KC|M7

TC03-168

DOCKET NO. TC03-168

In the Matter of IN THE MATTER OF THE APPLICATION OF IDT AMERICA, CORP. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
8/25	03	Filed and Docketed;
8/28	03	Weekly Filing;
10/9	03	Tariff;
12/19	03	Surety Bond provided in TC00-168;
1/16	04	Order Granting COA;
1/16	04	Docket Closed.

TC 03-168

IDT

Legal Department

IDT Corporation
520 Broad Street
Newark, NJ 07102 USA
P 973 438/3342
F 973 438/1455
www.idt.net

August 22, 2003

RECEIVED
AUG 25 2003
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

VIA OVERNIGHT MAIL

William Bullard, Executive Director
South Dakota Public Utilities Commission
500 E. Capitol
State Capitol Building, 1ST Floor
Pierre, South Dakota 57501

Re: Application for Certificate of Authority

Dear Mr. Bullard:

Enclosed for filing on behalf of IDT, Corp. ("IDT") are an original and ten (10) copies of IDT's application for a Certificate of Authority to provide facilities-based and resold local exchange telecommunications service in the State of South Dakota. IDT previously received authority to provide intrastate interexchange telecommunications service in Docket TC00-168 (January 12, 2001). Also enclosed, please find a check for $250.00 made payable to the South Dakota Public Utilities Commission, to cover the Commission's filing fee.

Please date-stamp the enclosed extra copy of this letter and return it in the self-addressed, stamped envelope provided herein.

Should you have any questions concerning this filing, please do not hesitate to contact me at (973) 438-4854.

Respectfully submitted,

Carl Wolf Billek

Carl Wolf Billek
IDT America, Corp.

Enclosure

Returned Check
8/25/03

BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

RECEIVED
AUG 25 2003
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Application of	)	
	)	
IDT AMERICA, CORP.	)	
	)	
For a Certificate of Authority to	)	Docket No.
Provide Facilities-based and Resold Local	)	
Exchange Telecommunications Services	)	
Within the State of South Dakota	)	

PETITION FOR CERTIFICATE OF AUTHORITY

IDT America, Corp. ("IDT" or "Petitioner"), by its undersigned counsel, hereby submits its Petition for a Certificate of Authority to provide facilities-based and resold local exchange telecommunications services pursuant to Section 20:10:32:03 *et seq.* of the South Dakota Administrative Code.

In support thereof, IDT provides the following information:

1. The legal name of the Petitioner is IDT America, Corp. IDT maintains its principal place of business at:

    IDT America, Corp.
    520 Broad Street
    Newark, New Jersey 07102-3111
    Telephone: (973) 438-1000
    Facsimile: (973) 438-1455
    Carl.Billek@corp.idt.net

    Applicant is a New Jersey corporation.

2. Applicant's Officers and Directors are as follows:

    Officers

    Howard Jonas, Chief Executive Officer and Treasurer
    James A. Courter, President
    Joyce J. Mason, Secretary
    Stephen R. Brown, Chief Financial Officer
    Doug Mauro, Senior Vice President

Directors

Howard Jonas, Chairman
James A. Courter
Marc Knoller

All of the above are located at:

520 Broad Street
Newark, New Jersey 07102-3111

3. Applicant will provide local exchange service under the name IDT America, Corp.

4a. Applicant does not maintain an office in South Dakota. The name and address of Applicant's registered agent is:

CT Corporation System
319 South Coteau Street
Pierre, South Dakota 57501
Telephone: (605) 224-5826

4b. IDT is a wholly owned subsidiary of IDT Domestic Telecom, Inc. IDT Domestic Telecom, Inc., a Delaware corporation, is a wholly owned subsidiary of IDT Telecom, Inc. IDT Telecom, Inc., a Delaware corporation, is a wholly owned subsidiary of IDT Corporation, a Delaware corporation that is publicly traded on the New York Stock Exchange. Mr. Howard Jonas is the only individual or entity that holds more than 20% of IDT Corporation.

4c. Applicant is a New Jersey corporation. It was incorporated on June 24, 1994. A copy of IDT's Certificate of Incorporation is attached hereto as **Exhibit 1**.

4d. IDT's Certificate of Qualification to Transact Business in South Dakota is attached hereto as **Exhibit 2**.

5. IDT has provided intrastate, interexchange toll service in South Dakota since 2001. Applicant and/or its parent and affiliates have provided telecommunications services since approximately 1990. Applicant's parent, IDT Corporation, holds a Section 214 license from the Federal Communications Commission, dated IDT-214-19970303-00132 (March 12, 1997).

6. Applicant is an affiliate of Entrix Telecom, Inc., Winstar Communications, LLC, Winstar Holdings, LLC, Winstar Government Solutions, Winstar Equipment, LLC, Winstar Spectrum, LLC and IDT Advanced Communication Services, LLC. Applicant is a subsidiary of IDT Domestic Telecom, Inc., IDT Telecom, Inc. and

IDT Corporation. All of the aforementioned entities are located at:

520 Broad Street
Newark, New Jersey 07102-3111

7a. Applicant intends to serve small business customers and residential customers.

7b. Applicant intends to provide service via unbundled network elements and resale within three months of the Commission's approval of Applicant's Application, Interconnection Agreement and Tariff.

7c. Applicant intends to provide service via the unbundled network element platform of the incumbent local exchange carrier.

7d. IDT sees authority to provide competitive local exchange service.

8. Applicant seeks authority to provide service statewide, except for those areas deemed "rural" and those areas of the state that are not open to competition.

9a. An overview of Applicant's management is provided at **Exhibit 3**.

9b. Applicant presently maintains Customer Service Staff in the United States (in multiple time zones) and abroad. Applicant is aware of the Customer Service requirements of the Commission and its Staff is equipped to act in accordance with those requirements, just as it has as a certificated interexchange service provider. Applicant will contract with established, licensed, experienced entities to provide facility and equipment maintenance, to the degree such maintenance is necessary.

10. Applicant will provide its subscribers with access to emergency services such as 911 or enhanced 911, operator services, interexchange services, directory assistance and telecommunications relay services by contracting qualified entities, such as the incumbent local exchange carrier, to provide such services.

11a. A copy of the most recent financial statement of Applicant's parent, IDT Corporation, is provided at **Exhibit 4.**

11b. Applicant is not a public corporation, however, its parent, IDT Corporation is a public company. A copy of IDT Corporation's most recent Annual Report is enclosed at **Exhibit 5**.

12a. Presently, IDT intends to interconnect with Qwest Communications International, Inc. IDT may seek to interconnect with additional local exchange service providers as market conditions warrant.

12b. Applicant intends to opt in to an existing interconnection agreement with Qwest.

Applicant is presently reviewing available agreements and intends to opt into an agreement within one month of the Commission's grant of this Application.

12c. Applicant has not submitted a request for interconnection to any local exchange carrier as of the date of this Application.

13. Because Applicant has not yet entered into an interconnection agreement, it requests a waiver of the requirement to submit a Tariff for its local exchange services with this Application. Applicant requests permission to file its Tariff at a later date. Applicant understands that, even upon the grant of this Application, it may not offer local exchange until the Commission approves its Tariff.

14. Because Applicant seeks a waiver of 20:10:32:03(13) of the South Dakota Administrative Code, it accordingly seeks a waiver of 20:10:32:03(14) of the South Dakota Administrative Code as well.

15. Applicant intends to market its local exchange services primarily through print, television and radio. Applicant does not intend to engage in multilevel marketing. Applicant has not yet produced any company brochures to assist in the sale of its local exchange services.

16. Applicant does not seek authority to provide local exchange service in the service area of a rural telephone company.

17. Applicant is registered to provide intrastate, interexchange service in all fifty (50) states. Applicant is also registered to provide local exchange service in the following states: Alabama, California, Colorado, Delaware, District of Columbia, Florida, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Nevada, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, Washington, West Virginia and Wisconsin. Applicant is in good standing in all states.

18. Questions regarding regulatory matters, including this Application, should be addressed to:

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-4854 (Telephone)
(973) 438-1455 (Facsimile)
Carl.Billek@corp.idt.net (Email)

Questions regarding consumer complaints should be addressed to:

Anthony Acevedo, Customer Service Specialist
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-4827 (Telephone)
(973) 438-1455 (Facsimile)
Anthony.Acevedo@corp.idt.net (Email)

19. Applicant will bill its subscribers directly. Applicant will not use a third party for billing.

20. Applicant's procedures to solicit and secure the authorization of customers that switch their service provider to IDT are fully compliant with all applicable federal and state laws. It is Applicant's belief that continued adherence to applicable rules shall ensure continued compliance.

21. For the most recent six-month period for which such information is available, IDT reported 60 occasions of unauthorized switching of a customer's telecommunications provider and no instances of charging customers for services that have not been ordered. While IDT considers even one instance of unauthorized switching of a customer's telecommunications provider to be one too many, IDT considers this number, when compared against its total number of subscribers (approximately 600,000, or one-one hundredth of one percent) to demonstrate the effectiveness of its procedures. Moreover, this number was considerably higher than the previous period - 25 - due problems incurred as a result of IDT switching its underlying service provider. These problems have been resolved and will not be present in IDT's local exchange service. Applicant has never been fined or otherwise sanctioned by a regulatory agency for an unauthorized switching of a customer's telecommunications provider.

22. For the reasons stated above in (13) and (14), Applicant requests a waiver of 20:10:32:03(13) and (14) of the South Dakota Administrative Code.

23. Applicant's Federal Tax Number is 22-3312697.

24. Applicant will provide any additional information upon the request of the Commission.

WHEREFORE, IDT America, Corp. requests that the South Dakota Public Utilities Commission grant the requested authority to provide facilities-based and resold local exchange telecommunications services in the State of South Dakota.

Respectfully submitted,

Carl Wolf Billek

Carl Wolf Billek
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
Telephone: (973) 438-4854
Facsimile: (973) 438-1455

Dated: August 22, 2003

LIST OF EXHIBITS

EXHIBIT 1 – CERTIFICATE OF INCORPORATION
EXHIBIT 2 – CERTIFICATE TO TRANSACT BUSINESS IN SOUTH DAKOTA
EXHIBIT 3 – MANAGEMENT BIOGRAPHIES
EXHIBIT 4 – IDT CORPORATION 2003 SEC FORM 10-Q
EXHIBIT 5 – IDT CORPORATION 2002 SEC FORM 10-K

EXHIBIT 1 – CERTIFICATE OF INCORPORATION

STATE OF NEW JERSEY
DEPARTMENT OF TREASURY
FILING CERTIFICATION (CERTIFIED COPY)

IDT AMERICA, CORP.

I, the Treasurer of the State of New Jersey, do hereby certify, that the above named business did file and record in this department the below listed document(s) and that the foregoing is a true copy of the
certificate of incorporation
as the same is taken from and compared with the original(s) filed in this office on the date set forth on each instrument and now remaining on file and of record in my office.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my Official Seal at Trenton, this 13th day of October, 2000

Roland M Machold

Roland M Machold
Treasurer

Deborah Jonas, 3220 Arlington Avenue, Riverdale, NY 10463

Joyce J. Mason, 170 W. 23rd Street, New York, NY 10011

EIGHTH: The period of existence of this corporation is unlimited.

NINTH: A director shall not be personally liable to the corporation or its shareholders for damages for breach of any duty owed to the corporation or its shareholders; except that this provision shall not relieve a director from liability for any breach of duty based upon an act or omission (a) in breach of such person's duty of loyalty to the corporation or its shareholders, (b) not in good faith or involving a knowing violation of law or (c) resulting in receipt by such person of an improper personal benefit.

IN WITNESS WHEREOF, the undersigned incorporator has hereunto subscribed his name this 21th day of June, 1994.

Howard Jonas - Incorporator
3220 Arlington Avenue
Riverdale, NY 10463

EXHIBIT 2 – CERTIFICATE TO TRANSACT BUSINESS IN SOUTH DAKOTA

State of South Dakota

OFFICE OF THE SECRETARY OF STATE

CERTIFICATE OF AUTHORITY

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of IDT AMERICA, CORP. (NJ) to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state under the name of IDT AMERICA, CORP.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this May 8, 1998.

JOYCE HAZELTINE
Secretary of State

SECRETARY OF STATE
STATE CAPITOL
500 E. CAPITOL
PIERRE, S.D. 57501-5077
605-773-4845
FAX (605) 773-4550

FILE NO.

RECEIPT NO. RECEIVED

MAY 08 1998

S.D. SEC. OF STATE

APPLICATION FOR CERTIFICATE OF AUTHORITY

Pursuant to the provisions of SDCL 47-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

(1) The name of the corporation is IDT America, Corp.
(Exact corporate name)

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is

(3) State where incorporated New Jersey Federal Taxpayer ID# 22-3312697

(4) The date of its incorporation is June 24, 1994 and the period of its duration, which may be perpetual, is Perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is

294 State Street, Hackensack, New Jersey Zip Code 07601

mailing address if different from above is: Same

Zip Code

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is c/o C T Corporation System, 319 S. Coteau Street, Pierre, South Dakota Zip 57501 and the name of its proposed registered agent in the State of South Dakota at that address is

C T Corporation System

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose) Provision of telecommunications services

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address	City	State	Zip
See attached list of directors and					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
10,000 ~~1,000,000~~	Common Stock	(No series)	No par value

(S. D. - 258 - 7/19/97)

(10) The aggregate number o. ..s issued shares, itemized by classes, ,-. value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
1,000	Common Stock	(No series)	No par value

(11) The amount of its stated capital is $ 100,000

Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the secretary of state or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated April 10, 19 98

Jim Courter
(Signature) Jim Courter

President
(Title)

State of New Jersey
County of Bergen

On this 10th day of April, 19 98, before me Diane Clark personally appeared Jim Courter, known to me, or proved to me, to be the President of the corporation that is described in and that executed the within instrument and acknowledged to me that such corporation executed same.

My Commission Expires: ____________

Diane Clark
(Notary Public)

Notarial Seal

Attorney at law
State of New Jersey

****

The Consent of Appointment below must be signed by the registered agent listed in number six.

CONSENT OF APPOINTMENT BY THE REGISTERED AGENT

I, C T Corporation System, hereby give my consent to serve as the
(name of registered agent)

registered agent for IDT America, Corp.
(corporate name)

Dated April 17 19 98

C T CORPORATION SYSTEM
(signature of registered agent)

EXHIBIT 3 – MANAGEMENT BIOGRAPHIES

Managerial and Technical Qualifications
Key Personnel for Applicant

Howard S. Jonas founded IDT Corporation in August 1990 and has served as Chairman of the Board and Treasurer since its inception and as Chief Executive Officer Since December 1991. He served as President of IDT Corporation from December 1991 through September 1996. Mr. Jonas has served as Chief Executive Officer and Treasurer of IDT America, Corp. since 1994. Mr. Jonas is also the founder of the Jonas Publishing Corp., a publisher of trade directories, of which Mr. Jonas has been President since 1979. Mr. Jonas received a B.A. in economics from Harvard University.

James Courter joined IDT Corporation as President in October 1996 and was named Vice Chairman and CEO of IDT Corporation in 2001. He has been the President of IDT America, Corp. since joining the Company. Mr. Courter has been a senior partner in the New Jersey law firm of Courter, Kobert, Laufer & Cohen since 1972. He was also a partner in the Washington, D.C. law firm of Verner, Lipfert, Bernhard, McPerson & Hand from January 1994 to September 1996. Mr. Courter was a member of the U.S. House of Representatives for 12 years, retiring in January 1991. From 1991 to 1994, Mr. Courter was Chairman of the President's Defense Base Closure and Realignment Commission. Mr. Courter also serves on the Board of Directors of Envirogen, Inc. He received a B.A. from Colgate University and a J.D. from Duke University Law School.

Stephen Brown joined IDT Corporation as its Chief Financial Officer in May 1995 and he has served as the Chief Financial Officer of IDT America, Corp. since its inception. From 1985 to May 1995, Mr. Brown operated his own public accounting practice servicing medium-sized corporations as well as high net worth individuals. Mr. Brown received a B.A. in Economics from Yeshiva University and a B.B.A. in Business and Accounting from Baruch College.

Joyce Mason has been the Secretary of IDT Corporation since its inception and has served as the Secretary of IDT America, Corp. since its inception. Previously, Ms. Mason was in private legal practice since August 1990. Ms. Mason received a B.A. from the City University of New York and a J.D. from New York Law School.

Marc E. Knoller joined IDT Corporation in March 1991 and has been the Vice President of IDT America, Corp. since its inception. From 1998 until March 1991, Mr. Knoller was director of national sales for Jonas Publishing. Mr. Knoller received a B.B.A. from Baruch College.

Douglas Mauro is the Senior Vice President for IDT Corporation and IDT America, Corp. He is responsible for all tax matters at IDT America, Corp. and IDT Corporation. Prior to joining IDT Mr. Mauro was Vice President, Tax for Inc Pharmaceuticals in Costa Mesa, California. Mr. Mauro has extensive experience in International taxes at various Pharmaceutical Companies where he served as the top tax officer.

Keith Mendelson has held several positions since joining IDT Corporation in 1995. Mr. Mendelson is presently the Executive Vice President of Retail Operations of IDT Telecom, Inc., a subsidiary of IDT Corporation. Mr. Mendelson received a B.A. from Yeshiva University.

Kathy Timko is the Executive Vice President of Engineering and Operations of IDT Telecom, Inc. Ms. Timko has served as Chief Operating Officer of InterExchange, IDT Corporation's Engineering and Operations Division, since 1998. From 1995 to 1998, Ms. Timko served as the Executive Vice President of Product Development and Operations at Call Sciences, a provider of enhanced telecommunications services. Prior to 1995, Ms. Timko worked at Bellcore (now Telcordia) and BBN Technologies. Ms. Timko holds a B.S. degree from Virginia Tech and a M.S. degree from Boston University.

EXHIBIT 4 – IDT CORPORATION 2003 SEC FORM 10-Q

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended April 30, 2003

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-27898

IDT CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Common Stock, $.01 par value – 25,074,860 shares outstanding as of June 11, 2003 (excluding 5,419,963 treasury shares)
Class A common stock, $.01 par value – 9,816,988 shares outstanding as of June 11, 2003
Class B common stock, $.01 par value – 55,239,832 shares outstanding as of June 11, 2003 (excluding 4,019,163 treasury shares)

(Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date)

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IDT CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

IDT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	April 30, 2003 (Unaudited)	July 31, 20((Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 243,415	$ 351,2<
Marketable securities	794,259	658,7:
Trade accounts receivable, net	133,127	126,1:
Other current assets	88,199	65,29
Total current assets	1,259,000	1,201,42
Property, plant and equipment, net	288,070	250,63
Restricted cash	21,290	—
Goodwill	34,424	32,70
Licenses and other intangibles, net	24,310	25,50
Investments	39,471	58,90
Other assets	54,928	38,75
Total assets	$ 1,721,493	$ 1,607,92(
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 97,760	$ 121,52(
Accrued expenses	173,601	132,89:
Deferred revenue	120,836	112,18:
Capital lease obligations—current portion	25,318	22,96(
Other current liabilities	33,412	11,86(
Total current liabilities	450,927	401,430
Deferred tax liabilities, net	191,436	233,518
Capital lease obligations—long-term portion	38,502	45,398
Other liabilities	14,299	3,088
Total liabilities	695,164	683,434
Minority interests	162,184	54,956
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; authorized shares—10,000,000; no shares issued	—	—
Common stock, $.01 par value; authorized shares—100,000,000; 25,147,360 and 24,988,597 shares issued at April 30, 2003 and July 31, 2002, respectively; 19,727,397 and 19,568,634 shares outstanding at April 30, 2003 and July 31, 2002, respectively	197	196
Class A common stock, $.01 par value; authorized shares—35,000,000; 9,816,988 shares issued and outstanding at April 30, 2003 and July 31, 2002	98	98
Class B common stock, $.01 par value; authorized shares—100,000,000; 55,044,832 and 54,009,844 shares issued at April 30, 2003 and July 31, 2002, respectively; 51,025,669 and 49,990,681 shares outstanding at April 30, 2003 and July 31, 2002, respectively	510	500
Additional paid-in capital	636,445	606,387
Deferred compensation	(7,907)	—
Treasury stock, at cost, consisting of 5,419,963 shares of common stock and 4,019,163 shares of Class B common stock	(153,713)	(153,713)
Accumulated other comprehensive loss	(4,369)	(2,675)
Retained earnings	392,884	418,737
Total stockholders' equity	864,145	869,530
Total liabilities and stockholders' equity	$ 1,721,493	$ 1,607,920

See notes to condensed consolidated financial statements.

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IDT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2003	2002	2003	2002
Revenues	$454,870	$401,653	$1,348,808	$1,114,88
Costs and expenses:				
Direct cost of revenues (exclusive of items shown below)	347,117	319,002	1,036,172	879,60
Selling, general and administrative	104,967	106,409	316,863	266,501
Depreciation and amortization	22,349	16,745	65,279	46,84
Settlement by Net2Phone of litigation	—	—	(58,034)	—
Non-cash compensation	16,629	2,326	23,762	2,326
Restructuring, severance and impairment charges	1,707	—	9,033	2,781
Total costs and expenses	492,769	444,482	1,393,075	1,198,055
Loss from operations	(37,899)	(42,829)	(44,267)	(83,168
Interest income, net	6,721	3,947	21,345	15,496
Other income (expense):				
Gain on sale of subsidiary stock	22,422	—	22,422	—
Equity in loss of affiliates	—	(25,125)	(3,811)	(41,794
Investment and other income (expense), net	(10,362)	(2,503)	(15,365)	(8,315
Loss before minority interests, income taxes and cumulative effect of accounting change	(19,118)	(66,510)	(19,676)	(117,781)
Minority interests	(1,003)	(4,316)	(46,953)	(15,529)
Benefit from income taxes	10,818	21,233	40,776	55,173
Loss before cumulative effect of accounting change	(9,303)	(49,593)	(25,853)	(78,137)
Cumulative effect of accounting change, net of income taxes of $3,525	—	—	—	(146,983)
Net loss	$ (9,303)	$ (49,593)	$ (25,853)	$ (225,120)
Earnings per share:				
Loss before cumulative effect of accounting change:				
Basic	$ (0.12)	$ (0.64)	$ (0.32)	$ (1.06)
Diluted	$ (0.12)	$ (0.64)	$ (0.32)	$ (1.06)
Cumulative effect of accounting change, net of income taxes:				
Basic	$ —	$ —	$ —	$ (2.00)
Diluted	$ —	$ —	$ —	$ (2.00)
Net loss:				
Basic	$ (0.12)	$ (0.64)	$ (0.32)	$ (3.06)
Diluted	$ (0.12)	$ (0.64)	$ (0.32)	$ (3.06)
Weighted-average number of shares used in calculation of earnings per share:				
Basic	80,262	76,938	79,808	73,592
Diluted	80,262	76,938	79,808	73,592

See notes to condensed consolidated financial statements.

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IDT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended April 30, 2003	Nine Months Ended April 30, 2002
Net cash provided by operating activities	$ 12,845	$ 16,249
Investing activities		
Purchases of property, plant and equipment	(51,436)	(28,286
Issuance of notes receivable	(6,971)	(8,949
Purchases of investments	(10,348)	(44,974
Acquisitions	—	(33,465
Increase in cash from consolidation of Net2Phone	41,266	—
Purchases of marketable securities	(1,741,131)	(529,351
Sales and maturities of marketable securities	1,648,484	260,855
Net cash used in investing activities	(120,136)	(384,170)
Financing activities		
Proceeds from exercise of stock options	10,046	44,471
Repayments of capital lease obligations	(19,509)	(15,305)
Repurchases of common stock and Class B common stock	—	(15,639)
Proceeds from sales of subsidiaries stock	25,000	30,000
Distributions to minority shareholders of subsidiaries	(16,079)	(13,708)
Net cash (used in) provided by financing activities	(542)	29,819
Net decrease in cash and cash equivalents	(107,833)	(338,102)
Cash and cash equivalents, beginning of period	351,248	1,091,071
Cash and cash equivalents, end of period	$ 243,415	$ 752,969
Supplemental schedule of non-cash investing and financing activities		
Purchases of property, plant and equipment through capital lease obligations	$ 9,298	$ 34,007
Issuance of Class B common stock for acquisitions	$ —	$ 30,764

See notes to condensed consolidated financial statements.

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of IDT Corporation and its subsidiaries (the "Company" or "IDT" have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, al adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior year's condensed consolidated financial statements to conform to the current year's presentation Operating results for the three-month and nine-month periods ended April 30, 2003 are not necessarily indicative of the results that may be expected for the year ending July 31, 2003. The balance sheet at July 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended July 31, 2002, as filed with the United States Securities and Exchange Commission.

The Company's fiscal year ends on July 31 of each calendar year. Each reference below to a Fiscal Year refers to the Fiscal Year ending in the calendar year indicated (*e.g.*, Fiscal 2003 refers to the Fiscal Year ending July 31, 2003).

Note 2—Stock-Based Compensation

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, An Amendment of FASB Statement No. 123*. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of FASB Statement No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. During the third quarter of Fiscal 2003, the Company adopted the disclosure provisions of SFAS No. 148, effective as of the beginning of the fiscal year.

The Company continues to account for its employee stock options under the recognition and measurement principles of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. The following table illustrates the effect on net loss and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation.

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2003	2002	2003	2002
	(in thousands, except per share data)			
Net loss, as reported	$ (9,303)	$(49,593)	$(25,853)	$(225,120
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects and minority interests	8,397	1,396	9,974	1,396
Deduct: Total stock-based employee compensation expense determined under the fair value based method of accounting for all awards, net of related tax effects and minority interests	(17,641)	(6,147)	(31,510)	(16,801
Pro forma net loss	$ (8,549)	$(54,344)	$(47,389)	$(240,526
Earnings per share:				
Basic—as reported	$ (0.12)	$ (0.64)	$ (0.32)	$ (3.06
Basic—pro forma	$ (0.23)	$ (0.71)	$ (0.59)	$ (3.27
Diluted—as reported	$ (0.12)	$ (0.64)	$ (0.32)	$ (3.06)
Diluted—pro forma	$ (0.23)	$ (0.71)	$ (0.59)	$ (3.27)

Note 3—Consolidation of Net2Phone

Until August 2000, the Company provided Internet telephony services through its majority owned subsidiary Net2Phone, Inc. On August 11, 2000, the Company completed the sale of 14.9 million shares of Net2Phone's Class A common stock held by it, at a price of $75 per share, to AT&T Corporation. In addition, AT&T purchased four million newly-issued shares of Class A common stock from Net2Phone at a price of $75 per share. These transactions reduced the voting stake of IDT in Net2Phone from approximately 56% to 21% and its economic stake in Net2Phone from approximately 45% to 16%. In recognition of these transactions, the Company deconsolidated Net2Phone effective August 11, 2000. Accordingly, the Company accounted for its investment in Net2Phone subsequent to the deconsolidation using the equity method of accounting.

On October 23, 2001, IDT, Liberty Media Corporation and AT&T formed a limited liability company ("LLC"), which through a series of transactions among IDT, Liberty Media and AT&T held an aggregate of 28.9 million shares of Net2Phone's Class A common stock, representing approximately 48% of Net2Phone's outstanding capital stock. Because the LLC holds Class A common stock with two votes per share, the LLC has approximately 65% of the shareholder voting power in Net2Phone. IDT holds the controlling membership interest in the LLC and is the managing member of the LLC. The operating agreement of the LLC provides unilateral liquidation rights to each of its members whereby any member of the LLC may cause the LLC to liquidate and dissolve by providing written notice at any time on or after January 1, 2004 to the other LLC members of its desire to cause such liquidation and dissolution. Since the LLC can be liquidated and dissolved at any time on or after January 1, 2004, the Company's control of the LLC is deemed to be temporary. Accordingly, through July 31, 2002, the Company continued to account for its investment in the LLC using the equity method.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, *Accounting for the Impairment of Long Lived Assets to be Disposed Of*, and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations for a Disposal of a Segment of a Business*. SFAS No. 144 also amends Accounting Research Bulletins ("ARB") No. 51,

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Consolidated Financial Statements, as amended by SFAS No. 94, *Consolidation of All Majority-Owned Subsidiaries*, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. IDT adopted SFAS No. 144 as of August 1, 2002, and thus no longer accounts for its investment in Net2Phone under the equity method of accounting. Therefore, effective August 1, 2002, IDT reconsolidated its investment in Net2Phone. The consolidation resulted in the inclusion by IDT of Net2Phone's results of operations, financial position and cash flows beginning August 1, 2002. This change in accounting does not change the net income or loss that would have been reported had the Company continued to account for its investment in Net2Phone under the equity method of accounting. On a pro forma basis, the combined revenues of IDT and Net2Phone, as if the consolidation had occurred as of August 1, 2001, after giving effect to the elimination of intercompany transactions, would have been $419.4 million and $1,174.7 million, for the three and nine months ended April 30, 2002, respectively.

Pursuant to the operating agreement of the LLC, AT&T received 29 Class A units of the LLC, and had the right to put 6 of these units to IDT and 23 of these units to Liberty Media after one year. On October 29, 2002, AT&T exercised its put rights and sold all of its Class A units to IDT and Liberty Media for a nominal amount. As a result of this transaction, AT&T is no longer a member of the LLC. IDT continues to hold the controlling membership interest in the LLC and is the managing member of the LLC. As of April 30, 2003, IDT's effective equity investment in Net2Phone (through the LLC) was 18.6%. Accordingly, the Company recorded in minority interests the 81.4% of Net2Phone's results attributable to the remaining shareholders of Net2Phone.

Note 4—Business Segment Information

The Company has five reportable business segments: Wholesale Telecommunications Services, Retail Telecommunications Services, IDT Solutions, Internet Telephony, and Media. The operating results of these business segments are distinguishable and are regularly reviewed by the Company's chief operating decision maker.

The Wholesale Telecommunications Services business segment consists of wholesale carrier services provided to other long distance carriers. The Retail Telecommunications Services business segment includes domestic and international prepaid, rechargeable and private label calling cards, and consumer long distance services to individuals and businesses. The IDT Solutions business segment, which commenced operations in December 2001 upon the acquisition of assets from Winstar Communications, Inc. and certain of its subsidiaries ("Old Winstar"), operates through Winstar Holdings, LLC as a competitive local exchange carrier ("CLEC") using fixed wireless technology to provide local and long distance phone services, and high speed Internet and data communications solutions. The Internet Telephony business segment reflects the results of the Company's reconsolidated subsidiary, Net2Phone, effective August 1, 2002, which is a provider of voice over Internet Protocol, or VoIP, telephony products and services. The Media business segment operates several media and entertainment-related businesses, most of which are currently in the early stages of development.

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company evaluates the performance of its business segments based primarily on operating income (loss). All corporate overhead is allocated to the business segments based on time and usage studies, except for certain specific corporate costs, such as corporate manageme compensation, treasury management and public relations, and corporate legal, insurance and governance costs, which are not allocated to th business segments. Operating results presented for the principal business segments of the Company are as follows (in thousands):

	Wholesale Telecommunications Services	Retail Telecommunications Services	IDT(1) Solutions	Internet Telephony(2)	Media	Corporate	Total
Three Months Ended April 30, 2003							
Revenues	$ 109,156	$ 299,865	$ 20,766	$ 19,585	$ 5,498	$ —	$ 454,87
Segment operating income (loss)	(6,081)	21,761	(19,625)	(9,830)	(2,278)	(21,846)	(37,89
Three Months Ended April 30, 2002							
Revenues	78,963	285,436	33,095	—	4,159	—	401,65
Segment operating income (loss)	(6,540)	19,079	(43,863)	—	(5,003)	(6,502)	(42,82
Nine Months Ended April 30, 2003							
Revenues	$ 288,178	$ 914,870	$ 65,933	$ 63,357	$ 16,470	$ —	$1,348,80
Segment operating income (loss)	(22,708)	66,060	(67,493)	25,672	(6,406)	(39,392)	(44,26
Nine Months Ended April 30, 2002							
Revenues	221,509	825,503	52,269	—	15,606	—	1,114,88
Segment operating income (loss)	(25,349)	42,001	(62,996)	—	(17,234)	(19,590)	(83,16

(1) IDT acquired the assets currently held by Winstar (through which the IDT Solutions segment operates) in December 2001. Accordingly results of operations for the nine months ended April 30, 2002 for the IDT Solutions segment reflect only the period that the Company owned and operated the Winstar assets.

(2) For the three and nine months ended April 30, 2002, IDT reported its share of the net loss of its Internet Telephony segment, which consists of its investment in Net2Phone, under the equity method of accounting. Accordingly, IDT recorded $25.1 million and $41.8 million for these periods, respectively, as equity in loss of affiliates within other income (expense). During the periods in which IDT accounted for its investment in Net2Phone using the equity method, the Company's chief operating decision maker evaluated the performance of IDT's Internet Telephony segment based primarily on its cash, cash equivalents and marketable securities balances and on its net cash used in operating activities. As of April 30, 2002, the balance of cash, cash equivalents and marketable securities of Net2Phone was $121.9 million. For the nine months ended April 30, 2002, net cash used in operating activities was $79.5 million.

Note 5—Earnings Per Share

The Company computes earnings per share under the provisions of SFAS No. 128, *Earnings per Share*. Under the provisions of SFAS No. 128, basic earnings per share is computed by dividing net income (loss) applicable to common shareholders by the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings per share is determined in the same manner as basic earnings per

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

share except that the number of shares is increased assuming exercise of potentially dilutive stock options and contingently issuable shares using the treasury stock method, unless the effect of such increase would be anti-dilutive. For the periods reported in the condensed consolidated financial statements included in this report, the diluted earnings per share amounts equal basic earnings per share because the Company had net losses and the impact of the assumed exercise of stock options and contingently issuable shares would have been anti-dilutive.

Note 6—Comprehensive Loss

The Company's comprehensive loss consists of the following (in thousands):

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2003	2002	2003	2002
Net loss	$ (9,303)	$(49,593)	$(25,853)	$(225,12(
Foreign currency translation adjustments	(406)	3,977	(654)	(1,47(
Unrealized losses in available-for-sale securities	(1,566)	(489)	(1,040)	(92:
Comprehensive loss	$(11,275)	$(46,105)	$(27,547)	$(227,513

Note 7—Winstar Acquisition

On December 19, 2001, the Company, through a subsidiary, acquired the core domestic telecommunications assets of Old Winstar in connection with Old Winstar's bankruptcy proceedings pending before the United States Bankruptcy Court for the District of Delaware. The acquiring subsidiary was subsequently renamed Winstar Holdings, LLC. Winstar operates as a CLEC using fixed wireless technology to provide local and long distance phone services, and high speed Internet and data communications solutions. The Company currently offers the Winstar services under the name IDT Solutions.

The purchase price for the Old Winstar assets consisted of $30.0 million in cash, $12.5 million in newly issued shares of IDT Class B common stock and 5% of the common equity interests in Winstar (the remaining 95% of the common equity interests as well as all of the preferred equity interests in Winstar were owned by IDT). The acquisition was accounted for under the purchase method of accounting. The results of operations of Winstar have been included in the Company's consolidated statements of operations since the date of acquisition.

On April 16, 2002, IDT, through a subsidiary, purchased the 5% of common equity interests in Winstar that it did not own. Consideration consisted of 0.8 million shares of IDT Class B common stock, which were valued at $13.3 million.

The following pro forma financial information presents the combined results of operations of IDT and Winstar, as if the Old Winstar asset acquisition had occurred as of August 1, 2001, after giving effect to certain adjustments, including depreciation expense, income taxes and the issuance of IDT Class B common stock as part of the purchase price. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had IDT and Winstar been a single entity during such periods.

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Three Months Ended April 30, 2002		Nine Months Ende April 30, 2002	
	(in thousands, except per share data)			
Revenues	$	401,653	$	1,187,58'
Loss before cumulative effect of accounting change	$	(49,593)	$	(126,42
Net loss	$	(49,593)	$	(273,40'
Earnings per share:				
Loss before cumulative effect of accounting change				
Basic	$	(0.64)	$	(1.69
Diluted	$	(0.64)	$	(1.69
Net loss				
Basic	$	(0.64)	$	(3.66
Diluted	$	(0.64)	$	(3.66
Weighted-average number of shares used in calculation of earnings per share:				
Basic		77,334		74,747
Diluted		77,334		74,747

Note 8—Amendment of Stock Options

On April 25, 2003, all then outstanding stock options exercisable for shares of the Company's common stock (which were exercisable for an aggregate of 1.9 million shares) were amended to instead be exercisable for an equal number of shares of the Company's Class B common stock. Because these options were originally recorded under APB No. 25, a new measurement date was triggered and the options were required to be accounted for under the intrinsic value method of accounting. As a result, the Company recorded a non-cash compensation charge for the three and nine months ended April 30, 2003 of $13.7 million for the modification of the options.

On April 25, 2003, the Board of Directors also authorized that shares of Class B common stock held as treasury stock be allocated for issuance in connection with the above stock option amendments.

Note 9—Recently Issued Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments Hedging Activities*. This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made: as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133; in connection with other FASB projects dealing with financial instruments; and regarding implementation issues raised in relation to the application of the definition of a derivative, particularly regarding the meaning of an "underlying" and the characteristics of a derivative that contains financing components.

SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 amends certain other existing pronouncements. These changes will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting.

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The provisions of this standard are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The provisions of this statement that relate to SFAS No. 133 implementation issues that have been effectiv for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist should b applied to existing contracts as well as new contracts entered into after June 30, 2003. The Company believes that the adoption of this standard will not have a material impact on the Company's results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchang for cash or other assets. The third type of instruments consists of obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety.

In addition to requirements for classification and measurement of financial instruments, SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities, whose shares are mandatorily redeemable. Most of the guidance in SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective from the start of the first interim period beginning after June 15, 2003. The Company believes that the adoption of this standard will not have a material impact on the Company's results of operations or financial position.

Note 10—Legal Proceedings

Certain legal proceedings in which the Company is involved are described in the Company's Quarterly Report on Form 10-Q for the quarter ended January 31, 2003. The following discussion is limited to recent developments concerning the Company's legal proceedings and should be read in conjunction with such earlier Quarterly Report. Unless otherwise indicated, all legal proceedings discussed in the Company's earlier Quarterly Report remain outstanding.

With respect to the Company's complaint against Telefonica S.A., Terra Networks, S.A., Terra Networks, U.S.A., Inc. and Lycos, Inc., the Company filed a motion on May 16, 2003 to compel the defendants to produce documents under the crime-fraud exception of the attorney-client and work product privilege. Oral argument on this motion is scheduled for August 7, 2003.

With respect to the Company's statement of claim with the American Arbitration Association naming Telefonica Internacional, S.A. as the Respondent, the parties filed post-hearing briefs on April 4, 2003 and reply briefs were filed on May 8, 2003.

With respect to the summons and complaint filed on or about July 25, 2002 by PT-1 Communications against the Company, the parties held a status conference before the judge on April 3, 2003. The Company filed a motion for a stay to enjoin this proceeding based upon a filing by The Continuing Creditors' Committee of Star Telecommunications, Inc. of a near-identical adversary proceeding against the Company in the United States Bankruptcy Court for the District of Delaware. The motion was denied on May 15, 2003.

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

With respect to the complaint filed by Mark B. Aronson in the Court of Common Pleas of Allegheny County, Pennsylvania, seeking certification of a class consisting of consumers who were charged a fee when IDT switched underlying carriers from Global Crossing Ltd. t AT&T, the Court denied the plaintiff's motion to remand the case to the State court and granted the Company's motion to transfer the case the Federal Communications Commission (the "FCC"). The Company filed a petition with the FCC on April 30, 2003.

With respect to the Morris Amsel and the Ana Cardoso and Maria Calado matters relating to the Company's calling cards, on May 19, 200: the Company filed an application with the Multi-District Litigation Panel seeking to consolidate these matters.

With respect to the suit filed by Winstar against Superior Logistics Management Services, Inc. in the U.S. District Court for the Eastern District of Virginia, the parties entered into a settlement agreement that entitles Winstar to receive 10% of the sales price of any sales of certain equipment by Superior, and provides Winstar with purchase options at 6 and 9 months from May 7, 2003 for various equipment that was the subject of the suit and stored by Superior, at the price of $0.035 per $1.00 of the original cost to Superior or its entities that are now i Chapter 7 bankruptcy.

With respect to the Univance Telecommunications, Inc. and Univance Marketing Group, Inc. (collectively the "Univance Debtors") bankruptcy matter, the parties resolved this matter and the Univance Debtors and Winstar entered into an agreement dated March 19, 2003, pursuant to which the Univance Debtors will continue to provide services to Winstar. The parties will seek Bankruptcy Court approval of the agreement.

On or about February 5, 2002, a complaint was filed by Solomon Bitton against the Company in the Superior Court of the State of New Jersey, Bergen County, seeking certification of a class consisting of New Jersey residents who allegedly purchased the Company's pre-paid calling cards and were charged any fee that was not specifically disclosed on the card packaging prior to purchase. The damages sought have not yet been quantified. The Company served answers to the complaint on April 3, 2003 and are in the process of providing initial discovery responses.

