IDT CORP
Form 10-K
October 14, 2014

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, 2014, or

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

Commission File Number: 1-16371

IDT Corporation

(Exact name of registrant as specified in its charter)

Delaware	**22-3415036**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

520 Broad Street, Newark, New Jersey 07102

(Address of principal executive offices, zip code)

(973) 438-1000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class B common stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant, based on the adjusted closing price on January 31, 2014 (the last business day of the registrant's most recently completed second fiscal quarter) of the Class B common stock of $16.49 per share, as reported on the New York Stock Exchange, was approximately $304.0 million.

As of October 6, 2014, the registrant had outstanding 21,663,733 shares of Class B common stock and 1,574,326 shares of Class A common stock. Excluded from these numbers are 2,933,795 shares of Class B common stock and 1,698,000 shares of Class A common stock held in treasury by IDT Corporation.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's Annual Meeting of Stockholders, to be held December 15, 2014, is incorporated by reference into Part III of this Form 10-K to the extent described therein.

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IDT Corporation

Annual Report on Form 10-K

Part I

As used in this Annual Report, unless the context otherwise requires, the terms the “Company,” “IDT,” “we,” “us,” and “our” refer to IDT Corporation, a Delaware corporation, its predecessor, International Discount Telecommunications, Corp., a New York corporation, and its subsidiaries, collectively. Each reference to a fiscal year in this Annual Report refers to the fiscal year ending in the calendar year indicated (for example, fiscal 2014 refers to the fiscal year ended July 31, 2014).

Item 1. Business.

OVERVIEW

IDT is a multinational holding company with operations primarily in the telecommunications and payments industries.

We have three reportable business segments, Telecom Platform Services, Consumer Phone Services, and Zedge Holdings, Inc., or Zedge. Telecom Platform Services provides retail telecommunications and payment offerings as well as wholesale international long distance traffic termination. Consumer Phone Services provides consumer local and long distance services in certain U.S. states. Telecom Platform Services and Consumer Phone Services comprise our IDT Telecom division. Zedge owns and operates a popular online platform for mobile phone consumers interested in obtaining free, high-quality games, apps, and mobile phone customization including ringtones, wallpapers, and notification sounds. Operating segments not reportable individually are included in All Other. All Other includes Fabrix Systems Ltd., or Fabrix, a software development company offering a cloud-based scale-out storage and computing platform optimized for big data, virtualization and media storage, processing and delivery. We sold Fabrix in October 2014. All Other also includes our real estate holdings and other, smaller businesses.

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

Our headquarters are located at 520 Broad Street, Newark, New Jersey 07102. We lease space at 550 Broad Street, Newark, New Jersey and most of the Company’s employees work from this location. The main telephone number at our headquarters is (973) 438-1000 and our web site is www.idt.net.

We make available free of charge our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports, and all beneficial ownership reports on Forms 3, 4 and 5 filed by directors, officers and beneficial owners of more than 10% of our equity through the investor relations page of our web site (www.idt.net/ir) as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission. Our web site also contains information not incorporated into this Annual Report on Form 10-K or our other filings with the Securities and Exchange Commission.

KEY EVENTS IN OUR HISTORY

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

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

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

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

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

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

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

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

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

2006 – We launch a regulated issuing bank based in Gibraltar.

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

2007 – We sell our United Kingdom-based consumer phone service for approximately $46.3 million of cash and stock.

2007 – We purchase majority interests in both Fabrix and Zedge.

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

2009 – We spin-off our CTM Media Holdings subsidiary to stockholders. CTM Media Holdings is traded on the over-the-counter market with the ticker symbol "CTMMA".

2009 – We launch Boss Revolution PIN-less, a pay-as-you-go international calling service. Boss Revolution has since become our flagship brand, and the Boss Revolution platform has been expanded to include payment offerings.

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

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

2013 – We introduce the Boss Revolution mobile app for Android and iOS.

2013 – We launch an international money transfer service on the Boss Revolution platform in select states. The service offers Boss Revolution customers a convenient, affordable means to send cash from the United States to friends and family overseas.

2014- We sell our 78% stake in Fabrix to Telefonaktiebolget LM Ericsson (publ), or Ericsson, for $73 million as part of Ericsson's purchase of Fabrix for $95 million.

DIVIDENDS

We have paid dividends to the holders of our Class A and Class B common stock since fiscal 2011. During fiscal 2014, we paid aggregate dividends of $0.59 per share, or $13.6 million, on our Class A common stock and Class B common stock as detailed below. In fiscal 2013, we paid aggregate dividends of $0.75 per share on our Class A common stock and Class B common stock, or $17.1 million in total.

On September 10, 2013, we paid a special cash dividend of $0.08 per share;

On January 7, 2014, we paid an ordinary cash dividend of $0.17 per share for the first quarter of fiscal 2014;

On March 28, 2014, we paid an ordinary cash dividend of $0.17 per share for the second quarter of fiscal 2014; and

On June 27, 2014, we paid an ordinary cash dividend of $0.17 per share for the third quarter of fiscal 2014.

On October 3, 2014, we paid a dividend of $0.17 per share for the fourth quarter of fiscal 2014 to holders of record of our Class A common stock and Class B common stock as of the close of business on September 29, 2014.

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

OUR STRATEGY

History and Background

Since our founding, we have focused on value creation by leveraging potentially disruptive telecommunications technologies to challenge entrenched business models. Outside of our core business, we have sought to select and incubate promising early stage businesses for eventual sale or spin-off to our stockholders.

In 2007 and 2008, in response to a long-term, industry-wide decline in the sale of prepaid, disposable calling cards, which was our dominant offering at the time, we initiated a fundamental restructuring of our businesses. We subsequently sold or spun-off most of our non-core businesses and assets, right-sized corporate overhead, reduced network costs at IDT Telecom, and streamlined our internal decision making processes.

Since the successful implementation of this restructuring program, we have been intensely focused on the growth and profitability of our core telecommunications businesses while retaining majority stakes in our two most promising non-core businesses, Fabrix and Zedge.

On October 8, 2014, we completed the sale of our interests in Fabrix to Ericsson. The final sale price for 100% of the shares in Fabrix was $95 million in cash, excluding transaction costs and working capital and other adjustments. We owned approximately 78% of Fabrix on a fully diluted basis. Our share of the sale price, net of transaction costs, is expected to be approximately $73 million in cash. We and the other shareholders have placed $13 million of our proceeds in escrow for the resolution of post-closing claims that may arise. Any unclaimed escrow balance will be released in two tranches over a period of 18 months.

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

In 2009, we launched Boss Revolution PIN-less, a pay-as-you-go international long distance voice service. The service grew rapidly and eventually overtook sales of our traditional, disposable prepaid calling cards. We believe that Boss Revolution PIN-less has become the nation’s leading pay-as-you-go international calling service. More recently, we have begun to develop and introduce complementary payment services over the Boss Revolution platform, including international and domestic airtime top-up, gift cards, domestic bill payment and, in 2013, an international money transfer service. These additions represent significant milestones toward our goal of offering a comprehensive suite of voice and payment products under a single, global brand and platform targeted to under-banked, foreign-born consumers.

To simplify the Boss Revolution PIN-less calling experience and expand its reach, we introduced our Boss Revolution app in 2013. The app is free to the consumer and is distributed through both the iTunes and Google Play stores. In 2014, we deployed the Boss Revolution app for retailers. The app for retailers enables a qualified individual in the United States with an Android or iOS smartphone to become a potential Boss Revolution retailer and to manage their Boss Revolution account virtually anywhere, anytime.

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

We believe that the restructuring of our business combined with a growth strategy at IDT Telecom that includes a tight focus on the needs of our target market and the successful introduction of innovative products has resulted in significant revenue growth and improving profitability in recent years.

Current Strategy

In our core telecom and payments business, we seek to maintain steady, positive cash flows to support our dividend policy and to fund growth initiatives. Outside of our core business, we sold Fabrix in October 2014, and Zedge is pursuing market opportunities funded primarily from its current operations. We will opportunistically seek to realize stockholder value from our interests in businesses through a sale, spin-off, or other strategic action as warranted by market conditions.

IDT Telecom

We are pursuing growth opportunities at IDT Telecom in both the retail and wholesale sides of our business. Our retail communications business continues to focus on the Boss Revolution platform - expanding its network of retailers and its brand equity nationwide to grow our customer base, while developing and deploying additional synergistic calling and payment services to meet the needs of our target market. Our wholesale termination services business is focused on expanding the scope of services we provide within customers' value chains.

IDT Telecom is pursuing a multi-pronged growth strategy that includes:

utilizing our direct and indirect sales force to recruit additional retailers to deepen market penetration in foreign-born communities, especially outside of IDT's traditional geographic strongholds in the Northeastern United States and Florida;

continuing to develop, deploy and promote new payment and value transfer services to broaden Boss Revolution's portfolio of offerings for foreign-born and under-banked populations;

further expanding our platforms and leveraging mobile apps to enhance, deepen and improve the direct-to-consumer and retail channel experiences; and

leveraging carrier relationships and our portfolio of domestic retail offerings to drive white-label sales to carriers, resellers and other telecommunications providers overseas.

Zedge

Zedge's growth initiatives are focused on three "U"s - Users, Usage and Ubiquity.

Users - Driving organic user growth with the introduction of new features, localization / new market entry, app store optimization and brand awareness.

