IDT CORP
Form 10-Q
December 10, 2007
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 2007**

**or**

**¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**Commission File Number: 1-16371**

# IDT CORPORATION

**(Exact Name of Registrant as Specified in its Charter)**

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

**(973) 438-1000**

**(Registrant s telephone number, including area code)**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of December 1, 2007, the registrant had the following shares outstanding:

| | |
|---|---|
| Common Stock, $.01 par value: | 14,996,273 shares outstanding (excluding 10,078,587 treasury shares) |
| Class A common stock, $.01 par value: | 9,816,988 shares outstanding |
| Class B common stock, $.01 par value: | 50,909,991 shares outstanding (excluding 12,371,786 treasury shares) |

Table of Contents

**IDT CORPORATION**

**TABLE OF CONTENTS**


| | | |
|---|---|---|
| **PART I. FINANCIAL INFORMATION** | | 3 |
| Item 1. | Financial Statements (Unaudited) | 3 |
| | Condensed Consolidated Balance Sheets | 3 |
| | Condensed Consolidated Statements of Operations | 4 |
| | Condensed Consolidated Statements of Cash Flows | 5 |
| | Notes to Condensed Consolidated Financial Statements | 6 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 16 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risks | 34 |
| Item 4. | Controls and Procedures | 34 |
| **PART II. OTHER INFORMATION** | | 35 |
| Item 1. | Legal Proceedings | 35 |
| Item 1A. | Risk Factors | 35 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 35 |
| Item 3. | Defaults Upon Senior Securities | 35 |
| Item 4. | Submission of Matters to a Vote of Security Holders | 35 |
| Item 5. | Other Information | 35 |
| Item 6. | Exhibits | 36 |
| **SIGNATURES** | | 37 |

Table of Contents

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements (Unaudited)**

**IDT CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | October 31, 2007 (Unaudited) | July 31, 2007 (Note 1) |
|---|---|---|
| | (in thousands) | |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 136,497 | $ 153,845 |
| Marketable securities | 267,644 | 388,140 |
| Trade accounts receivable, net of allowance for doubtful accounts of $20,655 at October 31, 2007 and $19,654 at July 31, 2007 | 146,622 | 171,780 |
| Arbitration award receivable | 40,000 | |
| Prepaid expenses | 28,782 | 28,920 |
| Other current assets | 74,263 | 60,452 |
| Total current assets | 693,808 | 803,137 |
| Property, plant and equipment, net | 241,542 | 251,318 |
| Goodwill | 101,719 | 101,515 |
| Licenses and other intangibles, net | 12,387 | 13,824 |
| Investments | 137,986 | 119,052 |
| Deferred income tax assets, net | 218,468 | |
| Other assets | 97,492 | 78,465 |
| Total assets | $ 1,503,402 | $ 1,367,311 |
| **Liabilities and stockholders equity** | | |
| Current liabilities: | | |
| Trade accounts payable | $ 60,252 | $ 54,445 |
| Accrued expenses | 238,487 | 288,017 |
| Deferred revenue | 113,124 | 112,757 |
| Capital lease obligations current portion | 20,246 | 21,049 |
| Notes payable current portion | 4,167 | 8,095 |
| Other current liabilities | 13,491 | 17,598 |
| Total current liabilities | 449,767 | 501,961 |
| Income taxes payable | 345,803 | |
| Deferred income tax liabilities, net | | 105,049 |
| Capital lease obligations long-term portion | 20,239 | 23,401 |
| Notes payable long-term portion | 82,185 | 82,847 |
| Other liabilities | 13,985 | 12,928 |
| Total liabilities | 911,979 | 726,186 |
| Minority interests | 10,749 | 10,963 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Preferred stock, $.01 par value; authorized shares 10,000; no shares issued | | |
| Common stock, $.01 par value; authorized shares 100,000; 25,075 shares issued and 14,996 shares outstanding at October 31, 2007 and July 31, 2007 | 251 | 251 |
| Class A common stock, $.01 par value; authorized shares 35,000; 9,817 shares issued and outstanding at October 31, 2007 and July 31, 2007 | 98 | 98 |
| Class B common stock, $.01 par value; authorized shares 200,000; 63,282 and 63,261 shares issued at October 31, 2007 and July 31, 2007, respectively; 51,169 and 56,043 shares outstanding at October 31, 2007 and July 31, 2007, respectively | 633 | 633 |

| | | |
|---|---|---|
| Additional paid-in capital | 712,533 | 711,103 |
| Treasury stock, at cost, consisting of 10,079 and 10,079 shares of common stock and 12,113 and 7,218 shares of Class B common stock at October 31, 2007 and July 31, 2007, respectively | (278,545) | (240,355) |
| Accumulated other comprehensive income | 11,061 | 10,750 |
| Retained earnings | 134,643 | 147,682 |
| Total stockholders equity | 580,674 | 630,162 |
| Total liabilities and stockholders equity | $ 1,503,402 | $ 1,367,311 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**IDT CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| | Three Months Ended October 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (In thousands, except per share data) | |
| Revenues | $ 468,054 | $ 522,326 |
| Costs and expenses: | | |
| Direct cost of revenues (exclusive of depreciation and amortization) | 366,464 | 398,870 |
| Selling, general and administrative (i) | 117,686 | 113,811 |
| Depreciation and amortization | 17,819 | 20,033 |
| Restructuring and severance charges | 1,743 | 5,080 |
| Total costs and expenses | 503,712 | 537,794 |
| Arbitration award | 40,000 | |
| Gain on sale of U.K.-based Toucan business | | 41,753 |
| Income from operations | 4,342 | 26,285 |
| Interest income, net | 2,378 | 3,603 |
| Other income (expense), net | 4,521 | (1,786) |
| Income from continuing operations before minority interests and income taxes | 11,241 | 28,102 |
| Minority interests | (626) | (3,718) |
| Provision for income taxes | (3,835) | (1,534) |
| Income from continuing operations | 6,780 | 22,850 |
| Discontinued operations, net of tax: | | |
| Loss from discontinued operations | | (7,165) |
| Gain on sale of discontinued operations | | 198,235 |
| Total discontinued operations | | 191,070 |
| Net income | $ 6,780 | $ 213,920 |
| Earnings per share: | | |
| Basic: | | |
| Income from continuing operations | $ 0.09 | $ 0.27 |
| Total discontinued operations | | 2.24 |
| Net income | $ 0.09 | $ 2.51 |
| Weighted-average number of shares used in calculation of basic earnings per share | 79,624 | 85,132 |
| Diluted: | | |
| Income from continuing operations | $ 0.08 | $ 0.26 |
| Total discontinued operations | | 2.17 |
| Net income | $ 0.08 | $ 2.43 |

| | | |
|---|---|---|
| Weighted-average number of shares used in calculation of diluted earnings per share | 80,228 | 88,062 |

(i) Stock-based compensation included in selling, general and administrative expenses $ 1,430 $ 1,713

See accompanying notes to condensed consolidated financial statements.