On or about March 12, 2003, a complaint was filed by the Continuing Creditors' Committee of Star Telecommunications, Inc. for itself and on behalf of the Star Creditors' Liquidating Trust ("Star") against the Company in the United States Bankruptcy Court for the District of Delaware. Star seeks (a) to void and recover damages for certain fraudulent transfers of property of Star's bankruptcy estate pursuant to the pre-petition sale of certain assets to the Company, and (b) to recover damages for unjust enrichment pursuant to said sale. The Company has not been served with the complaint and Star has not taken any action to prosecute the claims against the Company. The Company filed a motion for a stay or to enjoin this proceeding based upon the fact that this proceeding is nearly-identical to the adversary proceeding previously filed by PT-1 Communications against the Company in the United States Bankruptcy Court for the Eastern District of New York, which motion was denied.

On April 15, 2003, Network Communications of Indiana ("NCI") filed a four-count complaint in the Superior Court in Marion County, Indiana, against the Company, seeking $8.7 million in damages. NCI signed a Non-Exclusive High Volume Independent Agent Marketing Agreement with Winstar Wireless, Inc., on February 1, 1999. On April 18, 2001, Winstar Wireless, Inc., and various other affiliates ("Debtors") filed for Chapter 11 bankruptcy in the United States Bankruptcy Court for the District of Delaware. On December 19, 2001, an affiliate of the Company purchased various assets of the Debtors. NCI alleges that the Company, as a result of allegedly acquiring certain assets of the Debtor including alleged network customer lists: (a) misappropriated NCI's customer lists, (b) unlawfully converted NCI's customer lists, (c) unfairly competed with NCI's business,

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

and (d) tortiously interfered with contracts between NCI and NCI's customers. The case has been removed to the United States District Cou for the Southern District of Indiana, Indianapolis Division, and the Company has an extension to answer or otherwise plead until June 23, 2003.

On or about April 26, 2003, the Company was served with a petition filed by Powell Palmares in the District Court of Nueces County, Texa 105th Judicial District. The Company is not the only defendant in this action. In his petition, the plaintiff names numerous additional defendants, including Oblio Telecom, Northern California Telecommunications, Locus Telecommunications, Star Telecom Network, Astra Communications, Pacific Telecard, and Advanced Telecom Solutions. The plaintiff is seeking certification of a class consisting of all persor in Texas who allegedly purchased and used IDT's pre-paid calling cards and made calls to, or from, cellular telephone equipment. The damages sought have not yet been quantified. The Company filed its answer on June 2, 2003.

The Company is subject to other legal proceedings and claims which arise in the ordinary course of our business and have not been finally adjudicated. Although there can be no assurances in this regard, in the opinion of the Company's management, such proceedings, as well as the aforementioned actions, will not have a material adverse effect on the Company's results of operations, cash flows or financial condition

Note 11—Settlement by Net2Phone of Litigation

On March 19, 2002, Net2Phone and its ADIR Technologies, Inc. subsidiary filed suit in the United States District Court for the District of New Jersey against Cisco Systems, Inc. and a Cisco executive who had been a member of ADIR's board of directors. The suit arose out of th relationships that had been created in connection with Cisco's and Net2Phone's original investments in ADIR and out of ADIR's subsequent purchase of NetSpeak, Inc. in August 2001. Net2Phone and ADIR settled the suit and all related claims against Cisco and the Cisco executive in exchange for: (i) the transfer, during the first quarter of Fiscal 2003, to Net2Phone of Cisco's and Softbank Asia Infrastructure Fund's respective 11.5% and 7.0% interests in ADIR, and (ii) the payment by Cisco, during such quarter, of $19.5 million to Net2Phone and ADIR. As a result of this settlement, Net2Phone recognized for the quarter ended October 31, 2002, a gain of $58.4 million consisting of (i) a $38.9 million reduction in minority interests as a result of the transfer of the ADIR shares and (ii) the receipt of settlement proceeds of $19.5 million. During the second quarter of Fiscal 2003, Net2Phone approved and therefore recorded an additional $0.4 million in executive compensation expense directly related to the Cisco settlement.

Note 12—Gain on Sale of Subsidiary Stock

On April 17, 2003, a subsidiary of Liberty Media purchased from IDT Media 88.235 newly-issued shares of IDT Media's Class A common stock, at a price of $283,334 per share, representing an aggregate cash purchase price of $25.0 million. IDT Media operates several media and entertainment-related businesses, most of which are currently in the early stages of development. As a result of this sale of subsidiary stock, the Company's ownership percentage in IDT Media decreased from 100% to 94.4%.

The Company has historically accounted for sales of stock of its subsidiaries in accordance with Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary*, which permits the Company to record the excess of its carrying value in the equity of its subsidiaries as a gain. Accordingly, in connection with this sale, the Company recognized a gain of $22.4 million. Deferred taxes of $9.0 million have been provided on the gain.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with the accompanying condensed consolidated financial statements and the associated notes thereto of this Quarterly Report, and the audited consolidated financial statements and the notes thereto and our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K fo: the year ended July 31, 2002, as filed with the United States Securities and Exchange Commission.

As used below, 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 their subsidiaries, collectively.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the notes to the condensed consolidated financial statements, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that contain the words "believes," "anticipates," "expects," "plans," "intends," and similar words and phrases. Such forward-looking statements include, among other things, our plans to implement our growth strategy, improve our financial performance, expand our infrastructure, develop new products and services, expand our sales force, expand our customer base and enter international markets, and the possible outcome of our litigation. Such forward-looking statements also include our expectations concerning factors affecting the markets for our products and services, such as changes in the U.S. and the international regulatory environment and the demand for long-distance telecommunications. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results projected in any forward-looking statements. These risks and uncertainties include, but are not limited to, those risks discussed in this report. In addition to the factors specifically noted in the forward-looking statements, other important factors that could result in those differences include: potential declines in prices for our products and services; our ability to maintain and grow our retail telecommunications services, particularly our prepaid calling card business; availability of termination capacity; financial stability of our customers; our ability to maintain carrier agreements with foreign carriers; effectiveness of our marketing and distribution efforts; increased competition, particularly from regional bell operating companies; our ability to manage our growth; competitiveness of our Winstar subsidiary; impact of government regulation; our ability to obtain telecommunications products or services required for our products and services; general economic conditions, particularly in the telecommunications markets; and the other factors set forth in our Annual Report on Form 10-K for Fiscal 2002. The forward-looking statements are made as of the date of this Report, and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Investors should consult all of the information set forth herein and the other information set forth from time to time in our reports filed with the United States Securities and Exchange Commission pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, including our Annual Report on Form 10-K for Fiscal 2002.

Overview

General

IDT Corporation, through our IDT Telecom segment, provides telecommunications services and products to retail and wholesale customers worldwide, including prepaid, private label and rechargeable calling cards, wholesale carrier services and consumer long distance services. We deliver our telecommunications services over a network consisting of more than 200 switches in the United States, Europe and South America. We also own and lease capacity on 16 undersea fiber-optic cables that connect our U.S. facilities with our international facilities and with third-party facilities in Europe, Latin America and Asia. We derive a majority of our revenues from IDT Telecom.

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Our Winstar segment, which operates under the name IDT Solutions, offers broadband and telephony services to commercial and governmental customers through its fixed-wireless and fiber infrastructure. We also operate, through our IDT Media segment, several medi and entertainment-related businesses, most of which are currently in the early stages of development. IDT Media primarily comprises five business lines: radio, animation, brochure distribution, video-to-desktop delivery, and call center services. Effective August 1, 2002, we reconsolidated Net2Phone, which is a provider of voice over Internet Protocol, or VoIP, telephony products and services.

Outlook

In recent years, we have derived the majority of our revenues from IDT Telecom's businesses, consisting primarily of our Retail Telecommunications Services segment, which markets prepaid, private label and rechargeable calling cards and consumer long distance services, and our Wholesale Telecommunications Services segment, which markets wholesale carrier services. These businesses have accounted for the bulk of our operating expenses as well (excluding impairment charges).

Throughout the remainder of Fiscal 2003, we anticipate increased growth in our wholesale carrier revenues. We anticipate growth in IDT Telecom's Retail Telecommunications Services revenues as well, and we expect Retail Telecommunications Services revenues to continue t account for approximately 70%-75% of IDT Telecom's total revenues in the coming quarters.

The worldwide telecommunications industry has been characterized in recent years by intense price competition, which has resulted in a significant decline in both our average per-minute price realizations and our average per-minute termination costs. Therefore, although IDT Telecom's minutes of use have been increasing strongly, IDT Telecom's revenues have increased at a much slower rate. We expect to see some further price declines throughout the remainder of Fiscal 2003, as the markets in which we compete have generally remained competitive.

Since our acquisition of the Winstar assets in December 2001, the IDT Solutions segment has experienced working capital deficits. We have restructured Winstar's operations by undertaking significant cost saving measures, including the downsizing of the Winstar network and a significant reduction in headcount, aimed at reducing the working capital deficit. However, at this time, we expect IDT Solutions to continue to generate operating losses and to require funding for its capital expenditure needs for the foreseeable future. We expect IDT Solutions to continue to reduce its operating losses throughout the remainder of Fiscal 2003, aided by a combination of increased revenues and continued cost saving measures.

We have also been developing various new businesses within our Media segment. We anticipate that Media will continue to incur significant costs related to its existing and other new businesses. The timing and magnitude of further revenues and/or operating profits from these new businesses remains uncertain. In May 2003, Media's Digital Production Solutions unit (which operates Media's animation business line) acquired a controlling interest in Film Roman, Inc., an independent animation company, through the purchase of newly-issued shares of Film Roman common stock. For the year ended December 31, 2002, Film Roman reported revenues of $43.3 million and a net loss of $8.6 million. In the upcoming quarters, the results of operations of our IDT Media segment will include the consolidation of Film Roman.

Critical Accounting Policies

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States. Preparing condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in Note 1 to the July 31, 2002 consolidated financial statements included in our Form 10-K. Critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently

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uncertain and may change in subsequent periods. Critical accounting policies for us include revenue recognition, allowance for doubtful accounts, goodwill, and valuation of long-lived and intangible assets. For additional discussion of our critical accounting policies, see our Management's Discussion & Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for Fiscal 200:

In order to enable a straightforward comparison between the three and nine months of Fiscal Year 2003 and the three and nine months of Fiscal Year 2002, and to provide a better understanding of IDT's core operating results for the three and nine months of Fiscal Year 2003, this Form 10-Q presents, as additional information, some financial figures excluding the IDT Solutions segment and Net2Phone. The Winst assets, through which our IDT Solutions segment operates, were acquired during the second quarter of Fiscal Year 2002, and contributed tc revenues for only part of that quarter, and Net2Phone was not consolidated during Fiscal Year 2002.

Three Months Ended April 30, 2003 Compared to Three Months Ended April 30, 2002

Results of Operations

We evaluate the performance of our operating business segments based primarily on income (loss) from operations. Accordingly, certain adjustments are properly not reflected in the operating business segments discussions, but are only reflected in our Consolidated discussion.

Consolidated

Revenues. Our revenues increased 13.2%, from $401.7 million in the three months ended April 30, 2002 to $454.9 million in the three months ended April 30, 2003. The increase is due primarily to the significant growth in our telecommunications minutes of use and the reconsolidation of Net2Phone. Excluding revenues from our Internet Telephony segment, consisting of Net2Phone, which was reconsolidated effective August 1, 2002, our revenues increased 8.4%, to $435.3 million in the three months ended April 30, 2003. The increase in our consolidated revenues (excluding Internet Telephony) is mainly attributable to a 12.2% increase in IDT Telecom's revenues. The growth in IDT Telecom's revenues primarily resulted from a 43.3% growth in minutes of use (excluding minutes related to our consumer long distance business, which are not carried through our own network) from 3.0 billion in the three months ended April 30, 2002 to 4.3 billion in the three months ended April 30, 2003.

Direct Cost of Revenues. Direct cost of revenues increased by 8.8%, from $319.0 million in the three months ended April 30, 2002 to $347.1 million in the three months ended April 30, 2003. The increase is due primarily to the growth in our telecommunications minutes of use and the reconsolidation of Net2Phone. Excluding direct cost of revenues from our Internet Telephony segment, direct cost of revenues increased 5.7% to $337.2 million in the three months ended April 30, 2003. As a percentage of total revenues, direct costs decreased from 79.4% in the three months ended April 30, 2002 to 76.3% in the three months ended April 30, 2003 (and decreased to 77.5% excluding our Internet Telephony segment). The decline in direct costs as a percentage of revenues is attributable to overall higher revenues due to the growth of minutes-of-use and because of continued operating efficiency gains and lower prices from suppliers.

Selling, General and Administrative. Selling, general and administrative expenses decreased 1.3%, from $106.4 million in the three months ended April 30, 2002 to $105.0 million in the three months ended April 30, 2003. Excluding selling, general and administrative expenses from our Internet Telephony segment, selling, general and administrative expenses decreased 13.3% to $92.2 million in the three months ended April 30, 2003. As a percentage of total revenues, selling, general and administrative expenses decreased from 26.5% in the three months ended April 30, 2002 to 23.1% in the three months ended April 30, 2003 (and decreased to 21.2% excluding our Internet Telephony segment). Selling, general and administrative expense declined as a percentage of revenues due primarily to the significant growth in our revenues for the three months ended April 30, 2003.

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We anticipate that selling, general and administrative expenses will increase in dollar terms in the future, and will continue to be a significant percentage of total revenues, as we expand both IDT Telecom's businesses and our Media businesses.

Depreciation and Amortization. Depreciation and amortization expense increased 33.5%, from $16.7 million in the three months ended April 30, 2002 to $22.3 million in the three months ended April 30, 2003. Excluding depreciation and amortization expense from our Internet Telephony segment, depreciation and amortization expense increased 19.7%, to $20.0 million in the three months ended April 30, 2003, primarily as a result of our higher fixed asset base during the three months ended April 30, 2003, reflecting the expansion of our telecommunications network infrastructure and facilities. As a percentage of revenues, depreciation and amortization expense increased from 4.2% in the three months ended April 30, 2002 to 4.9% in the three months ended April 30, 2003 (and to 4.6% excluding our Internet Telephony segment). Depreciation and amortization expense increased, as a percentage of revenues, due primarily to the expansion of our telecommunications network infrastructure and facilities. We anticipate that depreciation expense will continue to increase in absolute dollars as we continue to add to our asset base, particularly in IDT Telecom's businesses, as we implement our growth strategy.

Non-cash Compensation. Non-cash compensation charges were $2.3 million in the three months ended April 30, 2002, compared to $16.6 million in the three months ended April 30, 2003. Refer to the respective sections of the IDT Telecom, IDT Solutions, Internet Telephony and Corporate segments for a full discussion on non-cash compensation charges.

Restructuring, Severance and Impairment Charges. Restructuring, severance and impairment charges were $1.7 million in the three months ended April 30, 2003. Refer to the respective section of the Internet Telephony segment for a full discussion on restructuring, severance and impairment charges.

Loss from Operations. Our loss from operations was $42.8 million in the three months ended April 30, 2002, compared to $37.9 million in the three months ended April 30, 2003. Excluding $9.8 million of loss from operations from our Internet Telephony segment, our loss from operations was $28.1 million for the three months ended April 30, 2003. The reduction in our loss from operations (excluding our Internet Telephony segment) was due primarily to IDT Telecom's increased revenues and gross margins, partially offset by one-time non-cash compensation charges.

Interest. Net interest income was $3.9 million in the three months ended April 30, 2002, compared to net interest income of $6.7 million in the three months ended April 30, 2003.

Other Income (Expense). Other income (expense) amounted to an expense of $27.6 million in the three months ended April 30, 2002, compared to income of $12.0 million in the three months ended April 30, 2003. Included in other income (expense) in the three months ended April 30, 2003, was a charge of $1.6 million related to an obligation to guarantee to AT&T the value of 1.4 million shares of IDT Class B common stock owned by AT&T, and net losses from other investments totaling $8.8 million.

On April 17, 2003, a subsidiary of Liberty Media purchased from IDT Media 88.235 newly-issued shares of IDT Media's Class A common stock, at a price of $283,334 per share, representing an aggregate cash purchase price of $25.0 million. As a result of this sale of subsidiary stock, our ownership percentage in IDT Media decreased from 100% to 94.4%. In connection with this sale, we recognized a gain of $22.4 million during the three months ended April 30, 2003.

Included in other expense in the three months ended April 30, 2002 were losses of $25.1 million associated with recording our pro-rata share of Net2Phone's net losses through the equity method of accounting, a $2.2 million charge related to an obligation to guarantee to AT&T the value of 1.4 million shares of IDT Class B common stock owned by AT&T, and net losses from other investments totaling $0.3 million.

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Minority Interests. Minority interests were $4.3 million and $1.0 million for the three months ended April 30, 2002 and 2003, respectivel The $3.3 million decrease in minority interest income was primarily attributable to the reconsolidation of Net2Phone, of which we own 18.6 as of April 30, 2003. Accordingly, we recorded in minority interests the 81.4% of Net2Phone's results attributable to the remaining shareholders of Net2Phone.

Income Taxes. We recorded an income tax benefit of $21.2 million in the three months ended April 30, 2002, compared to an income ta benefit of $10.8 million in the three months ended April 30, 2003.

Net Loss. Our consolidated net loss was $49.6 million in the three months ended April 30, 2002 compared to a consolidated net loss of $9. million in the three months ended April 30, 2003. The recording of a net loss in the three months ended April 30, 2003 and 2002 was a resu of the combined factors for each of the segments discussed below, as well as those items detailed above.

IDT Telecom—Retail Telecommunications Services and Wholesale Telecommunications Services Segments

Revenues. IDT Telecom's revenues increased 12.2%, from $364.4 million in the three months ended April 30, 2002 to $409.0 million in th three months ended April 30, 2003.

IDT Telecom's revenues increased primarily as a result of a 43.3% growth in minutes of use (excluding minutes related to our consumer lon distance business, which are not carried through our own network) from 3.0 billion in the three months ended April 30, 2002 to 4.3 billion ir the three months ended April 30, 2003. IDT Telecom experienced growth in minutes of use in both its Retail Telecommunications Services and Wholesale Telecommunications Services segments, in both the U.S. and international operations. IDT Telecom's minutes of use grew at faster rate than did its revenues, reflecting a decline in its average revenue-per-minute, from $0.110 during the three months ended April 30, 2002 to $0.084 in the three months ended April 30, 2003. IDT Telecom's decrease in its average revenue-per-minute is due to a number of factors, including (i) continued competition in both retail and wholesale markets, and (ii) introduction of new calling cards.

Revenues from IDT Telecom's Retail Telecommunications Services segment increased 5.1%, from $285.4 million in the three months ended April 30, 2002 to $299.9 million in the three months ended April 30, 2003. Of this total growth of 5.1%, 2.1% came as a result of increased sales of cards and 3.0% came as a result of higher consumer long distance revenues. As a percentage of IDT Telecom's overall revenue, Retail Telecommunications Services' revenues decreased from 78.3% in the three months ended April 30, 2002 to 73.3% in the three months ended April 30, 2003, as revenues from our Wholesale Telecommunications Services segment grew at a faster rate than did our retail businesses revenues. IDT Telecom's calling card sales increased 2.1%, from $255.3 million in the three months ended April 30, 2002 to $260.7 million in the three months ended April 30, 2003. This increase was primarily generated by the introduction of several new calling cards. A new card is generally introduced with attractive low per-minute pricing, which is gradually increased as the card gains acceptance and builds market share. The increase in new card introductions was part of IDT's plan to aggressively seek market share in both its traditional Northeast U.S. markets, as well as in several other key areas, such as California, Florida and Texas. In addition, the growth in our calling card revenues resulted from the expansion of our distribution network beyond our traditional Northeastern U.S. territory, as well as the continued strong growth of European operations, both in our U.K. market as well as in other markets such as Spain, Germany and the Netherlands. Throughout the quarter, several of the recently-launched cards entered the higher-margin, more profitable stages of their lifecycles, resulting in higher overall calling card margins in the United States, when compared to the second quarter of Fiscal 2003.

Calling card sales as a percentage of IDT Telecom's Retail Telecommunications Services revenues decreased from 89.5% in the three months ended April 30, 2002 to 86.9% in the three months ended April 30, 2003, as revenues from consumer long distance services grew at a faster rate than did calling card revenues. Revenues from consumer long distance services, in which we act as a switchless reseller of another company's network, experienced significant growth in the three months ended April 30, 2003, with revenues increasing 31.3%, from $29.7 million in the three months ended April 30, 2002 to $39.0 million in the three months ended

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April 30, 2003. The consumer long distance revenue increase is attributable to the continued growth of our flat-rate, $0.05 a minute long distance calling plan, which has been driven by increased marketing expenditures, resulting in a significant increase in the number of consumer long distance customers. At April 30, 2003, we had approximately 622,000 active customers for our consumer long distance services, compared to approximately 409,000 customers at April 30, 2002. Beginning in early Fiscal 2003, we significantly increased the marketing and advertising expenditures of our consumer long distance business, in an attempt to accelerate the growth of our customer base. These expenditures, while reducing consumer long distance operating profits in the near term, are expected to lead to a rise in the number of active customers, revenues and profits over the longer term. In addition, as our customer base has grown, we have begun to place an increase emphasis on customer retention initiatives. Accordingly, our marketing efforts for our consumer long distance business is now focused on customer retention and increasing the average revenue per customer, in addition to attracting new customers.

Revenues from IDT Telecom's other Retail Telecommunications Services businesses, consisting primarily of call reorigination services, amounted to $0.5 million in the three months ended April 30, 2002, versus $0.2 million in the three months ended April 30, 2003.

IDT Telecom's Wholesale Telecommunications Services revenues increased 38.2%, from $79.0 million in the three months ended April 30, 2002 to $109.2 million in the three months ended April 30, 2003. As a percentage of IDT Telecom's total revenues, Wholesale Telecommunications Services revenues increased from 21.7% in the three months ended April 30, 2002 to 26.7% in the three months ended April 30, 2003. The increase in revenues resulted from the growth in wholesale carrier minutes, despite a significant decline in the average revenue-per-minute. In recent years, IDT Telecom's wholesale carrier business has curtailed or ceased completely its sales to financially unstable carriers. During the three months ended April 30, 2003, IDT Telecom continued to rebuild its customer base through the addition of new customers and by increasing sales to its larger, more financially stable customers. Increased sales to international telecom carriers accounted for the bulk of the growth in revenues and gross profits during the quarter.

Direct Cost of Revenues. Direct cost of revenues for IDT Telecom increased 14.4%, from $276.2 million in the three months ended April 30, 2002 to $316.1 million in the three months ended April 30, 2003, due to the higher revenue and minutes base. As a percentage of total IDT Telecom's revenues, direct costs increased to 77.3% in the three months ended April 30, 2003, from 75.8% in the three months ended April 30, 2002. The increase in direct costs as a percentage of total revenues is attributable to the competitive pricing environment within the telecommunications industry, which resulted in lower revenue per minute price realizations.

Selling, General and Administrative. IDT Telecom's selling, general and administrative expenses decreased 1.9%, from $62.6 million in the three months ended April 30, 2002 to $61.4 million in the three months ended April 30, 2003. As a percentage of IDT Telecom's total revenues, selling, general and administrative expenses were 17.2% in the three months ended April 30, 2002, compared to 15.0% in the three months ended April 30, 2003. IDT anticipates that selling, general and administrative expenses will remain steady, in absolute dollar terms, over the next few quarters, and should therefore represent a smaller percentage of revenues, as overall revenues increase.

Depreciation and Amortization. IDT Telecom's depreciation and amortization expense rose 20.0%, from $13.0 million in the three months ended April 30, 2002, to $15.6 million in the three months ended April 30, 2003, reflecting the continued expansion of our fixed asset base, as we invest to accommodate our current and anticipated future growth. As a percentage of IDT Telecom's total revenues, depreciation and amortization expense was 3.8% in the three months ended April 30, 2003 compared to 3.6% in the three months ended April 30, 2002.

Non-cash Compensation. IDT Telecom recorded non-cash compensation of $0.2 million in the three months ended April 30, 2003, relating to stock options granted to certain non-employee consultants.

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Income from Operations. IDT Telecom recorded income from operations of $12.5 million in the three months ended April 30, 2002, compared to income from operations of $15.7 million in the three months ended April 30, 2003. The increase in income from operations resulted primarily from the revenue growth and improved gross margins.

IDT Solutions Segment

Revenues. Revenues from IDT Solutions decreased 37.2%, from $33.1 million in the three months ended April 30, 2002 to $20.8 million i the three months ended April 30, 2003. The third fiscal quarter of 2002 marked the first full quarter of IDT's ownership of IDT Solutions. Since the acquisition of the Winstar assets in December 2001, IDT has significantly restructured and downsized the acquired business including the discontinuation of certain product lines and the exiting of certain geographic locations. These decisions accounted in large par for the decline in revenues versus the prior year.

Throughout the remainder of Fiscal 2003, IDT Solutions will continue to focus its sales force towards targeting small and medium sized businesses which are concentrated within IDT Solutions' footprint of 3,000 provision-ready buildings (i.e., buildings in which IDT Solutions technology is currently deployed). IDT Solutions will also continue to target Fortune 500 companies, as well as the various civilian and defense agencies of the U.S. government. IDT Solutions will also be developing an agent channel to support its existing sales force initiatives

Direct Cost of Revenues. Direct cost of revenues for IDT Solutions decreased 50.8%, from $42.1 million in the three months ended April 30, 2002 to $20.7 million in the three months ended April 30, 2003. The decrease in direct cost of revenues is due to the restructuring and downsizing efforts noted above, as well as IDT's efforts to groom the Winstar network to better reflect the needs of its current customer base Direct cost of revenues consist primarily of two components, connectivity for the network backbone and lease payments for the network of provision-ready buildings. Network backbone costs for the three months ended April 30, 2003 totaled $13.5 million, accounting for 65.2% o total direct cost of revenues. Direct cost of revenues for the three months ended April 30, 2003 associated with lease payments for the building network were $7.2 million.

Selling, General and Administrative. Selling, general and administrative expenses of IDT Solutions decreased 45.3%, from $29.6 million in the three months ended April 30, 2002 to $16.2 million in the three months ended April 30, 2003. The decrease is primarily due to the significant cost saving measures undertaken by IDT subsequent to the acquisition of the Winstar assets, which included a significant reduction in headcount. The main component of selling, general and administrative expenses for the three months ended April 30, 2003 was employee compensation and benefits, accounting for $11.9 million, or 73.5% of total selling, general and administrative expenses. Since the acquisition of the Winstar assets in December 2001, the number of employees of Winstar has been reduced from approximately 750 to approximately 520 as of April 30, 2003.

Depreciation and Amortization. Depreciation and amortization was $2.9 million in the three months ended April 30, 2002 compared to $3.6 million in the three months ended April 30, 2003. As a percentage of IDT Solutions' revenues, depreciation and amortization increased from 8.8% in the three months ended April 31, 2002 to 17.3% in the three months ended April 30, 2003, primarily due to the lower revenue base as discussed above.

Non-cash Compensation. IDT Solutions recorded non-cash compensation of $2.3 million in the three months ended April 30, 2002, as a result of modifications to stock option agreements of certain terminated employees.

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Loss from Operations. IDT Solutions' loss from operations in the three months ended April 30, 2002 was $43.9 million, compared to $19 million in the three months ended April 30, 2003. The decrease in loss from operations is due to the significant cost saving measures undertaken by IDT subsequent to the acquisition of the Winstar assets, which included the downsizing of the Winstar network and a significant reduction in headcount, as described above.

Media Segment

In May 2003, Media's Digital Production Solutions unit (which operates Media's animation business line) acquired a controlling interest ir Film Roman, Inc., an independent animation company, through the purchase of newly-issued shares of Film Roman common stock. For the year ended December 31, 2002, Film Roman reported revenues of $43.3 million and a net loss of $8.6 million. In the upcoming quarters, ou results from operations will include the consolidation of Film Roman.

Revenues. Revenues from Media's businesses increased 31.0%, from $4.2 million in the three months ended April 30, 2002 to $5.5 millio in the three months ended April 30, 2003. In Fiscal 2002, Media gradually exited its Digital Subscriber Line ("DSL") business. Currently, Media's revenues are primarily comprised of revenues from its CTM Brochure Display, Inc. business, a brochure distribution company.

Direct Cost of Revenues. Direct cost of revenues decreased from $0.7 million in the three months ended April 30, 2002 to $0.4 million in the three months ended April 30, 2003. As a percentage of Media's revenues, these costs decreased from 16.7% for the three months ended April 30, 2002 to 7.3% for the three months ended April 30, 2003. Most of Media's businesses remain in the early stages of their development. As such, we anticipate that direct costs will continue to account for a relatively small percentage of Media's revenues, with mos of the expenses associated with these businesses to be incurred in the form of selling, general, administrative and development costs.

Selling, General and Administrative. Selling, general and administrative expenses decreased 16.9%, from $8.3 million in the three months ended April 30, 2002 to $6.9 million in the three months ended April 30, 2003. The decrease in selling, general and administrative expenses reflect the exit from the DSL Internet access business and from the video-streaming business, as well as the general refocusing of the portfoli of businesses towards media related businesses. In addition, during Fiscal 2002, Media implemented stricter management controls over operating expenses. Partially offsetting the general reduction in costs were additional expenses incurred with the startup of a newly created customer service outsourcing operation.

Depreciation and Amortization. Depreciation and amortization expense was $0.1 million in the three months ended April 30, 2002, versus $0.6 million in the three months ended April 30, 2003. As a percentage of revenues, depreciation and amortization expense increased to 10.9% in the three months ended April 30, 2003, from 2.4% in the three months ended April 30, 2002.

Loss from Operations. Loss from operations in the three months ended April 30, 2002 was $5.0 million, compared to a loss from operations of $2.3 million in the three months ended April 30, 2003, reflecting primarily the lower level of selling, general and administrative expenses resulting from stricter management controls over operating expenses, as well as the refocusing of the segment's business portfolio towards media related businesses.

IDT Internet Telephony Segment

The Internet Telephony business segment reflects the results of Net2Phone, which we reconsolidated effective August 1, 2002. Accordingly, the results of operations for the Internet Telephony segment, which will be detailed below, will contain only references to the three months ended April 30, 2003. We will not make reference to the three months ended April 30, 2002, as Net2Phone was not consolidated during that period. As of April 30, 2003, IDT's ownership interest in Net2Phone was approximately 18.6%. Accordingly, IDT recorded approximately 81.4% of Net2Phone's results attributable to the remaining shareholders in the minority interests line of the condensed consolidated statements of operations. Prior to August 1, 2002, we accounted for our investment in Net2Phone under the equity method of accounting and, accordingly, such results were included in the equity in loss of affiliates line of the condensed consolidated statements of operations. For the three and nine months ended April 30, 2002, our equity in the loss of Net2Phone was $25.1 million and $41.8 million, respectively.

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Revenues. Net2Phone's revenues are primarily derived from per-minute charges billed to its customers on a prepaid basis and from the sa of Internet telephony equipment and services to resellers and other carriers. Revenues were $19.6 million for the three months ended April 3 2003.

Direct Cost of Revenues. Net2Phone's direct cost of revenues consists primarily of network costs associated with carrying customer traffi on its network, wholesale costs of Internet telephony devices, ad serving costs and e-mail box hosting fees. It also includes the cost of purchasing, storing and shipping Internet telephony equipment. Total direct cost of revenues, excluding depreciation and amortization, was $10.0 million in the three months ended April 30, 2003. As a percentage of total revenues, total direct costs was 51.0% in the three months ended April 30, 2003.

Selling, General and Administrative. Selling, general and administrative expenses consist of employee salaries and benefits, the expenses associated with acquiring customers, including commissions paid to sales partners, advertising costs, referral fees and amounts paid to strategic partners in connection with revenue-sharing arrangements, and the costs of insurance, legal services, rent, utilities, shipping, consulting and other items. Selling, general and administrative expenses were $12.7 million in the three months ended April 30, 2003. As a percentage of total revenues, these costs were 64.8% in the three months ended April 30, 2003. Net2Phone anticipates that selling, general and administrative expenses (excluding restructuring, severance and impairment charges) will decrease for the remainder of Fiscal 2003, as i benefits from the effects of the restructuring of its operations.

Depreciation and Amortization. Depreciation and amortization expense was $2.3 million in the three months ended April 30, 2003. As a percentage of total revenues, depreciation and amortization expense was 11.7% in the three months ended April 30, 2003.

Non-cash Compensation. Non-cash compensation was $2.7 million in the three months ended April 30, 2003. Net2Phone's non-cash compensation was primarily attributable to a $1.3 million charge for the amortization of the discount of ADIR shares sold to Net2Phone and ADIR employees in Fiscal 2001. The total discount of approximately $17.9 million is being amortized over the vesting period of such shares.

Restructuring, Severance and Impairment Charges. Restructuring, severance and impairment charges were $1.7 million in the three months ended April 30, 2003, resulting primarily from severance incurred for certain former executives of Net2Phone.

Loss from Operations.. Net2Phone's loss from operations was $9.8 million in the three months ended April 30, 2003.

Corporate

Our Corporate costs consist of corporate services, such as treasury management costs, corporate governance costs, public relations, corporate management and legal costs, corporate insurance, and other general corporate expenses, as well as depreciation expense on corporate assets. Such corporate services are shared generally by our other operating segments, and are not allocable to any specific segment. Corporate does not generate any revenues, nor does it incur any direct cost of revenues.

Selling, General and Administrative. We incurred $5.9 million in corporate selling, general and administrative expenses in the three months ended April 30, 2002, compared to $7.8 million incurred in the three months ended April 30, 2003. The increase is due largely to increased costs of litigation against Telefonica and Terra Networks, S.A. As a percentage of our total consolidated revenues, corporate selling, general and administrative expenses were 1.5% in the three months ended April 30, 2002, compared to 1.7% in the three months ended April 30, 2003.

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Depreciation and Amortization. Depreciation expense decreased from $0.6 million for the three months ended April 30, 2002 to $0.4 million for the three months ended April 30, 2003.

Non-cash Compensation. Non-cash compensation charges were $13.7 million in the three months ended April 30, 2003. On April 25, 200: all then outstanding stock options exercisable for shares of our common stock (which were exercisable for an aggregate of 1.9 million shares were amended to instead be exercisable for an equal number of shares of our Class B common stock. Because these options were originally recorded under APB No. 25, a new measurement date was triggered and the options were required to be accounted for under the intrinsic value method of accounting. Accordingly, we recorded a non-cash compensation charge for the three months ended April 30, 2003 of $13.7 million for the modification of the options.

Loss from Operations. Loss from operations was $6.5 million in the three months ended April 30, 2002, compared to $21.8 million in the three months ended April 30, 2003, as a result of the higher selling, general and administrative expenses and non-cash compensation noted above.

Nine Months Ended April 30, 2003 Compared to Nine Months Ended April 30, 2002

Results of Operations

We evaluate the performance of our operating business segments based primarily on income (loss) from operations. Accordingly, certain adjustments are properly not reflected in the operating business segments discussions, but are only reflected in our Consolidated discussion.

Consolidated

Revenues. Our revenues increased 21.0%, from $1,114.9 million in the nine months ended April 30, 2002 to $1,348.8 million in the nine months ended April 30, 2003. Excluding revenues from our IDT Solutions segment, which was acquired in December 2001, and our Internet Telephony segment, consisting of Net2Phone, which was reconsolidated effective August 1, 2002, our revenues increased 14.8%, from $1,062.6 million in the nine months ended April 30, 2002 to $1,219.5 million in the nine months ended April 30, 2003. The increase in our consolidated revenues (excluding our IDT Solutions and Internet Telephony segments) is mainly attributable to a 14.9% increase in IDT Telecom's revenues. The growth in IDT Telecom's revenues primarily resulted from a 47.0% growth in minutes of use (excluding minutes related to our consumer long distance business, which are not carried through our own network), from 8.3 billion in the nine months ended April 30, 2002 to 12.2 billion in the nine months ended April 30, 2003.

Direct Cost of Revenues. Direct cost of revenues increased by 17.8%, from $879.6 million in the nine months ended April 30, 2002 to $1,036.2 million in the nine months ended April 30, 2003. Excluding direct costs of revenues from our IDT solutions and Internet Telephony segments, direct cost of revenues increased 13.8%, from $817.1 million in the nine months ended April 30, 2002 to $929.7 million in the nine months ended April 30, 2003. As a percentage of total revenues, direct costs decreased from 78.9% in the nine months ended April 30, 2002 to 76.8% in the nine months ended April 30, 2003 (and decreased from 76.9% to 76.2% excluding our IDT Solutions and Internet Telephony segments). The decline in direct costs as a percentage of revenues is attributable to overall higher revenues due to the growth of minutes-of-use and because of continued operating efficiency gains and lower prices from suppliers.

Selling, General and Administrative. Selling, general and administrative expenses increased 18.9%, from $266.5 million in the nine months ended April 30, 2002 to $316.9 million in the nine months ended April 30, 2003. Excluding selling, general and administrative expenses from our IDT Solutions and Internet Telephony segments, selling, general and administrative expenses increased 2.9%, from $219.4 million in the nine months ended April 30, 2002 to $225.8 million in the nine months ended April 30, 2003, due primarily to the increased sales and marketing efforts of IDT Telecom as well as increased salaries, facilities costs and professional fees related to the expansion of our infrastructure and bases of operation to facilitate our current and anticipated future

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growth. As a percentage of total revenues, selling, general and administrative expenses decreased from 23.9% in the nine months ended Apr 30, 2002 to 23.5% in the nine months ended April 30, 2003 (and from 20.6% to 18.5% excluding our IDT Solutions and Internet Telephony segments). Selling, general and administrative expense declined as a percentage of revenues (excluding IDT Solutions and Internet Telephony) due primarily to the significant growth in our revenues for the nine months ended April 30, 2003.

Depreciation and Amortization. Depreciation and amortization expense increased 39.5%, from $46.8 million in the nine months ended April 30, 2002 to $65.3 million in the nine months ended April 30, 2003. Excluding depreciation and amortization expense from our IDT Solutions and Internet Telephony segments, depreciation and amortization expense increased 10.9%, from $43.6 million in the nine months ended April 30, 2002 to $48.3 million in the nine months ended April 30, 2003, primarily as a result of our higher fixed asset base during the nine months ended April 30, 2003, reflecting the expansion of our telecommunications network infrastructure and facilities. As a percentage of revenues, depreciation and amortization expense increased from 4.2% in the nine months ended April 30, 2002 to 4.8% in the nine month ended April 30, 2003 (and decreased from 4.1% to 4.0% excluding our IDT Solutions and Internet Telephony segments).

Settlement by Net2Phone of Litigation. Gain on settlement by Net2Phone of litigation was $58.0 million for the nine months ended April 30 2003. Refer to the respective section of the Internet Telephony segment for a full discussion on the gain on settlement by Net2Phone of litigation.

Non-cash Compensation. Non-cash compensation charges were $23.8 million in the nine months ended April 30, 2003 compared to $2.3 million in the nine months ended April 30, 2002. Refer to the respective sections of the Telecom, IDT Solutions, Corporate and Internet Telephony segments for a discussion on non-cash compensation charges.

Restructuring, Severance and Impairment Charges. Restructuring, severance and impairment charges increased from $2.8 million in the nine months ended April 30, 2002 to $9.0 million in the nine months ended April 30, 2003. Refer to the respective sections of the Internet Telephony and IDT Telecom segments for a full discussion on restructuring, severance and impairment charges.

Loss from Operations. Our loss from operations was $83.2 million in the nine months ended April 30, 2002 compared to a loss from operations of $44.3 million in the nine months ended April 30, 2003. Excluding the loss from operations of our IDT Solutions and Internet Telephony segments, our loss from operations was $20.2 million in the nine months ended April 30, 2002, compared to $2.5 million in the nine months ended April 30, 2003. The reduction in our loss from operations (excluding our IDT Solutions and Internet Telephony segments) was due primarily to IDT Telecom's increased revenues, gross margins and operating income, partially offset by one-time non-cash compensation charges.

Interest. Net interest income was $15.5 million in the nine months ended April 30, 2002, compared to net interest income of $21.3 million in the nine months ended April 30, 2003.

Other Income (Expense). Other income (expense) amounted to an expense of $50.1 million in the nine months ended April 30, 2002, compared to income of $3.3 million in the nine months ended April 30, 2003. Included in other income in the nine months ended April 30, 2003, were losses of $3.8 million associated with recording our pro-rata share of an affiliate's losses, through the equity method of accounting, a charge of $4.7 million related to an obligation to guarantee to AT&T the value of 1.4 million shares of IDT Class B common stock owned by AT&T, and net losses from other investments totaling $10.4 million.

On April 17, 2003, a subsidiary of Liberty Media purchased from IDT Media 88.235 newly-issued shares of IDT Media's Class A common stock, at a price of $283,334 per share, representing an aggregate cash purchase price of $25.0 million. In connection with this sale, we recognized a gain of $22.4 million during the nine months ended April 30, 2003.