Usage - Increasing user engagement, which we believe to be a strong proxy for revenue expansion. To this end, in fiscal 2015, Zedge plans on releasing several important product enhancements including social features and new content channels as well as utilize marketing automation tools.

Ubiquity - Entering new app stores and developing apps for new operating systems to achieve critical mass and drive customer demand. Zedge's app is currently available on Android, iOS and Windows Mobile.

IDT TELECOM

IDT Telecom is comprised of two reportable segments, Telecom Platform Services and Consumer Phone Service. Since our inception, we have derived the majority of our revenues and operating expenses from IDT Telecom's businesses. In fiscal 2014, IDT Telecom had revenues of $1,626.6 million, representing 98.5% of our total consolidated revenues from continuing operations, and income from operations of $46.9 million, as compared with revenues of $1,602.6 million and income from operations of $50.5 million in fiscal 2013.

TELECOM PLATFORM SERVICES

Our Telecom Platform Services segment, which represented 99.3% and 99.1% of IDT Telecom's total revenues in fiscal 2014 and fiscal 2013, respectively, markets and distributes multiple communications and payment services across four broad business verticals:

Retail Communications provides international long-distance calling products primarily to foreign-born communities worldwide, with its core markets in the United States;

Wholesale Termination Services is a global telecom carrier, terminating international long distance calls around the world for Tier 1 fixed line and mobile network operators, as well as other service providers;

Payment Services provides payment offerings, including international airtime top-up and international money transfer sold over our Boss Revolution platform; and

Hosted Platform Solutions provides customized communications services that leverage our proprietary networks, platforms and/or technology to cable companies and other service providers.

During fiscal 2014, our Telecom Platform Services segment generated $1,615.6 million in revenues worldwide and income from operations of $45.1 million, as compared with revenues of $1,588.1 million and income from operations of $48.7 million in fiscal 2013.

Retail Communications

Retail Communications' revenue was $695.8 million in fiscal 2014 compared to $656.7 million in fiscal 2013 (43.1% and 41.3% of Telecom Platform Services' revenue in fiscal 2014 and fiscal 2013, respectively).

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

Boss Revolution PIN-less allows users to call their families and friends overseas without the need to enter a personal identification number, or PIN. To place a call, a customer must first establish a Boss Revolution prepaid account. Boss Revolution customers can access our network by first dialing a local access or toll-free number. Our platform recognizes the user's network-provided automatic number identification (ANI) and seamlessly links each call to the corresponding Boss Revolution account. Callers then enter their destination phone numbers. The dialing process is automated to provide one-touch dialing in the Boss Revolution mobile app. Boss Revolution debits customers' account balances for completed calls at a fixed rate per minute. In contrast to many competitors, Boss Revolution does not charge connection fees, other usage or breakage fees, and consequently account balances never expire. Boss Revolution rates vary by the destination country that is being called. Rates are published on the Boss Revolution consumer website and within the Boss Revolution mobile app.

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

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

The Boss Revolution retailer portal enables retailers to sign up new customers and add funds to customer accounts. The Boss Revolution retailer portal also provides a direct, real-time interface with our retailers, resulting in a cost-effective and adaptable distribution model that we believe can rapidly respond to changes in the business environment.

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

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

Retail Communications' sales have traditionally been strongest in the Northeastern United States and in Florida because of our extensive local distribution network and the large immigrant population. In addition to these geographic areas, we continue to grow distributor relationships and sell directly to retailers in other areas of the United States, including the Southwest and West Coast, where we historically did not have a strong market presence.

Outside of the United States, we are incrementally expanding the geographic footprint of our Boss Revolution platform including retailer portals, mobile apps, and direct-to-consumer web sites. In fiscal 2012, we launched Boss Revolution in the United Kingdom and Spain. During fiscal 2013, we expanded Boss Revolution's footprint to Germany and three markets in the Asia-Pacific region—Australia, Hong Kong and Singapore. In 2014, we launched Boss Revolution in Canada. Nevertheless, the vast majority of Boss Revolution and Retail Communications' other sales are generated in the United States. We also sell other prepaid retail calling services in Europe, Latin America and

Asia, as discussed in detail in the International Operations section below.

Wholesale Termination Services

Wholesale Termination Services' revenue was $672.3 million in fiscal 2014 compared to $687.9 million in fiscal 2013 (41.6% and 43.3% of Telecom Platform Services' revenue in fiscal 2014 and fiscal 2013, respectively).

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

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

During fiscal 2014, IDT Telecom terminated 29.6 billion minutes compared to 32.7 billion minutes in fiscal 2013, making us one of the largest carriers of long distance minutes worldwide. Wholesale Termination Services accounted for 19.2 billion minutes and 22.4 billion minutes of the total IDT Telecom minutes in fiscal 2014 and fiscal 2013, respectively.

IDT Telecom has a significant number of direct connections to Tier 1 providers outside the United States, particularly Tier 1 providers in Latin America, Asia, Africa, Europe and the Middle East. Tier 1 providers are the largest recognized licensed carriers in a country. Direct connections improve the quality of the telephone calls and reduce the cost, thereby enabling us to generate more traffic with higher margins to the associated foreign locales. We also have direct relationships with mobile network operators, reflecting their growing share of the voice traffic market.

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

In addition to offering competitive rates to our carrier customers, we emphasize our ability to offer the high-quality connections that these providers often require. To that end, we offer higher-priced services in which we provide higher-quality connections, based upon a set of predetermined quality of service criteria. These services meet a growing need for higher-quality connections for some of our customers who provide services to high-value, quality-conscious retail customers. As of July 31, 2014, Wholesale Termination Services had more than 600 customers. IDT Telecom has over 550 carrier relationships globally.

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

Payment Services

Payment Services' revenue was $202.5 million in fiscal 2014 compared to $193.5 million in fiscal 2013 (12.5% and 12.2% of Telecom Platform Services' revenue in fiscal 2014 and fiscal 2013, respectively).

The majority of Payment Services' revenue is generated by international airtime top-up. Other products and services in this vertical include domestic airtime top-up, gift cards sold in the United States and Europe, domestic bill pay service and our recently launched international money transfer service. Payment Services also includes reloadable prepaid debit cards marketed in Europe and Bank Identification Number (BIN) sponsorship services offered by our Gibraltar-based bank, IDT Financial Services Limited. Payment Services' offerings leverage our platform capabilities, our distribution reach into foreign-born communities and our global reach to provide simple, convenient and affordable offerings, many over the Boss Revolution platform.

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

We believe that international remittances are a significant economic activity among our target market of foreign-born residents and other under-banked communities. To serve that market, we began to roll-out an international money transfer service over our Boss Revolution platform in 2014. Prior to launch, we obtained the requisite licenses including those required by nearly every state, formalized relationships with national and local banks in the United States, developed a compliance operation to comply with applicable anti-money laundering laws and regulations, and assembled a disbursement network of banks, retailers and other points of payment presence overseas where recipients can collect their transferred funds. Our international money transfer service is offered over the Boss Revolution platform, and like other payment services, utilizes our retail network and associated ability to serve unbanked customers. However, we expect that only a limited number of Boss Revolution retailers in the United States will eventually qualify to process international money transfer transactions.

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

Hosted Platform Solutions

Hosted Platform Solutions' revenue was $45.0 million in fiscal 2014 compared to $50.0 million in fiscal 2013 (2.8% and 3.2% of Telecom Platform Services' revenue in fiscal 2014 and fiscal 2013, respectively).

Hosted Platform Solutions provides customized communications services that leverage our proprietary networks, platforms and/or technology to cable companies and other service providers. The majority of Hosted Platform Solutions' revenue is generated by our cable telephony business, which is in harvest mode.

International Operations

In Europe, we market our Retail Communications products in the United Kingdom, the Netherlands, Spain, Germany, Belgium, Italy, Luxembourg, Sweden, Switzerland, Denmark, Norway, and Austria, seeking to capitalize on the demographic opportunity presented by immigration from outside of Europe to these developed nations. Because the immigrant market is fragmented, and due to the large number of markets in which we compete, we offer over 600 different prepaid calling cards in Europe. We also market our Payment Services products in the United Kingdom.

We maintain our European corporate, Retail Communications and Wholesale Termination Services operations in London, England. We also operate satellite offices in Germany, Belgium, Spain and Greece.

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

Our European operations, including Wholesale Termination Services and Retail Communications, generated $360 million of revenues in fiscal 2014, a 43.9% increase from the $250.3 million of revenues generated during fiscal 2013. Our European operations' revenues constituted 22.1% of IDT Telecom's revenues from continuing operations in fiscal 2014, as compared to 15.6% in fiscal 2013.

In Asia, we sell Retail Communications products in Hong Kong, Singapore, Australia, Japan, Korea, Malaysia and Taiwan. Our operations in Asia also include Wholesale Termination Services. In Hong Kong, we are one of the top providers of prepaid calling services to the Filipino and Indonesian populations, the two largest overseas worker segments. In addition, in Singapore, our Retail Communications products are a market leader to the Indian populations, which is the largest ethnic segment in Singapore, as well as the large Indonesian population. In fiscal 2014, IDT Telecom generated $61.3 million in revenues from our operations in the Asia Pacific region compared to $93.7 million in fiscal 2013.

In Latin America, we market Retail Communications products in Argentina, Brazil, Peru, Chile, and Uruguay. In addition, we offer post-paid phone services in Brazil to consumers and small businesses. We maintain Latin American headquarters in Buenos Aires, Argentina. In fiscal 2014, IDT Telecom generated $22.6 million in revenues from the sale of Retail Communications products in Latin America compared to $29.8 million in fiscal 2013.