Table of Contents

**IDT CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| | Three Months Ended October 31, | |
|---|---|---|
| | **2007** | **2006** |
| | (In thousands) | |
| Net cash used in operating activities | $ (55,397) | $ (15,185) |
| **Investing activities** | | |
| Capital expenditures | (9,175) | (10,073) |
| Collection of notes receivable, net | 413 | 561 |
| Investments and acquisitions | (11,947) | (373) |
| Proceeds from sale of building | 5,388 | |
| Proceeds from sale of IDT Entertainment, net of cash sold and transaction costs | | 261,604 |
| Proceeds from sale of U.K.-based Toucan business, net of transaction costs | | 38,380 |
| Purchase of debt portfolios | (36,871) | (6,416) |
| Principal collections and proceeds from resale of debt portfolios | 6,927 | 4,078 |
| Proceeds from sales and maturities of marketable securities | 419,912 | 266,708 |
| Purchases of marketable securities | (293,891) | (370,208) |
| Net cash provided by investing activities | 80,756 | 184,261 |
| **Financing activities** | | |
| Distributions to minority shareholders of subsidiaries | (1,088) | (4,245) |
| Proceeds from exercises of stock options | | 1,119 |
| Proceeds from borrowings | | 1,283 |
| Repayments of capital lease obligations | (4,538) | (5,937) |
| Repayments of borrowings | (681) | (631) |
| Repurchases of common stock and Class B common stock | (38,190) | (851) |
| Net cash used in financing activities | (44,497) | (9,262) |
| **Discontinued operations** | | |
| Net cash used in operating activities | | (20,261) |
| Net cash provided by investing activities | | 3,847 |
| Net cash provided by financing activities | | 7,536 |
| Net cash used in discontinued operations | | (8,878) |
| Effect of exchange rate changes on cash and cash equivalents | 1,790 | 62 |
| Net (decrease) increase in cash and cash equivalents | (17,348) | 150,998 |
| Cash and cash equivalents, beginning of period | 153,845 | 151,192(*) |
| Cash and cash equivalents, end of period | $ 136,497 | $ 302,190 |
| **Supplemental schedule of non-cash investing and financing activities** | | |
| Receipt of the Company s Class B common stock and IDT Telecom shares as part of the proceeds from the sale of IDT Entertainment | $ | $ 226,649 |
| Receipt of marketable securities as part of the proceeds from the sale of U.K.-based Toucan business | $ | $ 7,851 |

(*) Includes cash and cash equivalents of discontinued operations of $32.1 million as of July 31, 2006.

See accompanying notes to condensed consolidated financial statements.

**IDT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1 Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of IDT Corporation and its subsidiaries (the Company or IDT ) have been prepared in accordance with U.S. generally accepted accounting principles 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, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended October 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2008. The balance sheet at July 31, 2007 has been derived from the Company s audited financial statements at that date but does not include all of the information and footnotes required by 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, 2007, as filed with the U.S. Securities and Exchange Commission.

The Company records Universal Service Fund ( USF ) charges that are billed to customers on a gross basis in its results of operations, and records other taxes and surcharges on a net basis. USF charges in the amount of $1.1 million and $3.6 million in the three months ended October 31, 2007 and 2006, respectively, were recorded on a gross basis.

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

**Note 2 Income Taxes**

Effective August 1, 2007, the Company adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS 109 and prescribes that a company should use a more-likely-than-not recognition threshold based on the technical merits of the tax position taken or expected to be taken. Tax positions that meet the more-likely-than-not recognition threshold should be measured in order to determine the tax benefit to be recognized in the financial statements. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 resulted in a one-time decrease in the opening balance of retained earnings of $19.8 million. In addition, the adoption included a reduction in deferred tax liabilities of $323.6 million and a corresponding increase in non-current income tax payable.

As of August 1, 2007, the Company had unrecognized tax benefits of $296.6 million that if recognized would have a favorable impact on the Company s effective tax rate. The Company does not anticipate any significant increase or decrease in its unrecognized tax benefits within the next twelve months. The Company believes it has adequately provided for all tax positions, however amounts asserted by taxing authorities could be greater than the accrued amounts. Accordingly, additional tax provisions may be recorded in the future as revised estimates are made or the underlying matters are settled or resolved.

Table of Contents

**IDT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company classifies interest and penalties on income taxes as a component of income tax expense. As of August 1, 2007, accrued interest relating to the unrecognized tax benefits was $46.8 million. In the three months ended October 31, 2007, the Company recorded additional interest of $2.4 million. As of October 31, 2007, accrued interest relating to the unrecognized tax benefits was $49.2 million.

In fiscal 2006, the Internal Revenue Service ( IRS ) commenced an audit of the Company s fiscal 2001, 2002, 2003 and 2004 federal tax returns that is still in process. Should an assessment by the IRS result from the audit, the Company may be liable for income taxes, interest and penalties, which could have an adverse effect on the Company s results of operations, cash flows and financial condition. The Company currently remains subject to examinations of its tax returns as follows: U.S. federal tax returns for fiscal 2005 and 2006, state and local tax returns generally for fiscal 2001 to 2006 and foreign tax returns generally for fiscal 2002 to 2006.

**Note 3 Arbitration Award**

On November 26, 2007, the Company announced that its Net2Phone Cable Telephony subsidiary, which is included in its Wholesale Telecommunications Services segment, was awarded approximately 23 million, plus interest from November 2005, in an arbitration proceeding against Altice One S.A. and certain of its affiliates. The arbitration proceeding related to Altice s termination of cable telephony license agreements Net2Phone had entered into in November 2004. The Company recorded a gain of $40.0 million for this arbitration award, including accrued interest, in the three months ended October 31, 2007.