Included in other expense in the nine months ended April 30, 2002 were losses of $41.8 million associated with recording our pro-rata shar of Net2Phone's net losses through the equity method of accounting, a charge of $3.7 million related to an obligation to guarantee to AT&T the value of 1.4 million shares of IDT Class B common stock owned by AT&T, and net losses from other investments totaling $4.6 million

Minority Interests. Minority interests were $15.5 million and $47.0 million for the nine months ended April 30, 2002 and 2003, respectively. The $31.5 million increase in minority interests was primarily attributable to the reconsolidation of Net2Phone, of which we ov 18.6% as of April 30, 2003. Accordingly, we recorded in minority interests the percentage of Net2Phone's results attributable to the remaining shareholders of Net2Phone (81.4% as of April 30, 2003).

Income Taxes. We recorded an income tax benefit of $55.2 million in the nine months ended April 30, 2002, compared to an income tax benefit of $40.8 million in the nine months ended April 30, 2003.

Cumulative Effect of Accounting Change. In accordance with our adoption of SFAS No. 142, as of August 1, 2001, we performed the required impairment tests of goodwill and recorded an impairment charge of $147.0 million, net of income taxes of $3.5 million, for the nin months ended April 30, 2002. The impairment charge was recorded as a cumulative effect adjustment of a change in accounting principle. N such charges were recorded during the nine months ended April 30, 2003.

Net Loss. Our consolidated net loss, after the cumulative effect adjustment of a change in accounting principle detailed above, was $225.1 million in the nine months ended April 30, 2002 compared to consolidated net loss of $25.9 million in the nine months ended April 30, 2003 The recording of a net loss in the nine months ended April 30, 2002 and 2003, was a result of the combined factors for each of the segments discussed below, as well as those items detailed above.

IDT Telecom—Retail Telecommunications Services and Wholesale Telecommunications Services Segments

Revenues. IDT Telecom's revenues increased 14.9%, from $1,047.0 million in the nine months ended April 30, 2002 to $1,203.0 million ir the nine months ended April 30, 2003.

IDT Telecom's revenues increased primarily as a result of a 47.0% growth in minutes of use (excluding minutes related to our consumer long distance business, which are not carried through our own network) from 8.3 billion in the nine months ended April 30, 2002 to 12.2 billion in the nine months ended April 30, 2003. IDT Telecom experienced growth in minutes of use in both its Retail Telecommunications Services and Wholesale Telecommunications Services segments, in both the U.S. and international operations. IDT Telecom's minutes of use grew at a faster rate than did its revenues, reflecting a decline in its average revenue-per-minute, from $0.116 during the nine months ended April 30, 2002 to $0.088 in the nine months ended April 30, 2003. IDT Telecom's decrease in its average revenue-per-minute is due to a number of factors, including (i) continued competition in both retail and wholesale markets, and (ii) introduction of new calling cards.

Revenues from IDT Telecom's Retail Telecommunications Services segment increased $89.4 million, or 10.8%, from $825.5 million in the nine months ended April 30, 2002 to $914.9 million in the nine months ended April 30, 2003. This growth was largely the result of a $54.5 million increase in sales of IDT-branded calling cards and a $34.7 million increase in consumer long distance revenues. As a percentage of IDT Telecom's overall revenue, Retail Telecommunications Services' revenues decreased from 78.8% in the nine months ended April 30, 2002 to 76.1% in the nine months ended April 30, 2003, as revenues from our Wholesale Telecommunications Services segment grew at a faster rate than did our retail businesses revenues. IDT Telecom's calling card sales increased 7.3%, from $745.5 million in the nine months ended April 30, 2002 to $800.0 million in the nine months ended April 30, 2003, fueled by the introduction of several new calling cards.

Calling card sales as a percentage of IDT Telecom's Retail Telecommunications Services revenues decreased from 90.3% in the nine months ended April 30, 2002 to 87.4% in the nine months ended April 30,

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2003, as revenues from consumer long distance services grew at a faster rate than did calling card revenues. Revenues from consumer long distance services, in which we act as a switchless reseller of another company's network, experienced significant growth in minutes of use i the nine months ended April 30, 2003, with revenues increasing 45.7%, from $78.2 million in the nine months ended April 30, 2002 to $113 million in the nine months ended April 30, 2003. The consumer long distance revenue increase is attributable to the continued growth of ou flat-rate, $0.05 a minute long distance calling plan, which has been driven by increased marketing expenditures, resulting in a significant increase in the number of consumer long distance customers.

Revenues from IDT Telecom's other Retail Telecommunications Services businesses, consisting primarily of call reorigination services, amounted to $1.9 million in the nine months ended April 30, 2002, versus $1.0 million in the nine months ended April 30, 2003.

IDT Telecom's Wholesale Telecommunications Services revenues increased 30.1%, from $221.5 million in the nine months ended April 30 2002 to $288.2 million in the nine months ended April 30, 2003. As a percentage of IDT Telecom's total revenues, Wholesale Telecommunications Services revenues increased from 21.2% in the nine months ended April 30, 2002 to 24.0% in the nine months ended April 30, 2003. The increase in revenues occurred as a result of an increase in wholesale carrier minutes, despite a significant decline in the average revenue-per-minute.

Direct Cost of Revenues. Direct cost of revenues for IDT Telecom increased 13.9%, from $815.3 million in the nine months ended April 3(2002 to $928.3 million in the nine months ended April 30, 2003, due to the higher revenue and minutes base. As a percentage of total IDT Telecom's revenues, direct costs declined to 77.2% in the nine months ended April 30, 2003, from 77.9% in the nine months ended April 30, 2002. The decrease in direct costs as a percentage of total revenues is attributable to overall higher revenues due to the strong growth of minutes-of-use and because of continued operating efficiency gains and lower prices from suppliers. The decrease in direct costs as a percentage of total revenues occurred despite the lower revenue per minute price realization and despite increases in our costs for toll-free "800" traffic, and network related costs, due to our strong growth of minutes-of-use.

Selling, General and Administrative. IDT Telecom's selling, general and administrative expenses increased 5.1%, from $172.9 million in the nine months ended April 30, 2002 to $181.7 million in the nine months ended April 30, 2003. The increase in selling, general and administrative expenses for IDT Telecom's operations is due to several factors, including increased sales and marketing efforts for our Retail Telecommunications Services segment, such as calling cards and consumer long distance, as well as increased salaries, facilities costs and professional fees related to the expansion of our infrastructure and bases of operation to facilitate our current and anticipated future sales growth. As a percentage of IDT Telecom's total revenues, selling, general and administrative expenses were 16.5% in the nine months ended April 30, 2002, compared to 15.1% in the nine months ended April 30, 2003.

Depreciation and Amortization. IDT Telecom's depreciation and amortization expense rose 16.2%, from $39.4 million in the nine months ended April 30, 2002, to $45.8 million in the nine months ended April 30, 2003, reflecting the continued expansion of our fixed asset base, as we invest to accommodate our current and anticipated future growth. As a percentage of IDT Telecom's total revenues, depreciation and amortization expense was 3.8% in the nine months ended April 30, 2002 and 2003.

Non-cash Compensation. IDT Telecom recorded non-cash compensation of $2.5 million in the nine months ended April 30, 2003, primarily attributable to the modification of stock option agreements of certain terminated employees.

Restructuring, Severance, and Impairment Charges. Impairment charges of $2.8 million and $1.5 million were recorded by IDT Telecom during the nine months ended April 30, 2002 and 2003, respectively, resulting primarily from the write down of certain decommissioned European telecommunications switch equipment, and the write-off of a discontinued Indefeasible Right of Use ("IRU"), respectively.

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Income from Operations. IDT Telecom recorded income from operations of $16.7 million in the nine months ended April 30, 2002, compared to income from operations of $43.4 million in the nine months ended April 30, 2003. The increase in income from operations resulted primarily from the revenue growth and improved gross margins.

IDT Solutions Segment

We acquired the assets currently held by Winstar on December 19, 2001. Accordingly, the results of operations for our IDT Solutions segment, which operates through Winstar, for the nine months ended April 30, 2002, reflect only the results of operations during such perio that we owned and operated Winstar.

Revenues. Revenues from IDT Solutions increased 26.0%, from $52.3 million in the nine months ended April 30, 2002 to $65.9 million i the nine months ended April 30, 2003. The increase in revenues is due to the fact that the Winstar assets were acquired in December 2001, and therefore generated revenues for only a portion of the nine months ended April 30, 2002.

Direct Cost of Revenues. Direct cost of revenues for IDT Solutions increased 17.6%, from $62.5 million in the nine months ended April 3(2002 to $73.5 million in the nine months ended April 30, 2003. The increase in direct cost of revenues is due to the fact that the Winstar assets were acquired in December 2001 and therefore generated revenues and costs for only a portion of the nine months ended April 30, 2002. Direct cost of revenues consist primarily of two components, connectivity for the network backbone and lease payments for the networ of provision-ready buildings. Network backbone costs for the nine months ended April 30, 2003 totaled $51.0 million, accounting for 69.4% of total direct cost of revenues. Direct cost of revenues for the nine months April 30, 2003 associated with lease payments for the building network were $22.0 million.

Selling, General and Administrative. Selling, general and administrative expenses of IDT Solutions increased 6.4%, from $47.1 million in the nine months ended April 30, 2002 to $50.1 million in the nine months ended April 30, 2003. The increase is due to the fact that the Winstar assets were acquired in December 2001 and therefore generated revenues and expenses for only a portion of the nine months ended April 30, 2002. The main component of selling, general and administrative expenses for the nine months ended April 30, 2003 was employee compensation and benefits, accounting for $35.6 million, or about 71.1% of total selling, general and administrative expenses.

Depreciation and Amortization. Depreciation and amortization expense increased 197.0%, from $3.3 million in the nine months ended April 30, 2002 to $9.8 million in the nine months ended April 30, 2003. The increase is due to the fact that the Winstar assets were acquired in December 2001, and therefore depreciation on such assets was only recorded for a portion of the nine months ended April 30, 2002. As a percentage of IDT Solutions revenues, depreciation and amortization was 6.3% in the nine months ended April 30, 2002 compared to 14.9% in the nine months ended April 30, 2003.

Non-cash Compensation. IDT Solutions recorded non-cash compensation of $2.3 million in the nine months ended April 30, 2002, attributable to the modification of stock option agreements of certain terminated employees.

Loss from Operations. IDT Solutions' loss from operations in the nine months ended April 30, 2002 was $63.0 million, compared to $67.5 million in the nine months ended April 30, 2003. The increase in loss from operations is primarily attributable to the increase in selling, general and administrative expenses and in depreciation and amortization, as the nine months ended April 30, 2002 reflect only the results of operations during such period that we owned and operated Winstar.

Media Segment

Revenues. Revenues from the Media segment increased 5.8%, from $15.6 million in the nine months ended April 30, 2002 to $16.5 million in the nine months ended April 30, 2003. In Fiscal 2002, Media gradually exited its DSL business. Currently, Media's revenues are primarily comprised of revenues from CTM.

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Direct Cost of Revenues. Direct cost of revenues decreased from $1.8 million in the nine months ended April 30, 2002 to $1.5 million in t nine months ended April 30, 2003. As a percentage of Media's revenues, direct cost of revenues decreased from 11.5% in the nine months ended April 30, 2002 to 9.1% in the nine months ended April 30, 2003. Most of Media's businesses remain in the early stages of their development. As such, we anticipate that direct costs will continue to account for a relatively small percentage of Media's revenues, with mc of the expenses associated with these businesses to be incurred in the form of selling, general, administrative and development costs.

Selling, General and Administrative. Selling, general and administrative expenses decreased 30.1%, from $28.9 million in the nine month ended April 30, 2002 to $20.2 million in the nine months ended April 30, 2003. The decrease in selling, general, and administrative expense reflect the exit from the DSL Internet access business and from the video-streaming business, as well as the general refocusing of the portfoli of businesses towards media related businesses. In addition, during Fiscal 2002, Media implemented stricter management controls over operating expenses. Partially offsetting the general reduction in costs were additional expenses incurred with the startup of a newly created customer service operation.

Depreciation and Amortization. Depreciation and amortization expense was $2.2 million in the nine months ended April 30, 2002, versus $1.2 million in the nine months ended April 30, 2003. This decrease is due to the reduced fixed asset base resulting from our sale of our former DSL business. As a percentage of revenues, depreciation and amortization expense fell to 7.3% in the nine months ended April 30, 2003, from 14.1% in the nine months ended April 30, 2002.

Loss from Operations. Loss from operations in the nine months ended April 30, 2002 was $17.2 million, compared to a loss from operation of $6.4 million in the nine months ended April 30, 2003, reflecting the lower level of selling, general and administrative expenses resulting from stricter management controls over operating expenses, as well as the refocusing of the segment's business portfolio towards media related businesses.

IDT Internet Telephony Segment

The Internet Telephony business segment reflects the results of Net2Phone, which was reconsolidated effective August 1, 2002. Accordingly, the results of operations for our Internet Telephony segment, consisting of Net2Phone, will contain only references to the nine months ended April 30, 2003, during which we reconsolidated Net2Phone. We will not make reference to the results for the nine months ended April 30, 2002, as Net2Phone was not consolidated during that period.

Revenues. Revenues were $63.4 million for the nine months ended April 30, 2003. During the nine months ended April 30, 2003, Net2Phone has concentrated its marketing and sales efforts towards building up activities to generate revenues in relatively high-margin services, such as international communications services, during the upcoming periods.

Direct Cost of Revenues. Total direct cost of revenues, excluding depreciation and amortization, was $33.0 million in the nine months ended April 30, 2003. As a percentage of total revenues, total direct costs was 52.1% in the nine months ended April 30, 2003.

Selling, General and Administrative. Selling, general and administrative expenses were $41.0 million in the nine months ended April 30, 2003. As a percentage of total revenues, these costs were 64.7% in the nine months ended April 30, 2003.

Depreciation and Amortization. Depreciation and amortization expense was $7.2 million in the nine months ended April 30, 2003. As a percentage of total revenues, depreciation and amortization expense was 11.4% in the nine months ended April 30, 2003.

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Settlement by Net2Phone of Litigation. Gain on settlement by Net2Phone of litigation was $58.0 million in the nine months ended April : 2003. On March 19, 2002 Net2Phone and its ADIR Technologies, Inc. subsidiary filed suit in the United States District Court for the Distr of New Jersey against Cisco Systems, Inc. and a Cisco executive who had been a member of ADIR's board of directors. The suit arose out the relationships that had been created in connection with Cisco's and Net2Phone's original investments in ADIR and out of ADIR's subsequent purchase of NetSpeak, Inc. in August 2001. The parties settled the suit and all related claims against Cisco and the Cisco executive in exchange for: (i) the transfer, during the first quarter of Fiscal 2003, to Net2Phone of Cisco's and Softbank Asia Infrastructur Fund's respective 11.5% and 7.0% interests in ADIR, and (ii) the payment by Cisco, during such quarter, of $19.5 million to Net2Phone ar ADIR. As a result of this settlement, Net2Phone recognized for the quarter ended October 31, 2002, a gain of $58.4 million consisting of (i $38.9 million reduction in Net2Phone's minority interests in ADIR as a result of the transfer of the ADIR shares and (ii) the receipt of settlement proceeds of $19.5 million. During the second quarter of Fiscal 2003, Net2Phone recorded an additional $0.4 million in executiv compensation expense directly related to the Cisco settlement.

Non-cash Compensation. Non-cash compensation was $7.1 million in the nine months ended April 30, 2003. Net2Phone's non-cash compensation primarily resulted from a charge of $1.0 million relating to repriced options which are subject to variable accounting treatmer and therefore must be marked-to-market each quarter, and a charge of $3.8 million for the amortization of the discount of ADIR shares sold Net2Phone and ADIR employees in Fiscal 2001.

Restructuring, Severance and Impairment Charges. Restructuring, severance and impairment charges were $7.6 million in the nine month ended April 30, 2003, resulting primarily from severance of $3.2 million, relating to the consolidation in the first quarter of Fiscal 2003 of Net2Phone's development and support organizations. In addition, Net2Phone recorded $3.0 million of severance costs for certain former executives, $1.9 million of asset impairment charges, and $1.8 million of costs to exit various locations and eliminate network buildouts. These costs were partially offset by Net2Phone's reversal of a reserve related to successful settlement negotiations with vendors regarding cancellation charges.

The following table summarizes the charges included in restructuring, severance and impairment charges in the condensed consolidated statements of operations:

Income from Operations. Income from Net2Phone's operations was $25.7 million in the nine months ended April 30, 2003. Excluding $7.6 million of restructuring, severance and impairment charges and a $58.0 million gain from the settlement by Net2Phone of litigation, Net2Phone's loss from operations in the nine months ended April 30, 2003 was $24.7 million.

Corporate

Our Corporate costs consist of corporate services, such as treasury management costs, corporate governance costs, public relations, corporate management and legal costs, corporate insurance, and other general corporate expenses, as well as depreciation expense on corporate assets. Such corporate services are shared generally by our other operating segments, and are not allocable to any specific segment. Corporate does not generate any revenues, nor does it incur any direct cost of revenues.

Selling, General and Administrative. We incurred $17.6 million in corporate selling, general and administrative expenses in the nine months ended April 30, 2002, compared to $23.9 million incurred in the nine months ended April 30, 2003. The increase is due largely to increased costs of litigation against Telefonica and Terra Networks, S.A. As a percentage of our total consolidated revenues, corporate selling, general and administrative expenses were 1.6% in the nine months ended April 30, 2002, compared to 1.8% in the nine months ended April 30, 2003.

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Depreciation and Amortization. Depreciation expense decreased from $2.0 million for the nine months ended April 30, 2002 to $1.3 millic for the nine months ended April 30, 2003.

Non-cash Compensation. Non-cash compensation charges were $14.2 million in the nine months ended April 30, 2003. On April 25, 2003 all then outstanding options exercisable for shares of our common stock (which were exercisable for an aggregate of 1.9 million shares) wer(amended to instead be exercisable for an equal number of shares of our Class B common stock. Because these options were originally recorded under APB No. 25, a new measurement date was triggered and the options were required to be accounted for under the intrinsic value method of accounting. Accordingly, we recorded a non-cash compensation charge for the nine months ended April 30, 2003 of $13.7 million for the modification of the options. In addition, we recorded $0.5 million of non-cash compensation attributable to shares of Class B common stock that we issued to an outside consultant.

Loss from Operations. Loss from operations was $19.6 million in the nine months ended April 30, 2002, compared to $39.4 million in the nine months ended April 30, 2003, as a result of the higher selling, general and administrative expenses and non-cash compensation noted above.

Liquidity and Capital Resources

General

Historically, we have satisfied our cash requirements through a combination of cash flow from operating activities, sales of equity and debt securities and borrowings from third parties. Additionally, we received approximately $1.0 billion from the sale of Net2Phone Class A common stock to AT&T in August 2000. Since that time, our cash requirements have been satisfied for the most part through our existing cash, cash equivalents and marketable securities balances.

As of April 30, 2003, we had cash, restricted cash, cash equivalents, and marketable securities of $1.1 billion, which includes $102.0 million held by Net2Phone, and working capital of $808.1 million. We generated cash flow from operating activities of $12.8 million during the nine months ended April 30, 2003, compared with cash flow from operating activities of $16.2 million during the nine months ended April 30, 2002. Our cash flow from operations varies significantly from quarter to quarter and from year to year, depending on the timing of operating cash receipts and payments, especially trade accounts receivable and trade accounts payable. Gross trade accounts receivable, accrued expenses and deferred revenue have generally increased from period to period as our businesses have grown.

We used $120.1 million in cash to fund investing activities during the nine months ended April 30, 2003. This compares to net cash flows used in investing activities of $384.2 million during the nine months ended April 30, 2002. The primary use of cash for investing activities during the nine months ended April 30, 2003 was for the net purchases of $92.6 million of marketable securities (primarily U.S. Government Agency Obligations). Our capital expenditure investments were approximately $51.4 million in the nine months ended April 30, 2003, compared to approximately $28.3 million in the nine months ended April 30, 2002, as we have continued to expand IDT Telecom's international and domestic telecommunications network infrastructure. The future minimum payments of principal and interest on our capital lease obligations are $8.3 million, $26.4 million, $16.6 million, $13.0 million, $3.1 million, and $2.4 million for the remainder of Fiscal 2003, Fiscal 2004, Fiscal 2005, Fiscal 2006, Fiscal 2007, and thereafter, respectively. Throughout Fiscal 2003 to date, we have made considerable expenditures designed to expand our global telecommunications network. Key elements of our network expansion plan for Fiscal 2003 to date included the addition of a second international gateway switch in the UK and another international gateway switch in the U.S. We now operate a total of nine international gateway switches, broken down as follows: five in the U.S., two in the UK and one each in Argentina and Peru. Over the remainder of Fiscal 2003, IDT anticipates making additional expenditures to expand our calling card platform in the U.S. and to upgrade our network in South America. For the full 2003 fiscal year, we anticipate capital expenditures in the $60 million to $70 million range. We anticipate further expansion of our worldwide switching network in Fiscal 2004, with the addition of at least one international gateway switch in each of the U.S. and UK portions of our network. In addition, we anticipate making further expenditures to bolster our network infrastructure in South America and Asia. We current anticipate that capital expenditures for Fiscal 2004 will be in the $50 million to $75 million range. These estimates are contingent upon several factors, including, but not limited to, market prices for telecommunications equipment, the availability of such equipment in the distressed asset market and the specific timing of our network expansion projects. We have generally adopted a strategy of investing in network expansion only as the need arises, as dictated by our telecommunications traffic volumes. Therefore, the timing of our network expansion, and the coincident purchases of property, plant and equipment, are highly dependent upon the timing and magnitude of the growt in our telecommunications minutes-of-use. We expect to fund our purchases of property, plant and equipment from our operating cash flows and our cash, cash equivalents and marketable securities balances. From time to time, we will also finance a portion of our capital expenditures through capital leases, with the cost of such financing the primary consideration in determining our financing activity.

Our Board of Directors has authorized the repurchase of up to 45 million shares of our common stock and Class B common stock. We have repurchased a total of 15.6 million shares under the share repurchase program through Fiscal 2002, of which 6.2 million shares were retired a of July 31, 2002. No additional shares were purchased or retired during the nine months ended April 30, 2003.

We used $0.5 million in cash to fund our financing activities during the nine months ended April 30, 2003, compared to $29.8 million in casl flow that was provided by our financing activities during the nine months ended April 30, 2002. We received approximately $10.0 million in proceeds from the exercise of stock options during the nine months ended April 30, 2003, compared to $44.5 million received during the ninε months ended April 30, 2002. In addition, we received proceeds of $25.0 million during the nine months ended April 30, 2003 from the sale of shares of our IDT Media subsidiary stock, compared to $30.0 million received during the nine months ended April 30, 2002 from the sale of shares of our IDT Telecom subsidiary stock. We also paid $15.6 million to repurchase IDT shares during the nine months ended April 30, 2002, through our stock buyback program, mentioned above.

We experience intense price competition in our telecommunications businesses. The long distance telecommunications industry has been characterized by significant declines in both per-minute revenues and per-minute costs, as evidenced by IDT Telecom's experience during Fiscal 2002 and the nine months ended April 30, 2003. During the nine months ended April 30, 2003, IDT Telecom's average revenue-per-minute was $0.088 per minute, down 24.1% from $0.116 per minute for the nine months ended April 30, 2002. However, IDT Telecom's average termination cost per-minute dropped approximately 21.9%, to $0.075 in the nine months ended April 30, 2003, from $0.096 in the nine months ended April 30, 2002.

In the past, and over time, we believe that these factors tend to offset each other, with prices and costs moving in the same general direction. However, over a shorter term, such as one quarter or one year, the drop in pricing could outpace the drop in costs, or vice versa. In addition, due to continued pricing pressure in most of the retail and wholesale markets in which we compete, we might be compelled to pass along most or all of our per-minute cost savings to our customers in the form of lower rates. We might also be unable, in the event that some of our per-minute costs rise, to immediately pass along the additional costs to our customers in the form of higher rates. Consequently, over any given period, gross margins could expand or narrow, based solely on the timing of changes in revenue-per-minute and cost-per-minute. Our long-term strategy involves terminating a larger proportion of minutes on our own network, thereby lowering costs and preserving margins even in a weaker price environment, as we become less subject to the prices charged by third-parties for terminating our minutes over their networks. In addition, as our minutes-of-use have steadily grown, we have attempted to leverage our buying power and our strong balance sheet to negotiate more favorable rates with our suppliers. However, in the short term, the incremental demand for usage might outpace the rate of deployment of additional network capacity, particularly in light of our expectation for continued growth in our minutes volume. As such, there can be no assurance that we will be able to maintain our gross margins at the current level, in the face of lower per-minute revenues.

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We continued to fund our IDT Media segment throughout the first nine months of Fiscal 2003, incurring significant start-up, developmen marketing and promotional costs. Due to the start-up nature of many of the IDT Media businesses, the exact timing and magnitude of futu revenues remains difficult to predict. As such, we anticipate that IDT Media will continue to rely on us to fund its cash needs, including operating expenses, capital expenditures and potential acquisitions. Currently, IDT Media is aggressively pursuing acquisitions and/or oth investments, primarily in its radio and animation business lines.

On April 17, 2003, a subsidiary of Liberty Media purchased from IDT Media 88.235 newly-issued shares of IDT Media's Class A commo stock, at a price of $283,334 per share, representing an aggregate cash purchase price of $25.0 million. We may continue to look to outsid investors to fund IDT Media's ongoing expansion, which may include similar transactions occurring in future years.

Since our acquisition of the Winstar assets in December 2001, the IDT Solutions segment has experienced working capital deficits. We hav undertaken significant cost saving measures and restructured IDT Solution's operations, which included the downsizing of the Winstar network and a significant reduction in headcount, aimed at reducing the working capital deficit. However, at this time, IDT foresees that it will be required to continue funding IDT Solution's operating losses and capital expenditure needs for the foreseeable future.

Changes in Other Current Assets, Trade Accounts Receivable, Allowance for Doubtful Accounts and Deferred Revenue

Our other current assets increased from $65.3 million at July 31, 2002 to $88.2 million at April 30, 2003, due primarily to our reconsolidatic of Net2Phone, as well as increases in inventories, and other receivables. Gross trade accounts receivable increased from $165.0 million at July 31, 2002 to $172.1 million at April 30, 2003, reflecting primarily the increase in revenues and our reconsolidation of Net2Phone. The average age of our gross accounts receivable, as measured by number of days sales outstanding, has remained constant during the first nine months of Fiscal 2003.

Due to the wide range of collection terms, future trends with respect to days sales outstanding generally depends on the proportion of total sales made to carriers, who are often offered payment terms of 30 days or more, and prepaid calling card distributors, who generally receive payment terms of less than 30 days. As such, the trends in days sales outstanding will depend, in large part, on the mix of wholesale (carrier) versus retail (prepaid calling card distributor) customers. As we anticipate that in the near term we will attempt to continue to secure shorter payment terms from some of our customers, we could experience declines in the average age of our trade accounts receivable throughout the remainder of Fiscal 2003. Conversely, as we are willing to extend longer payment terms to more credit-worthy customers, an increase in customers belonging to the highest credit classes, as a percentage of total customers, could lead to an increase in days sales outstanding. In addition, if we restricted sales to financially unstable customers, regardless of the credit terms, the proportion of higher-credit class customers will increase further, potentially leading to an increase in the average days sales outstanding. In addition, days sales outstanding for our consumer long distance customers is usually longer than 30 days, given the timing of the billing cycle. As the consumer long distance business continues to grow and to represent a larger portion of our retail telecommunications services revenues and receivables, we expect that total retail days sales outstanding should increase accordingly. Therefore, due to the conflicting nature of the above factors, future trends in days sales outstanding remain difficult to predict, and it is not possible at this time to determine whether recent trends in days sales outstanding will continue.

The allowance for doubtful accounts as a percentage of gross trade accounts receivable decreased from 23.6% at July 31, 2002, to 22.6% at April 30, 2003, primarily as a result of our writing-off, against the allowance for doubtful accounts, certain uncollectible trade accounts receivable from our consumer long distance business.

Deferred revenue as a percentage of total revenues vary from period to period, depending on the mix and the timing of revenues. During the first nine months of Fiscal 2003, we experienced a steady increase in sales of our

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calling cards due to increased marketing efforts for existing IDT calling cards and the continued strong growth of our European calling card operations. This resulted in a continued increase in deferred revenue. Deferred revenue also increased as a result of our reconsolidation of Net2Phone. We expect to experience increases in our deferred revenue throughout the remainder of Fiscal 2003, owing to a continued increase in calling card sales.

Significant Transactions

On October 23, 2001, IDT, Liberty Media and AT&T formed a limited liability company ("LLC"), which through a series of transactions among IDT, Liberty Media and AT&T held an aggregate of 28.9 million shares of Net2Phone's Class A common stock, representing approximately 48% of Net2Phone's outstanding capital stock. Because the LLC holds Class A common stock with two votes per share, the LLC has approximately 65% of the shareholder voting power in Net2Phone. IDT holds the controlling membership interest in the LLC and is the managing member of the LLC. The operating agreement of the LLC provides unilateral liquidation rights to each of its members whereby any member of the LLC may cause the LLC to liquidate and dissolve by providing written notice at any time on or after January 1, 2004 to the other LLC members of its desire to cause such liquidation and dissolution. Since the LLC can be liquidated and dissolved at any time on or after January 1, 2004, our control of the LLC is deemed to be temporary. Accordingly, through July 31, 2002, we accounted for our investment in the LLC using the equity method.

Pursuant to the operating agreement of the LLC, AT&T received 29 Class A units of the LLC, and had the right to put 6 of these units to IDT and 23 of these units to Liberty Media after one year. On October 29, 2002, AT&T exercised its put rights and sold all of its Class A units to IDT and Liberty Media for a nominal amount. As a result of this transaction, AT&T is no longer a member of the LLC. IDT continues to hold the controlling membership interest in the LLC and is the managing member of the LLC. As of April 30, 2003, IDT's effective equity investment in Net2Phone (through the LLC) was 18.6%. Accordingly, we recorded in minority interests the 81.4% of Net2Phone's results attributable to the remaining shareholders of Net2Phone.

On April 17, 2003, a subsidiary of Liberty Media purchased from IDT Media 88.235 newly-issued shares of IDT Media's Class A common stock, at a price of $283,334 per share, representing an aggregate cash purchase price of $25.0 million. As a result of this sale of subsidiary stock, our ownership percentage in IDT Media decreased from 100% to 94.4%. We have historically accounted for sales of stock of our subsidiaries in accordance with Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary*, which permits us to record the excess of our carrying value in the equity of our subsidiaries as a gain. Accordingly, in connection with this sale, we recognized a gain of $22.4 million.

On April 25, 2003, all then outstanding stock options exercisable for shares of our common stock (which were exercisable for an aggregate of 1.9 million shares) were amended to instead be exercisable for an equal number of shares of our Class B common stock. Because these options were originally recorded under APB No. 25, a new measurement date was triggered and the options were required to be accounted for under the intrinsic value method of accounting. As a result, we recorded a non-cash compensation charge for the three and nine months ended April 30, 2003 of $13.7 million for the modification of the options. In addition, on April 25, 2003, the Board of Directors also authorized that all shares of Class B common stock held as treasury stock be allocated for issuance in connection with the above transaction.

Other Sources and Uses of Resources

We intend to, where appropriate, make strategic acquisitions to expand our telecommunications businesses. These acquisitions could include, but are not limited to, acquisitions of telecommunications equipment, telecommunications network capacity, customer bases or other assets. From time to time, we evaluate potential acquisitions of companies, technologies, products and customer accounts that complement our businesses, particularly in light of the financial distress currently being encountered by many telecommunications firms. These conditions have resulted in the availability for sale of numerous strategic assets and businesses. We will

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also consider making appropriate acquisitions that would complement our Media segment's portfolio of businesses. Consequently, we usec approximately $10.3 million of our cash during the nine months ended April 30, 2003, to acquire various investments in other companies, compared to $78.4 used during the nine months ended April 30, 2002. We will continue to evaluate acquisition opportunities as they are ma available to us. In considering acquisitions, we will search for opportunities to profitably grow our existing businesses, to add qualitatively t the range of businesses in the IDT portfolio, and to supplement our existing network expansion plans through the timely purchase from thir parties of necessary equipment. At this time, we cannot guarantee that we will be presented with acquisition opportunities that meet our retu on investment (ROI) criteria, or that our efforts to acquire such companies that meet our criteria will be successful.

We believe that, based upon our present business plan, and due to the large balance of cash, restricted cash, cash equivalents and marketabl securities we held as of April 30, 2003, our existing cash resources will be sufficient to meet our currently anticipated working capital and capital expenditure requirements and to fund any potential operating cash flow deficits within any of our divisions for at least the next twelv months. If our growth exceeds current expectations or if we acquire the business or assets of another company, we might need to raise additional capital from equity or debt sources. There can be no assurance that we will be able to raise such capital on favorable terms or at al If we are unable to obtain such additional capital, we may be required to reduce the scope of our anticipated expansion, which could have a material adverse effect on our business, financial condition and/or results of operations.

The following tables quantify our future contractual obligations and other commercial commitments, which consist primarily of capital and operating leases and standby letters of credit as of April 30, 2003 (in millions):

Contractual Obligations

Payments Due by Period

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital lease obligations	$ 69.8	27.6	$ 30.2	$ 10.8	$ 1.:
Operating leases	442.8	87.7	108.6	90.0	156.:
Other long-term obligations(1)	22.5	5.3	—	17.2	—
Total contractual cash obligations	$535.1	$ 120.6	$138.8	$118.0	$157.7

(1) Consists of (i) our $5.3 million obligation to guarantee to AT&T the value of 1.4 million shares of IDT Class B common stock owned by AT&T and (ii) Net2Phone's $17.2 million obligation to guarantee the value of 0.6 million shares of Net2Phone's common stock to certain former shareholders of Aplio.

Other Commercial Commitments

Payments Due by Period

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Standby letters of credit	$31.1	$ 2.2	$ 7.7	$ 20.0	$ 1.2
Guarantees	3.6	0.2	—	0.3	3.1
Total commercial commitments	$34.7	$ 2.4	$ 7.7	$ 20.3	$ 4.3

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Foreign Currency Risk

Revenues from our international operations accounted for approximately 20% of our consolidated revenues for the nine months ended Apri 30, 2003. A significant portion of these revenues are in denominations other than the U.S. Dollar. Any foreign currency exchange risk that w are subject to is mitigated by our ability to offset the majority of these non dollar-denominated revenues with operating expenses that are pai in the same currencies. As such, the net amount of our exposure to foreign currency exchange rate changes is not material.

Recently Issued Accounting Pronouncements

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments Hedging Activities*. This statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made: as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133; in connection with other FASB projects dealing with financial instruments; and regarding implementation issues raised in relation to the application of the definition of a derivative, particularly regarding the meaning of an "underlying" and the characteristics of a derivative that contains financing components.

SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discusse in SFAS No. 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement o cash flows. SFAS No. 149 amends certain other existing pronouncements. These changes will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting.

The provisions of this standard are effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The provisions of this statement that relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003 should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist should be applied to existing contracts as well as new contracts entered into after June 30, 2003. We believe that the adoption of this standard will not have a material impact on our results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 affects the issuer's accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type, which includes put options and forward purchase contracts, involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments consist of obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers' shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety.

In addition to requirements for classification and measurement of financial instruments, SFAS No. 150 also requires disclosures about alternative ways of settling the instruments and the capital structure of entities, whose shares are mandatorily redeemable. Most of the guidance in Statement 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective from the start of the first interim period beginning after June 15, 2003. We believe that the adoption of this standard will not have a material impact on our results of operations or financial position.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS.

The Securities and Exchange Commission's rule related to market risk disclosure requires that we describe and quantify our potential losses from market risk sensitive instruments attributable to reasonably possible

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market changes. Market risk sensitive instruments include all financial or commodity instruments and other financial instruments (such as investments and debt) that are sensitive to future changes in interest rates, currency exchange rates, commodity prices or other market facto We are not exposed to market risks from changes in commodity prices. We are exposed to changes in interest rates primarily from our investments in cash equivalents and marketable securities. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to interest rate changes. We do not consider our market risk exposure relating to foreign currency exchange to be material, as we generally have sufficient cash outflows based in these currencies to largely offset the cash inflows based in these currencies thereby creating a natural hedge. In order to mitigate the risk associated with the small amounts of remaining net foreign exchange exposur which we experience from time to time, we have, on occasion, entered into foreign exchange hedges. In addition to but separate from our primary business, we hold a small portion of our total asset portfolio in hedge funds for speculative and strategic purposes. As of April 30, 2003, our investments in such hedge funds was approximately $23.9 million. Investments in hedge funds carry a significant degree of risk, which will depend to a great extent on correct assessments of the future course of price movements of securities and other instruments. Ther can be no assurance that hedge fund managers will be able to accurately predict these price movements. The securities markets have in rece years been characterized by great volatility and unpredictability. Accordingly, the value of our interests in these funds may go down as well up and we may not receive, upon redemption, the amounts originally invested.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective at recording, processing, summarizing and reporting, within the time periods specified in the SEC's rules and forms, the informatio it is required to disclose in its periodic reports filed or submitted under the Exchange Act.

Changes in Internal Controls. Since the Evaluation Date, there have not been any significant changes in our internal controls or in other factors that could significantly affect such controls.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Certain legal proceedings in which we are involved are described in our Quarterly Report on Form 10-Q for the quarter ended January 31, 2003. The following discussion is limited to recent developments concerning our legal proceedings and should be read in conjunction with such earlier Quarterly Report. Unless otherwise indicated, all legal proceedings discussed in our earlier Quarterly Report remain outstandin

With respect to our complaint against Telefonica S.A., Terra Networks, S.A., Terra Networks, U.S.A., Inc. and Lycos, Inc., we filed a motic on May 16, 2003 to compel the defendants to produce documents under the crime-fraud exception of the attorney-client and work product privilege. Oral argument on this motion is scheduled for August 7, 2003.

With respect to our statement of claim with the American Arbitration Association naming Telefonica Internacional, S.A. as the Respondent the parties filed post-hearing briefs on April 4, 2003 and reply briefs were filed on May 8, 2003.

With respect to the summons and complaint filed on or about July 25, 2002 by PT-1 Communications against IDT, the parties held a status conference before the judge on April 3, 2003. IDT filed a motion for a stay to enjoin this proceeding based upon a filing by The Continuing Creditors' Committee of Star Telecommunications, Inc. of a near-identical adversary proceeding against us in the United States Bankruptcy Court for the District of Delaware. The motion was denied on May 15, 2003.

With respect to the complaint filed by Mark B. Aronson in the Court of Common Pleas of Allegheny County, Pennsylvania, seeking certification of a class consisting of consumers who were charged a fee when IDT switched underlying carriers from Global Crossing Ltd. tc AT&T, the Court denied the plaintiff's motion to remand the case to the State court and granted our motion to transfer the case to the Federa Communications Commission (the "FCC"). We filed a petition with the FCC on April 30, 2003.

With respect to the Morris Amsel and the Ana Cardoso and Maria Calado matters relating to IDT's calling cards, on May 19, 2003 we filed an application with the Multi-District Litigation Panel seeking to consolidate these matters.

With respect to the suit filed by Winstar against Superior Logistics Management Services, Inc. in the U.S. District Court for the Eastern District of Virginia, the parties entered into a settlement agreement that entitles Winstar to receive 10% of the sales price of any sales of certain equipment by Superior, and provides Winstar with purchase options at 6 and 9 months from May 7, 2003 for various equipment that was the subject of the suit and stored by Superior, at the price of $0.035 per $1.00 of the original cost to Superior or its entities that are now ir Chapter 7 bankruptcy.

With respect to the Univance Telecommunications, Inc. and Univance Marketing Group, Inc. (collectively the "Univance Debtors") bankruptcy matter, the parties resolved this matter and the Univance Debtors and Winstar entered into an agreement dated March 19, 2003, pursuant to which the Univance Debtors will continue to provide services to Winstar. The parties will seek Bankruptcy Court approval of the agreement.

On or about February 5, 2002, a complaint was filed by Solomon Bitton against IDT in the Superior Court of the State of New Jersey, Bergen County, seeking certification of a class consisting of New Jersey residents who allegedly purchased IDT's pre-paid calling cards and were charged any fee that was not specifically disclosed on the card packaging prior to purchase. The damages sought have not yet been quantified. We served answers to the complaint on April 3, 2003 and are in the process of providing initial discovery responses.