Sales, Marketing and Distribution

In the United States, we distribute Retail Communications and Payment Services products, including Boss Revolution PIN-less, domestic and international airtime top-up offerings, and prepaid calling cards primarily to retail outlets through our network of distributors or through our internal sales force. In addition, our white label calling cards as well as our IDT-branded calling cards are also marketed to retail chains and outlets through our internal sales force, and from time to time we may utilize third-party agents or brokers to acquire accounts. We also market prepaid offerings, including Boss Revolution PIN-less and domestic and international airtime top-up, direct to the consumer via online channels including the Boss Revolution consumer website (bossrevolution.com) and mobile apps for Apple iOS and Android.

In Europe and Asia, we sell our prepaid calling cards including both white label and IDT-branded calling cards through independent distributors and our internal sales force. Additionally, we sell Boss Revolution PIN-less and domestic and international airtime top-up in select European and Asia Pacific markets both through retail distribution and directly to the consumer. In Asia, we sell postpaid services direct to consumers and small businesses. Wholesale Termination Services are marketed and sold through our internal wholesale sales team.

Telecommunications Network Infrastructure

IDT Telecom operates a global voice and data network to provide an array of telecommunications and payment services to our customers worldwide using a combination of proprietary and third-party applications. Proprietary applications include call routing and rating, customer provisioning, call management, product web pages, calling card features, and payment services features. Proprietary applications provide the flexibility to adapt to evolving marketplace demands without waiting for third-party software releases, and often provide advantages in capability or cost over commercially available alternatives.

The IDT Telecom core voice network utilizes Internet Protocol, or IP, and is interconnected through gateways to time-division multiplexing, or TDM, networks worldwide. This hybrid IP/TDM capability allows IDT Telecom to interface with carriers using the lowest cost technology protocol available. To support its global reach, IDT Telecom operates voice switches and/or points of presence in the United States, Europe, South America, Asia and Australia. IDT Telecom receives and terminates voice traffic from every country in the world, including cellular, landline and satellite calls through direct interconnects. The network includes data centers located in the United States, United Kingdom and Hong Kong with smaller points of presence in other countries. It is monitored and operated on a continual basis by our Network Operations Centers in the United States.

CONSUMER PHONE SERVICES

Our Consumer Phone Services segment generated revenues of $11.0 million and income from operations of $1.8 million in fiscal 2014, as compared to revenues of $14.5 million and income from operations of $1.8 million in fiscal 2013. Consumer Phone Services' revenues declined 24.1% and 24.8% in fiscal 2014 and fiscal 2013, respectively, when compared to the prior fiscal years. We continued to operate the business in harvest mode—maximizing revenue from current customers while maintaining expenses at the minimum levels essential to operate the business. This strategy has been in effect since calendar 2005 when the Federal Communications Commission, or FCC, decided to terminate the UNE-P pricing regime, which resulted in significantly inferior economics in the operating model for this business. We expect the Consumer Phone Services' customer base and revenues will continue to decline in fiscal 2015.

We currently provide our bundled local/long distance phone service in 11 states, marketed under the brand name IDT America. Our bundled local/long distance service, offered predominantly to residential customers, includes unlimited local, regional toll and domestic long distance calling and popular calling features. A second plan is available, providing unlimited local service with our long distance included for as low as 3.9 cents per minute. With either plan, competitive international rates and/or additional features can be added for additional monthly fees. We also offer stand-alone long distance service throughout the United States.

As of July 31, 2014, we had approximately 6,200 active customers for our bundled local/long distance plans and approximately 28,500 customers for our long distance-only plans, compared to 7,800 and 35,700 customers, respectively, on July 31, 2013. Our highest customer concentrations are in large urban areas, with the greatest number of customers located in New York, New Jersey, Pennsylvania and Massachusetts.

ZEDGE

Zedge owns and operates a popular online platform for mobile phone consumers interested in obtaining free, high-quality games, apps, and mobile phone customization including ringtones, wallpapers, and notification sounds. We believe that Zedge's popularity stems from its ability to select and present content in a customized and personally relevant manner. To this end, we have invested heavily in developing a proprietary, machine-learning-based, behavioral recommendation engine, tasked with discovering and packaging the content in an easy, fast, attractive and self-intuitive fashion. As a result of Zedge's large, active user base, it is able to offer advertisers, game developers, musicians and artists a scalable, non-incentivized, user acquisition platform with global reach.

Users access Zedge through smartphone apps, which are available in all of the Google Play, iTunes and the Windows Phone stores, or through feature phones or Zedge's website. Zedge has grown its user base without any material investment in marketing, user acquisition or advertising. We believe that consumer growth stems from the demand for, and popularity of, the content offerings, the quality of the recommendations and the commitment to providing an exceptional user experience. As of July 31, 2014, the Zedge smartphone app surpassed 110 million installations. The Android app has averaged among the top 20 most popular apps in the Google Play store for the last four years and we believe it has been installed on approximately 20% of all Android handsets in the United States.

Zedge's app is primarily used by customers in North America and Europe, typically in the 18 to 34 age bracket and represent an almost equal gender breakout. The web users of Zedge are concentrated in the emerging markets are also young and skew male.

Zedge rolled out its Android app in late 2009 with content channels dedicated to ringtones, wallpapers and notification sounds. In April 2012, Zedge expanded its Android offering by introducing two new channels - mobile games and live-wallpapers. In late 2012, Zedge launched a limited version of its smartphone iOS app featuring wallpapers and in late 2013 Zedge expanded it iOS offering by including ringtones. Zedge also maintains a web presence primarily frequented by feature phone users. We expect that web traffic will continue to decline as smartphones' market share increases and users access Zedge via smartphone apps.

The ringtone and wallpaper content library is comprised of millions of user-generated content submissions that are uploaded from our website while the mobile games catalogue is curated from the Google Play store.

Zedge developed a proprietary technology platform that is centered on content management and discovery, web and app development, data mining and analytics, machine learning, mobile content/device compatibility, advertising and reporting. From an end user's perspective, the platform minimizes response latency and maximizes content relevancy. Zedge's architecture contains a fully redundant production environment that can tolerate multiple server failures with minimal end-user disruption. In addition, it utilizes a variety of hosted services including cloud computing and outsourced datacenter management in order to scale efficiently and competitively. We believe that this technology mix optimizes functionality, scalability, flexibility performance, cost and ease of use.

Zedge's revenues are generated from offering direct advertisers, advertising networks, game publishers and marketers exposure to the customer base via advertising inventory that is sold on the smartphone app and website. We believe that advertisers are attracted to Zedge due to its growing user base, demographics, non-incentivized, user acquisition platform focused on mobile games and personalization content discovery, ability in optimizing ad inventory performance and direct distribution relationships with many leading mobile game publishers. During fiscal 2014, Zedge generated revenues of $6.5 million compared to $5.8 million in fiscal year 2013. Approximately $6.0 million, or 92%, of fiscal 2014 revenues were generated from advertising inventory on mobile devices compared to $4.7 million, or 80%, in fiscal 2013. Zedge's income from operations in both fiscal 2014 and fiscal 2013 was $0.3 million.

We currently own approximately 83% (69% on a fully diluted basis) of Zedge. We are considering strategic options for Zedge, including, amongst others, a spin-off as a separate company, a sponsored spin-off, adding a strategic partner or a sale.

ALL OTHER

Operating segments that are not reportable individually are included in All Other. All Other included Fabrix, a software development company offering a cloud-based scale-out storage and computing platform optimized for big data, virtualization and media storage, processing and delivery. All Other also includes our real estate holdings, and other, smaller businesses.

During fiscal 2014, All Other generated $18.4 million in revenues and loss from operations of $2.0 million, as compared with revenues of $12.2 million and loss from operations of $7.4 million in fiscal 2013.

Fabrix

Prior to its sale in October 2014, Fabrix was our majority-owned venture that developed and licensed a proprietary video software platform optimized for cost effective cloud-based video storage, high throughput streaming and intelligent content distribution. This software was marketed to cable and telecommunications operators, Internet service providers and web-based video portals that require deep video storage capabilities or offer unicast television applications including video-on-demand, multi-screen delivery, cloud storage, time/place shifting and remote DVR storage capabilities. Fabrix's grid-based solution runs on commercial off-the-shelf servers enabling service providers to deploy the latest computing technology innovations. Fabrix leverages strategic partnerships with leading equipment manufacturers and system integrators who resell the Fabrix platform to service providers worldwide.

Fabrix's technology has been selected by over 15 leading North American and European multi-system operators to power their video service offerings. In 2010, Fabrix successfully deployed its software to empower a US tier-1 operator's cloud-based DVR. The operator has periodically purchased additional licenses as it continues to roll out its offering system-wide. In 2011, a North American tier-1 operator licensed Fabrix software for its deep video storage product. In the third quarter of fiscal 2013, Fabrix commenced software deliveries to a major European operator, and subsequently made additional sales to cable and telecom operators in Europe.

Fabrix typically generated cash from the initial licensing of its software, from maintenance during the life of the licensing agreement, and from any subsequent license renewals. Fabrix generally recognized revenue for its software licenses and support from the date on which delivered orders were accepted by the customer over the term of the related software support agreements.

During fiscal 2014, Fabrix generated $16.6 million in revenues and a loss from operations of $0.7 million, as compared with revenues of $10.6 million and a loss from operations of $1.4 million in fiscal 2013. In fiscal 2014 and fiscal 2013, Fabrix received cash from sales of $13.4 million and $16.0 million, respectively.