**Note 4 Purchased Debt Portfolios**

The Company accounts for investments in purchased debt portfolios using the effective yield method for substantially all of its debt portfolios, since the Company believes it has sufficient experience to reasonably predict the timing and amount of collections. In fiscal 2007, the Company s first full year of operations in the debt acquisition business, the cost recovery method was primarily used as the Company was developing the experience necessary to reasonably predict the timing and amount of collections from the individual portfolios purchased. Under the cost recovery method, no income is recognized until the Company has fully collected the cost of the portfolio.

The change in the carrying value of the purchased debt portfolios is as follows:

| | Three Months Ended October 31, 2007 (in thousands) |
|---|---|
| Balance, beginning of period | $ 51,112 |
| Purchases of debt portfolios | 36,871 |
| Collections | (15,545) |
| Proceeds from portfolio sales applied to carrying value | (638) |
| Impairments | (84) |
| Revenue recognized | 9,341 |
| Balance, end of period | 81,057 |
| Less current portion included in other current assets | (30,503) |
| Long term portion included in other assets | $ 50,554 |

As of October 31, 2007, the original undiscounted contractual amount less collections since acquisition was $1.4 billion.

7

Table of Contents

**IDT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the three months ended October 31, 2007, debt portfolios were purchased with a face value of $412.2 million for $36.9 million. The estimated cash flows expected to be collected at the date of acquisition for these portfolios was approximately $69.0 million.

Purchases during the three months ended October 31, 2007 include $0.7 million for debt portfolios accounted for using the cost recovery method. As of October 31, 2007, the carrying value of debt portfolios accounted for using the cost recovery method was $2.0 million.

Accretable yield represents the amount of revenue expected over the remaining life of the investment in purchased debt portfolios. The change in accretable yield for the debt portfolios accounted for using the effective yield method is as follows:

| | Three Months Ended October 31, 2007 (in thousands) |
|---|---|
| Balance, beginning of period | $ 56,963 |
| Additions | 31,444 |
| Revenue recognized | (8,483) |
| Balance, end of period | $ 79,924 |

In January 2007, FFPM Carmel Holdings I, LLC, which is 99% owned by the Company s subsidiary IDT Carmel Portfolio Management, LLC and 1% owned by First Financial Portfolio Management, Inc., committed to purchase 12 monthly forward flow credit card debt portfolios during calendar 2007 from a major commercial bank. The total investment will depend on the size of the portfolios provided by the selling bank, to a maximum commitment of $125 million for the 12-monthly portfolios. As of October 31, 2007, the maximum remaining outstanding commitment was $20.1 million.

**Note 5 Sale of IDT Entertainment**

In the first quarter of fiscal 2007, the Company completed the sale of IDT Entertainment to Liberty Media Corporation for (i) 14.9 million shares of IDT Class B common stock and Liberty Media s approximate 4.8% interest in IDT Telecom, (ii) $220.0 million in cash, net of certain working capital adjustments, (iii) the repayment of $58.7 million of IDT Entertainment s intercompany indebtedness payable to IDT and (iv) the assumption of all of IDT Entertainment s existing indebtedness. The Company is also eligible to receive additional consideration from Liberty Media based upon any appreciation in the value of IDT Entertainment over the five-year period following the closing of the transaction or a shorter period under specified circumstances ( Contingent Value ), equal to 25% of the excess, if any, of the net equity value of IDT Entertainment over $453 million. However, the Company would have to pay Liberty Media up to $3.5 million if the Contingent Value does not exceed $439 million. The Company recognized a gain of $205.2 million in fiscal 2007 in connection with the sale, of which $198.2 million was recognized in the three months ended October 31, 2006.

IDT Entertainment consisted primarily of animation and live-action production operations as well as a home entertainment distribution business. Through studios based in the United States and Canada, IDT Entertainment developed and produced 2D and 3D animated content for distribution theatrically, on television, and direct-to-video/DVD. Production was focused on proprietary content and was also performed for third parties. IDT Entertainment was also involved in the development and production of live-action content for feature films, television and direct-to-video/DVD distribution.

Table of Contents

**IDT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The sale met the criteria to be reported as a discontinued operation and, accordingly, IDT Entertainment s results of operations for all periods presented are classified as part of discontinued operations.

*Summary Financial Data of Discontinued Operations*

Revenues, loss before income taxes and net loss of IDT Entertainment included in discontinued operations is as follows:

| | | Three months ended October 31, 2006 (in thousands) |
|---|---|---|
| Revenue | $ | 17,905 |
| Loss before income taxes | $ | (6,995) |
| Net loss | $ | (7,165) |

**Note 6 Sale of Toucan**

In the first quarter of fiscal 2007, the Company completed the sale of its United Kingdom-based consumer phone services business, Toucan, to Pipex Communications plc in exchange for $38.4 million in cash (including the assumption of intercompany obligations owed to IDT and its subsidiaries) and 43.2 million Pipex ordinary shares, which were later sold for $7.9 million. Toucan was launched in November 2003 and marketed local, long distance, broadband and wireless communications services in the United Kingdom. Pursuant to the terms of the agreement, Pipex assumed Toucan s existing customer base and those employees supporting its operations. The Company provides Toucan with termination, call center and other support services. As a result of these continuing services, the sale did not meet the criteria to be reported as a discontinued operation. Toucan s historical results of operations are included in the Company s Consumer Phone Services segment. The Company s results of operations for the three months ended October 31, 2006 included revenues generated by Toucan s operations of $16.4 million and loss from operations of $2.6 million. The Company recognized a gain of $44.7 million in fiscal 2007 in connection with the sale, of which $41.8 million was recognized in the three months ended October 31, 2006.

**Note 7 Stock Repurchases**

In June 2006, the Company s Board of Directors authorized a stock repurchase program for the repurchase of up to an aggregate of 25 million shares of the Company s Class B common stock and common stock, without regard to class. In the three months ended October 31, 2007, the Company repurchased an aggregate of 4.9 million shares of Class B common stock for an aggregate purchase price of $38.2 million. As of October 31, 2007, 18.0 million shares remain available for repurchase under the stock repurchase program.