On or about March 12, 2003, a complaint was filed by the Continuing Creditors' Committee of Star Telecommunications, Inc. for itself and on behalf of the Star Creditors' Liquidating Trust ("Star") against IDT in the United States Bankruptcy Court for the District of Delaware. Star seeks (a) to void and recover damages for certain fraudulent transfers property of Star's bankruptcy estate pursuant to the pre-petition sale of certain assets to IDT, and (b) to recover damages for unjust enrichment pursuant to said sale. We have not been served with the complaint and Star has not taken any action to prosecute the claims against us. We filed a motion for a stay or to enjoin this proceeding based upon the fact that this proceeding is nearly-identical to the adversary proceeding previously filed by PT-1 Communications against IDT in the United States Bankruptcy Court for the Eastern District New York, which motion was denied.

On April 15, 2003, Network Communications of Indiana ("NCI") filed a four-count complaint in the Superior Court in Marion County, Indiana, against us, seeking $8.7 million in damages. NCI signed a Non-Exclusive High Volume Independent Agent Marketing Agreement with Winstar Wireless, Inc., on February 1, 1999. On April 18, 2001, Winstar Wireless, Inc., and various other affiliates ("Debtors") filed fc Chapter 11 bankruptcy in the United States Bankruptcy Court for the District of Delaware. On December 19, 2001, an affiliate of ours purchased various assets of the Debtors. NCI alleges that IDT, as a result of allegedly acquiring certain assets of the Debtor including allege network customer lists: (a) misappropriated NCI's customer lists, (b) unlawfully converted NCI's customer lists, (c) unfairly competed with NCI's business, and (d) tortiously interfered with contracts between NCI and NCI's customers. The case has been removed to the United States District Court for the Southern District of Indiana, Indianapolis Division, and we have an extension to answer or otherwise plead unti June 23, 2003.

On or about April 26, 2003, we were served with a petition filed by Powell Palmares in the District Court of Nueces County, Texas, 105th Judicial District. We are not the only defendant in this action. In his petition, the plaintiff names numerous additional defendants, including Oblio Telecom, Northern California Telecommunications, Locus Telecommunications, Star Telecom Network, Astral Communications, Pacific Telecard, and Advanced Telecom Solutions. The plaintiff is seeking certification of a class consisting of all persons in Texas who allegedly purchased and used IDT's pre-paid calling cards and made calls to, or from, cellular telephone equipment. The damages sought have not yet been quantified. We filed our answer on June 2, 2003.

We are subject to other legal proceedings and claims which arise in the ordinary course of our business and have not been finally adjudicated Although there can be no assurances in this regard, in the opinion of our management, such proceedings, as well as the aforementioned actions, will not have a material adverse effect on our results of operations, cash flows or financial condition.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the third quarter of Fiscal 2003, Morris Lichtenstein, Executive Vice President of Business Development of IDT, Marc E. Knoller, Senior Vice President and a director of IDT, and Avi Stokar, Executive Vice President of MIS of our IDT Telecom subsidiary, exchanged 9,000, 25,000 and 11,500 shares of our common stock, respectively, for an equal number of shares of our Class B common stock. These exchanges were made under the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

Item 5. OTHER INFORMATION

None

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Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit Number	Description
10.64	1996 Stock Option and Incentive Plan, as amended and restated, of IDT Corporation (incorporated by reference to Form S filed June 5, 2003 file no. 333-105865)
10.65*	Amendment to Stock Option Agreement under the Employee Stock Option Program between IDT Corporation and Joyce J Mason
10.66*	Amendment to Stock Option Agreement under the Employee Stock Option Program between IDT Corporation and Marc E Knoller
10.67*	Exchange Agreement, dated March 21, 2003, between IDT Corporation and Morris Lichtenstein
10.68*	Exchange Agreement, dated April 8, 2003, between IDT Corporation and Marc E. Knoller
10.69*	Settlement Agreement, dated October 10, 2000, between Tyco Group S.a.r.l., TyCom (US) Inc., Tyco Internaional Ltd., Tyco International (US) Inc. and TyCom Ltd., on the one hand, and IDT Europe B.V.B.A. and IDT Corporation, on the other hand
99.1(a)*	Certification of Chief Executive Officer
99.1(b)*	Certification of Chief Financial Officer

* Filed herewith.

(b) Reports on Form 8-K.

None.

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SIGNATURES

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

IDT CORPORATION

June 16, 2003	By:	/s/ JAMES A. COURTER James A. Courter Chief Executive Officer and Vice-Chairman (Principal Executive Officer)
June 16, 2003	By:	/s/ STEPHEN R. BROWN Stephen R. Brown Chief Financial Officer and Treasurer (Principal Financial Officer)

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CERTIFICATION
of the Chief Executive Officer

I, James A. Courter, Chief Executive Officer of IDT Corporation (the "Company"), hereby certify that:

(1) I have reviewed the report of the Company on Form 10-Q for the quarterly period ended April 30, 2003, as filed with the Securities and Exchange Commission (the "Report");

(2) Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading wi respect to the period covered by the Report;

(3) Based on my knowledge, the financial statements and other financial information included in the Report fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the period presentec in the Report;

(4) I, together with the other certifying officers, am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act rules 13a-14 and 15d-14) for the Company and have:

(i) Designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which the Report was being prepared;

(ii) Evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of the Report (the "Evaluation Date"); and

(iii) Presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) I, together with the other certifying officers, have disclosed, based on our most recent evaluation, to the Company's auditors and audit committee of the board of directors:

(i) All significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

(ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

(6) I, together with the other certifying officers, have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 16, 2003

/s/ JAMES A. COURTER

James A. Courter
Chief Executive Officer

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CERTIFICATION
of the Chief Financial Officer

I, Stephen R. Brown, Chief Financial Officer of IDT Corporation (the "Company"), hereby certify that:

(1) I have reviewed the report of the Company on Form 10-Q for the quarterly period ended April 30, 2003, as filed with the Securities and Exchange Commission (the "Report");

(2) Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading wi respect to the period covered by the Report;

(3) Based on my knowledge, the financial statements and other financial information included in the Report fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the period presented in the Report;

(4) I, together with the other certifying officers, am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act rules 13a-14 and 15d-14) for the Company and have:

(i) Designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which the Report was being prepared;

(ii) Evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of the Report (the "Evaluation Date"); and

(iii) Presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) I, together with the other certifying officers, have disclosed, based on our most recent evaluation, to the Company's auditors and audit committee of the board of directors:

(i) All significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

(ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

(6) I, together with the other certifying officers, have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 16, 2003

/s/ STEPHEN R. BROWN

Stephen R. Brown
Chief Financial Officer

EXHIBIT 5 – IDT CORPORATION 2002 SEC FORM 10-K

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

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO
SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JULY 31, 2002, OR

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

Commission File Number: 0-27898

IDT CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	22-3415036
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

520 Broad Street
Newark, New Jersey 07102
(Address of principal executive offices, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:	Common Stock, par value $.01 per share Class B Common Stock, par value $.01 per share (Title of class)
Securities registered pursuant to Section 12(g) of the Act:	None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. ☐

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price on October 25, 2002 of the Common Stock of $17.66 and of the Class B Common Stock of $16.30, as reported on the New York Stock Exchange, was approximately $821 million. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock (assuming conversion of the Registrant's Class A Common Stock) or Class B Common Stock have been excluded from this computation, in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of October 25, 2002, the Registrant had outstanding 25,020,972 shares of Common Stock, $.01 par value, 9,816,988 shares of Class A Common Stock, $.01 par value, and 54,091,855 shares of Class B Common Stock, $.01 par value. Included in these numbers are 5,419,963 shares of Common Stock and 4,019,163 shares of Class B Common Stock, held by IDT Corporation.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information in the Registrant's definitive Proxy Statement for its 2002 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after July 31, 2002, is incorporated by reference in Part II (Item 5) and Part III (Items 10, 11, 12 and 13) of this Form 10-K.

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IDT CORPORATION

ANNUAL REPORT ON FORM 10-K

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PART IV

Item 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.*

(a) The following documents are filed as part of this Report:

1. Financial Statements.

2. Financial Statement Schedules.

Schedule No.	Description
I.	Valuation and Qualifying Accounts

3. Exhibits

Exhibit Number	Description of Exhibit
3.01(1)	Restated Certificate of Incorporation of the Registrant.
3.02(1)	By-laws of the Registrant.
3.03(16)	Certificate of Amendment to the Restated Certificate of Incorporation of the Registrant.
10.01(2)	Employment Agreement between the Registrant and Howard S. Jonas.
10.02(18)	1996 Stock Option and Incentive Plan, as amended and restated, of the Registrant.
10.03(3)	Form of Stock Option Agreement under the 1996 Stock Option and Incentive Plan.
10.04(4)	Form of Registration Rights Agreement between certain stockholders and the Registrant.
10.05(1)	Lease of 294 State Street.
10.06(5)	Lease of 190 Main Street.
10.7(6)	Form of Registration Rights Agreement between Howard S. Jonas and the Registrant.
10.8(10)	Employment Agreement between the Registrant and James Courter.
10.9(7)	Agreement between Cliff Sobel and the Registrant.
10.10(10)	Employment Agreement between the Registrant and Hal Brecher.
10.11(10)	Employment Agreement between the Registrant and Howard S. Jonas.
10.12(8)	Agreement and Plan of Merger, dated April 7, 1998, by and among the Registrant, ADM Corp., InterExchange, Inc., David Turock, Eric Hecht, Richard Robbins, Bradley Turock, Wai Nam Tam, Mary Jo Altom and Lisa Mikulynec.
10.13(9)	Securities Purchase Agreement between the Registrant, Carlos Gomez and Union Telecard Alliance, LLC.
10.14(10)	Credit Agreement, dated as of May 10, 1999, by and among the Registrant, various lenders party thereto, Lehman Commercial Paper Inc., CIBC World Markets Corp. and Bankers Trust Company.
10.15(10)	Pledge Agreement, dated as of May 10, 1999, by and among the Registrant, certain subsidiaries of the Registrant and Bankers Trust Company, as Collateral Agent.
10.16(10)	Security Agreement, dated as of May 10, 1999, by and among the Registrant, certain subsidiaries of the Registrant and Bankers Trust Company, as Collateral Agent.
10.17(10)	Subsidiaries Guaranty, dated as of May 10, 1999, by and among the Registrant, certain subsidiaries of the Registrant and Bankers Trust Company, as Collateral Agent.
10.18(10)	Loan Agreement between the Registrant and Stephen Brown.

Exhibit Number	Description of Exhibit
10.19(11)	Internet/Telecommunications Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.20(11)	Joint Marketing Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.21(11)	IDT Services Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.22(11)	Net2Phone Services Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.23(11)	Assignment Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.24(11)	Tax Sharing and Indemnification Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.25(11)	Separation Agreement, dated as of May 7, 1999, by and between Registrant and Net2Phone, Inc.
10.26(11)	Co-location and Facilities Management Services Agreement, dated as of May 20, 1999, by and between Registrant and Net2Phone, Inc.
10.27(12)	Lease of 520 Broad Street, Newark, New Jersey.
10.28(12)	Amendment to Lease of 520 Broad Street, Newark, New Jersey.
10.29(13)	Option Agreement, dated as of March 3, 2000, between IDT Corporation and AT&T Corp.
10.30(14)	Amendment to Option Agreement, dated as of April 5, 2000 between IDT Corporation and AT&T Corp.
10.31(13)	Subscription Agreement, dated as of March 24, 2000, between IDT Corporation and Liberty Media Corporation.
10.32(14)	Amendment to Subscription Agreement, dated as of May 26, 2000, between IDT Corporation and Liberty Media Corporation.
10.33(13)	Letter Agreement, dated as of March 28, 2000, between IDT Corporation, AT&T Corp. and Net2Phone, Inc.
10.34(13)	Letter Agreement, dated as of March 30, 2000, between IDT Corporation, AT&T Corp. and Net2Phone, Inc.
10.35(15)	Conversion, Termination and Release Agreement, dated as of April 30, 2000, between IDT Corporation, Terra Networks, S.A., Terra Networks USA, Inc., Terra Networks Access Services USA LLC and Terra Networks Interactive Services USA LLC.
10.36(19)	Stock Exchange Agreement, dated as of April 18, 2001, by and among IDT Investments Inc., IDT Corporation, IDT America, Corp., 225 Old NB Road, Inc., 226 Old NB Road, Inc., 60 Park Place Holding Company, Inc., Liberty Media Corporation, Microwave Holdings, L.L.C. and Liberty TP Management, Inc.
10.37(19)	Stockholders Agreement, dated as of November 26, 1997, by and among Teligent, Inc., Microwave Services, Inc., Telcom-DTS Investors, L.L.C. and NTTA&T Investment Inc. (Incorporated by reference to Exhibit 2 to Schedule 13D, filed by The Associated Group, Inc. and Microwave Services, Inc. on December 8, 1997 with respect to securities of Teligent, Inc.)
10.38(19)	Registration Rights Agreement, dated as of March 6, 1998, by and between Teligent, Inc. and Microwave Services, Inc. (Incorporated by reference to Exhibit 6 to Amendment No. 1 to Schedule 13D, filed by The Associated Group, Inc. and Microwave Services, Inc. on March 9, 1998 with respect to securities of Teligent, Inc.)

Exhibit Number	Description of Exhibit
10.39(19)	Stockholders Agreement, dated as of January 13, 2000, by and among Alex J. Mandl, Liberty Media Corporation, Telcom-DTS Investors, L.L.C. and Microwave Services, Inc. (Incorporated by reference to Exhibit 7(i) to Schedule 13D, filed by Liberty AGI, Inc. on January 24, 2000 with respect to securities of Teligent, Inc.)
10.40(20)	Amendment to the Employment Agreement between the Registrant and James A. Courter
10.41(20)	Amendment No. 2 to the Employment Agreement between the Registrant and James A. Courter
10.42(21)	Asset Purchase Agreement, dated December 18, 2001, between IDT Winstar Acquisition, Inc., Winstar Communications, Inc. and the subsidiaries of Winstar listed on Appendix 1 thereto.
10.43(22)	Employment Agreement between the Registrant and Howard S. Jonas.
10.44(23)	Subscription Agreement, dated as of August 11, 2000, by and between Net2Phone and AT&T.
10.45(23)	Stock Purchase Agreement, dated as of August 11, 2000, by and between AT&T, IDT and IDT Investments.
10.46(23)	Voting Agreement, dated as of August 11, 2000, by and between ITelTech and IDT Investments.
10.47(24)	Limited Liability Company Agreement, dated as of October 19, 2001, of Net2Phone Holdings, by IDT D-U
10.48(24)	Amended and Restated Limited Liability Company Agreement, dated as of October 19, 2001, of Net2Phone Holdings, by and among AT&T, ITelTech, IDT and IDT D-U
10.49(24)	Second Amended and Restated Limited Liability Company Agreement, dated as of October 19, 2001, of Net2Phone Holdings, by and among AT&T, ITelTech, IDT, IDT D-U, IDT Investments, Liberty Media and LMC
10.50(25)	Stockholders Agreement, dated as of May 13, 1999, by and among IDT, Clifford M. Sobel, Net2Phone and the additional investors listed on Schedule A thereto.
10.51(26)	Amended and Restated Limited Liability Company Agreement, dated as of November 8, 2001, of IT Stock, by Net2Phone Holdings.
10.52(26)	Amendment No. 1 to the Second Amended and Restated Limited Liability Company Agreement, dated as of October 31, 2001, of Net2Phone Holdings, by and among AT&T, ITelTech, IDT, IDT D-U, IDT Investments, Liberty Media and LMC.
10.53*	Amendment No. 1 to Securities Purchase Agreement, dated April 24, 2002, by and among the Registrant, UTCG Holdings LLC and Union Telecard Alliance, LLC.
10.54*	Amended and Restated Operating Agreement of Union Telecom Alliance, LLC, dated April 24, 2002, by and among UTCG Holdings LLC, IDT Domestic-Union, LLC, the Registrant and Union Telecard Alliance, LLC.
10.55*	Amended and Restated Distribution Agreement, dated April 24, 2002, by and between IDT Netherlands, B.V. and Union Telecard Alliance, LLC.
10.56*	Unit Purchase Agreement, dated April 10, 2002, by and among WCI Capital Corp., Dipchip Corp., the Registrant and Winstar Holdings, LLC.
10.57*	Lock-up, Registration Rights and Exchange Agreement, dated June 6, 2000, by and between the Registrant and Liberty Media Corporation.
10.58*	Letter Agreement, dated April 22, 2002, by and between Charles Garner and the Registrant.
10.59*	Employment Agreement, dated February 4, 2002, by and between the Registrant and E. Brian Finkelstein.

Exhibit Number	Description of Exhibit
10.60*	Amendment to the Employment Agreement, dated October 24, 2002, between the Registrant and E. Brian Finkelstein.
21.01*	Subsidiaries of the Registrant.
23.01*	Consent of Ernst & Young LLP.
99.1(a)*	Certification of Chief Executive Officer
99.1(b)*	Certification of Chief Financial Officer

* filed herewith

(1) Incorporated by reference to Form S-1 filed February 21, 1996 file no. 333-00204.
(2) Incorporated by reference to Form S-1 filed January 9, 1996 file no. 333-00204.
(3) Incorporated by reference to Form S-8 filed January 14, 1996 file no. 333-19727.
(4) Incorporated by reference to Form S-1 filed March 8, 1996 file no. 333-00204.
(5) Incorporated by reference to Form 10-K for the fiscal year ended July 31, 1997, filed October 29, 1997.
(6) Incorporated by reference to Form S-1 filed March 14, 1996 file no. 333-00204.
(7) Incorporated by reference to Form 10-K/A for the fiscal year ended July 31, 1997, filed February 2, 1998.
(8) Incorporated by reference to Form 8-K filed April 22, 1998.
(9) Incorporated by reference to Form 10-K/A for the fiscal year ended July 31, 1998, filed December 4, 1998.
(10) Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 1999, filed March 17, 1999.
(11) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 1999, filed June 14, 1999.
(12) Incorporated by reference to Form 10-K for the fiscal year ended July 31, 1999, filed November 4, 1999.
(13) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2001, filed March 12, 2000.
(14) Incorporated by reference to Form 8-K filed March 31, 2000.
(15) Incorporated by reference to Schedule 14C filed June 12, 2000.
(16) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2000, filed June 14, 2000.
(17) Incorporated by reference to Form 10-Q for the fiscal quarter ended October 31, 2000, filed December 15, 2000.
(18) Incorporated by reference to Form 10-Q for the fiscal quarter ended January 31, 2001, filed March 19, 2001.
(19) Incorporated by reference to Schedule 13D filed on April 30, 2001.
(20) Incorporated by reference to Form 10-Q for the fiscal quarter ended October 31, 2001, filed December 17, 2001.
(21) Incorporated by reference to Form 8-K filed January 3, 2002.
(22) Incorporated by reference to Form 10-Q for the fiscal quarter ended April 30, 2002, filed June 14, 2002.
(23) Incorporated by reference to Schedule 13D filed on August 21, 2000, with respect to Net2Phone, by IDT Investments, IDT and Howard S. Jonas.
(24) Incorporated by reference to Schedule 13D, filed on October 25, 2001, with respect to Net2Phone, by Net2Phone Holdings, L.L.C., IDT Domestic-Union, LLC, IDT Investments Inc., IDT Nevada Holdings, Inc., IDT Domestic Telecom, Inc., IDT Telecom, Inc., IDT Corporation, Howard S. Jonas, ITelTech, LLC and AT&T Corp.
(25) Incorporated by reference to Form S-1/A of Net2Phone filed June 20, 1999.
(26) Incorporated by reference to Schedule 13D, filed on November 15, 2001, with respect to Net2Phone, by IT Stock, Net2Phone Holdings, IDT D-U, IDT Investments, IDT Nevada, IDT D-T, IDT Telecom, IDT, Howard S. Jonas, ITelTech and AT&T.

(b) Reports on Form 8-K

On August 28, 2002, the Registrant filed Amendment No.1 to its Current Report on Form 8-K originally filed on January 3, 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

IDT CORPORATION

By: /s/ JAMES A. COURTER
James A. Courter
Vice Chairman and Chief Executive Officer

Date: October 29, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Titles	Date
/s/ HOWARD S. JONAS Howard S. Jonas	Chairman	October 29, 2002
/s/ JAMES A. COURTER James A. Courter	Vice Chairman and Chief Executive Officer (Principal Executive Officer)	October 29, 2002
/s/ STEPHEN R. BROWN Stephen R. Brown	Chief Financial Officer and Director (Principal Financial Officer)	October 29, 2002
/s/ MARCELO FISCHER Marcelo Fischer	Chief Accounting Officer and Controller (Principal Accounting Officer)	October 29, 2002
/s/ MICHAEL FISCHBERGER Michael Fischberger	Chief Operating Officer and Director	October 29, 2002
/s/ JOYCE J. MASON Joyce J. Mason	Director	October 29, 2002
/s/ MARC E. KNOLLER Marc E. Knoller	Director	October 29, 2002
/s/ MOSHE KAGANOFF Moshe Kaganoff	Director	October 29, 2002
/s/ GEOFFREY ROCHWARGER Geoffrey Rochwarger	Director	October 29, 2002
/s/ MEYER A. BERMAN Meyer A. Berman	Director	October 29, 2002
/s/ J. WARREN BLAKER J. Warren Blaker	Director	October 29, 2002

/s/ SAUL K. FENSTER Saul K. Fenster	Director	October 29, 2002
/s/ MICHAEL J. LEVITT Michael J. Levitt	Director	October 29, 2002
/s/ WILLIAM ARTHUR OWENS William Arthur Owens	Director	October 29, 2002
/s/ PAUL REICHMANN Paul Reichmann	Director	October 29, 2002
/s/ WILLIAM F. WELD William F. Weld	Director	October 29, 2002

CERTIFICATIONS

I, James A. Courter, Chief Executive Officer of IDT Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of IDT Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: October 29, 2002

/s/ JAMES A. COURTER

James A. Courter

CERTIFICATIONS

I, Stephen R. Brown, Chief Financial Officer of IDT Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of IDT Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: October 29, 2002

/s/ STEPHEN R. BROWN

Stephen R. Brown

IDT CORPORATION

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
IDT Corporation

We have audited the accompanying consolidated balance sheets of IDT Corporation (the "Company") as of July 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at July 31, 2001 and 2002 and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

New York, New York
October 24, 2002

/s/ ERNST & YOUNG LLP

IDT CORPORATION

CONSOLIDATED BALANCE SHEETS

	July 31	
	2001	2002
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$1,091,071	$ 351,248
Marketable securities	3,489	658,731
Trade accounts receivable, net of allowance for doubtful accounts of $22,508 at July 31, 2001 and $38,893 at July 31, 2002	116,759	126,153
Other current assets	32,413	65,291
Total current assets	1,243,732	1,201,423
Property, plant and equipment, net	224,042	250,631
Goodwill	178,293	32,702
Licenses and other intangibles, net	19,511	25,503
Investments	60,732	58,903
Other assets	155,279	38,758
Total assets	$1,881,589	$1,607,920
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 163,313	$ 121,529
Accrued expenses	54,893	124,437
Deferred revenue	71,387	112,183
Capital lease obligations—current portion	20,927	22,960
Other current liabilities	17,819	11,866
Total current liabilities	328,339	392,975
Deferred tax liabilities, net	390,914	241,973
Capital lease obligations—long-term portion	50,179	45,398
Other liabilities	14,502	3,088
Total liabilities	783,934	683,434
Minority interests	21,419	54,956
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; authorized shares—10,000,000; no shares issued	—	—
Common stock, $.01 par value; authorized shares—100,000,000; 22,791,789 and 19,568,634 shares issued and outstanding in 2001 and 2002, respectively	228	196
Class A common stock, $.01 par value; authorized shares—35,000,000; 9,816,988 shares issued and outstanding in 2001 and 2002	98	98
Class B common stock, $.01 par value; authorized shares—100,000,000; 39,291,411 and 49,990,681 shares issued and outstanding in 2001 and 2002, respectively	393	500
Additional paid-in capital	494,093	606,387
Treasury stock, at cost	(138,087)	(153,713)
Accumulated other comprehensive loss	(2,575)	(2,675)
Retained earnings	722,086	418,737
Total stockholders' equity	1,076,236	869,530
Total liabilities and stockholders' equity	$1,881,589	$1,607,920

See accompanying notes to consolidated financial statements.

IDT CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended July 31		
	2000	2001	2002
	(In thousands, except per share data)		
Revenues	$1,093,912	$1,230,950	$1,531,614
Costs and expenses:			
Direct cost of revenues (exclusive of items shown below)	918,257	1,066,845	1,205,003
Selling, general and administrative	343,702	337,107	370,577
Depreciation and amortization	48,564	60,351	66,016
Impairment charges	—	199,357	114,310
Total costs and expenses	1,310,523	1,663,660	1,755,906
Loss from operations	(216,611)	(432,710)	(224,292)
Interest income, net	7,231	52,768	21,757
Other income (expense):			
Equity in loss of affiliates	(6,289)	(75,066)	(43,989)
Gain on sales of subsidiary stock	350,344	1,037,726	—
Investment and other income (expense), net	258,218	164,762	(12,117)
Income (loss) before income taxes, minority interests, extraordinary item and cumulative effect of accounting change	392,893	747,480	(258,641)
Minority interests	(59,336)	5,726	22,070
Provision for (benefit from) income taxes	218,403	209,395	(124,345)
Income (loss) before extraordinary item and cumulative effect of accounting change	233,826	532,359	(156,366)
Extraordinary loss on retirement of debt, net of income taxes of $1,894	(2,976)	—	—
Cumulative effect of accounting change, net of income taxes of $3,525	—	—	(146,983)
Net income (loss)	$ 230,850	$ 532,359	$ (303,349)
Earnings per share:			
Income (loss) before extraordinary item and cumulative effect of accounting change:			
Basic	$ 3.34	$ 7.79	$ (2.08)
Diluted	$ 3.11	$ 7.12	$ (2.08)
Extraordinary loss on retirement of debt, net of income taxes:			
Basic	$ (0.04)	$ —	$ —
Diluted	$ (0.04)	$ —	$ —
Cumulative effect of accounting change, net of income taxes:			
Basic	$ —	$ —	$ (1.96)
Diluted	$ —	$ —	$ (1.96)
Net income (loss):			
Basic	$ 3.30	$ 7.79	$ (4.04)
Diluted	$ 3.07	$ 7.12	$ (4.04)
Weighted-average number of shares used in calculation of earnings per share:			
Basic	69,933	68,301	75,108
Diluted	75,239	74,786	75,108

See accompanying notes to consolidated financial statements.

IDT CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

	Common Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at July 31, 1999	23,982,854	$240	10,029,758	$100	34,012,612	$340	$317,022	$ —	$ —	$(41,123)	$276,579
Exercise of stock options	1,310,700	13	—	—	1,310,700	13	14,508	—	—	—	14,534
Income tax benefit from stock options exercised	—	—	—	—	—	—	11,262	—	—	—	11,262
Conversion of Class A common stock to common stock	59,525	—	(59,525)	—	—	—	—	—	—	—	—
Exercise of warrants	19,963	—	—	—	19,963	—	117	—	—	—	117
Modification of stock options	—	—	—	—	—	—	985	—	—	—	985
Issuance of common stock and Class B common stock	3,728,949	37	—	—	3,728,949	37	128,574	—	—	—	128,648
Change in unrealized gain (loss) in available-for-sale securities	—	—	—	—	—	—	—	—	(94,044)	—	(94,044)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	1,391	—	1,391
Repurchase of common stock and Class B common stock	(3,142,735)	(30)	—	—	(3,142,735)	(31)	(101,822)	—	—	—	(101,883)
Net income for the year ended July 31, 2000	—	—	—	—	—	—	—	—	230,850	230,850	230,850
Comprehensive income									138,197		
Balance at July 31, 2000	25,959,256	260	9,970,233	100	35,929,489	359	370,646	—	(92,653)	189,727	468,439
Exercise of stock options	698,451	7	—	—	343,000	4	6,872	—	—	—	6,883
Income tax benefit from stock options exercised	—	—	—	—	—	—	2,676	—	—	—	2,676
Conversion of Class A common stock to common stock	153,245	2	(153,245)	(2)	—	—	—	—	—	—	—
Issuance of stock options	—	—	—	—	—	—	2,000	—	—	—	2,000
Modification of stock options	—	—	—	—	—	—	3,082	—	—	—	3,082
Issuance of Class B common stock	—	—	—	—	7,038,085	71	106,497	—	—	—	106,568
Change in unrealized gain (loss) in available-for-sale securities	—	—	—	—	—	—	—	—	89,148	—	89,148
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	930	—	930
Repurchase of common stock and Class B common stock	(4,019,163)	(41)	—	—	(4,019,163)	(41)	2,320	(138,087)	—	—	(135,849)
Net income for the year ended July 31, 2001	—	—	—	—	—	—	—	—	532,359	532,359	532,359
Comprehensive income									622,437		
Balance at July 31, 2001	22,791,789	228	9,816,988	98	39,291,411	393	494,093	(138,087)	(2,575)	722,086	1,076,236
Exercise of stock options	1,906,594	19	—	—	4,497,114	45	53,860	—	—	—	53,924
Income tax benefit from stock options exercised	—	—	—	—	—	—	21,601	—	—	—	21,601
Conversion of common stock to Class B common stock	(3,728,949)	(37)	—	—	3,810,265	38	(1)	—	—	—	—
Modification of stock options	—	—	—	—	—	—	1,894	—	—	—	1,894
Issuance of common stock for acquisitions	—	—	—	—	2,391,891	24	34,940	—	—	—	34,964
Change in unrealized gain (loss) in available-for-sale securities	—	—	—	—	—	—	—	—	(1,064)	—	(1,064)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	964	—	964
Repurchase of common stock	(1,400,800)	(14)	—	—	—	—	—	(15,626)	—	—	(15,640)
Net loss for the year ended July 31, 2002	—	—	—	—	—	—	—	—	(303,349)	(303,349)	(303,349)
Comprehensive loss									(303,449)		
Balance at July 31, 2002	19,568,634	$196	9,816,988	$ 98	49,990,681	$500	$606,387	$(153,713)	$(2,675)	$418,737	$869,530

See accompanying notes to consolidated financial statements.

IDT CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended July 31		
	2000	2001	2002
		(in thousands)	
Operating activities			
Net income (loss)	$ 230,850	$ 532,359	$ (303,349)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	48,564	60,351	66,016
Impairment charges	—	199,357	114,310
Extraordinary loss on retirement of debt before income taxes	4,870	—	—
Cumulative effect of accounting change before income taxes	—	—	150,508
Minority interests	(59,336)	5,726	22,070
Price guarantee of Class B common stock	—	—	5,310
Deferred tax liabilities	216,903	204,188	(127,342)
Issuance of common stock to charitable foundation	—	26,378	—
Net realized (gains)/losses from sales of marketable securities and investments	(261,025)	148,724	6,807
Equity in loss of affiliates	6,289	75,066	43,989
Non-cash compensation	42,917	3,082	1,894
Gain on Tycom settlement	—	(313,486)	—
Gain on sales of subsidiary stock	(350,344)	(1,037,726)	—
Changes in assets and liabilities:			
Trade accounts receivable	(52,643)	36,029	29,151
Other assets	(28,194)	14,234	(4,364)
Trade accounts payable, accrued expenses and other liabilities	90,053	64,675	(23,238)
Deferred revenue	34,026	7,271	39,981
Net cash provided by (used in) operating activities	(77,070)	26,228	21,743
Investing activities			
Purchases of property, plant and equipment	(101,192)	(106,513)	(39,245)
Issuance of notes receivable	—	(12,089)	(8,543)
Investments and acquisitions, net of cash acquired	(38,803)	(73,722)	(81,398)
Collection of notes receivable	9,524	—	—
Sales of marketable securities	—	164,052	742,866
Purchases of marketable securities	(7,059)	—	(1,399,171)
Net proceeds from sale of equity interests in subsidiary	115,434	1,042,113	—
Net cash (used in) provided by investing activities	(22,096)	1,013,841	(785,491)
Financing activities			
Proceeds from exercise of stock options for Net2Phone	8,172	—	—
Distributions to minority shareholder of a subsidiary	(3,177)	(18,908)	(19,018)
Proceeds from borrowings	13,898	—	—
Proceeds from exercise of warrants	117	—	—
Proceeds from exercise of stock options	14,534	6,883	53,924
Repayment of capital lease obligations	(9,833)	(14,736)	(19,033)
Repayment of borrowings	(108,146)	(26,054)	(6,308)
Proceeds from issuance of common stock and Class B common stock	128,648	74,787	—
Proceeds from offerings of common stock by Net2Phone	261,189	—	—
Collection of loans to stockholders by Net2Phone	623	—	—
Proceeds from sale of subsidiary stock	5,000	—	30,000
Proceeds from issuance of stock options	—	2,000	—
Repurchases of common stock and Class B common stock	(101,883)	(135,849)	(15,640)
Net cash provided by (used in) financing activities	209,142	(111,877)	23,925
Net (decrease) increase in cash	109,976	928,192	(739,823)
Cash and cash equivalents at beginning of year	52,903	162,879	1,091,071
Cash and cash equivalents at end of year	$ 162,879	$ 1,091,071	$ 351,248
Supplemental disclosure of cash flow information			
Cash payments made for interest	$ 10,074	$ 7,997	$ 5,739
Cash payments made for income taxes	$ 1,050	$ 5,963	$ 12,176
Supplemental schedule of non-cash investing and financing activities			
Purchases of property, plant and equipment through capital lease obligations	$ 45,541	$ 27,010	$ 19,311
Exchange of Net2Phone common stock for shares of Yahoo! Inc.	$ —	$ 150,000	$ —
Issuance of Class B common stock for acquisitions	$ —	$ —	$ 34,964

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Description of Business

IDT Corporation ("IDT" or the "Company") is a facilities-based multinational communications company that provides services and products to retail and wholesale customers worldwide, including prepaid debit and rechargeable calling cards, consumer long distance services, and wholesale carrier services. The Company also operates several media and entertainment-related businesses, most of which are currently in the early stages of development.

Winstar Holdings ("Winstar"), a wholly owned subsidiary of IDT, is a broadband and telephony service provider to commercial and governmental customers. Through its fixed-wireless and fiber infrastructure, Winstar offers local and long distance phone services, and high speed Internet and data communications solutions.

On May 4, 2001, the Company declared a stock dividend of one share of Class B common stock for every one share of common stock, Class A common stock and Class B common stock. IDT distributed the dividend shares on May 31, 2001 to shareholders of record on May 14, 2001. The stock dividend has been accounted for as a stock split and all references to the number of common shares, per common share amounts and stock options have been restated to give retroactive effect to the stock dividend for all periods presented. The Class B common stock commenced trading on the New York Stock Exchange on June 1, 2001 under the ticker symbol "IDT. B".

Investment in Net2Phone

Until August 2000, the Company also provided Internet telephony services through its majority owned subsidiary Net2Phone, Inc. ("Net2Phone"). On August 11, 2000, the Company completed the sale of 14.9 million shares of its holdings of Net2Phone's Class A common stock, at a price of $75 per share, to ITelTech, LLC ("ITelTech"), a Delaware limited liability company controlled by AT&T Corporation ("AT&T"). In addition, ITelTech purchased four million newly-issued shares of Class A common stock from Net2Phone at a price of $75 per share. These transactions reduced the voting stake of IDT in Net2Phone from approximately 56% to 21% and its economic stake in Net2Phone from approximately 45% to 16%. In recognition of these transactions, the Company recorded a gain on sales of subsidiary stock of $1.038 billion during the year ended July 31, 2001, and deconsolidated Net2Phone effective August 11, 2000. Accordingly, the Company accounted for its investment in Net2Phone subsequent to the deconsolidation using the equity method of accounting.

On October 23, 2001, IDT, Liberty Media Corporation ("Liberty Media") and AT&T formed a limited liability company ("LLC"), which through a series of transactions among IDT, Liberty Media and AT&T now holds an aggregate of 28.9 million shares of Net2Phone's Class A common stock, representing approximately 46% of Net2Phone's outstanding capital stock. Because the LLC holds Class A common stock with two votes per share, the LLC has approximately 63% of the shareholder voting power in Net2Phone. IDT holds the controlling membership interest in the LLC and is the managing member of the LLC. Through July 31, 2002, the Company accounted for its investment in the LLC using the equity method since its control of the LLC was deemed to be temporary due to unilateral liquidation rights held by each of the LLC members. As of July 31, 2002, IDT's equity investment in Net2Phone was 19.2%.

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, *Accounting for the Impairment of Long Lived Assets to be Disposed Of*, and the accounting and reporting provisions of Accounting Principles Board ("APB") Opinion No. 30, *Reporting the Results of Operations for a Disposal of a Segment of a Business*. SFAS No. 144 also amends Accounting Research Bulletins ("ARB" 51), *Consolidated Financial Statements*, as amended by SFAS No. 94, *Consolidation of ALL Majority-Owned Subsidiaries*, to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. IDT will adopt SFAS No. 144 as of August 1, 2002, and will thus no longer account for its investment in Net2Phone under the equity method of accounting. Therefore, effective August 1, 2002, Net2Phone will be reconsolidated. The consolidation will result in the inclusion of IDT's and Net2Phone's results of operations and financial position beginning August 1, 2002. This change in accounting will not change the net income or loss that would have been reported had the Company continued to account for its investment in Net2Phone under the equity method of accounting. Summarized financial information for Net2Phone as of and for the year ended July 31 is as follows:

	2001	2002
	(in thousands)	
Total current assets	$ 287,572	$ 114,138
Total assets	411,403	171,696
Working capital	218,100	60,321
Revenues	150,198	137,855
Loss from operations	(240,210)	(257,794)

Basis of Consolidation and Accounting for Investments

The consolidated financial statements include the accounts of IDT and all companies in which IDT has a controlling voting interest that is not temporary ("subsidiaries"), as if IDT and its subsidiaries were a single company. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

Investments in companies in which IDT has significant influence, but less than and other than temporary controlling voting interest, are accounted for using the equity method of accounting. Investments in companies in which IDT does not have an other than temporary controlling interest or an ownership and voting interest so large as to exert significant influence are accounted for at market value if the investments are publicly traded and there are no resale restrictions, or at cost, if the sale of a publicly-traded investment is restricted or if the investment is not publicly traded. Due to the adoption of SFAS No. 144, effective August 1, 2002, IDT will consolidate all companies in which it has a controlling voting interest, regardless of whether that control is temporary.

The effect of any changes in IDT's ownership interests resulting from the issuance of equity capital by consolidated subsidiaries or equity investees to unaffiliated parties is included in gain on sales of subsidiary stock.

Reclassifications

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Revenue Recognition

Communications services are recognized as revenue when services are provided. Revenue on sales of prepaid calling cards is deferred upon activation of the cards and recognized as the card balances are decremented based on minute usage and service charges. Unused balances are recognized as revenue upon expiration of the calling cards, which is generally the later of six months from the date of first use and twelve months from activation.

Revenues at our Winstar segment related to high-speed Internet and data services and local and long-distance voice services are recognized when services are provided.

Purchase of Network Capacity

Purchases of network capacity pursuant to Indefeasible Right of Use ("IRU") agreements are capitalized at cost and amortized over the term of the capacity agreement, which is generally 15 years. Historically, we have not been a provider of network capacity.

Direct Cost of Revenues

Direct cost of revenues consists primarily of termination costs, toll-free costs, and network costs—including customer/carrier interconnect charges and leased fiber circuit charges. Direct cost of revenues also includes connectivity costs for the Winstar's fixed-wireless network backbone and lease payments for Winstar's network of buildings. Direct cost of revenues excludes depreciation and amortization expense.

Property, Plant and Equipment

Equipment, buildings, and furniture and fixtures are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the assets, which range as follows: equipment—5 to 7 years; buildings—40 years; and furniture and fixtures—5 to 7 years. Leasehold improvements are depreciated using the straight line method over the term of their lease or their estimated useful lives, whichever is shorter.

Advertising Expense

The majority of IDT's advertising expense relates to its consumer long distance business. Most of the advertisements are in print or television media, with expenses recorded as they are incurred. Some of the advertising for the consumer long distance business is also done on a cost-per-acquisition basis, where the Company pays the provider of advertising based on a fixed amount per each customer who becomes a subscriber of its services. In such cases, the expenses are recorded based on the number of customers who were added during the period in question.

For the years ended July 31, 2000, 2001 and 2002, advertising expense totaled approximately $46.7 million, $17.1 million and $16.0 million, respectively.

During the year ended July 31, 2000, the Company incurred approximately $28.0 million of costs to terminate advertising arrangements. These advertising termination costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. No advertising termination costs were incurred for the years ended July 31, 2001 and 2002.

Software Development Costs

Costs for the internal development of new software products and substantial enhancements to existing software products to be sold are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. For the years ended July 31, 2000, 2001 and 2002, research and development costs totaled approximately $4.7 million, $2.5 million and $1.0 million, respectively.

Capitalized Internal Use Software Costs

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. These costs consist of payments made to third parties and the salaries of employees working on such software development. For the years ended July 31, 2000, 2001 and 2002, the Company has capitalized $8.6 million, $2.5 million and $1.4 million, respectively, of internal use software costs as computer software.

Repairs and Maintenance

We charge the cost of repairs and maintenance, including the cost of replacing minor items not constituting substantial betterment, to selling, general and administrative expenses as these costs are incurred.