COMPETITION

IDT Telecom

Telecom Platform Services

Retail Communications

Within Retail Communications, the growth of Boss Revolution PIN-less sales since its launch in 2009 has substantially replaced revenues from sales of our traditional disposable calling cards.

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

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

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

Wholesale Termination Services

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

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

- interexchange carriers and other long distance resellers and providers, including large carriers such as AT&T and Verizon;
- historically state-owned or state-sanctioned telephone companies such as Telefonica, France Telecom and KDDI;

on-line, spot-market trading exchanges for voice minutes;

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- OTT internet telephony providers;
- other VoIP providers;
- other providers of international long distance services; and
- alliances between large multinational carriers that provide wholesale carrier services.

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

Payment Services

The major competitors to Payment Services' international airtime top-up offerings include:

- international mobile operators, who seek to control more of their own distribution channel or create their own products that are directly competitive to international airtime top-up;
- other distributors, who develop a more comprehensive product offering than our international airtime top-up offerings or aggressively discount their product offerings that are similar to our international airtime top-up offerings; and
- international money transfer services that target foreign born communities in the United States.

Consumer Phone Services

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

The regional bell operating companies, or RBOCs, remain our primary competitors in the local exchange market. We are also competing with providers offering communications service over broadband connections using VoIP technology, such as cable companies and independent VoIP providers. Companies also provide voice telephony services over broadband Internet connections, allowing users of these Internet services, such as Vonage and Skype, to obtain communications services without subscribing to a conventional telephone line. Mobile wireless companies are deploying wireless technology as a substitute for traditional wireline local telephones. 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.

Due to changes in the U.S. regulatory environment that affected our cost of provisioning bundled local/long distance phone services and increased competition, we ceased marketing activities for this service, and as a result, our Consumer Phone Services business has declined significantly.

Zedge

Zedge faces competition in various forms. Ringtones and wallpapers are a commodity and many smaller apps and websites offer both free and paid ringtones and wallpapers. Zedge faces competition from apps that offer mobile customization content, a wide variety of smaller personalization content providers and app discovery services. We believe that Zedge has a competitive advantage due to its large user base, modular approach to providing customization content, large catalogue of content, its proprietary recommendation engine, its market ranking and its longevity. Zedge is unaware of any service that maintains a content library as extensive as Zedge's library, or curates the content in such a relevant and easy to use fashion.

REGULATION

The following summary of regulatory developments and legislation is intended to describe what we believe to be the most important, but not all, current and proposed international, federal, state and local laws, regulations, orders and legislation that are likely to materially affect us.

Regulation of Telecom in the United States

Telecommunications services are subject to extensive government regulation at both the federal and state levels in the United States. Any violations of the regulations may subject us to enforcement actions, including interest and penalties. The FCC has jurisdiction over all telecommunications common carriers to the extent they provide interstate or international communications services. Each state regulatory commission has jurisdiction over the same carriers with respect to their provision of local and intrastate communications services. Local governments often indirectly regulate aspects of our communications business by imposing zoning requirements, taxes, permit or right-of-way procedures or franchise fees. Significant changes to the applicable laws or regulations imposed by any of these regulators could have a material adverse effect on our business, operating results and financial condition.

Regulation of Telecom by the Federal Communications Commission

The FCC has jurisdiction over all U.S. telecommunications service providers to the extent they provide interstate or international communications services, including the use of local networks to originate or terminate such services.

Universal Service and Other Regulatory Fees and Charges

In 1997, the FCC issued an order, referred to as the Universal Service Order that requires all telecommunications carriers providing interstate telecommunications services to contribute to universal service support programs administered by the FCC (known as the Universal Service Fund). In addition, beginning in October 2006, interconnected VoIP providers, such as our subsidiary Net2Phone, are required to contribute to the Universal Service Fund. These periodic contributions are currently assessed based on a percentage of each contributor's interstate and international end user telecommunications revenues reported to the FCC. We also contribute to several other regulatory funds and programs, most notably Telecommunications Relay Service, FCC Regulatory Fees, and Local Number Portability (collectively, the Other Funds). We and most of our competitors pass through Universal Service Fund and Other Funds contributions as part of the price of our services, either as part of the base rate or, to the extent allowed, as a separate surcharge on customer bills. Due to the manner in which these contributions are calculated, we cannot be assured that we fully recover from our customers all of our contributions. In addition, based on the nature of our current business, we receive certain exemptions from federal Universal Service Fund contributions. Changes in our business could eliminate our ability to qualify for some or all of these exemptions. As a result, our ability to pursue certain new business opportunities in the future may be constrained in order to maintain these exemptions, the elimination of which could materially affect the rates we would need to charge for existing services. Changes in regulation may also have an impact on the availability of some or all of these exemptions. If even some of these exemptions become unavailable, they could materially increase our federal Universal Service Fund or Other Funds' contributions and have a material adverse effect on the cost of our operations and, therefore, on our ability to continue to operate profitably, and to develop and grow our business. We cannot be certain of the stability of the contribution factors for the Other Funds. Significant increases in the contribution factor for the Other Funds in general and the Telecommunications Relay Service Fund in particular can impact our profitability. Whether these contribution factors will be stable in the future is unknown, but it is possible that we will be subject to significant increases.

Interconnection and Unbundled Network Elements

FCC rule changes relating to unbundling have resulted in increased costs to purchase services and increased uncertainty regarding the financial viability of providing servStatements.

Mesabi Trust

Condensed Statements of Cash Flows

Six Months Ended July 31, 2015 and 2014

	Six Months Ended July 31, 2015 (unaudited)	Six Months Ended July 31, 2014 (unaudited)
C. Condensed Statements of Cash Flows		
Cash flows from operating activities		
Royalties received	$ 3,839,431	$ 5,051,370
Interest received	4,406	4,277
Expenses paid	(709,496)	(929,022)
Net cash provided by operating activities	3,134,341	4,126,625
Cash flows from investing activities		
Maturities of U.S. Government Securities	82,320	105,000
Sale of U.S. Government Securities		100,056
Purchases of U.S. Government Securities	(82,628)	(205,447)
Net cash used for investing activities	(308)	(391)
Cash flows used for financing activities		
Distributions to Unitholders	(8,396,806)	(7,478,406)
Net change in cash and cash equivalents	(5,262,773)	(3,352,172)
Cash and cash equivalents, beginning of year	8,717,943	7,719,963
Cash and cash equivalents, end of period	$ 3,455,170	$ 4,367,791
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 3,423,910	$ 7,553,759
Increase in accrued income receivable	(209,533)	(3,308,148)
Increase in prepaid expenses	(79,358)	(88,808)
Decrease in accrued expenses	(678)	(30,178)
Net cash provided by operating activities	$ 3,134,341	$ 4,126,625
Non Cash Financing Activity		
Distributions payable	$ 524,800	$ 4,198,403

See Notes to Condensed Financial Statements.

Mesabi Trust

Notes to Condensed Financial Statements

July 31, 2015 (Unaudited)

Note 1. The financial statements included herein have been prepared without audit (except for the balance sheet at January 31, 2015) in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Trustees, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of (a) the results of operations for the three months and six months ended July 31, 2015 and 2014, (b) the financial position at July 31, 2015 and (c) the cash flows for the six months ended July 31, 2015 and 2014, have been made. For further information, refer to the financial statements and footnotes included in Mesabi Trust s Annual Report on Form 10-K for the year ended January 31, 2015.

Note 2. Net income per unit includes accrued income receivable. For the three months ended July 31, 2015 the Trust recorded $767,918 of accrued income receivable as reflected on the Condensed Balance Sheet as of July 31, 2015 (unaudited). Accrued income receivable is accounted for and reported for the Trust s second fiscal quarter based on shipments during the month of July, even though such accrued income receivable is not available for distribution to the holders of Certificates of Beneficial Interest in Mesabi Trust (Unitholders) until the applicable royalties are actually received by the Trust. Accrued income receivable also includes accruals for anticipated pricing adjustments, which can be positive or negative. Net income per unit is based on 13,120,010 units outstanding during the period.

Note 3. The Trust declares distributions (if any) each year in April, July, October and January. Distributions are declared after receiving notification from Northshore Mining Company (Northshore) as to the amount of royalties expected to be paid to the Trust in cash based on shipments through the end of each calendar quarter. The Trust s financial statements are prepared on an accrual basis and present the Trust s results of operations based on each fiscal quarter which ends one month after the close of each calendar quarter. Because distributions, if any, are declared based on the royalty payment that is payable as of the end of each calendar quarter and the Trust s Net Income is calculated as of the end of each fiscal quarter, the distributions declared by the Trust are not equivalent to the Trust s Net Income during the periods reported in this quarterly report on Form 10-Q.

Note 4. During recent periods, the Trustees had determined that Mesabi Trust s unallocated reserve should usually be within the range of $500,000 to $1,000,000. In April 2015, the Trustees determined that the unallocated reserve will no longer necessarily be within such range. Rather, each quarter, as authorized by the Agreement of Trust, the Trustees will reevaluate all relevant factors including all costs, expenses, obligations, and present and future liabilities of the Trust (whether known or contingent) in determining a prudent level of unallocated reserve in light of the unpredictable nature of the iron ore industry and current economic conditions. Accordingly, although the actual amount of the Unallocated Reserve will fluctuate from time to time, and may increase or decrease from its current level, it is currently expected that future distributions will be highly dependent upon royalty payments received quarterly and the level of Trust expenses that the Trustees anticipate occurring in subsequent quarters. Pursuant to the Agreement of Trust, the Trust makes decisions about cash distributions to Unitholders based on the royalty payments it receives from Northshore when received, rather than as royalty income is recorded in accordance with the Trust s revenue recognition policy. Refer to Note 3 for further information.