On October 24, 2007, the Company s Board of Directors authorized the Company to enter into a Rule 10b5-1 plan to facilitate further repurchases of its Class B common stock and common stock within its stock repurchase program. The Rule 10b5-1 plan, which was effective on November 5, 2007 and expires upon the re-opening of the trading window under the Company s insider trading policy occurring on or after December 16, 2007, covers up to the total number of shares that remain available for repurchase under the stock repurchase program. A Rule 10b5-1 plan allows the Company to execute trades during periods when it would ordinarily not be permitted to do so because it may be in possession of material non-public information, because of insider trading laws or because of self-imposed trading blackout periods. A broker chosen by the Company will have the

Table of Contents

**IDT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

authority, under the price, terms and limitations set forth in the Rule 10b5-1 plan, to repurchase shares on the Company s behalf. Because the repurchases under the Rule 10b5-1 plan will be tied to certain share prices, there is no guarantee as to the exact number of shares that will be repurchased under the plan, or that there will be any repurchases at all pursuant to the plan.

**Note 8 Earnings Per Share**

The Company computes earnings per share under the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 128, *Earnings per Share*, whereby basic earnings per share is computed by dividing net income attributable to all classes of common shareholders by the weighted average number of shares of all classes of common stock outstanding during the applicable period. Diluted earnings per share is determined in the same manner as basic earnings per share, except that the number of shares is increased to include non-vested restricted stock and to assume exercise of potentially dilutive stock options and contingently issuable shares using the treasury stock method, unless the effect of such increase is anti-dilutive.

The following table is a reconciliation of the weighted average number of shares used in computing basic and diluted earnings per share:

| | Three Months Ended October 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (In thousands) | |
| Weighted-average number of shares used in calculation of basic earnings per share | 79,624 | 85,132 |
| Effect of dilutive securities: | | |
| Stock options | 336 | 2,168 |
| Non-vested restricted stock | 255 | 756 |
| Contingently issuable shares | 13 | 6 |
| Weighted-average number of shares used in calculation of diluted earnings per share | 80,228 | 88,062 |

In the three months ended October 31, 2007 and 2006, stock options of 6.2 million and 0.9 million, respectively, were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

**Note 9 Comprehensive Income**

The Company s comprehensive income consists of the following:

| | Three Months Ended October 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (in thousands) | |
| Net income | $ 6,780 | $ 213,920 |
| Foreign currency translation adjustments | (6,617) | 449 |
| Unrealized gains on available-for-sale securities | 6,928 | 7,149 |
| Comprehensive income | $ 7,091 | $ 221,518 |

10

Table of Contents

**IDT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 10 Restructuring and Severance Charges**

The Company s restructuring and severance charges consist of the following:

| | Three Months Ended October 31, | |
|---|---|---|
| | 2007 | 2006 |
| | (in thousands) | |
| Prepaid Products | $ 404 | $ 1,548 |
| Consumer Phone Services | 57 | 208 |
| Wholesale Telecommunications Services | 678 | 2,466 |
| IDT Capital | (145) | 860 |
| Corporate | 749 | (2) |
| Total | $ 1,743 | $ 5,080 |

The charges in the three months ended October 31, 2007 and 2006 consist primarily of severance relating to a company-wide cost savings program initiated towards the end of the third quarter of fiscal 2006. As of October 31, 2007, this program resulted in the termination of approximately 900 employees. In addition, in the three months ended October 31, 2007, IDT Spectrum (which is included in IDT Capital) reversed $0.4 million of restructuring charges recorded in fiscal 2006 for a contract termination.

The following table summarizes the remaining reserve balances related to the Company s restructuring activities (substantially all of which relates to workforce reductions):

| | Balance at July 31, 2007 | Charged to Expense | Payments | Non-cash Charges and Other | Balance at October 31, 2007 |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| IDT Telecom | $ 8,711 | $ 1,139 | $ (5,460) | $ | $ 4,390 |
| IDT Capital | 834 | (145) | (207) | (211) | 271 |
| Corporate | 8,250 | 749 | (3,141) | 135 | 5,993 |
| Total | $ 17,795 | $ 1,743 | $ (8,808) | $ (76) | $ 10,654 |

**Note 11 Business Segment Information**

The Company has the following four reportable business segments: Prepaid Products, Consumer Phone Services, Wholesale Telecommunications Services and IDT Energy. All other operating segments that are not reportable individually are collectively called IDT Capital. Prepaid Products, Consumer Phone Services and Wholesale Telecommunications Services comprise the IDT Telecom division. The operating results of these business segments are distinguishable and are regularly reviewed by the Company s chief operating decision maker.

In the first quarter of fiscal 2008, Wholesale Telecommunications Services began charging for the telecommunications services it provides to other segments. Wholesale Telecommunications Services provides services primarily to Prepaid Products and to external customers. Wholesale Telecommunications Services currently charges Prepaid Products at a rate of cost plus an agreed mark-up for its services. The costs of

connectivity and operating the network assets, which historically were allocated to the Prepaid Products and Wholesale Telecommunications Services segments, are now allocated primarily to the Wholesale Telecommunications Services segment. The Company s management believes that this change in structure better reflects the results of operations of both Wholesale Telecommunications Services as a carrier services provider

Table of Contents

**IDT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and Prepaid Products as a provider of calling cards and other prepaid products. In addition, in the first quarter of fiscal 2008, Ethnic Grocery Brands and certain other businesses that were included in IDT Capital were transferred to IDT Telecom s Prepaid Products segment. To the extent possible, comparative historical results have been reclassified and restated as if the current business segment structure existed in all periods presented, although these results may not be indicative of the results which would have been achieved had the business segment structure been in effect during those periods.

The Prepaid Products segment markets and sells primarily prepaid and rechargeable calling cards and prepaid wireless phone services. The Consumer Phone Services segment provides consumer local and long distance services. The Wholesale Telecommunications Services segment consists of wholesale carrier services provided to affiliates as well as other telecommunications companies, and cable telephony services. IDT Energy operates the Company s Energy Services Company, or ESCO, in New York State. IDT Capital includes IDT Local Media, which is primarily comprised of CTM Brochure Display and WMET radio; IDT Carmel, its receivables portfolio management and collection businesses; IDT Spectrum, which holds a significant number of Federal Communications Commission licenses for commercial fixed wireless spectrum in the United States; IDT Global Israel, which is primarily comprised of call center operations; IDT Internet Mobile Group, which operates the Zedge websites and platform geared toward content for mobile devices, Zedge Studios, which is focused on creating and distributing proprietary and licensed content for traditional and internet/mobile distribution, and IDW, an independent comics and graphic novel publisher pre-eminent in the horror and action genres; and other smaller or early stage initiatives and operations, including certain real estate investments.