Long-Lived Assets

In accordance with SFAS No. 121, the Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The analysis of the recoverability utilizes undiscounted cash flows. The measurement of the loss, if any, will be calculated as the amount by which the carrying amount of the asset exceeds the fair value.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are carried at cost, which approximates market value. At July 31, 2001 and 2002, the Company had 89% and 60%, respectively, of its cash and cash equivalents in three and two financial institutions, respectively.

Goodwill

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets*. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but are subject to impairment tests, performed at least annually, in accordance with the Statement. Other intangible assets will continue to be amortized over their useful lives.

Other Intangibles

Licenses are amortized over 5 years using the straight-line method. Costs associated with obtaining the right to use trademarks and patents owned by third parties are capitalized and amortized on a straight-line basis over the term of the trademark licenses and patents. Acquired core technology is amortized over 3 to 5 years. The Company systematically reviews the recoverability of its acquired licenses and other intangible assets to determine whether an impairment has occurred. Upon determination that the carrying value of acquired licenses and other intangible assets will not be recovered based on the undiscounted future cash flows of the acquired business, the carrying value of such acquired licenses and other intangible assets would be deemed impaired and would be reduced by a charge to operations in the amount that the carrying value exceeds the fair value.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries denominated in foreign currencies at July 31 are translated at year-end rates of exchange and monthly results of operations are translated at the average rates of exchange for that month. Gains or losses resulting from translating foreign currency financial statements are recorded as a separate component of accumulated other comprehensive loss in stockholders' equity.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependant upon the generation of future taxable income during the period in which related temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in this assessment. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings Per Share

Basic earnings per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share adjusts basic earnings per share for the effects of convertible securities, stock options, warrants, contingently issuable shares and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive.

Vulnerability Due to Certain Concentrations

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, marketable securities and trade accounts receivable. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers in various geographic regions comprising the Company's customer base. No single customer accounted for more than 10% of consolidated revenues in Fiscal 2002. However, our 5 largest customers accounted for 15.2% of consolidated revenues in Fiscal 2002. This concentration of revenues increases our risk associated with nonpayment by these customers.

The Company is subject to risks associated with its international operations, including changes in exchange rates, difficulty in trade accounts receivable collection and longer payment cycles.

Management regularly monitors the creditworthiness of its domestic and international customers and believes that it has adequately provided for any exposure to potential credit losses.

Fair Value of Financial Instruments

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. At July 31, 2002, the carrying value of the Company's trade accounts receivable, other current assets, trade accounts payable, accrued expenses, deferred revenue, capital lease obligations and other current liabilities approximate fair value.

Stock Based Compensation

As permitted under SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), the Company applies APB No. 25 in accounting for its stock option plans and, accordingly, compensation cost is recognized for its stock options only if it relates to non-qualified stock options for which the exercise price was less than the fair market value of the Company's common stock or Class B common stock as of the date of grant. The compensation cost of these grants is amortized on a straight-line basis over their vesting periods. The Company follows the disclosure only provisions of SFAS 123 and provides pro forma disclosures of net income (loss) and net income (loss) per share as if the fair value-based method of accounting for stock options, as defined in SFAS 123, had been applied.

Recently Issued Accounting Standards

In June 2001, the FASB issued SFAS No. 143, *Accounting for Retirement Obligations* ("SFAS 143"). SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. The Company is required to adopt SFAS 143 on August 1, 2002 and expects that the provisions will not have a material impact on its consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections* ("SFAS 145"). SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. SFAS 145 rescinds Statement No. 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, will now be used to classify those gains and losses because Statement No. 4 has been rescinded. Statement No. 44 was issued to establish accounting requirements for the effects of transition to provisions of the Motor Carrier Act of 1980. Because the transition has been completed, Statement No. 44 is no longer necessary.

SFAS 145 amends Statement No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. This amendment is consistent with the FASB's goal of requiring similar accounting treatment for transactions that have similar economic effects. SFAS 145 also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. IDT is required to adopt SFAS 145, effective for Fiscal 2003. Upon adoption, any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods presented that does not meet the criteria of APB Opinion No. 30, will be reclassified to conform with the provisions of SFAS 145. The Company does not expect the adoption of SFAS 145 will have a material impact on its consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"). SFAS 146 requires Companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Previous accounting guidance was provided by Emerging Issues Task Force ("EITF") Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)* (EITF 94-3). SFAS 146 replaces EITF 94-3. The Statement is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 will have a material impact on its consolidated financial statements.

2. Marketable Securities

The Company classifies all of its marketable securities as "available-for-sale securities." Such marketable securities consist primarily U.S. Government Agency Obligations, which are stated at market value, with unrealized gains and losses in such securities reflected, net of tax, as "other comprehensive income (loss)" in stockholders' equity. The Company intends to maintain a liquid portfolio to take advantage of investment opportunities; therefore, all marketable securities are classified as "short-term." The following is a summary of marketable securities as of July 31, 2002:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term				
Available-for-sale securities:				
U.S. Government Agency Obligations	$628,635	$3,490	$ —	$632,125
Other marketable securities	32,269	—	(5,663)	26,606
	$660,904	$3,490	$(5,663)	$658,731

The following is a summary of marketable securities as of July 31, 2001:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term				
Available-for-sale securities:				
U.S. Government Agency Obligations	$1,150	$—	$ (33)	$1,117
Other marketable securities	6,318	—	(3,946)	2,372
	$7,468	$—	$(3,979)	$3,489

Sales and realized (gains) losses from the sale of available-for-sale securities for the years ended July 31, 2000, 2001 and 2002 amounted to approximately $104.2 million and $(28.3) million, $162.0 million and $126.0 million, and $742.9 million and $(1.5) million, respectively. The Company uses the specific identification method in computing the gross realized gains and gross realized losses on the sales of marketable securities.

During Fiscal 2000, IDT sold approximately $55.0 million of held-to-maturity securities prior to their maturity dates and recorded a loss of approximately $1.2 million. The securities were sold to fund certain transactions. In connection with these sales, marketable securities with a cost basis of approximately $22.0 million were reclassified as available-for-sale and through July 31, 2000, unrealized losses of approximately $0.8 million were included in accumulated other comprehensive loss.

Terra Networks Transaction

In October 1999, IDT entered into a joint venture agreement with Terra Networks, S.A. ("Terra") pursuant to which the two parties formed two limited liability companies to provide Internet services and products to customers in the United States. One company was formed to provide Internet access to customers and the other company was formed to develop and manage an Internet portal that would provide content-based Internet services. IDT's 49% interest in the Internet access company was accounted for using the equity method of accounting. The equity method was used since IDT had significant influence, but less than a controlling voting interest. IDT's 10% interest in the Internet portal company was accounted for at cost. The cost method was used since IDT did not have a controlling voting interest, or an ownership or voting interest so large as to exert significant influence, and the venture was not publicly traded. On April 30, 2000, the Company sold its interests in the two joint ventures for the right to receive 3.75 million shares of Terra common stock. In connection with these sales, the Company recognized a pre-tax gain of $231.0 million for the year ended July 31, 2000. During the years ended July 31, 2000 and 2001, the Company sold a total of 3.745 million of its Terra shares and recognized therewith a gain of $24.9 million and a loss of $129.2 million, respectively, which have been included as a component of "investment and other income (expense)."

3. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	July 31	
	2001	2002
	(in thousands)	
Equipment	$264,422	$ 343,874
Computer software	10,192	11,468
Leasehold improvements	21,603	27,453
Furniture and fixtures	11,120	12,242
Land and building	8,937	8,934
	316,274	403,971
Less accumulated depreciation and amortization	(92,232)	(153,340)
Property, plant and equipment, net	$224,042	$ 250,631

Fixed assets under capital leases aggregated $104.2 million and $118.3 million at July 31, 2001 and 2002, respectively. The accumulated amortization related to these assets under capital leases was $35.4 million and $50.2 million at July 31, 2001 and 2002, respectively. Amortization of fixed assets under capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations.

During the year ended July 31, 2002, the Company recorded an impairment charge associated with its property, plant and equipment of $3.9 million, primarily resulting from the write-down of certain decommissioned European telecommunications switch equipment and certain discontinued wireless-related equipment.

As a result of the Company's gradual exit from the dial-up Internet access service business, including the sale of a majority of its dial-up Internet access customers, the Company recorded an impairment charge associated with its property, plant and equipment of $ 6.0 million during the year ended July 31, 2001, primarily relating to equipment previously used to provide dial-up Internet access services.

4. Goodwill, Licenses and Other Intangibles

In June 2001, the FASB issued SFAS No. 142. Under the new rules, goodwill and intangible assets deemed to have indefinite lives would no longer be amortized but rather be subject to impairment tests performed at least annually, in accordance with the Statement. Other intangible assets would continue to be amortized over their useful lives.

The Company chose to early adopt the new rules on accounting for goodwill and other intangible assets and began to apply them beginning in the first quarter of Fiscal 2002. As such, the Company performed the required impairment tests of goodwill as of August 1, 2001, and, as a result, the Company recorded an impairment charge of $147.0 million, net of income taxes of $3.5 million. The impairment charge was recorded in the first quarter of Fiscal 2002 as a cumulative effect of a change in accounting principle. In determining the impairment charge, the Company obtained an independent valuation of the underlying assets in which discounted cash flows analyses were utilized. As a result, it was determined that the fair value of certain reporting units were less than their carrying values. The implied fair value of goodwill was then determined to be below its carrying value. As a result, the Company recorded an impairment charge to reduce the fair value of goodwill attributable to these reporting units to its carrying value.

During the year ended July 31, 2002, the Company recorded goodwill of $4.9 million as a result of acquisitions, primarily in the Company's Media business segment. The table below reconciles the change in the carrying amount of goodwill by operating segment for the period from July 31, 2001 to July 31, 2002:

	Wholesale Telecommunications Services	Retail Telecommunications Services	Winstar	Internet Telephony	Media	Corporate	Total
			(in thousands)				
Balance as of July 31, 2001	$ 44,148	$ 104,211	$—	$—	$29,934	$—	$178,293
Effect of adoption of SFAS No. 142	(44,148)	(103,635)	—	—	(2,725)	—	(150,508)
Acquisitions during 2002 ...	—	446	—	—	4,471	—	4,917
Balance as of July 31, 2002	$ —	$ 1,022	$—	$—	$31,680	$—	$ 32,702

The following table presents the impact of SFAS No. 142 on income (loss) before extraordinary item and cumulative effect of accounting change, net income (loss) and earnings per share had the standard been in effect for the years ended July 31, 2000 and 2001:

	Year Ended July 31,		
	2000	2001	2002
	(in thousands, except per share data)		
Income (loss) before extraordinary item and cumulative effect of accounting change	$233,826	$532,359	$(156,366)
Add back: goodwill amortization	14,926	16,313	—
Adjusted income (loss) before extraordinary item and cumulative effect of accounting change	$248,752	$548,672	$(156,366)
Earnings per share—basic	$ 3.34	$ 7.79	$ (2.08)
Add back: goodwill amortization	0.21	0.24	—
Adjusted earnings per share—basic	$ 3.55	$ 8.03	$ (2.08)
Earnings per share—diluted	$ 3.11	$ 7.12	$ (2.08)
Add back: goodwill amortization	0.20	0.22	—
Adjusted earnings per share—diluted	$ 3.31	$ 7.34	$ (2.08)
Net income (loss)	$230,850	$532,359	$(303,349)
Add back: goodwill amortization	14,926	16,313	—
Adjusted net income (loss)	$245,776	$548,672	$(303,349)
Earnings per share—basic	$ 3.30	$ 7.79	$ (4.04)
Add back: goodwill amortization	0.21	0.24	—
Adjusted earnings per share—basic	$ 3.51	$ 8.03	$ (4.04)
Earnings per share—diluted	$ 3.07	$ 7.12	$ (4.04)
Add back: goodwill amortization	0.20	0.22	—
Adjusted earnings per share—diluted	$ 3.27	$ 7.34	$ (4.04)

The following disclosure presents certain information on the Company's licenses and other intangible assets. All licenses and intangible assets are being amortized over their estimated useful lives, with no estimated residual values.

	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Balance
		(in thousands)		
As of July 31, 2002				
Amortized intangible assets:				
Licenses	*5 years*	$23,994	$ (3,175)	$20,819
Core technology, trademark and patents	*5 years*	5,295	(611)	4,684
Total		$29,289	$ (3,786)	$25,503
As of July 31, 2001				
Amortized intangible assets:				
Licenses	*5 years*	$42,523	$(23,038)	$19,485
Core technology, trademark and patents	*5 years*	2,817	(2,791)	26
Total		$45,340	$(25,829)	$19,511

Licenses and other intangible assets amortization expense was $0.9 million, $4.9 million and $3.8 million for the years ended July 31, 2000, 2001 and 2002, respectively. The Company estimates that amortization expense of licenses and other intangible assets for each of the next five fiscal years ending July 31 will be approximately $5.1 million.

5. Related Party Transactions

The Company has entered into a number of agreements with Net2Phone. Pursuant to these agreements, during the years ended July 31, 2001 and 2002, the Company billed Net2Phone approximately $56.8 million and $31.6 million, respectively, and Net2Phone billed the Company approximately $19.2 million and $16.1 million, respectively. In the year ended July 31, 2000, Net2Phone was included in the Company's consolidated financial statements and any amounts billed were eliminated in consolidation. The net balance owed to the Company by Net2Phone was approximately $19.3 million and $0.8 million as of July 31, 2001 and 2002, respectively.

The Company currently leases one of its facilities in Hackensack, New Jersey from a corporation which is wholly owned by the Company's Chairman. Aggregate lease payments under such lease was approximately $24,000 for the years ended July 31, 2000, 2001 and 2002. The Company made payments for food related expenses to a cafeteria owned and operated by the son of the Company's chairman. Such payments were $0.1 million and $0.6 million in fiscal years 2001 and 2002, respectively. No payments were made to the cafeteria in fiscal 2000.

The Company has obtained various insurance policies that have been arranged through a company affiliated with individuals related to both the Chairman and the General Counsel of the Company. The aggregate premiums paid by the Company with respect to such policies was approximately $0.1 million, $2.2 million and $3.6 million for the years ended July 31, 2000, 2001 and 2002, respectively. IDT retained the services of a private insurance consulting firm to ensure that these insurance policies were both necessary and reasonable. The commissions that were earned on such premiums are shared with several insurance wholesalers that access excess and surplus lines of insurance held by the Company.

On December 13, 2001, IDT granted to its Chairman options to purchase 1 million shares of IDT Class B common stock, at an exercise price of $12.06 per share. The options were to vest over a period of 5 years, at a rate of 50,000 options per quarter, commencing on January 1, 2002. On May 14, 2002, IDT's Chairman waived and agreed to the cancellation of any rights under the options, and, as a result, all the options were cancelled retroactive to their December 13, 2001 date of grant.

The Chief Executive Officer and Vice-Chairman of the Company is a partner in a law firm that has served as counsel to the Company since July 1996. Fees paid to this law firm by the Company amounted to $0.3 million, $0.0 million and $0.5 million for fiscal years ended July 31, 2000, 2001 and 2002 respectively. In addition, a Director of the Company is of counsel to a law firm that has served as counsel to the Company since November 1999. Fees paid to this law firm by the Company amounted to $1.0 million, $3.1 million and $6.3 million for fiscal years ended July 31, 2000, 2001 and 2002, respectively.

In addition, the Company had loans outstanding to officers and employees aggregating approximately $7.7 million and $10.3 million as of July 31, 2001 and 2002, respectively, which are included within "other assets" in the accompanying consolidated balance sheets.

All of the Company's related party transactions are reviewed by the Audit Committee of the Company's Board of Directors.

6. Income Taxes

Significant components of the Company's deferred tax assets and deferred tax liabilities consist of the following:

	July 31	
	2001	2002
	(in thousands)	
Deferred tax assets:		
Unrealized losses on securities	$ 857	$ —
Bad debt reserve	3,980	10,179
Exercise of stock options	9,857	9,857
Reserves	4,500	4,500
Charitable contributions	10,765	10,795
Net operating loss	—	170,404
Other	8,992	9,899
Deferred tax assets	38,951	215,634
Deferred tax liabilities:		
Deferred revenue	(196,000)	—
Partnership	—	(278,000)
Unrecognized gain on securities	(100,313)	(28,709)
Gain on sales of subsidiary stock	(105,466)	(120,574)
Depreciation	(16,074)	(14,801)
Identifiable intangibles	(3,583)	(7,083)
Other	(8,429)	(8,440)
Deferred tax liabilities	(429,865)	(457,607)
Net deferred tax liabilities	$(390,914)	$(241,973)

The provision for (benefit from) income taxes consists of the following for the years ended July 31:

	2000	2001	2002
		(in thousands)	
Current:			
Federal	$ —	$ 6,600	$ —
State and local and foreign	(394)	14,249	(30,683)
	(394)	20,849	(30,683)
Deferred:			
Federal	175,191	150,997	(72,788)
State and local and foreign	41,712	37,549	(17,349)
	216,903	188,546	(90,137)
	$216,509	$209,395	$(120,820)

The income statement classification of the provision for (benefit from) income taxes consists of the following at July 31:

	2000	2001	2002
		(in thousands)	
Provision for (benefit from) income taxes attributable to continuing operations	$218,403	$209,395	$(124,345)
Income tax benefit attributable to extraordinary loss	(1,894)	—	—
Income tax benefit attributable to cumulative effect of accounting change	—	—	3,525
	$216,509	$209,395	$(120,820)

The differences between income taxes expected at the U.S. federal statutory income tax rate and income taxes provided are as follows:

	2000	2001	2002
		(in thousands)	
Federal income tax at statutory rate	$137,513	$261,618	$(149,693)
Foreign tax rate differential	—	(99,563)	(53,806)
Losses for which no benefit provided	32,703	19,141	87,602
Nondeductible expenses	17,625	2,162	52,921
State and local and foreign income tax, net of federal benefit	28,612	26,037	(57,844)
Other	56	—	—
	$216,509	$209,395	$(120,820)

7. Stockholders' Equity

Common Stock, Class A Common Stock, and Class B Common Stock

The rights of holders of common stock, Class A common stock and Class B common stock are identical except for certain voting and conversion rights and restrictions on transferability. The holders of Class A common stock are entitled to three votes per share. The holders of Class B common stock are entitled to one-tenth of a vote per share, and the holders of common stock are entitled to one vote per share. Class A common stock is subject to certain limitations on transferability that do not apply to the common stock and Class B common stock. Each share of Class A common stock may be converted into one share of common stock, at any time, at the option of the holder.

Stock Options

Prior to March 15, 1996, the Company had an informal stock option program whereby employees were granted options to purchase shares of common stock. Under this informal program, options to purchase 4,317,540 shares of common stock were granted.

The Company adopted a stock option plan as amended (the "Option Plan") for officers, employees and non-employee directors to purchase up to 6,300,000 shares of the Company's common stock. In May 2000, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance 300,000 shares of Class B common stock. In September 2000, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance of an additional 3,000,000 shares of Class B common stock. On May 31, 2002, the Company distributed a stock dividend of one share of Class B common stock for each share of the Company's common stock, Class A common stock and Class B common stock. Accordingly, pursuant to the terms of the Option Plan, up to an additional 9,600,000 shares of Class B common stock were reserved for issuance under the Option Plan. In October 2001, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance an additional 3,000,000 shares of Class B common stock. In September 2002, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance of an additional 3,000,000 shares of Class B common stock. Generally, options become exercisable over vesting periods up to six years and expire ten years from the date of grant.

A summary of stock option activity under the Company's stock option plan and stock option program is as follows:

	Shares	Weighted-Average Exercise Price
Outstanding at July 31, 1999	7,175,932	$ 5.25
Granted	8,851,086	9.98
Exercised	(2,621,400)	5.54
Canceled	(95,000)	8.86
Forfeited	(31,500)	10.93
Outstanding at July 31, 2000	13,279,118	8.31
Granted	5,112,004	9.15
Exercised	(1,041,451)	6.61
Canceled	(299,247)	5.71
Forfeited	(55,200)	12.63
Outstanding at July 31, 2001	16,995,224	8.70
Granted	4,599,982	12.11
Exercised	(6,403,708)	8.42
Canceled	(1,012,376)	11.96
Forfeited	(19,900)	11.99
Outstanding at July 31, 2002	14,159,222	$ 9.69

The following table summarizes the status of stock options outstanding and exercisable at July 31, 2002:

	Stock Options Outstanding		
Range of Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life (in years)	Number of Stock-Options Exercisable
$0.10 – $0.10	290,296	2.0	290,296
$0.21 – $0.21	17,632	2.7	17,632
$0.41 – $0.41	36,000	2.0	36,000
$0.83 – $0.83	30,000	2.7	30,000
$2.19 – $2.63	639,500	4.7	639,500
$3.44 – $4.13	489,550	4.7	489,550
$5.63 – $8.00	5,649,968	8.0	2,016,499
$8.72 – $12.13	5,144,618	7.7	2,657,050
$13.13 – $18.51	1,861,658	8.4	1,070,358
	14,159,222	7.5	7,246,885

The weighted-average fair value of options granted was $7.42, $7.05 and $9.34 for the years ended July 31, 2000, 2001 and 2002, respectively.

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS 123, and has been determined as if the Company had accounted for employees' stock options under the fair value method provided by that statement. The fair value of the stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions for vested and non-vested options:

	2000	2001	2002
Assumptions			
Average risk-free interest rate	6.49%	4.77%	4.22%
Dividend yield	—	—	—
Volatility factor of the expected market price of the Company's common stock	81%	90%	73%
Average life	5 years	5 years	5 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employees' stock options.

For purposes of pro forma disclosures, the estimated fair value of the options under SFAS No. 123 is amortized to expense over the options' vesting period. For the years ended July 31, 2000, 2001 and 2002, pro forma net income (loss) and pro forma net income (loss) per share under SFAS No. 123 amounted to the following:

	2000	2001	2002
	(in thousands, except per share data)		
Net income (loss), as reported	$230,850	$532,359	$(303,349)
Pro forma net income (loss)	$214,286	$514,716	$(328,611)
Net income (loss) per share, as reported:			
Basic	$ 3.30	$ 7.79	$ (4.04)
Diluted	$ 3.07	$ 7.12	$ (4.04)
Pro forma net income (loss) per share:			
Basic	$ 3.06	$ 7.54	$ (4.38)
Diluted	$ 2.84	$ 6.88	$ (4.38)

The Company has modified stock options granted for certain employees of the Company to accelerate or extend their terms. Accordingly, the Company recorded additional compensation expense of approximately $1.0 million, $3.1 million and $1.9 million for the years ended July 31, 2000, 2001 and 2002, respectively. During Fiscal 2002, the Company granted options to certain employees to purchase 14,546 shares of common stock in its subsidiary, IDT Telecom, at an average exercise price of $366.67 per share. No such options were exercised during the year.

Net2Phone Stock Options

During the quarter ended July 31, 2000, stock options issued to certain officers and employees of Net2Phone were accelerated in accordance with the original stock option awards and as a result Net2Phone recorded $12.5 million in compensation charges as a result of the acceleration. During the quarter ended July 31, 2000, stock options issued to certain officers and employees of IDT were modified and as a result, Net2Phone recorded $18.3 million in compensation charges.

Stock Buyback Program

Our Board of Directors has authorized the repurchase of up to 45 million shares (adjusted for the May 2001 stock dividend) of our common stock and Class B common stock. During Fiscal 2002, we repurchased approximately 1.4 million shares of our common stock, for an aggregate purchase price of $15.6 million. Combined with the 6.8 million (adjusted) shares and 7.4 million (adjusted) shares repurchased during Fiscal 2001 and Fiscal 2000, respectively, we have repurchased a total of 15.6 million shares under the share repurchase program through the end of Fiscal 2002, of which 6.2 million shares were retired as of July 31, 2002.

Liberty Media Transaction

On March 27, 2000, Liberty Media agreed to purchase approximately 9.9% of the equity of IDT, equal to approximately 3.775 million shares of IDT's common stock and exchangeable for shares of Class B common stock (before adjusting for the May 2001 stock dividend). On June 6, 2000, Liberty Media completed the purchase of 3.729 million shares of IDT's common stock (before adjusting for the May 2001 stock dividend) at $34.50 per share (before adjusting for the May 2001 stock dividend), resulting in aggregate cash consideration of $128.6 million. Liberty Media also has the right to nominate a director for election to the IDT Board of Directors.

On October 11, 2001 IDT issued to Liberty Media 3.810 million shares of IDT Class B common stock in exchange for the 3.729 million shares of IDT common stock held by Liberty Media. The exchange rate was based upon the relative average market prices for the IDT Class B common stock and the IDT common stock during a specified 30 trading day period.

Liberty Media Investment in IDT Telecom, Inc.

On January 30, 2002, IDT Telecom sold 7,500 newly issued shares of its common stock to Liberty Media at a price of $4,000 per share, for total aggregate proceeds of $30.0 million. As a result of this investment, Liberty Media became the owner of approximately 4.8% of the common equity of IDT Telecom (0.5% of the voting power). The Company owns the remaining common equity of IDT Telecom.

AT&T Transaction

In March 2000, the Company was granted the option to sell to AT&T 4.1 million shares of its Class B common stock for approximately $74.8 million. In March 2001, the Company exercised this option.

Hicks, Muse, Tate & Furst Transaction

In June 2001, the Company issued stock options to Hicks, Muse, Tate & Furst Incorporated ("HMTF") to purchase up to 2.2 million shares of the Company's Class B common stock at exercise prices ranging from $11.25 to $15.00 per share, as defined. The stock options are exercisable on the first anniversary of the agreement, and expire on the fifth anniversary date. In consideration for the stock options issued to HMTF, the Company received $2.0 million in cash.

IDT Charitable Foundation

In May 2001, the Company established the IDT Charitable Foundation (the "Foundation") with the purpose of obtaining money or property to be contributed from time to time to eligible charitable organizations. The Foundation also administers a matching gifts program available to IDT's directors, officers, employees and retirees.

In July 2001, the Company funded the Foundation with 2.2 million shares of Class B common stock worth approximately $26.4 million at that time.

8. Commitments and Contingencies

Legal Proceedings

On January 29, 2001, the Company filed a Complaint with the United States District Court for the District of New Jersey, against Telefonica S.A., Terra Networks, S.A., Terra Networks, U.S.A., Inc. and Lycos, Inc. The complaint asserts claims against the defendants for, among other things, breaches of various contracts, breach of fiduciary duty, securities violations, fraudulent misrepresentation, negligent misrepresentation, fraudulent concealment and tortious interference with prospective economic advantage. The defendants have been served with the Complaint. The Company has filed an Amended complaint and the defendants have filed an answer to the amended complaint. Terra Networks, S.A. has filed a counterclaim for breach of contract alleging that the Company was required to pay to Terra Networks, S.A. $3.0 million, and failed to do so. The defendants have filed a motion to dismiss the complaint. On September 14, 2001, the Court issued an Order: (a) permitting the Company to take discovery relevant to the subject of whether Telefonica S.A. is subject to personal jurisdiction, (b) denying Telefonica S.A.'s motion to dismiss for lack of personal jurisdiction without prejudice to Telefonica S.A.'s right to renew the motion upon the completion of jurisdictional discovery, and (c) carrying on the calendar defendants' motion to dismiss on non-jurisdictional grounds pending the completion of jurisdictional discovery, which is ongoing. Each party served the other party with certain requests for discovery relevant to the subject of whether Telefonica S.A. is subject to personal jurisdiction. The motions were denied almost in their entirety. The case continues in the early stages of discovery. No trial date has yet been set in this matter.

On May 25, 2001, we filed a statement of claim with the American Arbitration Association naming Telefonica Internacional, S.A. ("Telefonica") as the Respondent. The statement of claim asserts that the Company and Telefonica entered into a Memorandum of Understanding ("MOU") that involved, among other things, the construction and operation of a submarine cable network around South America ("SAm-I"). The Company is claiming, among other things, that Telefonica breached the MOU by: (1) failing to negotiate SAm-I agreements; (2) refusing to comply with the equity provisions of the MOU; (3) refusing to sell capacity and back-haul capacity pursuant to the MOU; and (4) failing to follow through on the joint venture. Telefonica has responded to IDT's Statement of Claim and has filed a Statement of Counterclaim which alleges, among other things: (1) Fraud in the Inducement; (2) Tortious Interference with Prospective Business Relations; (3) Breach of the Obligations of Good Faith and Fair Dealing; and (4) Declaratory and Injunctive Relief. Discovery is in its final stages and both parties have submitted expert reports. The arbitration is ongoing and is expected to continue into 2003.

In September 2001, Alfred West filed a complaint against the Company and its wholly-owned subsidiary, IDT Telecom, Inc. in the Federal District Court in Newark, New Jersey seeking monetary damages of $25 million for alleged breach of contract, breach of implied covenant of good faith and fair dealing, fraud, negligent misrepresentation, promissory estoppel, quantum meruit, tortious interference and unfair competition. The Company filed counterclaims for fraud, negligent misrepresentation, breach of fiduciary duty, tortious interference and breach of contract. Several depositions have been completed, and discovery should be completed by the end of October 2002.

Winstar acquired certain domestic telecommunications assets formerly owned by Old Winstar, which was approved by the Bankruptcy Court on December 19, 2001 (the "Sale Order"). Although many of the purchased assets were transferred to Winstar at the time of the sale, the transfer of certain of Old Winstar's regulated telecommunications assets, including its customer base, was subject to a number of federal and state regulatory approvals and on Winstar's obtaining the necessary telecommunications facilities and services necessary to serve the customers it agreed to purchase from Old Winstar. Subsequently, Winstar has entered into interconnection agreements with the relevant RBOCs and has sought to use services and facilities obtained pursuant to those agreements and pursuant to RBOC tariffs to complete its network and therefore to be able to transition the customers from service by Old Winstar to Winstar.

Although all of the regulatory approvals necessary for this transition have now been issued, the RBOCs have asserted that Winstar is nevertheless not entitled to obtain uninterrupted services under their interconnection agreements and tariffs unless the RBOCs receive payment of approximately $40 million, in the aggregate, allegedly owed by Old Winstar for access to RBOC facilities and circuits. Based on the claim that Winstar must pay this "cure" amount as a condition of receiving uninterrupted service, the RBOCs have refused in certain instances to provide facilities and service to Winstar that it needs in order to serve its customers directly. As a result, Winstar is operating the business of Old Winstar pursuant to a management agreement approved by the bankruptcy court, and is providing services to the customers on behalf of Old Winstar.

Winstar contends that, even were it to assume the Old Winstar contracts with the RBOCs, the amounts set forth in the RBOC's proofs of claim greatly exceed any reasonable "cure" for facilities and services that Winstar seeks to obtain from the RBOCs, since the claims include significant amounts that Old Winstar owed for services and facilities that IDT Winstar has not requested, and does not need to be able to provide services to the customers following the transition. Winstar also disputes the RBOC's claims that they are not obligated to provide services and facilities to Winstar without an assumption or assignment of the Old Winstar contracts and a payment of "cure" amounts. In response to the RBOC's refusal to provide service, on April 17, 2000 Winstar filed an Emergency Petition for a Declaratory Ruling at the FCC (Inc. Docket No. 02-80) asking that the FCC declare that the refusal of the RBOCs to provide the requested services and facilities pursuant to their interconnection agreements and tariffs, and their refusal to transition such services in a manner that does not interrupt services to the customers is unreasonable and therefore unlawful under federal law. In response, one RBOC (Verizon) filed a counter-petition asking that the FCC declare that the federal telecommunications laws do not require it to provide facilities and services to Winstar without "cure" of Old Winstar's debts. A number of parties filed comments in the FCC proceeding on both sides of the issue and the proceeding is still pending at the FCC. Winstar believes that the RBOCs have acted unreasonably and unlawfully in denying its requests for services and facilities and will continue absent a settlement with the RBOCs to advocate its position vigorously.

In addition, faced with likely termination of service to Old Winstar customers in violation of the Telecommunications Act and number our FCC regulations, we sought injunctive relief (in addition to other remedies) in the U.S. District Court for the District of New Jersey against Verizon, Qwest Corp. and Qwest Communications Corp. ("QCC") to prevent them from discontinuing underlying services which would prevent us from providing service to our customers. Certain interim relief was secured, and Verizon, Qwest and QCC subsequently agreed not to terminate service without appropriate notice to us. The District of New Jersey action is ongoing.

The RBOCs further contend that the provision in the Sale Order requiring them to continue serving Old Winstar and its subsidiaries expired on or about April 18, 2002. Winstar promptly moved to enforce that provision of the Sale Order, but the bankruptcy court denied its motion. Winstar has appealed the denial of that motion to the U.S. District Court for the District of Delaware. In addition, Winstar asked the District Court for interim relief during the pendency of its appeal to stay the RBOCs and other service providers from cutting off service until the appeal is decided. The District Court has not yet ruled on that request, but has temporarily ordered that service providers, including the RBOCs, may not terminate service or otherwise affect Winstar's business without permission of the Court.

During preliminary status hearings before the District Court on May 24 and June 4, 2002, the RBOCs and Winstar advised the Court of their willingness to enter into settlement discussions and/or non-binding mediation in an attempt to resolve their disputes. Those settlement discussions and mediations are ongoing, and the District Court appeal is therefore still pending. It is too soon to predict whether settlements will be reached with any or all of the RBOCs or, if so, to quantify the monetary effect of such settlements, if any, on Winstar. To the extent that a settlement agreement is not reached with any or all of the RBOCs, we expect that the appellate proceedings will resume. One possible outcome of an adverse ruling by the District Court on either the interim relief requested by Winstar or on the merits of the case could be to permit the RBOCs to terminate services that are being provided to our customers and therefore to prevent the uninterrupted transition of those customers to Winstar service. A status conference is scheduled for November 8, 2002, for the parties to report on the progress of their efforts to mediate the disputes.

Winstar believes that the RBOCs have acted unreasonably and unlawfully in denying its request for services and facilities and will continue absent a settlement to advocate its positions vigorously. However, adverse results in one or more of the above-described RBOC litigations could have a material adverse effect on us, including payment of the "core" amount described above, or the inability of Winstar to access the RBOCs services and facilities, in which its business is substantially dependent.

On or about July 25, 2002, PT-1 Communications, Inc. ("PT-1") filed a summons and complaint against the Company and its subsidiaries, IDT Netherlands, B.V., IDT Telecom, Inc. and IDT Domestic Telecom, Inc. (collectively "the Company") in the United States Bankruptcy Court for the Eastern District of New York. PT-1 seeks (a) to recover damages for certain fraudulent transfers of property of the Debtor's bankruptcy estate, (b) to recover damages for unjust enrichment, and (c) to recover damages from breaches under the agreement between the parties for the sale of the Debtor's debit card business to the Company, including the Company's alleged failure to remit payment for use of certain telecommunication and platform services on or through PT-1 switches. In total, PT-1 is seeking $24 million in damages as well as certain unstated amounts. The Company served its answer on September 18, 2002. Initial discovery will commence shortly.

On or about September 16, 2002, a complaint was filed by Mark B. Aronson in the Court of Common Pleas of Allegheny County, Pennsylvania seeking certification of a class consisting of consumers who were charged a fee when the Company switched underlying carriers from Global Crossing to AT&T. At this point no specific damages have been specified in the complaint. Thus, the Company cannot yet quantify its exposure.

On or about September 19, 2002, a complaint was filed by Ramon Ruiz against the Company and Union Telecard Alliance, LLC in the Supreme Court of the State of New York seeking certification of a class consisting of consumers who allegedly purchased and used the Company's pre-paid calling cards and were charged any fee that was not specifically disclosed on the card packaging prior to purchase. The complaint seeks damages in excess of one hundred million dollars.

On or about October 11, 2002, a complaint was filed by Paul Zedeck against us and Union Telecard in the Circuit Court of the 15th Judicial Circuit in and for Palm Beach County, Florida, seeking certification of a class consisting of consumers who allegedly purchased and used our prepaid calling cards and were charged any fee that was not specifically disclosed on the card packaging prior to purchase. The damages sought have not yet been quantified. Because we only recently received the complaint, we are still evaluating the potential impact and our approach to contesting the claims or attempts to certify the classes.

On or about October 18, 2002, a complaint was filed by Morris Amsel against us and IDT Telecom in the Supreme Court of the State of New York seeking certification of a class consisting of consumers who allegedly purchased our calling cards. Plaintiff's complaint relates to payphone charges and international rates. The complaint seeks damages of not less that $100 million. Because we only recently received the complaint, we are still evaluating the potential impact and our approach to contesting the claims or attempts to certify the classes.

On or about October 24, 2002, Winstar filed suit against Superior Logistics Management Services, Inc. ("Superior") in the United States District Court for the Eastern District of Virginia. The complaint alleges counts for breach of contract (Superior breached a settlement agreement with Winstar), conversion (for retaining Winstar's property), and detinue (for return of the property). Winstar is seeking approximately $50 million in damages, plus punitive damages, costs, and attorney's fees.

The Company is subject to other legal proceedings and claims, which have arisen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurances in this regard, in the opinion of the Company's management, such proceedings, as well as the aforementioned actions, will not have a material adverse effect on results of operations, cash flows or the financial condition of the Company.

Lease Obligations

The future minimum payments for capital and operating leases as of July 31, 2002 are approximately as follows:

	Operating Leases	Capital Leases
	(in thousands)	
Year ending July 31:		
2003	$ 69,420	$ 27,110
2004	52,174	23,482
2005	43,961	13,747
2006	39,340	10,808
2007	37,003	1,317
Thereafter	150,991	—
Total payments	$392,889	76,464
Less amount representing interest		(8,106)
Less current portion		(22,960)
Capital lease obligations—long-term portion		$ 45,398

Rental expense under operating leases was approximately $6.9 million, $4.9 million and $27.3 million for the years ended July 31, 2000, 2001 and 2002, respectively. The significant increase in rental expense in Fiscal 2002 is due primarily to the significantly higher number of operating leases associated with our Winstar segment, which was acquired in December 2001.

Commitments

The Company has entered into purchase commitments of approximately $25 million as of July 31, 2002, primarily related to connectivity agreements. In addition, in April 2002, the Company entered into a four-year agreement to grant a telecommunications provider an exclusive right to service the Company's consumer long distance business traffic, in which the Company agreed to purchase a minimum usage over the term of the agreement. In the event that the Company terminates the agreement before the expiration date, the Company is subject to an early termination penalty of $15 million if cancelled in the first year, $10 million if canceled in the second year, $5 million if cancelled in the third year and $2 million if cancelled in the fourth year.

The Company guarantees payments of certain of its vendors through August 2009. Such guarantees amounted to $3.4 million as of July 31, 2002. In addition, the Company also provides certain such guarantees to its vendors in the form of letters of credit, through June 2008. Such guarantees amounted to $8.6 million as of July 31, 2002.

9. Defined Contribution Plan

The Company maintains a 401(k) Plan (the "Plan") available to all employees meeting certain eligibility criteria. The Plan permits participants to contribute up to 20% of their salary, not to exceed the limits established by the Internal Revenue Code. The Plan provides for a matching contribution up to a maximum of 6% of covered compensation, which vests over five years. All contributions made by participants vest immediately into the participant's account. For the years ended July 31, 2000, 2001 and 2002, Company contributions to the Plan amounted to approximately $0.3 million, $0.8 million and $0.9 million, respectively. The Company's common stock and Class B common stock are not investment options for Plan participants.

10. Business Segment Information

The Company has identified five reportable business segments: Wholesale Telecommunications Services, Retail Telecommunications Services, Winstar, Internet Telephony and Media. The operating results of these business segments are distinguishable and are regularly reviewed by the chief operating decision maker.

The Wholesale Telecommunications Services business segment is comprised of wholesale carrier services provided to other long distance carriers. The Retail Telecommunications Services business segment includes domestic and international prepaid and rechargeable calling cards and consumer long distance services to individuals and businesses. The Winstar business segment operates as a competitive local exchange carrier ("CLEC") using fixed wireless technology to provide local and long distance phone services, and high speed Internet and data communications solutions. The Internet Telephony business segment reflects the results of the Company's formerly majority-owned subsidiary, Net2Phone. The Media business segment operates several media and entertainment-related businesses, most of which are currently in the early stages of development.