Note 4. (continued)

As of July 31, 2015 and January 31, 2015, the unallocated cash and U.S. Government securities portion of the Trust s Unallocated Reserve was comprised of the following components:

	July 31, 2015 (unaudited)	January 31, 2015
Cash and U.S. Government securities	$ 4,221,810	$ 9,484,275
Distribution payable	(524,800)	(8,396,806)
Unallocated cash and U.S. Government securities	$ 3,697,010	$ 1,087,469

A reconciliation of the Trust s Unallocated Reserve from January 31, 2015 to July 31, 2015 is as follows:

Unallocated Reserve, January 31, 2015	$ 1,611,124
Net income, six months ended July 31, 2015	3,423,910
Distributions declared	(524,800)
Unallocated Reserve, July 31, 2015	$ 4,510,234

Item 2. Trustees Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

Certain information included in this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. All such forward-looking statements, including those statements regarding estimation of iron ore pellet production, shipments or pricing, are based on information from the lessee/operator (and its parent corporation) of the mine located on the lands owned and held in trust for the benefit of the holders of units of beneficial interest of Mesabi Trust. These statements may be identified by the use of forward-looking words, such as may, will, could, project, predict, intend, believe, anticipate, expect, estimate, continu should, assume, forecast and other similar words. Such forward-looking statements are inherently subject to known and unknown risks and uncertainties. Actual results and future developments could differ materially from the results or developments expressed in or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, volatility of iron ore and steel prices, market supply and demand, competition, environmental hazards, health and safety conditions, regulation or government action, litigation and uncertainties about estimates of reserves. Further, substantial portions of royalties earned by Mesabi Trust are based on estimated prices that are subject to interim and final adjustments, which can be positive or negative, and are dependent in part on multiple price and inflation index factors under agreements to which Mesabi Trust is not a party and that are not known until after the end of a contract year. It is possible that future negative price adjustments could partially or even completely offset royalties or royalty income that would otherwise be payable to the Trust in any particular quarter, or at year-end, thereby potentially reducing cash available for distribution to the Trust s Unitholders in future quarters. For a discussion of the factors, including without limitation, those that could materially and adversely affect Mesabi Trust s

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actual results and performance, see Risk Factors set forth on pages 3 through 11 of Mesabi Trust s Annual Report on Form 10-K for the year ended January 31, 2015, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q. Mesabi Trust undertakes no obligation, other than that imposed by law, to make any revisions to the forward-looking statements contained in this filing or to update them to reflect circumstances occurring after the date of this filing.

This discussion should be read in conjunction with the condensed financial statements and notes presented in this Quarterly Report on Form 10-Q and the financial statements and notes in the last filed Annual Report on Form 10-K filed for the period ended January 31, 2015 for a full understanding of Mesabi Trust s financial position and results of operations for the six month period ended July 31, 2015.

Background

Mesabi Trust (Mesabi Trust or the Trust), formed pursuant to an Agreement of Trust dated July 18, 1961 (the Agreement of Trust), is a trust organized under the laws of the State of New York. Mesabi Trust holds all of the interests formerly owned by Mesabi Iron Company (MIC), including all right, title and interest in the Amendment of Assignment, Assumption and Further Assignment of Peters Lease (the Amended Assignment of Peters Lease), the Amendment of Assignment, Assumption and Further Assignment of Cloquet Lease (the Amended Assignment of Cloquet Lease and together with the Amended Assignment of Peters Lease, the Amended Assignment Agreements), the beneficial interest in a trust organized under the laws of the State of Minnesota to administer the Mesabi Fee Lands (as defined below) as the trust corpus in compliance with the laws of the State of Minnesota on July 18, 1961 (the Mesabi Land Trust) and all other assets and property identified in the Agreement of Trust. The Amended Assignment of Peters Lease relates to an Indenture made as of April 30, 1915 among East Mesaba Iron Company (East Mesaba), Dunka River Iron Company (Dunka River) and Claude W. Peters (the Peters Lease) and the Amended Assignment of Cloquet Lease relates to an Indenture made May 1, 1916 between Cloquet Lumber Company and Claude W. Peters (the Cloquet Lease).

The Agreement of Trust specifically prohibits the Trustees from entering into or engaging in any business. This prohibition applies even to business activities the Trustees may deem necessary or proper for the preservation and protection of the Trust Estate. Accordingly, the Trustees activities in connection with the administration of Trust assets are limited to collecting income, paying expenses and liabilities, distributing net income to the holders of Certificates of Beneficial Interest in Mesabi Trust (Unitholders) after the payment of, or provision for, such expenses and liabilities, and protecting and conserving the assets held.

The Trustees do not intend to expand their responsibilities beyond those permitted or required by the Agreement of Trust, the Amendment to the Agreement of Trust dated October 25, 1982 (the Amendment), and those required under applicable law. Mesabi Trust has no employees, but it engages independent consultants to assist the Trustees in, among other things, monitoring the volume and sales prices of iron ore products shipped from Silver Bay, Minnesota, based on information supplied to the Trustees by Northshore, the lessee/operator of the lands leased under the Peters Lease and Cloquet Lease (the Peters Lease Lands and Cloquet Lease Lands, respectively) and the 20% fee interest of certain lands that are particularly described in, and subject to a mining lease under, the Peters Lease (the Mesabi Fee Lands, and together with the Peters Lease Lands and Cloquet Lease Lands, the Mesabi Trust lands),, and its parent company Cliffs Natural Resources Inc. (Cliffs). References to Northshore in this quarterly report, unless the context requires otherwise, are applicable to Cliffs as well.

Leasehold royalty income constitutes the principal source of the Trust s revenue. The income of the Trust is highly dependent upon the activities and operations of Northshore. Royalty rates and the resulting royalty payments received by the Trust are determined in accordance with the terms of the Trust s leases and assignments of leases.

Three types of royalties, as well as royalty bonuses, comprise the Trust s leasehold royalty income:

- Base overriding royalties. Base overriding royalties have historically constituted the majority of the Trust s royalty income. Base overriding royalties are determined by both the volume and selling price of iron ore products shipped. Northshore is obligated to pay the Trust base overriding royalties in varying amounts, based on the volume of iron ore products shipped. Base overriding royalties are calculated as a percentage of the gross proceeds of iron ore products produced at the Trust lands (and to a limited extent other lands) and shipped from Silver Bay, Minnesota. The percentage ranges from 2-1/2% of the gross proceeds for the first one million tons of iron ore products so shipped annually to 6% of the gross proceeds for all iron ore products in excess of 4 million tons so shipped annually. Base overriding royalties are impacted by, among other things, price adjustments under the Cliffs Pellet Agreements and, as described elsewhere in this report, such adjustments may be positive or negative.

- Royalty bonuses. The Trust earns royalty bonuses when iron ore products shipped from Silver Bay are sold at prices above a threshold price per ton. The royalty bonus is based on a percentage of the gross proceeds of product shipped from Silver Bay and sold at prices above a threshold price. The threshold price is adjusted (but not below $30.00 per ton) on an annual basis for inflation and deflation (the Adjusted Threshold Price). The Adjusted Threshold Price was $52.31 per ton for calendar year 2014 and is $53.01 per ton for calendar year 2015. The royalty bonus percentage ranges from 1/2 of 1% of the gross proceeds (on all tonnage shipped for sale at prices between the Adjusted Threshold Price and $2.00 above the Adjusted Threshold Price) to 3% of the gross proceeds (on all tonnage shipped for sale at prices $10.00 or more above the Adjusted Threshold Price). Royalty bonuses are subject to price adjustments under the Cliffs Pellet Agreements and, as described elsewhere in this report, such adjustments may be positive or negative.

- Fee royalties. Fee royalties have historically constituted a smaller component of the Trust s total royalty income. Fee royalties are payable to the Mesabi Land Trust, a Minnesota land trust, which holds a 20% interest as fee owner in the Amended Assignment of Peters Lease. Mesabi Trust holds the entire beneficial interest in the Mesabi Land Trust for which U.S. Bank N.A. acts as the corporate trustee. Mesabi Trust receives the net income of the Mesabi Land Trust, which is generated from royalties on the amount of crude ore mined after the payment of expenses to U.S. Bank N.A. for its services as corporate trustee. Crude ore is the source of iron oxides used to make iron ore pellets and other products. The fee royalty on crude ore is based on an agreed price per ton, subject to certain indexing.

- Minimum advance royalties. Northshore s obligation to pay base overriding royalties and royalty bonuses with respect to the sale of iron ore products generally accrues upon the shipment of those products from Silver Bay. However, regardless of whether any shipment has occurred, under the terms of the Amended Assignment Agreements, Northshore is obligated to pay to the Trust a minimum advance royalty. Each year, the amount of the minimum advance royalty is adjusted (but not below $500,000 per annum) for inflation and deflation in accordance with the Amended Assignment Agreements. The minimum advance royalty was $872,156 for calendar year 2014 and is $883,875 for calendar year 2015. Until overriding royalties (and royalty bonuses, if any) for a particular year equal or exceed the minimum advance royalty for the year, Northshore must make quarterly payments of up to 25% of the minimum advance royalty for the year. Because minimum advance royalties are essentially prepayments of base overriding royalties and royalty bonuses earned each year, any minimum advance royalties paid in a fiscal quarter are recouped by credits against base overriding royalties and royalty bonuses earned in later fiscal quarters during the year.