The Company evaluates the performance of its business segments based primarily on operating income (loss). All overhead is allocated to the business segments, except for certain specific corporate overhead, such as corporate executive compensation, treasury, tax and accounting services, public and investor relations, corporate insurance, corporate legal, business development and other general corporate expenses, as well as depreciation expense on corporate assets.

Operating results for the business segments of the Company are as follows:

| (in thousands) | Prepaid Products | Consumer Phone Services | Wholesale Telecommunications Services | IDT Energy | IDT Capital | Corporate | Total |
|---|---|---|---|---|---|---|---|
| **Three Months Ended October 31, 2007** | | | | | | | |
| Total revenues | $ 208,891 | $ 25,261 | $ 280,110 | $ 42,076 | $ 23,341 | $ | $ 579,679 |
| Intersegment revenues | | | (111,625) | | | | (111,625) |
| Net revenues | 208,891 | 25,261 | 168,485 | 42,076 | 23,341 | | 468,054 |
| Operating (loss) income | (15,941) | 5,219 | 42,100 | 1,671 | (7,676) | (21,031) | 4,342 |
| Restructuring and severance charges | 404 | 57 | 678 | | (145) | 749 | 1,743 |
| **Three Months Ended October 31, 2006** | | | | | | | |
| Total revenues | $ 260,793 | $ 53,802 | $ 327,690 | $ 36,218 | $ 14,892 | $ | $ 693,395 |
| Intersegment revenues | | | (171,069) | | | | (171,069) |
| Net revenues | 260,793 | 53,802 | 156,621 | 36,218 | 14,892 | | 522,326 |
| Operating income (loss) | 894 | 43,599 | (4,809) | 4,866 | (4,493) | (13,772) | 26,285 |
| Restructuring and severance charges | 1,548 | 208 | 2,466 | | 860 | (2) | 5,080 |

**IDT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Operating income of Wholesale Telecommunications Services in the three months ended October 31, 2007 includes the arbitration award of $40.0 million (see Note 3). Operating income of Consumer Phone Services in the three months ended October 31, 2006 includes the gain of $41.8 million from the sale of the Company s United Kingdom-based consumer phone services business, Toucan, to Pipex Communications plc in the first quarter of fiscal 2007 (see Note 6).

**Note 12 Legal Proceedings and Contingencies**

On May 5, 2004, the Company filed a complaint in the Supreme Court of the State of New York, County of New York, seeking injunctive relief and damages against Tyco Group, S.A.R.L., Tyco Telecommunications (US) Inc. (f/k/a TyCom (US) Inc.), Tyco International, Ltd., Tyco International (US) Inc., and TyCom Ltd. The Company alleged that the defendants breached a settlement agreement that they had entered into with the Company to resolve certain disputes and civil actions among the parties. The Company alleged that the defendants did not provide the Company, as required under the settlement agreement, free of charge and for the Company s exclusive use, a 15-year indefeasible right to use four Wavelengths in Ring Configuration (as defined in the settlement agreement) ( Wavelengths ) on a global undersea fiber optic network that TyCom Ltd. was deploying at that time. In June 2004, Tyco International (US) Inc. and Tyco Telecommunications (US) Inc. asserted several counterclaims against the Company, alleging that the Company breached the settlement agreement and is liable for damages for allegedly refusing to accept the defendants offer regarding the Wavelengths referenced in the settlement agreement and for making a public statement that Tyco failed to provide the Company with the use of its Wavelengths. The parties completed pre-trial discovery and each party filed motions for summary judgment. On July 11, 2007, the Court granted the Company s motion for partial summary judgment on liability, and granted its motion for summary judgment on Tyco s counterclaims. On November 21, 2007, Tyco filed a notice of appeal of the order granting the Company s motion for summary judgment on liability. The Court has scheduled a trial in the case for April 2008.

On March 29, 2004, D. Michael Jewett ( Jewett ), a former employee whose employment the Company terminated less than seven months after he was first hired, filed a complaint against the Company in the United States District Court, District of New Jersey, following his termination. The complaint alleges (i) violations of the New Jersey Anti-Racketeering Statute; (ii) violations of the New Jersey Conscientious Employee Protection Act ( CEPA ); (iii) violations of the New Jersey Law Against Discrimination ( LAD ); (iv) common law defamation; and (v) New Jersey common law intentional infliction of emotional distress. Jewett is seeking damages of $31 million, plus attorneys fees. The Court dismissed the Anti-Racketeering claim and a portion of the LAD claim; and narrowed the remaining claims described above. On January 25, 2006, Jewett filed an amended supplemental pleading which the Company moved to dismiss. Plaintiff opposed the Company s motion. On September 11, 2007, Judge Chesler issued an order which dismissed the CEPA and LAD claims, without prejudice, against all individual defendants with the exception of Jewett s direct supervisor. Judge Chesler also granted in part and denied in part the Company s motion to dismiss the supplemental complaint. Judge Chesler dismissed plaintiff s abuse of process and defamation claims with prejudice. However, the judge denied the motion to dismiss the count for Intentional Infliction of Emotional Distress. Plaintiff also sought leave to amend his complaint and supplemental complaint to add some additional claims, which was denied as well. The parties are engaged in discovery.

On or about April 1, 2004, Jewett sent a copy of his complaint to the United States Attorney s Office because in his complaint, Jewett alleged, among other things, that improper payments were made to foreign officials in connection with an IDT Telecom contract. As a result, the Department of Justice, the Securities and Exchange Commission and the United States Attorney in Newark, New Jersey conducted an investigation of this matter. The Company and the Audit Committee of the Company s Board of Directors initiated independent

Table of Contents

**IDT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

investigations, conducted by outside counsel, regarding certain of the matters raised in the Jewett complaint and in these investigations. Neither the Company s nor the Audit Committee s investigations have found any evidence that the Company made any such improper payments to foreign officials. The Company continues to cooperate with these investigations.