The Company evaluates the performance of its business segments based primarily on operating income (loss) after depreciation, amortization and impairment charges, but prior to interest income (expense), other income (expense), income taxes, extraordinary items and cumulative effect of accounting changes. All corporate overhead is allocated to the business segments based on time and usage studies, except for certain specific corporate costs, such as treasury management and investment-related costs, which are not allocated to the business segments. Operating results and other financial data presented for the principal business segments of the Company for the years ended July 31, 2000, 2001 and 2002 are as follows (in thousands):

	Wholesale Telecommunications Services	Retail Telecommunications Services	Winstar(1)	Internet Telephony(2)	Media(3)	Corporate	Total
Year ended July 31, 2000							
Revenues	$520,518	$ 502,512	$ —	$ 56,075	$ 14,807	$ —	$1,093,912
Segment loss	(8,409)	(11,477)	—	(125,865)	(39,134)	(31,726)	(216,611)
Depreciation and amortization	17,252	16,656	—	6,804	5,228	2,624	48,564
Total assets	416,045	345,682	—	401,286	11,945	44,097	1,219,055
Year ended July 31, 2001							
Revenues	388,120	816,384	—	—	26,446	—	1,230,950
Segment loss	(69,454)	(34,118)	—	—	(265,600)	(63,538)	(432,710)
Depreciation and amortization	23,472	26,719	—	—	7,519	2,641	60,351
Total assets	516,395	1,028,069	—	—	269,062	68,063	1,881,589
Year ended July 31, 2002							
Revenues	308,987	1,121,674	79,604	—	21,349	—	1,531,614
Segment income (loss)	(30,572)	61,396	(96,644)	—	(132,006)	(26,466)	(224,292)
Depreciation and amortization	20,696	33,988	6,691	—	2,253	2,388	66,016
Total assets	$220,060	$1,078,195	$159,726	$ —	$ 91,776	$ 58,163	$1,607,920

Revenue from customers located outside of the United States represented approximately 17%, 16% and 18% of total revenues for the years ended July 31, 2000, 2001 and 2002, respectively, with no single foreign geographic area representing more than 10% of total revenues for the year ended July 31, 2000, and Western Europe representing 15% and 17% of total revenues for the years ended July 31, 2001 and 2002, respectively. Revenues are attributed to foreign geographic areas based on the location where the customer is invoiced. Gross and net long-lived assets mainly held in Western Europe totaled approximately $28.3 million and $18.7 million, and $31.9 million and $28.2 million as of July 31, 2001 and 2002, respectively.

(1) Since acquisition of Winstar in December 2001.

(2) Included in loss from operations for the Internet Telephony business segment for the year ended July 31, 2000 was approximately $41.0 million of non-cash compensation as a result of stock option grants, modifications and accelerations made by Net2Phone. In addition, contributing to the loss from operations was the significant level of sales and marketing expenses, as well as general and administrative expenses, as Net2Phone expanded its distribution relationships, corporate infrastructure and human resources.

(3) Included in loss from operations for our Media business segment for the years ended July 31, 2001 and 2002 were $193.4 million and $110.4 million, respectively, of impairment charges related to the write-down of the undersea fiber asset obtained as part of the TyCom Ltd. ("TyCom") settlement.

Reconciliation To Consolidated Financial Information

A reconciliation of the results for the operating segments to the applicable line items in the consolidated financial statements is as follows (in thousands):

	2000	2001	2002
Segment loss—reportable segments	$(216,611)	$ (432,710)	$(224,292)
Interest income, net	7,231	52,768	21,757
Other income (expense):			
Equity in loss of affiliates	(6,289)	(75,066)	(43,989)
Gain on sales of subsidiary stock	350,344	1,037,726	—
Investment and other income (expense), net	258,218	164,762	(12,117)
Income (loss) before minority interests, income taxes, extraordinary item and cumulative effect of accounting change	392,893	747,480	(258,641)
Minority interests	(59,336)	5,726	22,070
Provision for (benefit from) income taxes	218,403	209,395	(124,345)
Income (loss) before extraordinary item and cumulative effect of accounting change	233,826	532,359	(156,366)
Extraordinary loss on retirement of debt, net of income taxes of $1,894	(2,976)	—	—
Cumulative effect of accounting change, net of income taxes of $3,525	—	—	(146,983)
Consolidated net income (loss)—reported	$ 230,850	$ 532,359	$(303,349)

11. Additional Financial Information

Trade accounts payable includes approximately $112.9 million and $84.1 million due to telecommunication carriers at July 31, 2001 and 2002, respectively.

12. Acquisitions

CTM Brochure Display, Inc.

On June 30, 2000, the Company acquired a 100% interest in CTM Brochure Display, Inc. ("CTM"), a brochure distribution company, for an aggregate purchase price of approximately $23.8 million. The purchase price consisted primarily of $5.1 million in cash, $16.9 million in notes payable to the former owners and the liquidation of $1.4 million of CTM's bank debt. In connection with this transaction, the Company recorded goodwill of $23.0 million and tax liabilities of $3.0 million. The acquisition was accounted for as a purchase, and accordingly, the net assets and results of operations of the acquired business have been included in the consolidated financial statements from the date of acquisition. During the year ended July 31, 2001, the Company repaid the entire principal balance on the notes payable, together with accrued interest.

Aplio S.A.

On July 7, 2000, Net2Phone acquired all of the outstanding capital stock of Aplio, S.A ("Aplio"), a company located in France with technology that enables VoIP devices. Consideration consisted of $2.9 million in cash at closing, 0.6 million shares of Net2Phone's common stock which were valued at $35.50 per share, issuance of promissory notes aggregating $6.5 million, $1.1 million in acquisition related costs and $4.8 million in cash that was paid within eighteen months of the closing of the transaction.

The aggregate purchase price of $36.0 million plus the fair value of net liabilities assumed of $2.7 million was allocated as follows: approximately $17.5 million to goodwill, $20.7 million to core technology and patents and $0.5 million to assembled workforce. The acquisition was accounted for under the purchase method of accounting by Net2Phone, and accordingly, the net assets and results of operations of the acquired business was included in the consolidated financial statements through July 2000.

PT-1 Communications

In February 2001, the Company purchased certain prepaid calling card business assets of PT-1 Communications, Inc. ("PT-1"), a wholly-owned subsidiary of STAR Telecommunications, Inc., with a payment of cash and assumption of certain liabilities, including the obligation to honor the outstanding phone cards of PT-1. The cash payment and assumption of net liabilities incurred were approximately $26.3 million with substantially all of the purchase price recorded as goodwill.

Equity Interests in Teligent, Inc. and ICG Communications, Inc.

In April 2001, through its IDT Investments, Inc. subsidiary ("IDT Investments"), the Company acquired from Liberty Media (i) a company whose sole asset was 21.4 million shares of Teligent, Inc. ("Teligent") Class A common stock, as well as (ii) an interest in ICG Communications, Inc. ("ICG"), represented by 50,000 shares of ICG's 8% Series A-1 convertible preferred stock and warrants to purchase approximately 6.7 million shares of ICG's common stock. In exchange, IDT Investments issued Liberty Media a total of 10,000 shares of its Class B common stock and 40,000 shares of its Series A convertible preferred stock. Upon completing the transaction, IDT effectively owned approximately 32% of the equity of Teligent, and approximately 29% of the equity of ICG. The total consideration for Teligent and ICG's April 2001 transaction was approximately $10.3 and $3.4 million, respectively.

In May 2001, through its IDT Investments subsidiary, the Company entered into an agreement with various affiliates of HMTF to increase IDT's strategic investments in Teligent and ICG. Under the terms of the agreement, the HMTF affiliates received 18,195 shares of IDT Investments' Series B convertible preferred stock in exchange for the HMTF affiliates' stakes in Teligent and ICG. The HMTF affiliates owned 219,998 shares of Teligent's Series A 7¾% convertible preferred stock, 23,000 shares of ICG 's 8% Series A-2 convertible preferred stock and warrants to purchase approximately 3.1 million shares of ICG's common stock. Upon completing the transaction, IDT effectively owned approximately 37% of the equity of Teligent, and approximately 42% of the equity of ICG. The total consideration for Teligent and ICG's May 2001 transaction was approximately $2.0 and $1.6 million, respectively.

The pro-rata share of the losses of Teligent and ICG recorded by IDT subsequent to these acquisitions have fully eliminated the carrying value of the Company's investment in these companies.

In May 2001, Teligent filed a voluntary bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code. ICG had previously filed for bankruptcy protection in November 2000.

Winstar

On December 19, 2001, the Company, through a subsidiary, acquired the core domestic telecommunications assets of Winstar Communications, Inc. and certain of its subsidiaries that are debtors and debtors in possession in bankruptcy proceedings pending before the United States Bankruptcy Court for the District of Delaware. The acquiring subsidiary was subsequently renamed Winstar Holdings, LLC. Winstar operates as a CLEC using fixed wireless technology to provide local and long distance phone services, and high speed Internet and data communications solutions.

The purchase price for the Winstar assets was comprised of a $30.0 million cash payment, $12.5 million in newly issued shares of IDT Class B common stock and 5% of the common equity interests in the acquiring subsidiary (the remaining 95% of the common equity interests as well as all of the preferred equity interests in the acquiring subsidiary were owned by IDT). The Company also agreed to invest $60.0 million into Winstar to be used as working capital. The acquisition has been accounted for under the purchase method of accounting. The results of operations of Winstar have been included in the Company's consolidated statements of operations since the date of acquisition. The preliminary allocation of the purchase price, pending final determination of certain acquired balances, is as follows (in thousands):

Trade accounts receivable and other current assets	$ 51,301
Property, plant, equipment and intangible assets	37,923
Trade accounts payable, accrued expenses and other current liabilities	(44,487)
Minority interest	(2,237)
Value of assets acquired	$ 42,500

The fair value of the Winstar assets acquired and liabilities assumed would have exceeded IDT's acquisition cost. Therefore, in accordance with SFAS No. 141, Business Combinations, the excess value over the acquisition cost has been allocated as a pro rata reduction of the amounts that otherwise would have been assigned to the acquired assets, except with respect to the following:

- *Trade accounts receivable*—present values of amounts to be received, less allowances for uncollectibility and collection costs.
- *Other current assets* (principally assets to be sold)—fair value less cost to sell.
- *Trade accounts payable, accrued expenses and other current liabilities* (principally relating to contractual agreements assumed)—present values of amounts to be paid.

On April 16, 2002, IDT, through a subsidiary, purchased the 5% of common equity interests in Winstar that it did not own. Consideration consisted of 0.8 million shares of IDT Class B common stock, which were valued at $13.3 million.

The following pro forma financial information presents the combined results of operations of IDT and Winstar, as if the Winstar acquisition had occurred as of the beginning of the periods presented, after giving effect to certain adjustments, including depreciation expense, income taxes and the issuance of IDT Class B common stock as part of the purchase price. The pro forma financial information does not necessarily reflect the results of operations that would have occurred had IDT and Winstar been a single entity during such periods.

	Year Ended July 31,		
	2000	2001	2002
	(in thousands, except per share data)		
Revenues	$1,325,821	$ 1,451,912	$1,604,314
Income (loss) before cumulative effect of accounting change	$ 108,472	$(1,421,850)	$ (205,083)
Net income (loss)	$ 108,472	$(1,421,850)	$ (352,066)
Earnings per share:			
Income (loss) before cumulative effect of accounting change			
Basic	$ 1.51	$ (20.29)	$ (2.70)
Diluted	$ 1.41	$ (18.57)	$ (2.70)
Net income (loss)			
Basic	$ 1.51	$ (20.29)	$ (4.63)
Diluted	$ 1.41	$ (18.57)	$ (4.63)

13. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Year ended July 31		
	2000	2001	2002
	(in thousands, except per share data)		
Numerator:			
Net income (loss)	$230,850	$532,359	$(303,349)
Denominator:			
Weighted-average number of shares used in calculation of earnings per share—Basic	69,933	68,301	75,108
Effect of stock options	5,306	6,485	—
Weighted-average number of shares used in calculation of earnings per share—Diluted	75,239	74,786	75,108
Earnings per share—Basic	$ 3.30	$ 7.79	$ (4.04)
Earnings per share—Diluted	$ 3.07	$ 7.12	$ (4.04)

The following securities have been excluded from the dilutive per share computation as they are antidilutive:

	Year ended July 31		
	2000	2001	2002
		(in thousands)	
Stock options	449	1,163	5,291
Contingently issuable shares	—	—	369
Total	449	1,163	5,660

14. Net2Phone Subsidiary Stock Sales

During the years ended July 31, 2000 and 2001, the Company recognized approximately $350.3 and $1,037.7 million, respectively, in gains on sales of subsidiary stock related to Net2Phone stock sales, as follows:

On August 3, 1999, Net2Phone completed an initial public offering of 6.2 million shares of its common stock at an initial public offering price of $15.00 per share, resulting in net proceeds of $85.3 million. Upon completion of the initial public offering, 3.1 million shares of Net2Phone Series A preferred stock were converted into 9.4 million shares of Net2Phone Class A common stock. As a result of the initial public offering and concurrent conversion of Series A preferred stock to Class A common stock, the Company's ownership percentage in Net2Phone decreased from 90.0% to 56.2%. In connection with such offering, the Company recorded a gain of $65.5 million.

In December 1999, Net2Phone completed a secondary offering of 3.4 million shares of common stock at a price of $55.00 per share. In connection with this offering, IDT also sold 2.2 million shares of Net2Phone common stock at $55.00 per share. Total proceeds to the Company, after deducting underwriting discounts, commissions and offering expenses were $292.8 million. The Company's ownership interest in Net2Phone before and after these transactions decreased from 56.2% to 45.0%. The Company recorded gains on sales of stock of $182.6 million in connection with these offerings.

In March 2000, the Company acquired 0.8 million shares of Yahoo! Inc. in exchange for 2.8 million shares of Net2Phone common stock at a then equivalent market value of approximately $150.0 million. In connection with this transaction, the Company recorded a gain on sale of subsidiary stock of $102.2 million.

In August 2001, IDT sold 14.9 million shares of Net2Phone common stock at $75.00 per share. Net proceeds to the Company as a result of this sale were $1,042.1 million. The Company's ownership interest in Net2Phone before and after this transaction decreased from 45.0% to 16%. The Company recorded a total gain of $1,037.7 million in conjunction with this transaction.

15. TyCom Ltd. Settlement

On October 10, 2000, IDT reached a full and final settlement with TyCom of all pending claims brought against one another and their respective affiliates. The settlement agreement is subject to a confidentiality agreement among the parties and only the following disclosure by IDT is permitted under the terms of that agreement.

Under the terms of the settlement, TyCom granted to IDT Europe B.V.B.A. ("IDT Europe"), free of charge, certain exclusive rights to use capacity on the transatlantic and transpacific segments of TyCom's global undersea fiber optic network (the "TyCom Global Network"), which TyCom is deploying. The settlement agreement provides for IDT Europe to obtain exclusive indefeasible rights to use (IRU) two 10 Gb/s wavelengths on the transatlantic segment (which we have been informed has been deployed) and two 10 Gb/s wavelengths on the transpacific segment (which be believe is still under development) for fifteen years from the applicable Handover Dates.

Operation, administration and maintenance for the wavelengths used by the Company will be provided by TyCom for a fifteen year period after the relevant Handover Date, free of charge. TyCom has also granted the Company certain rights to resell any unused capacity on the wavelengths through TyCom as its sole and exclusive agent. In addition, the Company will also have the option, exercisable at least annually, to convert the available capacity on its wavelengths to available equivalent capacity on another portion of the TyCom Global Network. In recognition of the settlement, a gain of $313.5 million was included as a component of "investment and other income." The Company subsequently re-evaluated the recoverability of the carrying value of its IRU in accordance with SFAS No. 121 and, as a result, the Company has recorded an impairment loss of $193.4 million and $110.4 million for the years ended July 31, 2001 and 2002, respectively, to write down the asset to its fair value.

16. Comprehensive Income (Loss)

The accumulated balances for each classification of comprehensive income (loss) consists of the following (in thousands):

	Unrealized gain (loss) in available-for-sale securities	Foreign currency translation	Accumulated other comprehensive loss
Beginning balance at July 31, 1999	$ —	$ —	$ —
Change during period	(94,044)	1,391	(92,653)
Balance at July 31, 2000	(94,044)	1,391	(92,653)
Change during the period	89,148	930	90,078
Balance at July 31, 2001	(4,896)	2,321	(2,575)
Change during the period	(1,064)	964	(100)
Balance at July 31, 2002	$ (5,960)	$3,285	$ (2,675)

17. Price Guarantee of Class B Common Stock

In March 2001, the Company exercised an option to sell to AT&T approximately 2.0 million shares of its Class B common stock for approximately $74.8 million. In conjunction with the formation of the consortium, IDT guaranteed to AT&T the value of approximately 1.4 million shares of IDT Class B common stock still being retained by AT&T. If the value of IDT Class B common stock is less than $27.5 million on October 19, 2002, and AT&T or an affiliate retains all the shares through such date, then IDT will be obligated to pay AT&T the difference with cash, additional shares of IDT Class B common stock or a combination of both, at the option of IDT. In connection with this obligation, the Company recorded in "investment and other income (expense)" a charge of $5.3 million during the year ended July 31, 2002. The Company was subject to additional charges of $1.0 million through October 19, 2002 based on changes in the market value of IDT Class B common stock. As a result, the Company's total liability is $6.3 million as of October 19, 2002.

18. Extraordinary Loss

On May 10, 1999, the Company obtained a Senior Secured Credit Facility from a consortium of financial institutions. During the second quarter ended January 31, 2000, the Company repaid all of the outstanding principal balance together with accrued interest. The Company recorded a pre-tax extraordinary loss of $4.9 million in connection with the repayment during the year ended July 31, 2000.

19. Selected Quarterly Financial Data (unaudited)

The table below presents selected quarterly financial data (unaudited) of the Company for the calendar quarters in the fiscal years ended July 31, 2002 and 2001:

			Income (loss) before cumulative effect of accounting change			
Quarter Ended	Revenues	Loss from Operations	Amount	Per Share —Basic	Per Share —Diluted	Net Income (Loss)
	(in thousands, except for per share data)					
2002:						
October 31 /a/	$ 339,209	$ (12,565)	$ (11,332)	$ (0.16)	$ (0.16)	$(158,315)
January 31	374,025	(27,774)	(17,212)	(0.23)	(0.23)	(17,212)
April 30	401,653	(42,829)	(49,593)	(0.64)	(0.64)	(49,593)
July 31 /b/	416,727	(141,124)	(78,229)	(0.99)	(0.99)	(78,229)
Total	$1,531,614	$(224,292)	$(156,366)			$(303,349)
2001:						
October 31 /c/	$ 276,597	$ (60,070)	$ 869,568	$12.43	$11.27	$ 869,568
January 31	287,597	(48,455)	(117,104)	(1.77)	(1.77)	(117,104)
April 30 /d/	335,722	(55,571)	(48,277)	(0.73)	(0.73)	(48,277)
July 31 /e/	331,034	(268,614)	(171,828)	(2.44)	(2.44)	(171,828)
Total	$1,230,950	$(432,710)	$ 532,359			$ 532,359

/a/ Included in net loss is a $147.0 million cumulative effect of accounting change, net of $3.5 million of income taxes, due to the adoption of SFAS No. 142.

/b/ Included in loss from operations was $110.4 million of impairment charges related to the IRU received as part of the Tycom settlement.

/c/ Included in net income is $1,037.7 million in gains on sales of subsidiary stock related to Net2Phone stock sales.

/d/ Included in loss from operations was $193.4 million of impairment charges related to the IRU received as part of the Tycom settlement.

20. Subsequent Events

In August 2002, Net2Phone and its Adir subsidiary consummated the settlement of their lawsuit filed on March 19, 2002 in the United States District Court for the District of New Jersey against Cisco Systems ("Cisco") and a Cisco executive who had been a member of the Adir board of directors. The suit arose out of the relationships that had been created in connection with Cisco's and Net2Phone's original investments in Adir and out of Adir's subsequent purchase of NetSpeak, Inc. in August 2001. The parties settled the suit and all related claims against Cisco and the Cisco executive in exchange for (i) the transfer, during the first quarter of fiscal 2003, to Net2Phone of Cisco's and Softbank Asia Infrastructure Fund's respective 11.5% and 7.0% interests in Adir and, (ii) the payment by Cisco, during such quarter, of $19.5 million to Net2Phone and Adir. As a result of this settlement, Net2Phone will recognize, for the quarter ended October 31, 2002, a gain of approximately $58.4 million. Net2Phone will be consolidated by IDT in Fiscal year 2003, which began on August 1, 2002.

IDT CORPORATION

FINANCIAL STATEMENT SCHEDULE—VALUATION AND QUALIFYING ACCOUNTS

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions (1)	Balance at End of Period
		(Dollars, in thousands)		
2000				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	$ 7,643	$20,154	$ (1,026)	$26,771
2001				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	$26,771	$32,873	$(37,136)	$22,508
2002				
Reserves deducted from accounts receivable:				
Allowance for doubtful accounts	$22,508	$19,203	$ (2,818)	$38,893

(1) Uncollectible accounts written off, net of recoveries.

South Dakota Public Utilities Commission
WEEKLY FILINGS
For the Period of August 21, 2003 through August 27, 2003

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this report. Phone: 605-773-3705

NATURAL GAS

NG03-004 In the Matter of the Filing by NorthWestern Energy for Approval of Tariff Revisions.

Application by NorthWestern Energy to update its fuel retention percentage for natural gas transportation service. NorthWestern Energy's tariff provides that the fuel retention percentage be adjusted annually with the updated percentage to be effective October 1 of each year.

Staff Analyst: David Jacobson
Staff Attorney: Kelly Frazier
Date Filed: 08/27/03
Intervention Deadline: 09/12/03

TELECOMMUNICATIONS

TC03-167 In the Matter of the Filing by Kadoka Telephone Company to Establish Switched Access Rates.

On August 21, 2003, Kadoka Telephone Company, Kadoka, South Dakota, filed revised Switched Access Tariff rates with a proposed effective date of October 1, 2003. In accordance with ARSD 20:10:27:12, the switched access rates are the average of all cost companies (for the year ended December 31, 2001) in South Dakota excluding Qwest Corporation.

Staff Analyst: Harlan Best
Staff Attorney: Karen Cremer
Date Docketed: 08/21/03
Intervention Deadline: 09/12/03

TC03-168 In the Matter of the Application of IDT America, Corp. for a Certificate of Authority to Provide Local Exchange Services in South Dakota.

On August 25, 2003, IDT America, Corp filed an application for a Certificate of Authority to provide local telecommunications services in South Dakota. IDT America intends to provide facilities-based and resold local exchange telecommunications services statewide, except in those areas deemed rural and those areas of the state that are not open to competition.

Staff Analyst: Michele Farris
Staff Attorney: Karen Cremer
Date Filed: 08/25/03
Intervention Deadline: 09/12/03

You may receive this listing and other PUC publications via our website or via internet e-mail. You may subscribe or unsubscribe to the PUC mailing lists at http://www.state.sd.us/puc

IDT

Legal Department

IDT Corporation
520 Broad Street
Newark, NJ 07102 USA
P 973 438/3342
F 973 438/1455
www.idt.net

October 6, 2003

VIA OVERNIGHT MAIL

RECEIVED
OCT 0 9 2003
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Pamela Bonrud, Executive Director
South Dakota Public Utilities Commission
500 E. Capitol
State Capitol Building, 1ST Floor
Pierre, South Dakota 57501

**Re: Application of IDT America, Corp. for Certificate of Authority
South Dakota PUC Docket TC 03-168**

Dear Ms. Bonrud:

In response to the September 2, 2003 letter of Ms. Michele M. Farris of Commission Staff, on behalf of IDT America, Corp. ("IDT") I have enclosed an original and two (2) copies of a sample Tariff to accompany IDT's Application in the above-docketed matter.

Please date-stamp the enclosed extra copy of this letter and return it in the self-addressed, stamped envelope provided herein.

Should you have any questions concerning this filing, please do not hesitate to contact me at (973) 438-4854.

Respectfully submitted,

Carl Wolf Billek

Carl Wolf Billek
IDT America, Corp.

Enclosure

RECEIVED

OCT 09 2003

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

SOUTH DAKOTA

LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES

FOR

IDT AMERICA, CORP.

This tariff contains the descriptions, regulations, and rates applicable to the provision of local exchange telecommunications services provided by IDT America, Corp. with principal offices at 520 Broad Street, Newark, New Jersey 07102-3111 for services furnished within the State of South Dakota. This tariff is on file with the South Dakota Public Utilities Commission and can be viewed at the Commission office. In addition, this tariff is available for review during normal business hours at the Company's principle place of business, 520 Broad Street, Newark, New Jersey 07102-3111.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

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Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

CHECK SHEET

The Sheets of this Tariff, as listed below, are effective as of the date shown at the bottom of the respective Sheet(s). Original and revised Sheets as named below comprise all changes from the original Tariff and are currently in effect as of the date at the bottom of this Sheet.

Sheet	Revision	Sheet	Revision	Sheet	Revision
1	Original	37	Original	73	Original
2	Original	38	Original	74	Original
3	Original	39	Original	75	Original
4	Original	40	Original	76	Original
5	Original	41	Original	77	Original
6	Original	42	Original	78	Original
7	Original	43	Original	79	Original
8	Original	44	Original	80	Original
9	Original	45	Original	81	Original
10	Original	46	Original	82	Original
11	Original	47	Original	83	Original
12	Original	48	Original	84	Original
13	Original	49	Original	85	Original
14	Original	50	Original	86	Original
15	Original	51	Original	87	Original
16	Original	52	Original	88	Original
17	Original	53	Original	89	Original
18	Original	54	Original	90	Original
19	Original	55	Original	91	Original
20	Original	56	Original	92	Original
21	Original	57	Original	93	Original
22	Original	58	Original	94	Original
23	Original	59	Original	95	Original
24	Original	60	Original	96	Original
25	Original	61	Original	97	Original
26	Original	62	Original	98	Original
27	Original	63	Original	99	Original
28	Original	64	Original	100	Original
29	Original	65	Original	101	Original
30	Original	66	Original	102	Original
31	Original	67	Original	103	Original
32	Original	68	Original	104	Original
33	Original	69	Original	105	Original
34	Original	70	Original	106	Original
35	Original	71	Original	107	Original
36	Original	72	Original	108	Original

Issued: Effective:
By:

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

109	**Original**	**110**	**Original**

***New or Revised**

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

EXPLANATION OF SYMBOLS

The following symbols shall be used in this tariff for the purpose indicated below:

(C) To signify changed regulation.

(D) To signify discontinued rate or regulation.

(I) To signify increased rate.

(M) To signify a move in the location of text.

(N) To signify new rate or regulation.

(R) To signify reduced rate.

(S) To signify reissued matter.

(T) To signify a change in text but no change in rate or regulation.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

APPLICATION OF TARIFF

This tariff contains the regulations, rates and charges applicable to the provision of competitive local telecommunications services by IDT America, Corp. for the use of Customers in transmitting messages within the State of South Dakota, subject to the jurisdiction of the South Dakota Public Utilities Commission ("Commission"). Services include, but are not limited to resold and facilities-based voice services within the State of South Dakota. IDT's services are furnished subject to the availability of facilities and subject to the terms and conditions of this Tariff.

This tariff is on file with the Public Utility Board of South Dakota. In addition, this tariff is available for review at the main office of IDT at 520 Broad Street, Newark, New Jersey 07102-3111.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

TARIFF FORMAT

A. Sheet Numbering - Sheet numbers appear in the upper right corner of the Sheet. Sheets are numbered sequentially. However, new Sheets are occasionally added to the Tariff. When a new Sheet is added between Sheets already in effect, a decimal is added. For example, a new Sheet added between Sheets 14 and 15 would be 14.1.

B. Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each Sheet. These numbers are used to determine the most current Sheet version on file with the South Dakota Public Utilities Commission. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc. that the South Dakota Public Utilities Commission follows in their Tariff approval process, the most current Sheet number on file with the Commission is not always the Tariff Sheet in effect. Consult the Check Sheet for the Sheet currently in effect.

C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1.
2.1.1.
2.1.1.A.
2.1.1.A.1.
2.1.1.A.1.(a).
2.1.1.A.1.(a).I.
2.1.1.A.1.(a).I.(i).
2.1.1.A.1.(a).I.(i).(1).

D. Check Sheets - When a Tariff filing is made with the South Dakota Public Utilities Commission, an updated check Sheet accompanies the Tariff filing. The check Sheet lists the Sheets contained in the Tariff, with a cross reference to the current revision number. When new Sheets are added, the check Sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this Sheet if these are the only changes made to it (i.e., the format, etc., remains the same, just revised revision levels on some Sheets). The Tariff user should refer to the latest check Sheet to find out if a particular Sheet is the most current on file with the South Dakota Public Utilities Commission.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS

Access Line - An arrangement from a local exchange telephone company or other common carrier, using either dedicated or switched access, which connects a Customer's location to Carrier's location or switching center.

Account - A Company accounting category containing up to two (2) residential local exchange access lines billed to the same Customer at the same address. The second or non-primary local exchange access line will share any call allowance of the primary local exchange access line. The second or non-primary local exchange access line therefore will not be provisioned to include a separate call allowance structure. No features are included with the second or non-primary local exchange access line.

Advance Payment - Part or all of a payment required before the start of service.

Authorization Code - A numerical code, one or more of which may be assigned to a Customer, to enable Carrier to identify the origin of service of the Customer so it may rate and bill the call. All authorization codes shall be the sole property of Carrier and no Customer shall have any property or other right or interest in the use of any particular authorization code. Automatic numbering identification (ANI) may be used as or in connection with the authorization code.

Authorized User - A person, firm or corporation authorized by the Customer to be an end-user of the service of the Customer.

Automatic Numbering Identification (ANI) - A type of signaling provided by a local exchange telephone company which automatically identifies the local exchange line from which a call originates.

Collocation - An arrangement whereby the Company's switching equipment is located in a local exchange Company's central office.

Common Carrier - An authorized company or entity providing telecommunications services to the public.

Commission - The South Dakota Public Utilities Commission.

Company - IDT America, Corp., the issuer of this tariff.

SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS, CONT'D.

Customer - The person, firm or corporation that orders service and is responsible for the payment of charges and compliance with the terms and conditions of this tariff.

Customer Premises - A location designated by the Customer for the purposes of connecting to the Company's services.

Customer Terminal Equipment - Terminal equipment provided by the Customer.

Deposit – Refers to a cash equivalent of cash security held as a guarantee for payment of the charges.

End Office - The LEC switching system office or serving wire center where Customer station loops are terminated for purposes of interconnection to each other and/or to trunks.

End-User Premises - A location designated by the Customer for the purposes of connecting to the Company's services.

Holiday - New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

Interruption - The inability to complete calls due to equipment malfunctions or human errors. Interruption shall not include, and no allowance shall be given for service difficulties such as slow dial tone, circuits busy or other network and/or switching capability shortages. Nor shall Interruption include the failure of any service or facilities provided by a common carrier or other entity other than the Carrier. Any Interruption allowance provided within this Tariff by Carrier shall not apply where service is interrupted by the negligence or willful act of the Customer, or where the Carrier, pursuant to the terms of this Tariff, terminates service because of non-payment of bills, unlawful or improper use of the Carrier's facilities or service, or any other reason covered by this Tariff or by applicable law.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS, CONT'D.

LATA - A Local Access and Transport Area established pursuant to the Modification of Final Judgment entered by the United States District Court for the District of Columbia in Civil Action No. 82-0192; or any other geographic area designated as a LATA in the National Exchange Carrier Association, Inc. Tariff F.C.C. No. 4, or its successor tariff(s).

LEC - Local Exchange Company refers to the dominant, monopoly local telephone company in the area also served by the Company.

Measured Charge - A charge assessed on a per minute basis in calculating a portion of the charges due for a completed interexchange call.

Message Toll Service - A service that provides facilities for telecommunications between different local calling areas of the same LATA in accordance with the regulations and schedule of rates specified in this tariff. The rates specified in this tariff are in payment for all services furnished between the calling and called stations.

Monthly Recurring Charges – The Monthly charges to the Customer for services, facilities and equipment, which continue for the agreed upon the duration of the service.

MOU - Minutes of Use.

Non-Recurring Charge ("NRC") – The initial charge, usually assessed on a one-time basis, to initiate and establish service.

PBX – Private Branch Exchange.

PIN – Personal Identification Number.

POP – Point of Presence.

Recurring Charges - Monthly charges to the Customer for services, and equipment, which continues for the agreed upon duration of the service.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS, CONT'D.

Service - Any means of service offered herein or any combination thereof.

Service Commencement Date: The first day following the date on which the Company notifies the Customer that the requested service or facility is available for use, unless extended by the Customer's refusal to accept service which does not conform to standards set forth in the Service Order or this tariff, in which case the Service Commencement Date is the date of the Customer's acceptance. The Company and Customer may mutually agree on a substitute Service Commencement Date.

Service Order - The written request for Company services executed by the Customer and the Company in the format devised by the Company. The signing of a Service Order Form by the Customer and acceptance by the Company initiates the respective obligations of the parties as set forth therein and pursuant to this tariff.

Shared Inbound Calls – Refers to calls that are terminated via the Customer's Company-provided local exchange line.

Shared Outbound Calls – Refers to calls in Feature Group G (FGD) exchanges whereby the Customer's local telephone lines are presubscribed by the Company to the Company's outbound service such that "1+10-digit number" calls are automatically routed to the Company's or an IXC's network. Calls to stations within the Customer's LATA may be placed dialing "10XXX" or "101XXXX" with 1+10-digit number."

Station - The network control signaling unit and any other equipment provided at the Customer's premises which enables the Customer to establish communications connections and to effect communications through such connections.

Subscriber - The person, firm, partnership, corporation or other entity who orders telecommunications service from IDT. Service may be ordered by, or on behalf of, those who own, lease or otherwise manage the pay telephone, PBX, or other switch vehicle from which an End User places a call utilizing the services of the Company.

Telecommunications - The transmission of voice communications or, subject to the transmission capabilities of the service, the transmission of data, facsimile, signaling, metering, or other similar communications.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 1 - DEFINITION OF TERMS AND ABBREVIATIONS, CONT'D.

Term Agreement - An agreement between the Company and the Customer for a fixed term of months.

Terminal Equipment - Any telecommunications equipment other than the transmission or receiving equipment installed at a Company location.

Usage Charges – Charges for minutes or messages traversing over local exchange facilities.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS

2.1 Undertaking of the Company

2.1.1 Scope

The Company undertakes to furnish communications service pursuant to the terms of this tariff in connection with one-way and/or two-way information transmission between points within the State of South Dakota.

The Company is responsible under this tariff only for the services and facilities provided hereunder, and it assumes no responsibility for any service provided by any other entity that purchases access to the Company network in order to originate or terminate its own services, or to communicate with its own customers.

2.1.2 Use of Services

A. Carrier's services may be used for any lawful purpose consistent with the transmission and switching parameters of the telecommunications facilities utilized in the provision of services.

B. The use of Carrier's services without payment for service or attempting to avoid payment for service by fraudulent means or devices, schemes, false or invalid numbers, or false calling or credit cards is prohibited.

C. The Carrier does not transmit messages pursuant to this tariff, but its services may be used for that purpose.

D. The Carrier's services may be canceled for nonpayment of uncontested bill charges or for other violations of this Tariff.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.3 Shortage of Equipment or Facilities

A. The Company reserves the right to limit or to allocate the use of existing facilities, or of additional facilities offered by the Company, when necessary because of lack of facilities, or due to some other cause beyond the Company's control.

B. The furnishing of service under this tariff is subject to the availability on a continuing basis of all the necessary facilities and is limited to the capacity of the Company's facilities as well as facilities the Company may obtain from other carriers to furnish service from time to time as required at the sole discretion of the Company.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.4 Terms and Conditions

A. Service is provided on the basis of a minimum period of at least thirty (30) days, twenty-four (24) hours per day. For the purpose of computing charges in this tariff, a month is considered to have thirty (30) days.

B. Except as otherwise stated in this tariff, Customers may be required to enter into written service orders which shall contain or reference a specific description of the service ordered, the rates to be charged, the duration of the services, and the terms and conditions in this tariff. Customers will also be required to execute any other documents as may be reasonably requested by the Company.

C. At the expiration of the initial term specified in each Service Order, or in any extension thereof, service shall continue on a month-to-month basis at the then current rates unless terminated by either party upon notice. Any termination shall not relieve the Customer of its obligation to pay any charges incurred under the service order and this tariff prior to termination. The rights and obligations which by their nature extend beyond the termination of the term of the service order shall survive such termination.

D. In any action between the parties to enforce any provision of this tariff, the prevailing party shall be entitled to recover its legal fees and court costs from the non-prevailing party in addition to other relief a court may award.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS

2.1 Undertaking of the Company (Cont'd)

2.1.4 Terms and Conditions

E. Service may be terminated upon written notice to the Customer if:

1. the Customer is using the service in violation of this tariff; or

2. the Customer is using the service in violation of the law.

F. This tariff shall be interpreted and governed by the laws of the state of South Dakota regardless of its choice of laws provision.

G. No person or entity shall be required to make any payment, incur any penalty, monetary or otherwise, or purchase any services in order to have the right to obtain service directly from the Company.

H. To the extent that either the Company or any other telephone company exercises control over available cable pairs, conduit, duct space, raceways, or other facilities needed by the other to reach a person or entity, the party exercising such control shall make them available to the other on terms equivalent to those under which the Company makes similar facilities under its control available to its customers. At the reasonable request of either party, the Company and the other telephone company shall join the attempt to obtain from the owner of the property access for the other party to serve a person or entity.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.5 Limitations on Liability

A. Except as otherwise stated in this section, the liability of the Company for damages arising out of either: (1) the furnishing of its services, including but not limited to mistakes, omissions, interruptions, delays, or errors, or other defects, representations, or use of these services or (2) the failure to furnish its service, whether caused by acts or omission, whether caused by acts or omission, shall be limited to the extension of allowances to the Customer for interruptions in service as set forth in Section 2.6.

B. Except for the extension of allowances to the Customer for interruptions in service set forth in Section 2.6, the Company shall not be liable to a Customer or third party for any direct, indirect, special, incidental, reliance, consequential, exemplary or punitive damages, including, but not limited to, loss of revenue or profits, for any reason whatsoever, including, but not limited to, any act or omission, failure to perform, delay, interruption, failure to provide any service or any failure in or breakdown of facilities associated with the service.

C. The liability of the Company for errors in billing that result in overpayment by the Customer shall be limited to a credit equal to the dollar amount erroneously billed or, in the event that payment has been made and service has been discontinued, to a refund of the amount erroneously billed.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.5 Limitations on Liability (Cont'd)

D. The Company shall be indemnified and saved harmless by the Customer from and against all loss, liability, damage and expense, due to:

.1 Any act or omission of: (a) the Customer, (b) any other entity furnishing service, equipment or facilities for use in conjunction with services or facilities provided by the Company; or (c) common carriers or warehousemen, except as contracted by the Company;

.2 Any delay or failure of performance or equipment due to causes beyond the Company's control, including but not limited to, acts of God, fires, floods, earthquakes, hurricanes, or other catastrophes; national emergencies, insurrections, riots, wars or other civil commotions; strikes, lockouts, work stoppages or other labor difficulties; criminal actions taken against the Company; unavailability, failure or malfunction of equipment or facilities provided by the Customer or third parties; and any law, order, regulation or other action of any governing authority or agency thereof;

.3 Any unlawful or unauthorized use of the Company's facilities and services;

.4 Libel, slander, invasion of privacy or infringement of patents, trade secrets, or copyrights arising from or in connection with the material transmitted by means of Company-provided facilities or services; or by means of the combination of Company-provided facilities or services;

.5 Breach in the privacy or security of communications transmitted over the Company's facilities;

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.5 Limitations on Liability (Cont'd)

D. (Cont'd.)

.6 Changes in any of the facilities, operations or procedures of the Company that render any equipment, facilities or services provided by the Customer obsolete, or require modification or alteration of such equipment, facilities or services, or otherwise affect their use or performance, except where reasonable notice is required by the Company and is not provided to the Customer, in which event the Company's liability is limited as set forth in Paragraph A of this Subsection 2.1.4.

.7 Defacement of or damage to Customer premises resulting from the furnishing of services or equipment on such premises or the installation or removal thereof;

.8 Injury to property or injury or death to persons, including claims for payments made under Workers' Compensation law or under any plan for employee disability or death benefits, arising out of, or caused by, any act or omission of the Customer, or the construction, installation, maintenance, presence, use or removal of the Customer's facilities or equipment connected, or to be connected to the Company's facilities;

.9 Any noncompletion of calls due to network busy conditions;

.10 Any calls not actually attempted to be completed during any period that service is unavailable.

.11 Any other claim resulting from any act or omission of the Customer or patron(s) of the Customer relating to the use of the Company's services or facilities.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.5 Limitations on Liability (Cont'd)

E. The Company does not guarantee nor make any warranty with respect to installations provided by it for use in an explosive atmosphere.

F. The Company makes no warranties or representations, EXPRESS OR IMPLIED, either in fact or by operation of law, statutory or otherwise, including warranties of merchantability or fitness for a particular use, except those expressly set forth herein.

G. Failure by the Company to assert its rights pursuant to one provision of this rate sheet does not preclude the Company from asserting its rights under other provisions.