Under the relevant documents, Northshore may mine and ship iron ore products from lands other than Mesabi Trust lands. Northshore is obligated to make quarterly royalty payments to the Trust in January, April, July and October of each year based on shipments of iron ore products from Silver Bay, Minnesota during each calendar quarter. In the case of base overriding royalties and royalty bonuses, these quarterly royalty payments are to be made whether or not the related proceeds of sale have been received by Northshore by the time such payments become due. Northshore alone determines whether to mine off Trust and/or such other lands, based on its current mining and engineering plan. The Trustees do not exert any influence over mining operational decisions. To encourage the mining of iron ore products from Mesabi Trust lands, Mesabi Trust receives royalties, in part, based on the greater of the following two methods of calculating royalty payments, (i) the aggregate quantity of iron ore products shipped that were produced using iron ore mined from Mesabi Trust lands, and (ii) a portion of the aggregate quantity of all iron ore products shipped from Silver Bay that were mined from any lands, such portion being 90% of the first four million tons shipped from Silver Bay during the calendar year, 85% of the next two million tons shipped during the calendar year, and 25% of all tonnage shipped from Silver Bay during such year in excess of six million tons. The royalty percentage paid to the Trust increases as the aggregate tonnage of iron ore products shipped, attributable to the Trust, in any calendar year increases past each of the first four one-million ton volume thresholds. Assuming a consistent sales price per ton throughout a calendar year, shipments of iron ore product attributable to the Trust later in the year generate a higher royalty to the Trust, as total shipments for the year exceed increasing levels of royalty percentages and pass each of the first four one-million ton volume thresholds.

During the course of its fiscal year some portion of royalties expected to be paid to Mesabi Trust is based in part on estimated prices for iron ore products sold under term contracts between Northshore, Cliffs and certain of their customers (the Cliffs Pellet Agreements). The Cliffs Pellet Agreements use estimated prices which are subject to interim and final pricing adjustments, which can be positive or negative, and which adjustments are dependent in part on multiple price and inflation index factors that are not known until after the end of a contract year. Even though Mesabi Trust is not a party to the Cliffs Pellet Agreements, these adjustments can result in significant variations in royalties received by Mesabi Trust (and in turn the resulting amount available for distribution to Unitholders by the Trust) from quarter to quarter and on a comparative historical basis, and these variations, which can be positive or negative, cannot be predicted by Mesabi Trust. In either case, these price adjustments will impact future royalties received by the Trust that become available for distribution to Unitholders.

Deutsche Bank Trust Company Americas, the Corporate Trustee, performs certain administrative functions for Mesabi Trust. The Trust maintains a website at www.mesabi-trust.com. The Trust makes available (free of charge) its annual, quarterly and current reports (and any amendments thereto) filed with the Securities and Exchange Commission (the SEC) through its website as soon as reasonably practicable after electronically filing or furnishing such material with or to the SEC.

Results of Operations

Comparison of Iron Ore Pellet Production and Shipments for the Three and Six Months Ended July 31, 2015 and July 31, 2014

As shown in the table below, production of iron ore pellets at Northshore from Mesabi Trust lands during the fiscal quarter ended July 31, 2015 totaled 857,276 tons, and shipments over the same period totaled 1,434,809 tons. By comparison, pellet production and shipments for the comparable period in 2014 were 1,094,000 tons and 1,716,009 tons, respectively. The decrease in production and shipments is attributable to anticipated demand and actual orders from Cliffs customers.

Fiscal Quarter Ended	Pellets Produced from Trust Lands (tons)	Pellets Shipped from Trust Lands (tons)
July 31, 2015	857,276	1,434,809
July 31, 2014	1,094,000	1,716,009

As shown in the table below, during the six months ended July 31, 2015, production of iron ore pellets at Northshore from Mesabi Trust lands totaled 2,052,536 tons, and shipments over the same period totaled 1,775,677 tons. By comparison, pellet production and shipments for the comparable period in 2014 were 2,272,206 tons and 1,794,446 tons, respectively. The decrease in production and shipments is attributable to anticipated decreased demand and actual orders from Cliffs customers. For the six months

ended July 31, 2015, approximately 93.4% of shipments from Silver Bay, Minnesota originated from Trust lands, whereas during the same period in 2014 approximately 97.8% of shipments originated from Trust lands.

Six Months Ended	Pellets Produced from Trust Lands (tons)	Pellets Shipped from Trust Lands (tons)
July 31, 2015	2,052,536	1,775,677
July 31, 2014	2,272,206	1,794,446

Comparison of Royalty Income for the Three and Six Months Ended July 31, 2015 and July 31, 2014

Total royalty income for the fiscal quarter ended July 31, 2015 decreased by $5,125,212 to $2,732,892, as compared to the fiscal quarter ended July 31, 2014. The decrease in total royalty income is due to the lower average sales price per ton of iron ore pellets sold for the fiscal quarter ended July 31, 2015. The decrease in the average sales price per ton that Cliffs has generated from its customers is contributed to decreased demand and current year-to-date downward pressure on iron ore and steel prices.

The table below shows that the base overriding royalties decreased $1,714,679 and the bonus royalties decreased $3,384,000 for the three months ended July 31, 2015, as compared to the three months ended July 31, 2014. Fee royalties decreased by $26,533 over the same period. The decrease in the base overriding royalties is attributable to a decrease in the selling price of iron ore products shipped as discussed under Base overriding royalties on page 8 of this report. The decrease in bonus royalties is attributable to a decrease in the selling price of iron ore products shipped as compared to the Adjusted Threshold Price as discussed under Royalty bonuses on page 8 of this report.

The table below summarizes the components of Mesabi Trust s royalty income for the three months ended July 31, 2015 and July 31, 2014, respectively:

	Three Months Ended July 31, 2015		Three Months Ended July 31, 2014	
Base overriding royalties	$	2,181,460	$	3,896,139
Bonus royalties		431,169		3,815,169
Minimum advance royalties paid (recouped)				
Fee royalties		120,263		146,796
Total royalty income	$	2,732,892	$	7,858,104

As reflected in the table below, the Trust s total royalty income for the six months ended July 31, 2015 decreased by $4,310,559 to $4,048,845 as compared to the six months ended July 31, 2014. The decrease is the result of lower average sales price per ton of iron ore pellets sold during the six months ended July 31, 2015, as compared to the six months ended July 31, 2014.

The table below shows that the base overriding royalties, and the bonus royalties decreased by $1,369,220 and $2,898,983 to $2,684,601 and $1,099,641, respectively, and the fee royalties decreased by $42,356 to $264,603 for the six months ended July 31, 2015, from the comparable period in 2014. The decreases in the base overriding royalties and the bonus royalties are attributable to a decrease in the selling price of iron ore products shipped, and more importantly, the comparison between the selling price of iron ore products shipped and the Adjusted Threshold Price as discussed under Royalty bonuses on page 8 of this report.

The table below summarizes the components of Mesabi Trust s total royalty income for the six months ended July 31, 2015 and July 31, 2014:

		Six Months Ended July 31,		
		2015		2014
Base overriding royalties	$	2,684,601	$	4,053,821
Bonus royalties		1,099,641		3,998,624
Minimum advance royalties paid (recouped)				
Fee royalties		264,603		306,959
Total royalty income	$	4,048,845	$	8,359,404

Comparison of Net Income, Expenses and Distributions for the Three and Six Months Ended July 31, 2015 and July 31, 2014

Net income for the fiscal quarter ended July 31, 2015 was $2,483,644, a decrease of $4,932,897 compared to the fiscal quarter ended July 31, 2014. The decrease in net income for the fiscal quarter ended July 31, 2015 was the result of a significant decrease in royalty income due to lower average sales prices per ton of iron ore pellets sold. The table below summarizes the Trust s income and expenses for the fiscal quarter ended July 31, 2015 and July 31, 2014, respectively.

		Three Months Ended July 31,		
		2015		2014
Total royalty income	$	2,732,892	$	7,858,104
Interest income		2,469		2,256
Total revenues		2,735,361		7,860,360
Expenses		251,717		443,819
Net income	$	2,483,644	$	7,416,541

Net income for the six months ended July 31, 2015 was $3,423,910, a decrease of $4,129,849 as compared to the six months ended July 31, 2014. The decrease in net income for the six months ended July 31, 2015 was mostly the result of a significant decrease in royalty income due to lower average sales prices per ton of iron ore pellets sold, as compared to the six months ended July 31, 2014. The Trust s expenses of $629,460 for the six months ended July 31, 2015 decreased when compared with the Trust s expenses for the six month period ended July 31, 2014, primarily because the higher expenses during the period in 2014 were related to the election of a new Trustee, which only occurs when there is a vacancy on the board of trustees. The table below summarizes the Trust s income and expenses for the six months ended July 31, 2015 and July 31, 2014, respectively.

