Certificate of Increase of Shares Designated as Series A Junior Participating Preferred Stock of Flushing Financial Corporation (2)</u>
<u>3.6</u>	<u>Amended and Restated By-Laws of Flushing Financial Corporation (6)</u>
4.1	Flushing Financial Corporation has outstanding certain long-term debt. None of such debt exceeds ten percent of Flushing Financial Corporation's total assets; therefore, copies of constituent instruments defining the rights of the holders of such debt are not included as exhibits. Copies of instruments with respect to such long-term debt will be furnished to the Securities and Exchange Commission upon request.
<u>31.1</u>	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer (filed herewith)</u>
<u>31.2</u>	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer (filed herewith)</u>
<u>32.1</u>	<u>Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Executive Officer (furnished herewith)</u>
<u>32.2</u>	<u>Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 by the Chief Financial Officer (furnished herewith)</u>
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith)

(1) Incorporated by reference to Exhibits filed with the Registration Statement on Form S-1 filed September 1, 1995, Registration No. 33-96488. (P: Indicates a filing submitted in paper)

(2) Incorporated by reference to Exhibit filed with Form 8-K filed September 27, 2006.

(3) Incorporated by reference to Exhibits filed with Form S-8 filed May 31, 2002.

(4) Incorporated by reference to Exhibits filed with Form 10-Q for the quarter ended September 30, 2002.

(5) Incorporated by reference to Exhibit filed with Form 10-K for the year ended December 31, 2011.

(6) Incorporated by reference to Exhibit filed with Form 10-Q for the quarter ended June 30, 2014.