On June 1, 2006, the Company filed a complaint in the United States District Court for the District of New Jersey alleging that eBay, Inc., Skype Technologies SA, Skype, Inc. and several as of yet unidentified business entities (collectively, Skype ) infringed patents owned by the Company. The Company s complaint was amended to include claims for Skype s alleged infringement of additional patents, all owned by the Company. The lawsuit seeks, among other things, an injunction enjoining Skype from infringing these patents and monetary damages in connection with Skype s alleged infringement. Skype has answered the complaint and amended complaints, denying any liability with respect to the Company s claims. The parties are engaged in discovery.

On March 8, 2007, IDT Telecom, Inc. and the Company s 51%-owned U.S. calling card distribution partnership, Union Telecard Alliance, LLC filed a complaint and on April 2, 2007 an amended complaint in the United States District Court for the District of New Jersey against several prepaid calling card companies. The lawsuit alleges that the defendants are systematically falsely promising minutes in their voice prompts and other advertisements that consumers cannot obtain from the cards they have bought. The Company seeks an injunction barring the defendants from continuing their false promises as well as money damages and asserts that the defendants have violated the federal Lanham Act as well as several states false advertising and deceptive trade practices statutes. The Company has settled with five of the defendant groups. On May 9, 2007, the judge in the case denied the Company s motion for a preliminary injunction, which decision was affirmed by the Court of Appeals for the Third Circuit, and also denied motions to dismiss filed by all of the non-settling defendants who claimed that the Court lacked jurisdiction. The Company is continuing to pursue the case against the non-settling defendants.

In addition to the foregoing, the Company is subject to other legal proceedings that have arisen in the ordinary course of business and have not been finally adjudicated. Although there can be no assurance in this regard, in the opinion of the Company s management, none of the legal proceedings to which the Company is a party, whether discussed above or otherwise, will have a material adverse effect on the Company s results of operations, cash flows or its financial condition.

The Company s U.S. calling card business, which is included within the Prepaid Products segment, records accruals for various telecom regulatory agency fees including: Telecommunications Relay Services Fund (TRS), Federal Communications Commission (FCC) and Universal Service Fund (USF). As of October 31, 2007, the accrued expense balance for these fees was $39.2 million. This balance reflects what the Company believes at this time to be its liability for all such fees, given the methodologies used by the Universal Service Administration Corporation (USAC) for calculation of USF related fees, in its audit of the Company s U.S. calling card business for calendar years 2000 through 2004, which was completed during fiscal 2006. The Company has filed an appeal related to the audit findings including the full amount of all assessment charges, and will vigorously contest the methodologies used in calculating these fees. In addition, the USAC is auditing the Company s Form 499-A filings for calendar years 2005 and 2006. The USAC s audit remains ongoing as of the date of this Quarterly Report on Form 10-Q.

**Note 13 Commitments**

The Company has entered into purchase commitments of approximately $3.0 million as of October 31, 2007. In February 2005, the Company entered into a multi-year agreement to grant a telecommunications service provider the right to service certain of its domestic and international wireless traffic. Terms of the agreement are

**IDT CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

based on a minimum purchase of $75 million of services from the telecommunications service provider through October 2009. As of October 31, 2007, telecommunications services of approximately $13 million have been purchased.

As of October 31, 2007, FFPM Carmel Holdings I, LLC s maximum remaining outstanding commitment to purchase monthly forward flow credit card debt portfolios was $20.1 million (see Note 4).

As of October 31, 2007, the Company had letters of credit outstanding totaling $72.0 million, substantially all of which expire in fiscal 2008 through fiscal 2010. Cash and cash equivalents of $2.3 million and $2.4 million that serve as collateral was restricted against such letters of credit, and is included in Cash and cash equivalents in the Company s condensed consolidated balance sheets as of October 31, 2007 and July 31, 2007, respectively. Also, current marketable securities of $74.0 million and $76.3 million was restricted primarily against letters of credit, and is included in Marketable securities in the Company s condensed consolidated balance sheets as of October 31, 2007 and July 31, 2007, respectively.

**Note 14 Recently Issued Accounting Standards Not Yet Adopted**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements, however, for some entities, the application of this Statement will change current practice. The Company is required to adopt SFAS 157 effective August 1, 2008 and is currently evaluating the impact of SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS 107, *Disclosures about Fair Value of Financial Instruments.* The Company is required to adopt SFAS 159 effective August 1, 2008 and is currently evaluating the impact of SFAS 159 on its consolidated financial statements.

**Note 15 Purchase of Building**

On September 19, 2007, the Company entered into an agreement for the purchase of its main office building in exchange for approximately $22.8 million in cash and the assumption of the remainder of the existing mortgage on the building in the approximate amount of $27.2 million for a total purchase price of $50.0 million. The purchase is subject to certain customary conditions and contingencies. The Company expects the closing to occur during the second or third quarter of fiscal 2008.

Table of Contents

**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 for the year ended July 31, 2007, as filed with the U.S. 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 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that contain the words believes, anticipates, expects, plans, intends, and similar words and phrases. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the results projected in any forward-looking statement. In addition to the factors specifically noted in the forward-looking statements, other important factors, risks and uncertainties that could result in those differences include, but are not limited to, those discussed under Item 1A to Part II in this Quarterly Report on Form 10-Q and under Item 1A to Part I in our Annual Report on Form 10-K for the fiscal year ended July 31, 2007. 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 2007.

**Overview**

*General*

We are a multinational holding company with operations that span several industries. Our principal businesses consist of:

- IDT Telecom, through which we provide telecommunications services and products worldwide to retail and wholesale customers, including prepaid and rechargeable calling cards, consumer local and long distance service, prepaid wireless phone services, wholesale carrier services and operate certain other smaller lines of business;

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

- IDT Carmel, our receivables portfolio management and collection businesses;

- IDT Local Media, which is primarily comprised of CTM Brochure Display, our brochure distribution company, and the WMET-AM radio station in the Washington, D.C. metropolitan area; and

- IDT Internet Mobile Group, under which we operate our Zedge websites and platform geared toward content for mobile devices, Zedge Studios, which is focused on creating and distributing proprietary and licensed content for traditional and internet/mobile distribution, and IDW, an independent comics and graphic novel publisher pre-eminent in the horror and action genres.

We hold assets and operate other smaller or early-stage initiatives and operations under our IDT Capital subsidiary, including IDT Spectrum, which holds a significant number of FCC licenses for commercial fixed wireless spectrum in the United States, IDT Global Israel, which is primarily comprised of call center operations, and certain real estate investments.