		Six Months Ended July 31,		
		2015		2014
Total royalty income	$	4,048,845	$	8,359,404
Interest income		4,525		4,391
Total revenues		4,053,370		8,363,795
Expenses		629,460		810,036
Net income	$	3,423,910	$	7,553,759

As presented on the Trust s Condensed Statements of Income on page 2 of this quarterly report, the Trust s net income per unit decreased $0.3760 per unit to $0.1893 per unit for the fiscal quarter ended July 31, 2015. For the six months ended July 31, 2015, the Trust s net income per unit decreased $0.3147 per unit to $0.2610 per unit, as compared to the prior year period. On July 17, 2015, the Trust declared a distribution of $0.04 per unit payable to Unitholders of record on July 30, 2015. Comparatively, the Trust

declared a distribution of $0.32 per unit to Unitholders in July 2014. During the six months ended July 31, 2015 and July 31, 2014, the Trust had declared total distributions per unit of $0.04 and $0.32, respectively.

Distributions are declared after receiving notification from Northshore as to the amount of royalty income that is expected to be paid to the Trust based on shipments through the end of each calendar quarter and such royalty payments may include pricing adjustments with respect to shipments during prior periods. The Trust accounts for and reports accrued income receivable based on shipments during the last month of each of the Trust s fiscal quarters (April, July, October and January) and price adjustments under the Cliffs Pellet Agreements (which can be positive or negative and can result in significant variations in royalties received by Mesabi Trust and cash available for distribution to Unitholders) as reported to the Trust by Northshore. The Trust accounts for these amounts by using estimated prices and reports such amounts even though accrued income receivable is not available for distribution to Unitholders until it is received by the Trust. Accordingly, distributions declared by the Trust are not equivalent to the Trust s Net Income during the periods reported in this quarterly report on Form 10-Q.

Comparison of Unallocated Reserve as of July 31, 2015, July 31, 2014 and January 31, 2015

As set forth in the table below, Unallocated Reserve, which is comprised of accrued income receivable, unallocated cash and U.S. Government securities for potential fixed or contingent future liabilities, and prepaid expenses and accrued expenses increased from $4,339,450 as of July 31, 2014 to $4,510,234 as of July 31, 2015. The increase in Unallocated Reserve as of July 31, 2015, as compared to July 31, 2014, is primarily the result of an increase in the unallocated cash and U.S. Government securities held by the Trust. The decrease in the accrued income receivable portion of the Unallocated Reserve is the result of lower average sales prices per ton of iron ore pellets sold and shipped by Northshore for the month ended July 31, 2015, as compared to the month ended July 31, 2014, which in turn drove lower royalties payable to Mesabi Trust. The increase in the unallocated cash and U.S. Government securities is a result of the Trustees determinations to not make a distribution in May 2015 (announced in April) and to make a relatively small amount of distribution in August 2015 (announced in July).

These distribution determinations by the Trustees during the last two quarters resulted from several factors, including that the Trustees were informed that the anticipated quarterly royalty payment would be relatively low, the determination to make adequate provision for expenses and anticipated negative price adjustments which are expected be applied to future royalties, and to increase the Trust s unallocated reserve after considering the need to maintain adequate reserves in light of the unpredictable nature of the iron ore industry and current economic conditions.

The decreases in prepaid and accrued expenses (net) is related to an increase in accrued expenses for the month ended July 31, 2015 as compared to the month ended July 31, 2014.

	July 31,			
		2015		**2014**
Accrued Income Receivable	$	767,918	$	3,371,401
Unallocated Cash and U.S. Government Securities		3,697,010		885,407
Prepaid Expenses and (Accrued Expenses) Net		45,306		82,642
Unallocated Reserve	$	4,510,234	$	4,339,450

It is possible that future negative price adjustments could offset, or even eliminate, future royalties or royalty income that would otherwise be payable to the Trust in any particular quarter, or at year end, thereby potentially reducing cash available for distribution to the Trust s Unitholders in future

quarters. See the discussion under the heading   Risk Factors   beginning on page 3 of the Trust s Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

The Trust s Unallocated Reserve as of July 31, 2015 increased by $ 2,899,110 to $4,510,234, as compared to the fiscal year ended January 31, 2015. The increase in the Unallocated Reserve is due primarily to an increase in the unallocated cash and U.S. Government securities held by the Trust as a result of the Trustees   determination to not make a distribution in April 2015 and to make only a nominal amount of distribution in July 2015. As of July 31, 2015, the Trust s Unallocated Reserve consisted of $3,697,010 of unallocated cash and U.S. Government securities and $767,918 of accrued income receivable. At January 31, 2015, the Trust s Unallocated Reserve consisted of $1,087,469 in unallocated cash and U.S. Government securities and $558,385 of accrued income receivable.

		July 31, 2015		January 31, 2015
Accrued Income Receivable	$	767,918	$	558,385
Unallocated Cash and U.S. Government Securities		3,697,010		1,087,469
Prepaid Expenses and (Accrued Expenses) Net		45,306		(34,730)
Unallocated Reserve	$	4,510,234	$	1,611,124

During recent periods, the Trustees had determined that Mesabi Trust s unallocated reserve should usually be within the range of $500,000 to $1,000,000. In April 2015, the Trustees determined that the unallocated reserve will no longer necessarily be within such range. Rather, each quarter, as authorized by the Agreement of Trust, the Trustees will reevaluate all relevant factors including all costs, expenses, obligations, and present and future liabilities of the Trust (whether known or contingent) in determining a prudent level of unallocated reserve in light of the unpredictable nature of the iron ore industry and current economic conditions. Although the actual amount of the Unallocated Reserve will fluctuate from time to time and may increase or decrease from its current level, it is currently intended that future distributions will be highly dependent upon royalty income as it is received and the level of Trust expenses. The amount of future royalty income available for distribution will be subject to the volume of iron ore product shipments and the dollar level of sales by Northshore. Shipping activity is greatly reduced during the winter months. Economic conditions, particularly those affecting the steel industry, may adversely affect the amount and timing of such future shipments and sales. The Trustees will continue to monitor the economic circumstances of the Trust to strike a responsible balance between distributions to Unitholders and the need to maintain adequate reserves at a prudent level, given the unpredictable nature of the iron ore industry, the Trust s dependence on the actions of the lessee/operator, and the fact that the Trust essentially has no other liquid assets.

Recent Developments

Unallocated Reserve. In recent years, the Trustees had determined that Mesabi Trust s unallocated reserve balance should be maintained within the range of $500,000 to $1,000,000. In April 2015, the Trustees announced that the unallocated reserve balance will no longer be limited to that range for the foreseeable future. Rather, each quarter, as authorized by the Agreement of Trust, the Trustees will review royalty revenues and also reevaluate all relevant factors including all costs, expenses, obligations, and present and future liabilities (whether known or contingent) of the Trust in determining a prudent level of unallocated reserve. The Trustees   recent decisions (announced in April and July 2015) to increase the reserve reflects such a reevaluation in light of the current trend of falling prices of both finished steel and iron ore, the slowing of mining operations in the iron ore industry generally, the potential for negative price adjustments which might be applied to future royalties payable to the Trust, and the unpredictable nature of the iron ore and steel industry in general. See   Risk Factors   set forth on pages 3 through 11 of Mesabi Trust s Annual Report on Form 10-K for the year-ended January 31, 2015, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.

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Cliffs Developments. As reported by Cliffs in its most recent Form 10-Q for the quarter ended June 30, 2015, Cliffs announced that it intended to temporarily idle its production at the United Taconite mine as a result of an unexpected reduction in iron ore pellet nominations from its customers during the second quarter.

Separately, as recently reported by the Duluth News Tribune, Cliffs Chairman and Chief Executive Officer, Lourenco Goncalves, announced that in the future, it is expected that the taconite pellet plant at Northshore will be retooled with additional equipment to also produce direct reduced iron-ready pellets at Northshore s facility. Direct reduced iron can be used in so-called electric arc furnaces or mini-mills rather than larger blast furnaces. The Trustees are not able to predict what impact, if any, this development would have on future royalty revenue of Mesabi Trust.

Important Factors Affecting Mesabi Trust

The Agreement of Trust specifically prohibits the Trustees from entering into or engaging in any business. This prohibition seemingly applies even to business activities the Trustees deem necessary or proper for the preservation and protection of the Trust s assets. Accordingly, the Trustees activities in connection with the administration of Trust assets are limited to collecting income, paying expenses and liabilities, distributing net income to Mesabi Trust s Unitholders after the payment of, or provision for, such expenses and liabilities, and protecting and conserving the Trust s assets.

Neither Mesabi Trust nor the Trustees have any control over the operations and activities of Northshore, except within the framework of the Amended Assignment Agreements. Cliffs alone controls (i) historical operating data, including iron ore production volumes, marketing of iron ore products, operating and capital expenditures as they relate to Northshore, environmental and other liabilities and the effects of regulatory changes; (ii) plans for Northshore s future operating and capital expenditures; (iii) geological data relating to ore reserves (iv) projected production of iron ore products; (v) contracts between Cliffs and Northshore with their customers; and (vi) the decision to mine off Mesabi Trust and/or state lands, based on Cliffs current mining and engineering plan. The Trustees do not exert any influence over mining operational decisions at Northshore, nor do the Trustees provide any input regarding the ore reserve estimated at Northshore as reported by Cliffs. While the Trustees request relevant information from Cliffs and Northshore for use in periodic reports as part of their evaluation of Mesabi Trust s disclosure controls and procedures, the Trustees do not control this information and they rely on the information in Cliffs periodic and current filings with the SEC to provide accurate and timely information in Mesabi Trust s reports filed with the SEC.