H. **Directory Errors** - In the absence of gross negligence or willful misconduct, no liability for damages arising from errors or mistakes in or omissions of directory listings, or errors or mistakes in or omissions of listing obtainable from the directory assistance operator, including errors in the reporting thereof, shall attach to the Company. An allowance for errors or mistakes in or omissions of published directory listings or for errors or mistakes in or omissions of listing obtainable from the directory assistance operator shall be at the monthly tariff rate for each listing, or in the case of a free or no-charge directory listing, credit shall equal two times the monthly tariff rate for an additional listing, for the life of the directory or the charge period during which the error, mistake or omission occurs.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.5 Limitations on Liability (Cont'd)

I. With respect to Emergency Number 911 Service:

.1 This service is offered solely as an aid in handling assistance calls in connection with fire, police and other emergencies. The Company is not responsible for any losses, claims, demands, suits or any liability whatsoever, whether suffered, made instituted or asserted by the Customer or by any other party or person for any personal injury or death of any person or persons, and for any loss, damage or destruction of any property, whether owned by the Customer or others, caused or claimed to have been caused by: (1) mistakes, omissions, interruptions, delays, errors or other defects in the provision of service, or (2) installation, operation, failure to operate, maintenance, removal, presence, condition, local or use of any equipment and facilities furnishing this service.

.2 Neither is the Company responsible for any infringement, nor invasion of the right of privacy of any person or persons, caused or claimed to have been caused directly or indirectly, by the installation, operation, failure to operate, maintenance, removal, presence, condition, occasion or use of emergency 911 service features and the equipment associated therewith, or by any services furnished by the Company, including, but not limited to the identification of the telephone number, address or name associated with the telephone used by the party or parties accessing emergency 911 service, and which arise out of the negligence or other wrongful act of the Company, the Customer, its users, agencies or municipalities, or the employees or agents of any one of them.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.5 Limitations on Liability (Cont'd)

I. With respect to Emergency Number 911 Service (Cont'd)

.3 When a Customer with a nonpublished telephone number, as defined herein, places a call to the emergency 911 service, the Company will release the name and address of the calling party, where such information can be determined, to the appropriate local governmental authority responsible for emergency 911 service upon request of such governmental authority. By subscribing to service under this rate sheet, the Customer acknowledges and agrees with the release of information as described above.

2.1.6 Notification of Service-Affecting Activities

The Company will provide the Customer reasonable notification of service-affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements and routine preventative maintenance. Generally, such activities are not specific to an individual Customer but affect many Customers' services. No specific advance notification period is applicable to all service activities. The Company will work cooperatively with the Customer to determine the reasonable notification requirements. With some emergency or unplanned service-affecting conditions, such as an outage resulting from cable damage, notification to the Customer may not be possible.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.7 Provision of Equipment and Facilities

A. The Company shall use reasonable efforts to make available services to a Customer on or before a particular date, subject to the provisions of and compliance by the Customer with, the regulations contained in this tariff. The Company does not guarantee availability by any such date and shall not be liable for any delays in commencing service to any Customer.

B. The Company shall use reasonable efforts to maintain only the facilities and equipment that it furnishes to the Customer. The Customer may not, nor may the Customer permit others to, rearrange, disconnect, remove, attempt to repair, or otherwise interfere with any of the facilities or equipment installed by the Company, except upon the written consent of the Company.

C. The Company may substitute, change or rearrange any equipment or facility at any time and from time to time, but shall not thereby alter the technical parameters of the service provided the Customer.

D. Equipment the Company provides or installs at the Customer Premises for use in connection with the services the Company offers shall not be used for any purpose other than that for which it was provided.

E. The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the Premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D).

2.2 Undertaking of the Company (Cont'd)

2.1.7 Provision of Equipment and Equipment (Cont'd)

F. The Company shall not be responsible for the installation, operation, or maintenance of any Customer-provided communications equipment. Where such equipment is connected to the facilities furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of facilities offered under this tariff and to the maintenance and operation of such facilities. Subject to this responsibility, the Company shall not be responsible for:

1. the transmission of signals by Customer-provided equipment or for the quality of, or defects in, such transmission; or

2. the reception of signals by Customer-provided equipment.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company (Cont'd)

2.1.8 Non-routine Installation

At the Customer's request, installation and/or maintenance may be performed outside the Company's regular business hours or in hazardous locations. In such cases, charges based on cost of the actual labor, material, or other costs incurred by or charged to the Company will apply. If installation is started during regular business hours but, at the Customer's request, extends beyond regular business hours into time periods including, but not limited to, weekends, holidays, and/or night hours, additional charges may apply.

2.1.9 Special Construction

Subject to the agreement of the Company and to all of the regulations contained in this tariff, special construction of facilities may be undertaken on a reasonable efforts basis at the request of the Customer. Special construction is that construction undertaken:

A. where facilities are not presently available, and there is no other requirement for the facilities so constructed;

B. of a type other than that which the Company would normally utilize in the furnishing of its services;

C. over a route other than that which the Company would normally utilize in the furnishing of its services;

D. in a quantity greater than that which the Company would normally construct;

E. on an expedited basis;

F. on a temporary basis until permanent facilities are available;
G. involving abnormal costs; or
H. in advance of its normal construction.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.1 Undertaking of the Company, (Cont'd.)

2.1.10 Ownership of Facilities

Title to all facilities provided in accordance with this rate sheet remains in the Company, its partners, agents, contractors or suppliers.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.2 Prohibited Uses

2.2.1 The services the Company offers shall not be used for any unlawful purpose or for any use as to which the Customer has not obtained all required governmental approvals, authorizations, licenses, consents and permits.

2.2.2 The Company may require applicants for service who intend to use the Company's offerings for resale and/or for shared use to file a letter with the Company confirming that their use of the Company's offerings complies with relevant laws and South Dakota Public Utilities Commission regulations, policies, orders, and decisions.

2.2.3 The Company may block any signals being transmitted over its Network by Customers which cause interference to the Company or other users. Customer shall be relieved of all obligations to make payments for charges relating to any blocked Service and shall indemnify the Company for any claim, judgment or liability resulting from such blockage.

2.2.4 A Customer, joint user, or authorized user may not assign, or transfer in any manner, the service or any rights associated with the service without the written consent of the Company. The Company will permit a Customer to transfer its existing service to another entity if the existing Customer has paid all charges owed to the Company for regulated communications services. Such a transfer will be treated as a disconnection of existing service and installation of new service, and non-recurring installation charges as stated in this tariff will apply.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 – RULES AND REGULATIONS (CONT'D)

2.3 Obligations of the Customer

2.3.1 General

The Customer is responsible for making proper application for service; placing any necessary order, complying with tariff regulations; payment of charges for services provided. Specific Customer responsibilities include, but are not limited to the following:

A. the payment of all applicable charges pursuant to this tariff;

B. damage to or loss of the Company's facilities or equipment caused by the acts or omissions of the Customer; or the noncompliance by the Customer, with these regulations; or by fire or theft or other casualty on the Customer Premises, unless caused by the negligence or willful misconduct of the employees or agents of the Company;

C. providing at no charge, as specified from time to time by the Company, any needed personnel, equipment space and power to operate Company facilities and equipment installed on the premises of the Customer, and the level of heating and air conditioning necessary to maintain the proper operating environment on such premises;

D. obtaining, maintaining, and otherwise having full responsibility for all rights-of-way and conduits necessary for installation of fiber optic cable and associated equipment used to provide Communication Services to the Customer from the cable building entrance or property line to the location of the equipment space described in 2.3.1(C). Any and all costs associated with obtaining and maintaining the rights-of-way described herein, including the costs of altering the structure to permit installation of the Company-provided facilities, shall be borne entirely by, or may be charged by the Company to, the Customer. The Company may require the Customer to demonstrate its compliance with this section prior to accepting an order for service;

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.3 Obligations of the Customer, (Cont'd.)

2.3.1 General, (Cont'd.)

E. providing a safe place to work and complying with all laws and regulations regarding the working conditions on the premises at which Company employees and agents shall be installing or maintaining the Company's facilities and equipment. The Customer may be required to install and maintain Company facilities and equipment within a hazardous area if, in the Company's opinion, injury or damage to the Company's employees or property might result from installation or maintenance by the Company. The Customer shall be responsible for identifying, monitoring, removing and disposing of any hazardous material (e.g. asbestos) prior to any construction or installation work;

F. complying with all laws and regulations applicable to, and obtaining all consents, approvals, licenses and permits as may be required with respect to, the location of Company facilities and equipment in any Customer premises or the rights-of-way for which Customer is responsible under Section 2.3.1.D.; and granting or obtaining permission for Company agents or employees to enter the premises of the Customer at any time for the purpose of installing, inspecting, maintaining, repairing, or upon termination of service as stated herein, removing the facilities or equipment of the Company;

G. not creating, or allowing to be placed, any liens or other encumbrances on the Company's equipment or facilities; and

H. making Company facilities and equipment available periodically for maintenance purposes at a time agreeable to both the Company and the Customer. No allowance will be made for the period during which service is interrupted for such purposes.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.3 Obligations of the Customer, Cont'd.

2.3.2 Liability of the Customer

A. The Customer will be liable for damages to the facilities of the Company and for all incidental and consequential damages caused by the negligent or intentional acts or omissions of the Customer, its officers, employees, agents, invites, or contractors where such acts or omissions are not the direct result of the Company's negligence or intentional misconduct.

B. To the extent caused by any negligent or intentional act of the Customer as described in A., preceding, the Customer shall indemnify, defend and hold harmless the Company from and against all claims, actions, damages, liabilities, costs and expenses, including reasonable attorneys' fees, for (1) any loss, destruction or damage to property of any third party, and (2) any liability incurred by the Company to any third party pursuant to this or any other rate sheet of the Company, or otherwise, for any interruption of, interference to, or other defect in any service provided by the Company to such third party.

C. The Customer shall not assert any claim against any other Customer or user of the Company's services for damages resulting in whole or in part from or arising in connection with the furnishing of service under this rate sheet including but not limited to mistakes, omissions, interruptions, delays, errors or other defects or misrepresentations, whether or not such other Customer or user contributed in any way to the occurrence of the damages, unless such damages were caused solely by the negligent or intentional act or omission of the other Customer or user and not by any act or omission of the Company. Nothing in this rate sheet is intended either to limit or to expand Customer's right to assert any claims against third parties for damages of any nature other than those described in the preceding sentence.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.3 Obligations of the Customer, Cont'd.

2.3.3 Resale and Sharing

Any service provided under this tariff may be resold to or shared with other persons at the option of the Customer, subject to compliance with any applicable laws or South Dakota Public Utilities Commission regulations governing such resale or sharing. The Customer remains solely responsible for all use of services ordered by it or billed to its telephone number(s) pursuant to this tariff, for determining who is authorized to use its services, and for notifying the Company of any unauthorized use.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.4 Customer Equipment and Channels

2.4.1 General

A User may transmit or receive information or signals via the facilities of the Company. The Company's services are designed primarily for the transmission of voice-grade telephonic signals, except as otherwise stated in this tariff. A User may transmit any form of signal that is compatible with the Company's equipment, but the Company does not guarantee that its services will be suitable for purposes other than voice-grade telephonic communication except as specifically stated in this tariff.

2.4.2 Station Equipment

A. Terminal equipment on the User's Premises and the electric power consumed by such equipment shall be provided by and maintained at the expense of the User. The User is responsible for the provision of wiring or cable to connect its terminal equipment to the Company Point of Connection.

B. The Customer is responsible for ensuring that Customer-provided equipment connected to Company equipment and facilities is compatible with such equipment and facilities. The magnitude and character of the voltages and currents impressed on Company-provided equipment and wiring by the connection, operation, or maintenance of such equipment and wiring shall be such as not to cause damage to the Company-provided equipment and wiring or injury to the Company's employees or to other persons. Any additional protective equipment required to prevent such damage or injury shall be provided by the Company at the Customer's expense, subject to prior Customer approval of the equipment expense.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.4 Customer Equipment and Channels (Cont'd)

2.4.3 Interconnection of Facilities

A. Any special interface equipment necessary to achieve compatibility between the facilities and equipment of the Company used for furnishing Communication Services and the channels, facilities, or equipment of others shall be provided at the Customer's expense.

B. Communication Services may be connected to the services or facilities of other communications carriers only when authorized by, and in accordance with, the terms and conditions of the tariffs of the other communications carriers that are applicable to such connections.

C. Facilities furnished under this tariff may be connected to Customer-provided terminal equipment in accordance with the provisions of this tariff. All such terminal equipment shall be registered by the Federal Communications Board pursuant to Part 68 of Title 47, Code of Federal Regulations; and all User-provided wiring shall be installed and maintained in compliance with those regulations.

D. Users may interconnect communications facilities that are used in whole or in part for interstate communications to services provided under this tariff only to the extent that the user is an is "End User", as defined in Section 69.2(m), Title 47, Code of Federal Regulations (1992 edition).

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.4 Customer Equipment and Channels (Cont'd)

2.4.4 Inspections

A. Upon suitable notification to the Customer, and at a reasonable time, the Company may make such tests and inspections as may be necessary to determine that the Customer is complying with the requirements set forth in Section 2.4.2.A. for the installation, operation, and maintenance of Customer-provided facilities, equipment, and wiring in the connection of Customer-provided facilities and equipment to Company-owned facilities and equipment.

B. If the protective requirements for Customer-provided equipment are not being complied with, the Company may take such action as it deems necessary to protect its facilities, equipment, and personnel. The Company will notify the Customer promptly if there is any need for further corrective action. Within ten (10) days of receiving this notice, the Customer must take this corrective action and notify the Company of the action taken. If the Customer fails to do this, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its facilities, equipment and personnel from harm.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.5 Payment Arrangements

2.5.1 Payment for Service

The Customer is responsible for the payment of all charges for facilities and services furnished by the Company to the Customer and to all Authorized Users by the Customer, regardless of whether those services are used by the Customer itself or are resold to or shared with other persons.

The Customer is responsible for payment of any sales, use, gross receipts, excise, access or other local, state, federal and 911 taxes, charges or surcharges (however designated) (excluding taxes on Company's net income) imposed on or based upon the provision, sale or use of Network Services. The Company will not separately charge for the South Dakota gross receipts tax on the Company's invoice for local services. Any taxes imposed by a local jurisdiction (e.g., county and municipal) will only be recovered from those Customers residing in the affected jurisdictions.

The security of the Customer's PIN is the responsibility of the Customer. All calls placed using a PIN shall be billed to and shall be the obligation of the Customer. The Customer shall not be responsible for charges in connection with the unauthorized use of PINs arising after the Customer notifies the Company of the loss, theft, or other breach of security of such PINs.

Customers will only be charged once, on either an interstate or intrastate basis, for any nonrecurring charges.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.5 Payment Arrangements

2.5.2 Billing and Collection of Charges

The Customer is responsible for payment of all charges incurred by the Customer or other Authorized Users for services and facilities furnished to the Customer by the Company.

A. Nonrecurring charges are due and payable within thirty (30) days after the invoice date, unless otherwise agreed to in advance.

B. The Company shall present invoices for recurring charges monthly to the Customer, in advance of the month in which service is provided, and Recurring Charges shall be due and payable within thirty (30) days after the invoice date. When billing is based on customer usage, charges will be billed monthly for the preceding billing periods.

C. When service does not begin on the first day of the month, or end on the last day of the month, the charge for the fraction of the month in which service was furnished will be calculated on a pro rata basis. For this purpose, every month is considered to have thirty (30) days.

D. Billing of the Customer by the Company will begin on the Service Commencement Date, which is the first day following the date on which the Company notifies the Customer that the service or facility is available for use, except that the Service Commencement Date may be postponed by mutual agreement of the parties, or if the service or facility does not conform to standards set forth in this tariff or the Service Order. Billing accrues through and includes the day that the service, circuit, arrangement or component is discontinued.

E. The Company reserves the right to assess a late payment fee of 1.5% per month on any past due balance in accordance with N.J.A.C. 14:3-7.13. A balance is considered past due if unpaid thirty (30) days following the date of the bill listing amounts owed by the Customer. Any applicable late payment fees will be assessed according to the terms and conditions of the Company or its billing agent and pursuant to South Dakota state law.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.5 Payment Arrangements (Cont'd)

2.5.2 Billing and Collection of Charges

F. The Customer will be assessed a charge of twenty-five ($25.00) dollars for each check or other payment submitted by the Customer to the Company that a financial institution refuses to honor.

G. If service is disconnected by the Company in accordance with Section 2.5.6 following and later restored, restoration of service will be subject to all applicable installation charges.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.5 Payment Arrangements (Cont'd)

2.5.3 Disputed Bills

A. In the event that a billing dispute occurs concerning any charges billed to the Customer by the Company, the Company may require the Customer to pay the undisputed portion of the bill to avoid discontinuance of service for non-payment. The Customer must submit a documented claim for the disputed amount. The Customer will submit all documentation as may reasonably be required to support the claim. All claims must be submitted to the Company within 180 days of receipt of billing for those services. If the Customer does not submit a claim as stated above, the Customer waives all rights to filing a claim thereafter.

B. Unless disputed, the invoice shall be deemed correct and payable in full by the Customer. If the Customer and the Company are unable to resolve the dispute to their mutual satisfaction, the Customer may refer the dispute to the South Dakota Division of Public Utilities and Carriers, 89 Jefferson Boulevard, Warwick, RI 02888.

C. If the dispute is resolved in favor of the Customer and the Customer has withheld the disputed amount, no interest credits or penalties will apply.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.5 Payment Arrangements (Cont'd)

2.5.4 Advance Payments

To safeguard its interests, the Company may require a Customer to make an advance payment before services and facilities are furnished. The advance payment will not exceed an amount equal to the non-recurring charge(s) and one month's charges for the service or facility. In addition, where special construction is involved, the advance payment may also include an amount equal to the estimated non-recurring charges for the special construction and recurring charges (if any) for a period to be set between the Company and the Customer. The advance payment will be credited to the Customer's initial bill. An advance payment may be required in addition to a deposit.

2.5.5 Deposits

The Company does not require Customer deposits.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.5 Payment Arrangements (Cont'd)

2.5.6 Discontinuance of Service

A. Upon nonpayment of any amounts owing to the Company, the Company may, by giving ten (10) days written notice to the Customer, discontinue or suspend service without incurring any liability.

B. Upon violation of any of the other material terms or conditions for furnishing service the Company may, by giving ten (10) days written notice to the Customer, discontinue or suspend service without incurring any liability if such violation continues during that period.

C. Upon condemnation of any material portion of the facilities used by the Company to provide service to a Customer or if a casualty renders all or any material portion of such facilities inoperable beyond feasible repair, the Company, by notice to the Customer, may discontinue or suspend service without incurring any liability.

D. Upon the Customer's insolvency, assignment for the benefit of creditors, filing for bankruptcy or reorganization, or failing to discharge an involuntary petition within the time permitted by law, the Company may immediately discontinue or suspend service without incurring any liability.

E. Upon any governmental prohibition or required alteration of the services to be provided or any violation of an applicable law or regulation, the Company may immediately discontinue service without incurring any liability.

F. In the event of fraudulent use of the Company's network, the Company will discontinue service without notice and/or seek legal recourse to recover all costs involved in enforcement of this provision.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.5 Payment Arrangements (Cont'd)

2.5.6 Discontinuance of Service (Cont'd)

G. Upon the Company's discontinuance of service to the Customer under Section 2.5.6 A. or 2.5.6 B., the Company, in addition to all other remedies that may be available to the Company at law or in equity or under any other provision of this tariff, may declare all future monthly and other charges that would have been payable by the Customer during the remainder of the term for which such services would have otherwise been provided to the Customer to be immediately due and payable (discounted to present value at six percent).

H. Without notice in the event of Customer use of equipment or services in such a manner as to adversely affect the Company's service to others.

I. Without notice in the event of tampering with the equipment or services furnished by the Company.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.5 Payment Arrangements (Cont'd)

2.5.7 Cancellation of Application for Service

A. Applications for service cannot be canceled without the Company's agreement. Where the Company permits a Customer to cancel an application for service prior to the start of service or prior to any special construction, no charges will be imposed except for those specified below.

B. Where, prior to cancellation by the Customer, the Company incurs any expenses in installing the service or in preparing to install the service that it otherwise would not have incurred, a charge equal to the costs incurred by the Company, less net salvage, shall apply, but in no case shall this charge exceed the sum of the charge for the minimum period of services ordered, including installation charges, and all charges others levy against the Company that would have been chargeable to the Customer had service commenced (all discounted to present value at six percent).

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.5 Payment Arrangements (Cont'd)

2.5.7 Cancellation of Application for Service (Cont'd)

C. Where the Company incurs any expense in connection with special construction, or where special arrangements of facilities or equipment have begun, before the Company receives a cancellation notice, a charge equal to the costs incurred by the Company, less net salvage, applies. In such cases, the charge will be based on such elements as the cost of the equipment, facilities, and material, the cost of installation, engineering, labor, and supervision, general and administrative expense, other disbursements, depreciation, maintenance, taxes, provision for return on investment, and any other costs associated with the special construction or arrangements.

D. The special charges described in Sections 2.5.7.A. through 2.5.7.C. will be calculated and applied on a case-by-case basis.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.5 Payment Arrangements (Cont'd)

2.5.8 Changes in Service Requested

If the Customer makes or requests material changes in circuit engineering, equipment specifications, service parameters, premises locations, or otherwise materially modifies any provision of the application for service, the Customer's installation fee shall be adjusted accordingly.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.6 Allowances for Interruption in Service

Interruptions in service that are not due to the negligence of, or noncompliance with the provisions of this tariff by, the Customer or the operation or malfunction of the facilities, power or equipment provided by the Customer, will be credited to the Customer as set forth in 2.6.1 for the part of the service that the interruption affects.

2.6.1 General

A. A credit allowance will be given when service is interrupted, except as specified below. A service is interrupted when it becomes inoperative to the Customer, e.g., the Customer is unable to transmit or receive, because of a failure of a component furnished by the Company under this tariff.

B. An interruption period begins when the Customer reports a service, facility or circuit to be inoperative and, if necessary, releases it for testing and repair. An interruption period ends when the service, facility or circuit is operative.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.6 Allowances for Interruption in Service (Cont'd)

2.6.1 Credit for Interruptions, (Cont'd.)

C. If the Customer reports a service, facility or circuit to be interrupted but declines to release it for testing and repair, or refuses access to its premises for test and repair by the Company, the service, facility or circuit is considered to be impaired but not interrupted. No credit allowances will be made for a service, facility or circuit considered by the Company to be impaired.

D. The Customer shall be responsible for the payment of service charges as set forth herein for visits by the Company's agents or employees to the premises of the Customer when the service difficulty or trouble report results from the use of equipment or facilities provided by any party other than the Company, including but not limited to the Customer.

2.6.2 Limitations of Allowances

No credit allowance will be made for any interruption in service:

A. Due to the negligence of or noncompliance with the provisions of this rate sheet by any person or entity other than the Company, including but not limited to the Customer;

B. Due to the failure of power, equipment, systems, connections or services not provided by the Company;

C. Due to circumstances or causes beyond the reasonable control of the Company;

D. During any period in which the Company is not given full and free access to its facilities and equipment for the purposes of investigating and correcting interruptions;

E. A service will not be deemed to be interrupted if a Customer continues to voluntarily make use of the such service. If the service is interrupted, the Customer can get a service credit, use another means of communications provided by the Company (pursuant to Section 2.6.3), or utilize another service provider;

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.6 Allowances for Interruption in Service (Cont'd)

2.6.2 Limitations of Allowances (Cont'd)

F. During any period when the Customer has released service to the Company for maintenance purposes or for implementation of a Customer order for a change in service arrangements;

G. That occurs or continues due to the Customer's failure to authorize replacement of any element of special construction; and

H. That was not reported to the Company within thirty (30) days of the date that service was affected.

2.6.3 Use of Another Means of Communications

If the Customer elects to use another means of communications during the period of interruption, the Customer must pay the charges for the alternative service used.

2.6.4 Application of Credits for Interruptions in Service

A. Credits for interruptions in service that is provided and billed on a flat rate basis for a minimum period of at least one month, beginning on the date that billing becomes effective, shall in no event exceed an amount equivalent to the proportionate charge to the Customer for the period of service during which the event that gave rise to the claim for a credit occurred. A credit allowance is applied on a pro rata basis against the rates specified hereunder and is dependent upon the length of the interruption. Only those facilities on the interrupted portion of the circuit will receive a credit.

B. For calculating credit allowances, every month is considered to have thirty (30) days.

C. A credit allowance will be given for interruptions of thirty (30) minutes or more. Two or more interruptions of fifteen (15) minutes or more during any one 24-hour period shall be combined into one cumulative interruption.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.6 Allowances for Interruption in Service (Cont'd)

2.6.4 Application of Credits for Interruptions in Service (Cont'd)

D. Interruptions of 24 Hours or Less

Length of Interruption	Amount of Service To Be Credited
Less than 30 minutes	None
30 minutes up to but not including 3 hours	1/10 Day
3 hours up to but not including 6 hours	1/5 Day
6 hours up to but not including 9 hours	2/5 Day
9 hours up to but not including 12 hours	3/5 Day
12 hours up to but not including 15 hours	4/5 Day
15 hours up to but not including 24 hours	One Day

E. Interruptions Over 24 Hours and Less Than 72 Hours

Interruptions over 24 hours and less than 72 hours will be credited 1/5 day for each 3-hour period or fraction thereof. No more than one full day's credit will be allowed for any period of 24 hours.

F. Interruptions Over 72 Hours

Interruptions over 72 hours will be credited 2 days for each full 24-hour period. No more than thirty (30) days credit will be allowed for any one month period.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.6 Allowances for Interruption in Service (Cont'd)

2.6.5 Cancellation For Service Interruption

Cancellation or termination for service interruption is permitted only if any circuit experiences a single continuous outage of 8 hours or more or cumulative service credits equaling 16 hours in a continuous 12-month period. The right to cancel service under this provision applies only to the single circuit that has been subject to the outage or cumulative service credits.

2.7 Use of Customer's Service by Others

2.7.1 Joint Use Arrangements

Joint use arrangements will be permitted for all services provided under this tariff. From each joint use arrangement, one member will be designated as the Customer responsible for the manner in which the joint use of the service will be allocated. The Company will accept orders to start, rearrange, relocate, or discontinue service only from the designated Customer. Without affecting the Customer's ultimate responsibility for payment of all charges for the service, each joint user shall be responsible for the payment of the charges billed to it.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.8 Cancellation of Service/Termination Liability

If a Customer cancels a Service Order or terminates services before the completion of the term for any reason whatsoever other than a service interruption (as defined in Section 2.6.1 above), the Customer agrees to pay to the Company termination liability charges, as defined below. These charges shall become due as of the effective date of the cancellation or termination and be payable within the period, set forth in Section 2.5.2.

2.8.1 Termination Liability

The Customer's termination liability for cancellation of service shall be equal to:

A. all unpaid Non-Recurring charges reasonably expended by the Company to establish service to the Customer; plus

B. any disconnection, early cancellation or termination charges reasonably incurred and paid to third parties by the Company on behalf of the Customer; plus

C. all Recurring Charges specified in the applicable Service Order Tariff for the balance of the then current term discounted at the prime rate announced in the Wall Street Journal on the third business day following the date of cancellation;

D. minus a reasonable allowance for costs avoided by the Company as a direct result of the Customer's cancellation.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.9 Transfers and Assignments

Neither the Company nor the Customer may assign or transfer its rights or duties in connection with the services and facilities provided by the Company without the written consent of the other party, except that the Company may assign its rights and duties:

2.9.1 to any subsidiary, parent company or affiliate of the Company; or

2.9.2 pursuant to any sale or transfer of substantially all the assets of the Company; or

2.9.3 pursuant to any financing, merger or reorganization of the Company.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.10 Customer Liability for Unauthorized Use of the Network

Unauthorized use of the network occurs when a person or entity that does not have actual, apparent, or implied authority to use the network, obtains the Company's services provided under this tariff.

2.10.1 Customer Liability for Fraud and Unauthorized Use of the Network

A. The Customer is liable for the unauthorized use of the network obtained through the fraudulent use of a Company calling card, if such a card is offered by the Company, or an accepted credit card, provided that the unauthorized use occurs before the Company has been notified.

B. A Company calling card is a telephone calling card issued by the Company at the Customer's request, which enables the Customer or user(s) authorized by the Customer to place calls over the Network and to have the charges for such calls billed to the Customer's account.

An accepted credit card is any credit card that a cardholder has requested or applied for and received, or has signed, used, or authorized another person to use to obtain credit. Any credit card issued as an renewal or substitute in accordance with this paragraph is an accepted credit card when received by the cardholder.

C. The Customer must give the Company written or oral notice that an unauthorized use of a Company calling card or an accepted credit card has occurred or may occur as a result of loss, and/or theft.

D. The Customer is responsible for payment of all charges for calling card services furnished to the Customer or to users authorized by the Customer to use service provided under this tariff, unless due to the negligence of the Company. This responsibility is not changed due to any use, misuse, or abuse of the Customer's service or Customer-provided equipment by third parties, the Customer's employees, or the public.
The liability of the Customer for unauthorized use of the Network by credit card fraud will not exceed the lesser of fifty dollars ($50.00) or the amount of money, property, labor, or services obtained by the unauthorized user before notification to the Company.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.11 Notices and Communications

2.11.1 The Customer shall designate on the Service Order an address to which the Company shall mail or deliver all notices and other communications, except that the Customer may also designate a separate address to which the Company's bills for service shall be mailed.

2.11.2 The Company shall designate on the Service Order an address to which the Customer shall mail or deliver all notices and other communications, except that Company may designate a separate address on each bill for service to which the Customer shall mail payment on that bill.

2.11.3 All notices or other communications required to be given pursuant to this tariff will be in writing. Notices and other communications of either party, and all bills mailed by the Company, shall be presumed to have been delivered to the other party on the third business day following placement of the notice, communication or bill with the U.S. Mail or a private delivery service, prepaid and properly addressed, or when actually received or refused by the addressee, whichever occurs first.

2.11.4 Company or the Customer shall advise the other party of any changes to the addresses designated for notices, other communications or billing, by following the procedures for giving notice set forth herein.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.12 Taxes, Fees and Surcharges

The Company reserves the right to bill any and all applicable taxes, fees and surcharges in addition to normal rates and charges for services provided to the Customer. Taxes and fees include, but are not limited to: Federal Excise Tax, State Sales Tax, Municipal Tax, Federal and/or State Universal Service Charge, National Carrier Charge and Gross Receipts Tax. Unless otherwise specified in this tariff, such taxes, fees and surcharges are in addition to rates as quoted in this tariff and will be itemized separately on Customer invoices.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.13 Miscellaneous Provisions

2.13.1 Telephone Number Changes

Whenever any Customer's telephone number is changed after a directory is published, the Company shall intercept all calls to the former number for at least one hundred and twenty (120) days and give the calling party the new number provided existing central office equipment will permit, and the Customer so desires.

When service in an existing location is continued for a new Customer, the existing telephone number may be retained by the new Customer only if the former Customer consents in writing, and if all charges against the account are paid or assumed by the new Customer.

2.13.2 Maintenance and Operations Records

Records of various tests and inspections, to include non-routine corrective maintenance actions or monthly traffic analysis summaries for network administration, necessary for the purposes of the Company or to fulfill the requirements of Commission rules shall be kept on file in the office of the Company as required under Commission rules.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 2 - RULES AND REGULATIONS, CONT'D.

2.14 Customer Responsibility

A. Cancellation by Customer

Customers may cancel service verbally or in writing. The company shall hold the Customer responsible for payment of all charges, including fixed fees, surcharges, etc., which accrue up to the cancellation date. Customers that cancel the primary local exchange line will have the entire Account disconnected, including any secondary line and all associated features. In the event the Customer executes a term commitment agreement with the Company, the Customer must cancel service and terminate the agreement in accordance with the agreement terms.

2.15 Toll-Free Services

2.15.1 The Company will make every effort to reserve toll free (i.e., 800/888) vanity numbers for Customers, but makes no guarantee or warranty that the requested number(s) will be available.

2.15.2 The Company will participate in porting toll free numbers only when all charges incurred as a result of the toll free number have been paid.

2.15.3 Toll free numbers shared by more than one Customer, whereby individual Customers are identified by a unique Personal Identification Number, may not be assigned or transferred for use with service provided by another carrier. Subject to the limitations provided in this tariff, the Company will only honor Customer requests for a change in Responsible Organization or toll free service provider for toll free numbers dedicated to the sole use of that single Customer.

2.15.4 If a Customer who has received a toll free number does not subscribe to toll free service within thirty (30) days, the Company reserves the right to make the assigned number available for us by another Customer.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 3 - SERVICE AREAS

3.1 Exchange Service Areas

The Company concurs in the exchange, rate class, local calling area, and zone designations specified in the relevant ILEC's Local Exchange Services Tariff. The Company does not concur in the rates of the ILEC. The Company's rates are set out in this tariff.

3.2 Extended and Expanded Area Calling Services

Extended and Expanded Area Calling Service allows the Customer to make calls to specific NXX codes within designated exchanges outside the Customer's Local Calling area without paying intraLATA toll rates. The Customer is billed per call according to the duration of the call. The Company may mirror all existing extended and expanded calling areas the ILEC currently has in place for facilities-based or resold services, or establish unique extended and expanded area calling services.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4 – BASIC SERVICES AND RATES

4.1 Call Timing for Usage Sensitive Calls

Where charges for a service are specified based on the duration of use, such as the duration of a telephone call, the following rules apply:

4.1.1 Calls are measured in durational increments identified for each service. All calls which are fractions of a measurement increment are rounded-up to the next whole unit.

4.1.2 Timing on completed calls begins when the call is answered by the called party. Answering is determined by hardware answer supervision in all cases where this signaling is provided by the terminating local carrier and any intermediate carrier(s).

4.1.3 Timing terminates on all calls when the calling party hangs up or the Company's network receives an off-hook signal from the terminating carrier.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4 – BASIC SERVICES AND RATES (Cont'd)

4.2 Network Exchange Bundled Service

4.2.1 General

The Company offers local exchange only as part of a bundle or package of telecommunications services. All packages include local service, long distance service (interstate and intrastate toll), and selected custom calling features. Voice mail and optional Internet access[1] may be available with some packages at an additional price. The aforementioned services are only available as part of the bundled service offering and are not available on an individual service basis. Customers will be billed directly by the Company.

The Company provides Customers with the option of obtaining a Primary Line and Secondary Line per account:

A. Primary Line

The initial residential local exchange access line per account.

B. Secondary Line

The second or additional residential local exchange access line, billed to the same address as the Primary Line, the Secondary Line will share the monthly call allowance with the Primary Line and will not include any features. Feature packages must be purchased separately.

Should a Customer with both lines opt to disconnect the Primary Line, the remaining Secondary Line will automatically convert to a Primary Line with all features and functionality of such, and at the Primary Line monthly recurring rate.

[1] Voice mail and Internet access are not regulated by the Commission.

SECTION 4 - BASIC SERVICES AND RATES, CONT'D

4.2 Network Exchange Service, (Cont'd.)

4.2.2 IDT America Unlimited Plan

Package Price for IDT America Unlimited Plan	
Primary Line, per month	$39.95
Secondary Line, per month	$39.95
Service Connection Fee, one time charge per line#	
Primary Line	$79.99
Secondary Line	$69.00

This service is for use by residential customers. The company reserves the right to adjust a customer's service upon appropriate customer notification. If it is determined that usage is not consistent with residential voice applications, the Customer's service will be assessed a $50.00 monthly recurring data usage charge or be disconnected. For the purpose of this service plan, Customer's use of more than 4,000 minutes per month for non-voice applications including, but not limited to Internet access, shall cause the data usage charge to be imposed.

IDT America Unlimited Service Plan includes the following:

1. Local Line and unlimited direct-dialed Local Exchange calling.

2. Unlimited Domestic direct-dialed Toll Calling.

3. Primary Line Custom Calling Features Package: Caller ID with Name, Call Waiting, Speed Dial (8), Call Waiting with Caller ID and Name and Anonymous Call Rejection.

Service Connection fee waived for those customers who meet the Company's enrollment criteria and who retain their existing telephone number when switching their service to IDT.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4 - BASIC SERVICES AND RATES, CONT'D

4.2. Network Exchange Service, Cont'd.

4.2.3 IDT America Choice Service Plan

Package Price for IDT America Choice Service Plan	
Primary Line, per month	\$28.95
Secondary Line, per month	\$28.95
Service Connection Fee, one time charge per line#	
Primary Line	\$79.99
Secondary Line	\$69.00

This service is for use by residential customers. The company reserves the right to adjust a customer's service upon appropriate customer notification. If it is determined that usage is not consistent with residential voice applications, the Customer's service will be assessed a \$50.00 monthly recurring data usage charge or be disconnected. For the purpose of this service plan, Customer's use of more than 4,000 minutes per month for non-voice applications including, but not limited to Internet access, shall cause the data usage charge to be imposed.

IDT America Choice Service Plan includes the following:

1. Local Line and unlimited direct-dialed Local Exchange calling.

2. Direct-dialed intrastate toll calls for \$0.12 per minute.

3. Customer has the option to pay an additional \$5.00 per line per month to receive unlimited direct-dialed intrastate intraLATA toll calls and \$0.12 per minute for direct-dialed intrastate interLATA toll calls.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4.0 - BASIC SERVICES AND RATES, (CONT'D.)

4.2 Network Exchange Bundled Service, (Cont'd.)

4.2.3 IDT America Choice Service Plan (Cont'd)

4. Primary Line Custom Calling Features Package: Caller ID with Name, Call Waiting, Call Waiting with Caller ID and Name and Anonymous Call Rejection.

Service Connection fee waived for those customers who meet the Company's enrollment criteria and who retain their existing telephone number when switching their service to IDT.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4 - BASIC SERVICES AND RATES, CONT'D

4.2 Network Exchange Service, Cont'd.

4.2.4 Reserved for Future Use

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4 - BASIC SERVICES AND RATES, CONT'D

4.2 Network Exchange Service, Cont'd.

4.2.5 Reserved for Future Use

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4 - BASIC SERVICES AND RATES, CONT'D

4.2 Network Exchange Service, Cont'd.

4.2.6 Reserved for Future Use

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4 - BASIC SERVICES AND RATES, CONT'D

4.2 Network Exchange Service, Cont'd.

4.2.7 Reserved for Future Use

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4 - BASIC SERVICES AND RATES, CONT'D

4.2 Network Exchange Service, Cont'd.

4.2.8 Reserved for Future Use

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4 - BASIC SERVICES AND RATES, CONT'D

4.2 Network Exchange Service, Cont'd.

4.2.9 Reserved for Future Use

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 4 - BASIC SERVICES AND RATES, CONT'D

4.2 Network Exchange Service, Cont'd.

4.2.10 Reserved for Future Use

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND RATES

5.1 Service Order and Change Charges

Non-recurring charges apply to processing Service Orders for new service, for changes in service.

5.1.1 Service Order Charges

Primary Service Connection Charge - applies to requests for initial connection or establishment of telephone service to the Company.

Secondary Service Connection Charge - applies to the second or additional line of a new access line installation and connection and customer requests for an inside move, change or addition to regular service. This charge applies only when the second or additional line is ordered simultaneously with the initial connection for service.

Transfer of Service Charge, Primary Line - applies to the first line of a Transfer of Service Order, (TOS) when a customer requests a move or change in physical location. This charge applies whether a customer changes telephone number or not. If, in addition, the Customer requests the telephone number be changed, a separate charge may apply.

Transfer of Service Charge, Secondary Line - applies to the second, or third, etc., line of a Transfer of Service Order, (TOS) when a customer requests a move or change in physical location. This charge applies whether a customer changes telephone number or not. If, in addition, the Customer requests the telephone number be changed, a separate charge may apply.

Technician Dispatch Charge - A separate Technician Dispatch Charge applies, in addition to all other charges for the visit, when a visit to the Customer's premises is necessary to isolate a problem reported to the Company but identified by the Company's technician as attributable to Customer-provided equipment or inside wire. This charge also applies for visits by the Company's agents or employees, at the Customer's request, to the Premises of the Customer, when the Customer fails to meet the Company's agent or employees for the prearranged appointment as requested.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND RATES

5.1 Service Order and Change Charges (Cont'd)

5.1.1 Service Order Charges (Cont'd)

Service Order Charge – This charge, applicable to Business Customers only, applies to a customer-requested changes in service not specifically on other identified non-recurring service order and change charges. This charge is applied in cases where Hunting is added after the initial order is placed.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND RATES, CONT'D.

5.1 Service Order and Change Charges, Cont'd.

5.1.2 Change Order Charges

Change Order Charges apply to work associated with providing exchange line service or customer-requested changes to existing services. One charge applies for each change order requested by the customer. If multiple changes listed below are requested by the Customer and occur on the same order/request one charge only applies. A Change Order Service Charge applies to the following customer-initiated changes:

Feature or Feature Pack Change Order - applies when a customer requests a change, adding or removing a feature or feature pack.

Toll Restriction Fee Order – applies when a Customer requests a change, adding or removing Toll Restriction Service.

Telephone Number Change Order - applies to each telephone number change request/order.

Plan Change Charge - applies when a residential Customer requests/orders a change in service from one service plan to another service plan.