16

**Table of Contents**

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

*Dispositions*

*Sale of IDT Entertainment*

In the first quarter of fiscal 2007, we completed the sale of our IDT Entertainment segment to Liberty Media Corporation for (i) 14.9 million shares of our Class B common stock and Liberty Media s approximate 4.8% interest in IDT Telecom, (ii) $220.0 million in cash, net of certain working capital adjustments, (iii) the repayment of $58.7 million of IDT Entertainment s intercompany indebtedness payable to IDT and (iv) the assumption of all of IDT Entertainment s existing indebtedness. We are also eligible to receive additional consideration from Liberty Media based upon any appreciation in the value of IDT Entertainment over the five-year period following the closing of the transaction or a shorter period under specified circumstances ( Contingent Value ), equal to 25% of the excess, if any, of the net equity value of IDT Entertainment over $453 million. However, we would have to pay Liberty Media up to $3.5 million if the Contingent Value does not exceed $439 million. We recognized a gain of $205.2 million in fiscal 2007 in connection with the sale, of which $198.2 million was recognized in the three months ended October 31, 2006.

IDT Entertainment consisted primarily of animation and live-action production operations as well as a home entertainment distribution business. Through studios based in the United States and Canada, IDT Entertainment developed and produced 2D and 3D animated content for distribution theatrically, on television, and direct-to-video/DVD. Production was focused on proprietary content and was also performed for third parties. IDT Entertainment was also involved in the development and production of live-action content for feature films, television and direct-to-video/DVD distribution.

The sale met the criteria to be reported as a discontinued operation and, accordingly, IDT Entertainment s results of operations for all periods presented are classified as part of discontinued operations.

Revenues, loss before income taxes and net loss of IDT Entertainment included in discontinued operations is as follows:

| | Three months ended October 31, 2006 (in thousands) | |
|---|---|---|
| Revenue | $ | 17,905 |
| Loss before income taxes | $ | (6,995) |
| Net loss | $ | (7,165) |

*Sale of Toucan*

In the first quarter of fiscal 2007, we completed the sale of our United Kingdom-based consumer phone services business, Toucan, to Pipex Communications plc, in exchange for $38.4 million in cash (including the assumption of intercompany obligations owed to IDT and its subsidiaries) and 43.2 million Pipex ordinary shares, which were later sold for $7.9 million.

Toucan was launched in November 2003 and marketed local, long distance, broadband and wireless communications services in the United Kingdom. Pursuant to the terms of the agreement, Pipex assumed

17

Toucan s existing customer base and those employees supporting its operations. We provide Toucan with termination, call center and other support services. As a result of these continuing services, the sale did not meet the criteria to be reported as a discontinued operation. Toucan s historical results of operations are included in our Consumer Phone Services segment. Our results of operations for the three months ended October 31, 2006 included revenues generated by Toucan s operations of $16.4 million and loss from operations of $2.6 million. We recognized a gain of $44.7 million in fiscal 2007 in connection with the sale, of which $41.8 million was recognized in the three months ended October 31, 2006.

*Telecom Competition*

Since our inception, we have derived the majority of our revenues and operating expenses from IDT Telecom s businesses. IDT Telecom s revenues represented 86.0% of our total revenues from continuing operations in the three months ended October 31, 2007, compared to 90.2% in the three months ended October 31, 2006.

In our IDT Telecom businesses, our competitors continue to aggressively price their services. In addition, with particular regard to our calling card business, we believe there has been a gradual shift in demand industry-wide away from calling cards and into wireless products, which has further eroded pricing power. In our wholesale markets as well, we have generally had to pass along portions of our per-minute cost savings to our customers in the form of lower prices. These trends have impacted our telecom businesses, and as a result, we have generally experienced declines in both our revenues and overall per-minute price realizations. At times, though, we have chosen to raise prices, particularly within our calling card business, in an effort to increase per-minute price realizations, which generally results in a negative impact on minute volumes, thereby reducing revenue. During the second half of fiscal 2006, and continuing through part of the first quarter of fiscal 2007, we took this approach, and instituted selective price increases on our calling cards in the United States and Europe. As a result, we experienced improved revenue-per-minute price realizations, which resulted in declines in minutes-of-use and overall revenues. However, in October 2006, we began instituting selective price decreases on certain cards, in an attempt to regain share in certain markets in both the U.S. and Europe. Despite this strategy our revenues continued to deteriorate in the second quarter of fiscal 2007 and our gross margins declined.

Minutes-of-use in our global calling card business has declined each quarter beginning in the third quarter of fiscal 2006 as follows:

| | |
|---|---|
| Second quarter of fiscal 2006 | 4.23 billion minutes |
| Third quarter of fiscal 2006 | 3.97 billion minutes |
| Fourth quarter of fiscal 2006 | 3.66 billion minutes |
| First quarter of fiscal 2007 | 3.18 billion minutes |
| Second quarter of fiscal 2007 | 2.97 billion minutes |
| Third quarter of fiscal 2007 | 2.59 billion minutes |
| Fourth quarter of fiscal 2007 | 2.51 billion minutes |
| First quarter of fiscal 2008 | 2.32 billion minutes |

The declines in minutes predominantly in our U.S. calling card business occurred despite the implementation of price cuts to several destinations, which began towards the end of the first quarter of fiscal 2007. Historically, there has been an inverse relationship between pricing and volume. However, during the second quarter of fiscal 2007, we did not experience an increase in minutes-of-use or sales of new cards, despite our more aggressive pricing.

The breakdown in this price/volume relationship in our U.S. calling card business and a concurrent analysis of our major markets led us to investigate the cards of major competitors of ours. We discovered that they were significantly overstating the number of minutes to be delivered by their cards. Accordingly, on March 8, 2007,

we filed a civil anti-fraud action in the federal district court in Newark, New Jersey, claiming that these competitors have been misleading calling card customers, and as a result, negatively impacting our market share, resulting in a reduction of our gross revenues and profits. Although the judge in this case chose not to grant the preliminary injunction we requested, a decision which was affirmed on appeal, we are continuing with this lawsuit until we reach an acceptable resolution that rectifies the inequities created when one party is complying with applicable rules and others are not. We have settled with five of the defendant groups to date. We are uncertain, even with the potential of fair competition, whether we will be able to regain revenues lost over the past number of quarters.