In accordance with the Agreement of Trust and the Amendment, the Trustees are entitled to, and in fact do, rely upon certain experts in good faith, including (i) the independent consultants with respect to monthly production and shipment reports, which include figures on crude ore production and iron ore pellet shipments, and discussions concerning the condition and accuracy of the scales and plans regarding the development of Mesabi Trust s mining property; and (ii) the accounting firm they have contracted with for non-audit services, including reviews of financial data related to shipping and sales reports provided by Northshore and a review of the schedule of leasehold royalties payable to Mesabi Trust. For a discussion of additional factors, including but not limited to those that could adversely affect Mesabi Trust s actual results and performance, see Risk Factors set forth on pages 3 through 11 of Mesabi Trust s Annual Report on Form 10-K for the year-ended January 31, 2015, as updated by Part II, Item 1A of this Quarterly Report on Form 10-Q.

Iron Ore Pricing and Contract Adjustments

During the course of its fiscal year some portion of the royalties paid to Mesabi Trust are based on estimated prices for iron ore products sold under term contracts between Cliffs and its subsidiaries and certain of their customers (the Cliffs Pellet Agreements). Mesabi Trust is not a party to any of the Cliffs Pellet Agreements. These prices are subject to interim and final pricing adjustments, which can be positive or negative, and which adjustments are dependent in part on a variety of price and inflation index factors, including but not limited to the international benchmark pellet price, hot band steel prices and various Producer Price Indexes. Although Northshore makes interim adjustments to the royalty payments on a quarterly basis, these price adjustments cannot be finalized until after the end of a contract year. This may result in significant and frequent variations in royalties received by Mesabi Trust (and in turn the resulting amount of funds available for distribution to Unitholders by the Trust) from quarter to quarter and on a comparative historical basis, and these variations, which can be positive or negative, cannot be predicted by Mesabi Trust. It is possible that future negative price adjustments could partially or even completely offset royalties or royalty income that would otherwise be payable to the Trust in any particular quarter, or at year-end, thereby potentially reducing cash available for distribution to the Trust s Unitholders in future quarters.

Effects of Securities Regulation

The Trust is a publicly-traded trust with Units of Beneficial Interest that are listed on the New York Stock Exchange (NYSE) and is therefore subject to extensive regulations under, among others, the Securities Act of 1933, the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) and the rules and regulations of the NYSE, each as amended. Issuers failing to comply with such regulations risk serious consequences, including criminal as well as civil and administrative penalties. In most instances, these laws, rules and regulations do not specifically address their applicability to publicly-traded trusts such as Mesabi Trust. In particular, Sarbanes-Oxley and the Dodd-Frank Wall Street Reform and Consumer Protection Act have mandated the adoption by the Securities and Exchange Commission (the SEC) and, in some instances, the NYSE of certain rules and regulations that are impossible for the Trust to satisfy because of its nature as a pass-through trust that has no officers or employees. Pursuant to NYSE rules currently in effect the Trust is exempt from many of the corporate governance requirements that apply to publicly traded corporations listed on the NYSE. The Trust does not have, nor does the Agreement of Trust provide for, a board of directors, an audit committee, a corporate governance committee or a compensation committee. The Trustees intend to closely monitor the SEC s and the NYSE s rulemaking activity and will attempt to comply with such rules and regulations where applicable.

The Trust s website is located at www.mesabi-trust.com.

Critical Accounting Policies and Estimates

This Trustees Discussion and Analysis of Financial Condition and Results of Operations is based upon the Trust s financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Trustees to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Critical accounting policies are those that have meaningful impact on the reporting of the Trust s financial condition and results, and that require significant judgment and estimates. During the preparation of financial statements, the Trust makes estimates, assumptions and judgments that affect reported amounts. These estimates, assumptions and judgments include those related to revenue recognition and accrued expenses. The Trust bases its estimates on various assumptions and historical experience, which are believed to be reasonable; however, due to the inherent nature of estimates, actual results may differ significantly due to changed conditions or assumptions. On a regular basis, the Trust reviews the accounting policies, assumptions, estimates and judgments to ensure that the financial statements are fairly presented in

accordance with accounting principles generally accepted in the United States. However, because future events and their effects cannot be determined with certainty, actual results could differ from assumptions and estimates, and such differences could be material.

The Trust did not have any changes in critical accounting policies or in significant accounting estimates during the three months ended July 31, 2015. For a complete description of the Trust s significant accounting policies, please see Note 2 to the financial statements included in the Trust s Annual Report on Form 10-K for the year ended January 31, 2015.

Certain Tax Information

The Trust is not taxable as a corporation for federal or state income tax purposes and is instead qualified as a nontaxable grantor trust. Since the Trust s inception, all net taxable income is annually attributable directly to Unitholders for tax purposes regardless of whether the income is distributed or retained by the Trust in its reserve account. As such, in lieu of the Trust paying income taxes, Unitholders report their pro rata share of the various items of Trust income and deductions on their income tax returns. This reporting is required whether or not the earnings of the Trust are distributed as to Unitholders. During calendar 2015, the funds retained to increase the Trust s unallocated reserve, which were derived from reportable royalty income, will nonetheless become taxable as reportable income to Unitholders, depending on each individual s personal tax situation. As of the date of this report, the Trustees project that the amount of net royalty income that will be held in the Trust s unallocated reserve for the fiscal year ending January 31, 2016 will be significantly greater than in prior years, which likely will result in a larger percentage than usual of Unitholders tax liability for calendar 2015 relating to undistributed income. Information regarding the background on the increase in the Trust s unallocated reserve is described above under Results of Operations Comparison of Unallocated Reserve as of July 31, 2015, July 31, 2014 and July 31, 2015 and Recent Developments Unallocated Reserve. Unitholders are encouraged to consult with their own tax advisors to plan for any financial impact related to this and to review their personal tax situations related to investing in, holding or selling units of beneficial interest in Mesabi Trust.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. The Trustees maintain disclosure controls and procedures designed to ensure that information required to be disclosed by the Trust in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and regulations of the Securities and Exchange Commission. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Trust is accumulated and communicated by Northshore, and consultants to the Trustees as appropriate, to allow timely decisions regarding required disclosure.

As part of their evaluation of the Trust s disclosure controls and procedures, the Trustees rely on quarterly shipment and royalty calculations provided by Northshore. Because Northshore has declined to support this information with a written certification attesting to whether Northshore has established disclosure controls and procedures and internal controls sufficient to enable it to verify that the information furnished to the Trustees is accurate and complete, the Trustees also rely on (a) an annual certification from Northshore and Northshore s parent, Cliffs, certifying as to the accuracy of the royalty calculations, and (b) the related due diligence review performed by the Trust s external accountants. In addition, the Trust s consultants review the schedule of leasehold royalties payable and shipping and sales reports provided by Northshore against production and shipment reports prepared by the Eveleth Fee Office, Inc., an independent consultant to the Trust (Eveleth Fee Office). The Eveleth Fee Office gathers production and shipping information from Northshore and prepares monthly production and shipment reports for the Trustees. Furthermore, as part of its engagement by the Trust, the Eveleth Fee Office also attends Northshore s calibration and testing of its crude ore scales and boat loader scales which are conducted on a periodic basis.

As of the end of the period covered by this report, the Trustees carried out an evaluation of the Trust s disclosure controls and procedures. The Trustees have concluded that such disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting. To the knowledge of the Trustees, there has been no change in the Trust s internal control over financial reporting that occurred during the Trust s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Trust s internal control over financial reporting. The Trustees note for purposes of clarification that they have no authority over, and make no statement concerning, the internal control over financial reporting of Northshore or Cliffs.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes in the Trust s risk factors as described in Risk Factors set forth on pages 3 through 11 of Mesabi Trust s Annual Report on Form 10-K for the year-ended January 31, 2015.

Item 5. Other Information

Mine Safety and Health Administration Safety Data. Pursuant to §1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Cliffs started reporting information related to certain mine safety results at Northshore. This information is available in Part II, Item 4 of Cliffs Form 10-Q filed July 29, 2015.

Item 6. Exhibits.

31	Certification of Corporate Trustee of Mesabi Trust pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Corporate Trustee of Mesabi Trust pursuant to 18 U.S.C. Section 1350, as adopted, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Report of Baker Tilly Virchow Krause, LLP, dated September 4, 2015 regarding its review of the unaudited interim financial statements of Mesabi Trust as of and for the three and six months ended July 31, 2015.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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.

MESABI TRUST
(Registrant)

By: DEUTSCHE BANK TRUST COMPANY AMERICAS
Corporate Trustee
Principal Administrative Officer and duly authorized signatory:*

By: DEUTSCHE BANK NATIONAL TRUST COMPANY

September 4, 2015

By: /s/ Jeffrey Schoenfeld
Name: Jeffrey Schoenfeld*
Title: Vice President

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* There are no principal executive officers or principal financial officers of the registrant.

EXHIBIT INDEX

Item No.	Item	Filing Method
31	Certification of Corporate Trustee of Mesabi Trust pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
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99.1	Report of Baker Tilly Virchow Krause, LLP, dated September 4, 2015 regarding its review of the unaudited interim financial statements of Mesabi Trust as of and for the three and six months ended July 31, 2015.	Filed herewith
101.INS	XBRL Instance Document (Interactive Data File)	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema (Interactive Data File)	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (Interactive Data File)	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Linkbase (Interactive Data File)	Filed herewith
101.LAB	XBRL Taxonomy Extension Label Linkbase (Interactive Data File)	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (Interactive Data File)	Filed herewith