Listing Change Charge - applies when a Customer requests/orders a change to add or delete a white Sheets listing or requests a change to add/delete listings. This charge also applies to request for Non-Published or Non-Listed numbers.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND RATES, CONT'D.

5.1 Service Order and Change Charges, Cont'd.

5.1.3 Record Change Charges

A Record Change charge applies when a Customer requests/orders a change to Company records such as adding/changing a name on said Customer's account, changing billing address or contact information, adding/changing the person(s) authorized to make changes on said Customer's account.

5.1.4 Miscellaneous Charges

Duplicate Invoice - applies each time a Customer requests an additional copy of a current bill or invoice.

Call Detail Report - applies each time a Customer requests local call detail for a given month.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND RATES, CONT'D.

5.1 Service Order and Change Charges, Cont'd.

5.1.5 Rates

	Residence	Business
Service Order Charges		
Primary Service Connection Charge	*	*
Secondary Service Connection Charge	*	*
Transfer of Service Charge, Primary Line	$150.00	$150.00
Transfer of Service Charge, Secondary Line	$55.00	$55.00
Technician Dispatch Charge	$69.99	$79.99
Service Order Charge	$15.00	$15.00
Change Order Service Charges		
Feature or Feature Pack Change Order	$15.00	$15.00
Toll Restriction Fee Order	$15.00	$15.00
Telephone Number Change Order	$15.00	$15.00
Long Distance Minutes Pack Change Order	$15.00	$15.00
Listing Change Charge	$15.00	$15.00
Service Plan Change Charge	$15.00	$15.00
Record Change	n/c	n/c
Miscellaneous Charges		
Duplicate Invoice	$5.00	$5.00
Call Detail Report	$10.00	$10.00

* Service Connection charges are listed with the rates for each specific service tariffed.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.2 Reserved for Future Use

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.3 Restoration of Service

A restoration charge applies to the restoration of suspended service and facilities because of nonpayment of bills and is payable at the time that the restoration of the suspended service and facilities is arranged. The restoration charge does not apply when, after disconnection of service, service is later re-installed.

	Residence	Business
Per occasion, per line	$29.99	$49.99

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.4 Temporary Suspension/Restoration of Service

Upon the request of the customer, service may be temporarily suspended. Suspension of service may begin or terminate on any day of the month provided notice is given sufficiently in advance for arrangements to be made. Service will be disconnected to the extent necessary to assure than no inward or outward service will be available during the period of suspension.

	Residence	Business
Temporary Suspension Charge	$29.99	$49.99

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.5 Public Telephone Surcharge

In order to recover the Company's expenses to comply with the FCC's pay telephone compensation plan effective on October 7, 1997 (FCC 97-371), an undiscountable per call charge is applicable to all intrastate calls that originate from any pay telephone, not presubscribed to the Company, used to access Company provided services. This surcharge, which is in addition to standard tariffed usage charges and any applicable service charges and surcharges associated with service, applies for the use of the instrument used to access Company provided service and is unrelated to the service accessed from the pay telephone.

Pay telephones include coin-operated and coinless phones owned by local telephone companies, independent companies and interexchange carriers. The Public Pay Telephone Surcharge applies to the initial completed call and any reoriginated call (e.g., using the "#" symbol). The Public Pay Telephone Surcharge does not apply to calls placed from pay telephones at which the Customer pays for service by inserting coins during the progress of the call.

Whenever possible, the Public Pay Telephone Surcharge will appear on the same invoice containing the usage charges for the surcharged call. In cases where proper pay telephone coding digits are not transmitted to the Company prior to completion of a call, the Public Pay Telephone Surcharge may be billed on a subsequent invoice after the Company has obtained information from a carrier that the originating station is an eligible pay telephone.

Maximum Rate Per Call: $0.35

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.6 Optional Calling Features

The features in this section are made available to Customers on a per use basis. All features are provided subject to availability. Customers may utilize each feature by dialing the appropriate access code. The Customer will be billed the per feature activation charge shown in the table below each time a feature is used by the Customer. Transmission levels for calls forwarded or calls placed or received using optional calling features may not be acceptable for all some uses in some cases.

5.6.1 Feature Descriptions

Caller ID with Name and Number - allows a Customer to see a caller's name and number previewed on a display screen before the call is answered allowing a Customer to prioritize and or screen incoming calls. Caller ID records the name, number, date and time of each incoming call - including calls that aren't answered by the Customer. Caller ID service requires the use of specialized CPE not provided by the company. It is the responsibility of the Customer to provide the necessary CPE. In areas where Caller ID with Name is not available, Caller ID, which only displays the incoming telephone number, will be substituted.

Call Waiting/Cancel Call Waiting (CCW) - Call Waiting (CW) provides a tone signal to indicate to a Customer already engaged in a telephone call that a second caller is attempting to dial in. It will also permit the Customer to place the first call on hold, answer the second call and then alternate between both callers. CCW allows a (CW) Customer to disable CW for the duration of an outgoing telephone call. CCW is activated (i.e., CW is disabled) by dialing a special code prior to placing a call, and is automatically deactivated when the Customer disconnects from the call.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.6 Optional Calling Features (Cont'd)

5.6.1 Feature Descriptions (Cont'd)

Call Waiting with Caller ID with Name - Call Waiting with Caller ID with Name provides a tone signal to indicate to a Customer already engaged in a telephone call that a second caller is attempting to dial in and allows a Customer to see a caller's name and number previewed on a display screen allowing a Customer to prioritize and or screen incoming calls. This feature permits the Customer to place the first call on hold, answer the second call and then alternate between both callers. Cancel Call Waiting (CCW) allows a Call Waiting (CW) Customer to disable CW for the duration of an outgoing telephone call. CCW is activated (i.e., CW is disabled) by dialing a special code prior to placing a call, and is automatically deactivated when the Customer disconnects from the call. In areas where Caller ID with Name is not available, Caller ID, which only displays the callers telephone number, will be substituted.

Three Way Calling - Permits the Customer to add a third party to an established connection. When the third party answers, a two-way conversation can be held before adding the original party for a three-way conference. The Customer initiating the conference controls the call and may disconnect the third party to reestablish the original connection or establish a connection to a different third party. The feature may be used on both outgoing and incoming.

Caller Identification Blocking: Allows the name and number of the calling party to be blocked from being transmitted when placing outbound calls.

Per Call Blocking: To activate per-call blocking, a Customer dials a special code prior to placing a call. Blocking will be activated for that outgoing call only.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

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5.6 Optional Calling Features (Cont'd)

5.6.1 Feature Descriptions (Cont'd)

Per Line Blocking: When blocking is established on the line, it can be deactivated by dialing a code before each call. This one call unblock allows the name and/or number to be sent for that one call only. Customers who choose per line blocking for the first time will not be charged the nonrecurring charge. After the first time, customers requesting per line blocking will pay a nonrecurring charge for each line equipped with per line blocking. Per line blocking will be provided free to law enforcement and domestic violence agencies and individual victims of domestic violence upon request.

Call Forward – Busy - If the Customer's line is busy when a caller tries to call the Customer, Call Forward — Busy will forward the Customer's incoming calls to another telephone number that the Customer selects. If the Customer forwards his calls to a long distance number, long distance charges will apply in accordance with the terms of the plan. The Customer's forwarding number is "fixed" and can only be changed by IDT. To change the Customer selected forwarding number, the Customer must contact IDT.

Call Forward – Don't Answer - When the Customer is not available to answer the phone, Call Forward — Don't Answer forwards incoming calls to another telephone number the Customer selects. If the Customer forwards the Customer's calls to a long distance number, long distance charges will apply in accordance with the terms of the plan. Call Forward —Don't Answer is available by subscription only. The Customer's forwarding number is "fixed" and can only be changed by IDT. To change the Customer selected forwarding number, the Customer must contact IDT.

Call Forward – Busy and Don't Answer – This service incorporates the features of both Call Forward – Busy and Call Forward – Don't Answer and is subject to the terms for both services.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.6 Optional Calling Features (Cont'd)

5.6.1 Feature Descriptions (Cont'd)

Speed Dialing (8) - This feature allows a user to dial selected numbers using one digits. Up to eight telephone numbers can be selected. The Speed Calling list can only accommodate a number consisting of 15 digits or less.

Speed Dialing (30) - This feature allows a user to dial selected numbers using two digits. Up to thirty telephone numbers can be selected. The Speed Calling list can only accommodate a number consisting of 15 digits or less.

Call Return - Call return stores the number of the most recent incoming call (including unanswered calls) to a Customer's number. This allows a Customer to dial back any missed or unanswered telephone calls.

Repeat Dialing automatically redials the last telephone number the Customer dialed in the Customer's local calling area. The system will keep retrying the number attempting to make the connection if the line is busy.

Anonymous Call Rejection (ACR) - Anonymous Call Rejection (ACR) allows a customer to reject calls from callers who have blocked the display of their telephone numbers from a Caller ID device. ACR discourages anonymous calls, since callers must allow their numbers to be displayed in order to reach you.

When a customer activates Anonymous Call Rejection, callers who have blocked the display of their numbers will hear an announcement telling them that the Customer are not accepting blocked calls. They will be instructed to hang up, unblock their number and dial again if they wish to reach you.

A customer will hear a confirmation announcement whenever the Customer activate or deactivate the Anonymous Call Rejection feature.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.6 Optional Calling Features (Cont'd)

5.6.1 Feature Descriptions (Cont'd)

Call Trace – allows Customers to key in a code that alerts the network to trace the last call received. The traced telephone number is automatically sent to the company for storage for a limited amount of time and is retrievable by legally constituted authorities upon proper request by them. By contacting the company the Customer can use this application to combat nuisance calls. This service may be ordered on a Monthly or per trace basis.

Talking Call Waiting - A special tone lets a customer know another caller is trying to reach them and an automated voice announces the caller's name. A customer can note the name of the second caller and call back later, or end the customer's first call and take the second call. Like Call Waiting, Talking Call Waiting lets a customer switch back and forth between two calls as often as a customer likes. And before important conversations or going online, a customer can temporarily deactivate Talking Call Waiting on their line. A customer must also subscribe to Call Waiting to have this service.

Ultra Call Forward - Ultra Call Forward lets the Customer forward incoming calls to any phone number from anywhere at anytime. Household members can forward calls to wherever they are during the day and feel confident that the phone will never ring at home when someone isn't available to answer it. Normal local, toll or long distance charges will apply to forwarded calls. Calls may not be forwarded to an international number.

Call Forwarding Variable - Call Forwarding Variable allows the Customer to choose to reroute incoming calls to another specified telephone number. The Customer must activate and deactivate this feature.

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.6 Optional Calling Features (Cont'd)

5.6.2 Rates

Feature	Rate
Caller ID with Name and Number	$5.95
Call Waiting/Cancel Call Waiting	$4.95
Call Waiting ID with Name	$5.95
Three Way Calling	$3.95
Three Way Calling (Per Use)	$0.75
Caller Id Blocking, per call	$5.00*
Caller Id Blocking, per line	$5.00*
Call Forward - Busy	$3.95
Call Forward –Don't Answer	$3.95
Call Forward Busy and Don't Answer	$4.95
Speed Dial - 8	$2.95
Speed Dial - 30	$3.95
Call Return	$3.95
Call Return (Per Use)	$0.75
Repeat Dialing	$3.95
Repeat Dialing (Per Use)	$0.75
Anonymous Call Rejection	$2.95
Call Trace	$1.50
Call Trace (Per Trace)	$0.00
Talking Call Waiting	$5.95
Ultra Call Forwarding	$5.95
Call Forwarding Variable	$3.95

*Nonrecurring charge

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.7 Directory Assistance Service

A Customer may obtain assistance, for a charge, in determining a telephone number by dialing Directory Assistance Service. A Customer can also receive assistance by writing the Company with a list of names and addresses for which telephone numbers are desired.

A business or residence main telephone exchange line may be registered for exemption from Directory Assistance charges where one of the users of the line is considered to be legally blind, visually or physically handicapped, or where the user's handicap prevents the dialing of a telephone in a conventional manner or permits only the dialing of "0". Requests for exemption must be accompanied by certification of the handicap. Acceptable certifications include those signed by a physician, issued by a state agency qualified to certify such handicaps or pre-existing certifications establishing visual or physical inability to use a directory such as those which qualify the handicapped person for an income tax exemption or social security benefits on the basis of blindness or physical disability or for use of the facilities of an agency for the blind.

5.7.1 Basic Directory Assistance

The rates specified following apply when Customers request company assistance in determining telephone numbers of Customers who are located in the same local service area or who are not located in the same local service area but who are located within the same NPA.

A maximum of two (2) requested telephone numbers are allowed per call.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

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5.7 Directory Assistance Service (Cont'd)

5.7.2 Directory Assistance Call Completion

Directory Assistance Call Completion (DACC) is a service that provides customers the option of having their local or intraLATA calls automatically completed when they request a telephone listing from the Directory Assistance operator. The call may be completed automatically or by the Directory Assistance operator.

The DACC portion of the call may either be billed in the same manner as the DA portion or alternately billed by using a calling card, billing to a third number, or collect. All operator-handled charges, as specified in 5.8, apply as appropriate.

There are no allowances for DACC, however, the Directory Assistance portion of the call is still governed by the appropriate call allowance as South Dakota in Section 5.7.1.

For local and intraLATA calls, charges for DACC service are not applicable to calls placed by those customers with reading, visual, or physical handicaps.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.8 Directory Assistance Service (Cont'd)

5.8.3 National Directory Assistance Service

National Directory Assistance Service is provided to customers of the Company for the purpose of requesting telephone numbers of individuals or businesses who are located outside the customer's local calling area or outside the customer's local Directory Assistance area.

There are no call allowances or exemptions for National Directory Assistance.

A maximum of two (2) requested telephone numbers are allowed per call.

This service may be alternately billed by using a calling card, billing to a third number, or collect. Operator-handled charges, as specified in 5.8, apply as appropriate.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.7 Directory Assistance Service (Cont'd)

5.7.4 Rates

A. Basic Directory Assistance

	Per query
Direct dialed (in excess of allowance)	$0.50

B. Directory Assistance Call Completion

Per completed call	$0.30

C. National Directory Assistance

Direct dialed, per call	$0.95

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5 - MISCELLANEOUS SERVICES AND RATES, CONT'D.

5.8 Operator Services

The Company's operator services, available to presubscribed Customers, are accessible on a twenty-four (24) hour per day seven (7) days per week basis. In addition to the per call service charge, usage rates apply. The types of calls handled are as follows:

Customer Dialed Calling/Credit Card Call - This charge applies in addition to usage charges for station to station calls billed to an authorized Calling Card or Commercial Credit Card. The Customer must dial the destination telephone number where the capability exists for the Customer to do so. A separate rate applies in the event operator assistance is requested for entering the Customer's card number for billing purposes.

Operator Dialed Calling/Credit Card Call - This charge applies in addition to usage charges for station to station calls billed to an authorized telephone Calling Card or Commercial Credit Card and the operator dials the destination telephone number at the request of the Customer.

Operator Station - These charges apply in addition to usage charges for non-Person-to-Person calls placed using the assistance of a Company operator and billed Collect, to a Third Party, by deposit of coins in Pay Telephones, or via some method other than a Calling Card or Commercial Credit Card.

Person-to-Person - This charge applies in addition to usage charges for calls placed with the assistance of a Company operator to a particular party at the destination number. This charge applies regardless of billing method, including but not limited to billing to a Calling Card, Commercial Credit Card, Collect, by deposit of coins in Pay Telephones, or to a Third Party. Charges do not apply unless the specified party or an acceptable substitute is available.

Usage charges for local operator assisted calls are those usage charges that would normally apply to the calling party's service. In addition to usage charges, an operator assistance charge applies to each call:

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5- MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.8 Operator Services, (Cont'd)

5.8.1 Local Operator Assistance Services

Operator assistance is provided to Customers presubscribed to IDT's service, for assistance in completing or billing calls within the state of South Dakota.

A. Local and IntraLATA Usage Rates:

Usage charges will be billed at the rate in effect for the presubscribed service purchased by the Customer (See Section 4.3 of this tariff).

B. Per Call Service Charges

In addition to applicable usage charges, a service charge applies to each call completed with operator assistance. When more than one service charge would apply, only the greater charge is applied.

Customer Dialed Calling Card	$0.40
Operator Dialed Calling Card	$1.58
Collect	$1.58
Third Party Billed	$1.33
Person-to-Person	$3.49
Operator Dialed Surcharge	$0.80

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5- MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.9 Busy Line Verification and Line Interrupt Service

Upon request of a calling party the Company will verify a busy condition on a designated local service line. The operator will determine if the line is clear or in use and report to the calling party. At the request of the Customer, the operator will interrupt the call on the busy line. Busy Line Interruption is only permitted in cases where the calling party indicates an emergency exists and requests interruption.

No charge will apply when the calling party advises that the call is to or from an official public emergency agency. Busy Verification and Interrupt Service is furnished where and to the extent that facilities permit. If the Customer has the operator interrupt a call, both the Busy Line Verification and the Emergency Interrupt charge will apply

The Customer shall identify and save the Company harmless against all claims that may arise from either party to the interrupted call or any person.

	Per Call
Busy Line Verification	$2.25
Emergency Interruption	$5.00

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5- MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.10 Directory Listing Services

5.10.1 General

The following rates and regulations apply to standard listings in light face type in the white Sheets (alphabetical section) of the telephone directory and to the Directory Assistance records of the Company.

Directory listings are limited to such information as is essential to the identification of the listed party. The listing of a service, commodity, or trade name is not permitted unless it is the name, or an integral part of the name, under which the Customer does business.

A listing is limited to one line in the directory, except where in the judgement of the Company, more than one line is required to identify the Customer properly. In such cases, the additional lines required are provided at no extra charge.

Dual name listings are permitted as a regular directory listing for residential service.

Listing services are available with all classes of main telephone exchange service.

5.10.2 Listings

A. Primary Listing

One listing, termed the primary listing, is included with each exchange access line or each joint user service.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5- MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.10 Directory Listing Services (Cont'd)

5.10.2 Listings

B. Additional Listings

Additional listings may be the listings of individual names of those entitle to use the customer's service or, for business, Departments, Divisions, Tradenames, etc.

In connection with business and residence service, regular additional listings are available only in the names of Authorized Users of the Customer=s service.

Ordinarily, all additional listings are of the same address and telephone number as the primary listings, except as provided for joint user and alternate number listings. However, when it appears necessary as an aid to the use of the directory and provided satisfactory service can be furnished, a listing will be permitted under the address of a branch exchange, Centrex or extension of an exchange service line installed on the premises of the Customer, but at an address different from that of the attendant position of main service.

Business additional listings are not permitted in connection with residence service. Residence additional listings are also permitted in connection with business service which is located in a residence and for permanent or season guests residing in a hotel or club.

A residence dual name additional listing is comprised of a surname, two first names, address and telephone number. A residence dual name additional listing may be provided for two persons who share the same surname and reside at the same address, or for a person known by two first names.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

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5.10 Directory Listing Services (Cont'd)

5.10.2 Listings (Cont'd)

C. Nonpublished Service

The telephone numbers of nonpublished service are not listed in either the Company's alphabetical directory or Directory Assistance records available to the general public.

Non published information may be released to emergency service providers, to customers who subscribe to Company offerings which require the information to provide service and/ or bill their clients, or, to telephone customers who are billed for calls placed to or from nonpublished numbers and to entities which collect for the billed services. Nonpublished names and/or telephone numbers may also be delivered to customers on a call-by-call basis.

Incoming calls to nonpublished service will be completed by the Company only when the calling party places the call by number. The Company will adhere to this practice not withstanding any claim the calling party may present, except claims of emergencies involving life and death. In such cases, the Company will call the non-published number and request permission to make an immediate connection to the calling party.

When the Company agrees to keep a number unlisted, it does so without any obligation. Except for cases of gross negligence or willful misconduct, the Company is not liable for any damages that might arise from publishing a non-published number in the directory or disclosing it to some. If, in error, the telephone number is published in the directory, the Company's only obligation is to credit or refund any monthly charges the Customer paid for non-published service.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5- MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.10 Directory Listing Services (Cont'd)

5.10.2 Listings (Cont'd)

C. Nonpublished Service (cont'd)

The Subscriber indemnifies (i.e., promises to reimburse the Company for any amount the Company must pay as a result of) and save the Company harmless against any and all claims for damages caused or claimed to have been caused, directly or indirectly, by the publication of a non-published service or the disclosing of said number to any person.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

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5.10 Directory Listing Services (Cont'd)

5.10.2 Listings (Cont'd)

D. Nonlisted Service

Non-listed service means that the Customer's telephone number is not listed in the directory, but does it appear in the Company's Directory Assistance Records.

The Company will only complete calls to a nonlisted number, if requested by a caller, during the course of a directory assistance call completion service.

When the Company agrees to keep a number unlisted, it does so without any obligation. Except for cases of gross negligence or willful misconduct, the Company is not liable for any damages that might arise from publishing a non-listed number in the directory or disclosing it to some. If, in error, the telephone number is listed in the directory, the Company's only obligation is to credit or refund any monthly charges the Customer paid for nonlisted service.

The subscriber indemnifies (i.e., promises to reimburse the Company for any amount the Company must pay as a result of) and save the Company harmless against any and all claims for damages caused or claimed to have been caused, directly or indirectly, by the publication of a non-listed service or the disclosing of said number to any person.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5- MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.10 Directory Listing Services (Cont'd)

5.10.2 Listings (Cont'd)

E. Toll-Free Directory Listing

Where available, a listing which references the Toll Free Number for a Business customer will be made available.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5- MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.10 Directory Listing Services (Cont'd)

5.10.3 Maximum Rates and Charges

	Per Month
Primary Listing,	
Business	$ 0.00
Residence	$ 0.00
Additional Listings,	
Business	$ 2.00
Residence	$ 2.00
Non-Listed,	
Business	$ 2.00
Residence	$ 2.00
Non-Published,	
Business	$ 2.00
Residence	$ 2.00
Toll-Free Directory Listings,	
Business	$ 15.00
Residence	$ 15.00

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5- MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.11 Carrier Presubscription

5.11.1 General

Carrier Presubscription is a procedure whereby a Customer designates to the Company the carrier which the Customer wishes to be the carrier of choice for intraLATA and interLATA toll calls. Such calls are automatically directed to the designated carrier, without the need to use carrier access codes or additional dialing to direct the call to the designated carrier. Presubscription does not prevent a Customer who has presubscribed to an IntraLATA or InterLATA toll carrier from using carrier access codes or additional dialing to direct calls to an alternative long distance carrier on a per call basis.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

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5.11 Carrier Presubscription

5.11.2 Presubscription Options - Customers may select the same carrier or separate carriers for intraLATA and interLATA long distance. The following options for long distance Presubscription are available:

Option A: Customer selects the Company as the presubscribed carrier for IntraLATA and InterLATA toll calls subject to presubscription.

Option B: Customer may select the Company as the presubscribed carrier for IntraLATA calls subject to presubscription and some other carrier as the presubscribed carrier for interLATA toll calls subject to presubscription.

Option C: Customer may select a carrier other than the Company for intraLATA toll calls subject to presubscription and the Company for interLATA toll calls subject to presubscription.

Option D: Customer may select the carrier other than the Company for both intraLATA and interLATA toll calls subject to presubscription

Option E: Customer may select two different carriers, neither being the Company for intraLATA and interLATA toll calls. One carrier to be the Customer's primary intraLATA interexchange carrier. The other carrier to be the Customer's primary interLATA interexchange carrier.

Option F: Customer may select a carrier other than the Company for no presubscribed carrier for intraLATA toll calls subject to presubscription which will require the Customer to dial a carrier access code to route all intraLATA toll calls to the carrier of choice for each call.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5- MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.11 Carrier Presubscription

5.11.3 Rules and Regulations

Customers of record will retain their primary interexchange carrier(s) until they request that their dialing arrangements be changed.

Customers of record or new Customers may select either Options A, B, C, D, E or F for intraLATA Presubscription.

Customers may change their selected Option and/or presubscribed toll carrier at any time subject to charges specified in 5.11.5 below.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

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5.11 Carrier Presubscription

5.11.4 Presubscription Procedures

A new Customer will be asked to select intraLATA and interLATA toll carriers at the time the Customer places an order to establish local exchange service with the Company. The Company will process the Customer's order for service. All new Customers' initial requests for intraLATA toll service presubscription shall be provided free of charge.

If a new Customer is unable to make selection at the time the new Customer places an order to establish local exchange service, the Company will read a random listing of all available intraLATA and interLATA carriers to aid the Customer in selection. If selection is still not possible, the Company will inform the Customer that he/she will be given 90 calendar days in which to inform the Company of his/her choice for primary toll carrier(s) free of charge. Until the Customer informs the Company of his/her choice of primary toll carrier, the Customer will not have access to long distance services on a presubscribed basis, but rather will be required to dial a carrier access code to route all toll calls to the carrier(s) of choice. Customers who inform the Company of a choice for toll carrier presubscription within the 90 day period will not be assessed a service charge for the initial Customer request.

Customers of record may initiate a intraLATA or interLATA presubscription change at any time, subject to the charges specified in 5.11.5 below. If a Customer of record inquires of the Company of the carriers available for toll presubscription, the Company will read a random listing of all available intraLATA carriers to aid the Customer in selection.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

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5.11 Carrier Presubscription

5.11.5 Presubscription Charges

A. Application of Charges

After a Customer's initial selection for a presubscribed toll carrier and as detailed in above, for any change thereafter, an Presubscription Change Charge, as set for the below will apply. Customers who request a change in intraLATA and interLATA carriers with the same order will be assessed a single charge per line.

B. Nonrecurring Charges

Per business or residence line, trunk, or port: $5.00

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

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5.12 Intercept Referral Service

5.12.1 General

Referral Service is a service used when a Customer disconnects service or changes telephone numbers. Calls to the intercepted telephone number are referred to a recorded message that states the line number status and a referral number for calls placed to a disconnected or changed residence or business line number.

5.12.2 Rates

	Residence	Business
Basic Referral Service	$7.00	$7.00

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

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5.13 Toll Restriction Service

At the Customer's request, the Company will restrict an individual residence or business line, from access to the interexchange carrier toll network, where facilities permit. The nonrecurring charge will apply to each line at the time of restriction. A nonrecurring Toll Service Restoral Charge will apply to each line when the customer requests that toll service be restored.

5.13.1 Rates

	Residence	Business
Toll Restriction Charge, per line	$5.00	$5.00

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 5- MISCELLANEOUS SERVICES AND CHARGES, CONT'D.

5.14 900 Blocking

900 Blocking is provided at the Customer's request and gives the Customer the ability to restrict calls to 900 service access codes. This option blocks access to all 900 services reached by either dialing 1+900+NXX-XXXX or using an operator. The initial blocking of a Customer's line or lines will be provided at no charge to the Customer. Subsequent blocking (after an intervening elimination of the Blocking Option at the Customer's request) will be subject to the non-recurring charge.

5.14.1 Rates

	Residence	Business
Initial Request	$0.00	$0.00
Subsequent Request, per line	$5.00	$5.00

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 6 – LONG DISTANCE SERVICES

6.1 General

Rates and regulations for the Company's Long Distance Services may be found in the Company's South Dakota Tariff No. 1.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

ACCESS SERVICES

7.1 General

Rates and regulations for the Company's Access Services may be found in the Company's South Dakota Tariff No. 3.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 8 – SPECIAL ARRANGEMENTS

8.1 Individual Case Basis (ICB) Arrangements

Arrangements will be developed on a case-by-case basis in response to a bona fide special request from a Customer or prospective Customer to develop a competitive bid for a service not generally offered under this tariff. Rates quoted in response to such competitive requests may be different than those specified for such services in this tariff. ICB rates will be offered to the Customer in writing and on a nondiscriminatory basis.

ICB will be filed with the Public Utilities Commission.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

SECTION 9 - PROMOTIONS

9.1 General

The Company may, from time to time, offer services in this Tariff at special promotional rates and/or terms. Such promotional arrangements shall be filed with the Commission before promotion becomes effective. All rates and terms contained in this Tariff shall continue to apply unless specifically addressed in the promotional agreements.

Carl Wolf Billek, Associate General Counsel
IDT America, Corp.
520 Broad Street
Newark, New Jersey 07102-3111
(973) 438-1000

Legal Department

IDT Corporation
520 Broad Street
Newark, NJ 07102 USA
P 973 438/3342
F 973 438/1455
www.idt.net

December 17, 2003

RECEIVED
DEC 19 2003
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

VIA OVERNIGHT MAIL

Pamela Bonrud, Executive Director
South Dakota Public Utilities Commission
500 E. Capitol
State Capitol Building, 1st Floor
Pierre, South Dakota 57501

Re: Application of IDT America, Corp. for Certificate of Authority
South Dakota PUC Docket TC03-168 + TC00-168

Dear Mr. Bullard:

In accordance with the request of Commission Staff, IDT America, Corp. ("IDT") hereby submits a new Indemnity Bond to the People of the State of South Dakota in the amount of $25,000.

An original and three (3) copies of this letter and its attachment are provided. Please date-stamp the enclosed extra copy of this letter and return it in the self-addressed, stamped envelope provided herein.

Should you have any questions concerning this filing, please do not hesitate to contact me at (973) 438-4854.

Respectfully submitted,

Carl Wolf Billek

Carl Wolf Billek
IDT America, Corp.

INDEMNITY BOND
TO THE
PEOPLE OF THE STATE OF SOUTH DAKOTA

Bond. No.: 6176947

We, IDT America, Corp., the principal and applicant for a CERTIFICATE OF AUTHORITY to provide telecommunications services within the State of South Dakota, and SAFECO Insurance Company of America, as an admitted surety insurer, bind ourselves unto the Public Utilities Commission of the State of South Dakota and the consumers of South Dakota as Obligee, in the sum of $25,000.00.

The conditions of the obligation are such that the principal, having been granted such CERTIFICATE OF AUTHORITY subject to the provision that said principal purchase this Indemnity Bond, and if said principal shall in all respects fully and faithfully comply with all applicable provisions South Dakota State Law, and reimburse customers of IDT America, Corp. for any prepayment or deposits they have made which may be unable or unwilling to return to said customers as a result of insolvency or other business failure, they this obligation shall be void, discharges and forever exonerated, otherwise to remain in full force and effect.

This bond shall take effect as of the date heron and shall remain in force and effect until the surety is released from liability by the written order of the Public Utilities Commission, provided that the surety may cancel this Bond and be relieved of further liability hereunder by delivering thirty (30) days written notice to the Public Utilities Commission. Such cancellation shall not affect any liability incurred or accrued hereunder prior to the termination of said thirty (30) day period.

Dated this 05th day of December, 2003
To be effective this 05th day of December, 2003.

Original Bond in Delaine's bottom desk drawer.

Countersigned this 12 day of Dec 2003.

Countersigned for South Dakota

By: Chris P. Schmid
Resident Agent
Chris P. Schmid

IDT America, Corp.

By: James A. Courter
James A. Courter, President

SAFECO Insurance Company of America

By: Milena Langert
Milena Langert, Attorney-in-fact

SURETY ACKNOWLEDGMENT

STATE OF NEW YORK
COUNTY OF NASSAU
} SS:

On this **05TH** day of **DECEMBER** in the year **2003**, before me personally came **MILENA LANGERT** to me known, who being by me duly sworn, did depose and say that he resides in **WESTBURY, NEW YORK**; that he is the attorney-in-fact of SAFECO INSURANCE COMPANY OF AMERICA the corporation described in and which executed the above instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that he signed his name thereto by like order.

NOTARY PUBLIC STAMP
SHARON SCHISSEL
NOTARY PUBLIC, State of New York
No. 01SC6065816
Qualified in Queens County
Commission Expires October 29, 20 05

Sharon Schissel
NOTARY PUBLIC

INDIVIDUAL - PRINCIPAL

STATE OF
COUNTY OF
} SS:

On this _______ day of ___________________________, 19______, before me, the undersigned personally came and appeared ______________________________ to me personally known and known to me to be ______________________________ the individual described in and who executed the foregoing instrument and duly acknowledged to me that ______________________ executed the same.

NOTARY PUBLIC STAMP

NOTARY PUBLIC

CORPORATION - PRINCIPAL

STATE OF
COUNTY OF
} SS:

On this 17th day of December, ~~19~~ 2003, before me came James Courter to me known, who, being by me duly sworn, did depose and say that he resides at 520 Broad St. Newark NJ that he is President of **IDT America, Corp** the corporation described in and which executed the foregoing instrument as principal; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that he signed his name thereto by like order.

NOTARY PUBLIC STAMP
WENDY MOREANO
Notary Public of New Jersey
My Commission Expires 9/21/08

Wendy Moreano
NOTARY PUBLIC

PARTNERSHIP - PRINCIPAL

STATE OF
COUNTY OF
} SS:

On this ______ day of __________________, 19______, before me personally came ______________________________ to me personally known, and known to me to be a member of the firm of ______________________________ and he duly acknowledged to me that he executed the same for the uses and purposes therein mentioned.

NOTARY PUBLIC STAMP

SAFECO™

POWER OF ATTORNEY

SAFECO INSURANCE COMPANY OF AMERICA
GENERAL INSURANCE COMPANY OF AMERICA
HOME OFFICE: SAFECO PLAZA
SEATTLE, WASHINGTON 98185

No. 9423

KNOW ALL BY THESE PRESENTS:

That **SAFECO INSURANCE COMPANY OF AMERICA** and **GENERAL INSURANCE COMPANY OF AMERICA**, each a Washington corporation, does each hereby appoint

********CRAIG H. TREIBER; JOHN H. TREIBER; RICHARD GUARINI; GARY MORRISSEY; MILENA LANGERT; JEAN C. SPEIRS; ROBERT G. TYNAN; Garden City, New York**

its true and lawful attorney(s)-in-fact, with full authority to execute on its behalf fidelity and surety bonds or undertakings and other documents of a similar character issued in the course of its business, and to bind the respective company thereby.

IN WITNESS WHEREOF, SAFECO INSURANCE COMPANY OF AMERICA and **GENERAL INSURANCE COMPANY OF AMERICA** have each executed and attested these presents

this 29 day of September, 1998.

R.A. Pierson

R.A. PIERSON, SECRETARY

W. Randall Stoddard

W. RANDALL STODDARD, PRESIDENT

CERTIFICATE

Extract from the By-Laws of **SAFECO INSURANCE COMPANY OF AMERICA**
and of **GENERAL INSURANCE COMPANY OF AMERICA:**

"Article V, Section 13. - FIDELITY AND SURETY BONDS ... the President, any Vice President, the Secretary, and any Assistant Vice President appointed for that purpose by the officer in charge of surety operations, shall each have authority to appoint individuals as attorneys-in-fact or under other appropriate titles with authority to execute on behalf of the company fidelity and surety bonds and other documents of similar character issued by the company in the course of its business... On any instrument making or evidencing such appointment, the signatures may be affixed by facsimile. On any instrument conferring such authority or on any bond or undertaking of the company, the seal, or a facsimile thereof, may be impressed or affixed or in any other manner reproduced; provided, however, that the seal shall not be necessary to the validity of any such instrument or undertaking."

Extract from a Resolution of the Board of Directors of **SAFECO INSURANCE COMPANY OF AMERICA**
and of **GENERAL INSURANCE COMPANY OF AMERICA** adopted July 28, 1970.

"On any certificate executed by the Secretary or an assistant secretary of the Company setting out,

(i) The provisions of Article V, Section 13 of the By-Laws, and
(ii) A copy of the power-of-attorney appointment, executed pursuant thereto, and
(iii) Certifying that said power-of-attorney appointment is in full force and effect,

the signature of the certifying officer may be by facsimile, and the seal of the Company may be a facsimile thereof."

I, R.A. Pierson, Secretary of **SAFECO INSURANCE COMPANY OF AMERICA** and of **GENERAL INSURANCE COMPANY OF AMERICA,** do hereby certify that the foregoing extracts of the By-Laws and of a Resolution of the Board of Directors of these corporations, and of a Power of Attorney issued pursuant thereto, are true and correct, and that both the By-Laws, the Resolution and the Power of Attorney are still in full force and effect.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the facsimile seal of said corporation

this 05th day of December, 2003.

SAFECO INSURANCE COMPANY OF AMERICA CORPORATE SEAL 1953 STATE OF WASHINGTON

GENERAL INSURANCE COMPANY OF AMERICA CORPORATE SEAL 1923 State of Washington

R.A. Pierson

R.A. PIERSON, SECRETARY

SAFECO®

SAFECO INSURANCE COMPANY OF AMERICA

FINANCIAL STATEMENT — DECEMBER 31, 2002

Assets

Cash and Bank Deposits	$ 179,469.961
*Bonds — U.S Government	268,315,526
*Other Bonds	1,951,399,639
*Stocks	389,420,765
Real Estate	13,429,179
Agents' Balances or Uncollected Premiums	296,414,018
Accrued Interest and Rents	34,269,055
Other Admitted Assets	252,280,905
Total Admitted Assets	**$3,384,999,048**

Liabilities

Unearned Premiums		$ 595,543,757
Reserve for Claims and Claims Expense		1,496,818,407
Funds Held Under Reinsurance Treaties		440,473
Reserve for Dividends to Policyholders		2,564,831
Additional Statutory Reserve		–
Reserve for Commissions, Taxes and Other Liabilities		463,560,925
Total		$2,558,928,393
Capital Stock	$ 5,000,000	
Paid in Surplus	227,306,484	
Unassigned Surplus	593,764,171	
Surplus to Policyholders		**826,070,655**
Total Liabilities and Surplus		**$3,384,999,048**

SAFECO INSURANCE COMPANY OF AMERICA CORPORATE SEAL 1953 STATE OF WASHINGTON

* Bonds are stated at amortized or investment value; Stocks at Association Market Values. Securities carried at $113,865,629 are deposited as required by law.

I, MICHAEL C. PETERS, president of SAFECO National Insurance Company, do hereby certify that the foregoing is a true, and correct statement of the Assets and Liabilities of said Corporation, as of December 31, 2002, to the best of my knowledge and belief.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said Corporation at Seattle, Washington, this 1st day of March, 2003.

President

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF IDT AMERICA, CORP. FOR A CERTIFICATE OF AUTHORITY TO PROVIDE LOCAL EXCHANGE SERVICES IN SOUTH DAKOTA	**))))**	**ORDER GRANTING CERTIFICATE OF AUTHORITY TC03-168**

On August 25, 2003, the Public Utilities Commission (Commission) received an application for a certificate of authority from IDT America, Corp. (IDT).

IDT proposes to offer facilities-based and resold local exchange telecommunications services in Qwest territories. A proposed tariff was filed by IDT.

On August 28, 2003, the Commission electronically transmitted notice of the filing and the intervention deadline of September 12, 2003, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled January 6, 2004, meeting, the Commission considered IDT's request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to a continuous $25,000 surety bond, and subject to rural safeguards. Commission Staff further recommended a waiver of ARSD 20:10:32:03(11).

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-69 and ARSD 20:10:32:03. The Commission finds that IDT has met the legal requirements established for the granting of a certificate of authority. IDT has, in accordance with SDCL 49-31-71, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive subparagraph (11) of ARSD 20:10:32:03.

The Commission approves IDT's application for a certificate of authority, subject to a continuous $25,000 surety bond, and subject to rural safeguards. The certificate of authority for IDT shall authorize it to offer local exchange services in South Dakota, except in those areas served by a rural telephone company. In the future, should IDT choose to provide local exchange services statewide, with respect to rural telephone companies, IDT will have to come before the Commission in another proceeding before being able to provide local service in that rural service area pursuant to 47 U.S.C. § 253(f) which allows the Commission to require a company that seeks to provide service in a rural service area to meet the requirements in 47 U.S.C. § 214(e)(1) for designation as an eligible telecommunications carrier. In addition, the granting of statewide certification will not affect the exemptions, suspensions, and modifications for rural telephone companies found in 47 U.S.C. § 251(f). It is therefore

ORDERED, that IDT's application for a certificate of authority to provide local exchange services is granted, subject to a continuous $25,000 surety bond; and it is

FURTHER ORDERED, that IDT shall file informational copies of tariff changes with the Commission as the changes occur; and it is

FURTHER ORDERED, that the Commission shall authorize IDT to offer its local exchange services in South Dakota, except in those areas served by a rural telephone company; and it is

FURTHER ORDERED, that the Commission waives subparagraph (11) of ARSD 20:10:32:03.

Dated at Pierre, South Dakota, this 16th day of January, 2004.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Delaine Kolbo

Date: 1/16/04

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

Robert K. Sahr

ROBERT K. SAHR, Chairman

Gary Hanson

GARY HANSON, Commissioner

James A. Burg

JAMES A. BURG, Commissioner

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted as of the date of the
Order Granting Certificate of Authority
Docket No. TC03-168

This is to certify that

IDT AMERICA, CORP.

is authorized to provide local exchange services in nonrural areas in South Dakota.

This certificate is issued in accordance with SDCL 49-31-69 and ARSD 20:10:32:03, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 16th day of January, 2004.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

ROBERT K. SAHR, Chairman

GARY HANSON, Commissioner

JAMES A. BURG, Commissioner