**Critical Accounting Policies**

Our condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Our significant accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for fiscal 2007. 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 uncertain and may change in subsequent periods. Our critical accounting policies include those related to the allowance for doubtful accounts, goodwill, valuation of long-lived and intangible assets, income taxes and regulatory agency fees, and contingent liabilities. For additional discussion of these critical accounting policies, see our Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for fiscal 2007.

In addition to these critical accounting policies, we believe that our revenue recognition policy under the effective yield method involves a higher degree of judgment. Beginning in fiscal 2008, we primarily utilize the effective yield method of accounting for recognizing revenue from our purchased debt portfolios. Upon acquisition of debt portfolios, static pools of accounts are established, which are aggregated based on certain common risk criteria. We estimate future cash collections for each static pool based primarily on historical cash collections for pools with similar characteristics. An internal rate of return ( IRR ) is calculated for each pool based on our cash flow projections. Income is recognized on a level-yield basis over the expected life of the pool based on the expected IRR. The IRR remains unchanged throughout the life of the pool unless there is an increase in cash flows expected to be collected. Application of the effective yield method of accounting involves a high degree of judgment, particularly in the preparation of cash flow projections. If future cash collections are materially different in amount or timing than the projections, revenues could be materially affected either positively or negatively.

Table of Contents

**Results of Operations**

**Three Months Ended October 31, 2007 Compared to Three Months Ended October 31, 2006**

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

*Consolidated*

| | Three months ended October 31, | | Change | |
|---|---|---|---|---|
| | 2007 | 2006 | $ | % |
| | (in millions) | | | |
| Revenues | | | | |
| IDT Telecom | **$ 402.6** | $ 471.2 | $ (68.6) | (14.6)% |
| IDT Energy | **42.1** | 36.2 | 5.9 | 16.2 |
| IDT Capital | **23.3** | 14.9 | 8.4 | 56.7 |
| Total revenues | **$ 468.0** | $ 522.3 | $ (54.3) | (10.4)% |

*Revenues*. The decrease in consolidated revenues in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was due to a decline in IDT Telecom revenues, partially offset by increases in IDT Energy and IDT Capital revenues. The decrease in IDT Telecom revenues in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 resulted primarily from lower calling card sales in both the United States and in Europe, the decline in consumer phone services revenues in the United States, and the sale of our United Kingdom-based consumer phone services business, partially offset by an increase in Wholesale Telecommunications Services revenues to external customers. IDT Telecom minutes of use declined 0.4% (excluding minutes related to our consumer phone services business, as the portion of such minute traffic carried in our network is insignificant), from 5.910 billion in the three months ended October 31, 2006 to 5.884 billion in the three months ended October 31, 2007. The increase in IDT Energy revenues in three months ended October 31, 2007 compared to the similar period in fiscal 2007 was driven primarily by higher electricity revenues in the three months ended October 31, 2007 compared to the same period in fiscal 2007. The increase in IDT Capital revenues in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was primarily due to an increase in IDT Carmel revenues.

| | Three months ended October 31, | | Change | |
|---|---|---|---|---|
| | 2007 | 2006 | $ | % |
| | (in millions) | | | |
| Costs and expenses | | | | |
| Direct cost of revenues | **$ 366.5** | $ 398.9 | $ (32.4) | (8.1)% |
| Selling, general and administrative | **117.7** | 113.8 | 3.9 | 3.4 |
| Depreciation and amortization | **17.8** | 20.0 | (2.2) | (11.1) |
| Restructuring and severance charges | **1.7** | 5.1 | (3.4) | (65.7) |
| Total costs and expenses | **$ 503.7** | $ 537.8 | $ (34.1) | (6.3)% |

*Direct Cost of Revenues*. The decrease in direct cost of revenues in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was due primarily to the decline in IDT Telecom s direct cost of revenues, partially offset by increases in IDT Energy and IDT Capital s direct cost of revenues. The $47.8 million decrease in direct cost of revenues in IDT Telecom reflects the decline in IDT Telecom s revenues. The $8.8 million increase in IDT Energy s direct cost of revenues in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was a result of the growth of its revenues, as well as increases in

Table of Contents

direct costs that were not included in price increases to IDT Energy s customers. The $6.5 million increase in IDT Capital s direct cost of revenues in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was primarily due to an increase in IDT Carmel s direct cost of revenues. Overall gross margin decreased from 23.6% in the three months ended October 31, 2006 to 21.7% in the three months ended October 31, 2007 due to lower gross margins in IDT Telecom, IDT Energy and IDT Capital.

*Selling, General and Administrative*. The increase in selling, general and administrative expenses in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was due primarily to increases in legal fees primarily in IDT Capital, marketing expenses related to TúYo Mobile, the wireless unit of Prepaid Products that operates as a Mobile Virtual Network Operator, or MVNO, and payroll costs in corporate . These increases were partially offset by reductions in selling, general and administrative expenses as a result of the sale of our U.K.-based Toucan consumer phone services business, which was consummated in the first quarter of fiscal 2007, and reductions in payroll costs in IDT Telecom. As a percentage of total revenues, selling, general and administrative expenses increased from 21.8% in the three ended October 31, 2006 to 25.1% in the three months ended October 31, 2007 as selling, general and administrative expenses increased and total revenues decreased.

Stock-based compensation expense included in selling, general and administrative expenses, primarily relating to the vesting of restricted stock and stock option grants, was $1.4 million in the three months ended October 31, 2007 compared to $1.7 million in the three months ended October 31, 2006.

*Restructuring and Severance Charges*. The restructuring and severance charges in the three months ended October 31, 2007 and 2006 consist primarily of severance relating to a company-wide cost savings program initiated towards the end of the third quarter of fiscal 2006. As of October 31, 2007, the program resulted in the termination of approximately 900 employees. We expect to realize cost savings of approximately $45 million to $50 million on an annualized basis related to these terminations. In addition, in the three months ended October 31, 2007, IDT Spectrum (which is included in IDT Capital) reversed $0.4 million of restructuring charges recorded in fiscal 2006 for a contract termination.

The following table summarizes the changes in the reserve balances related to our restructuring activities (substantially all of which relates to workforce reductions):

| | Balance at July 31, 2007 | Charged to Expense | Payments | Non-cash Charges and Other | Balance at October 31, 2007 |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| IDT Telecom | $ 8,711 | $ 1,139 | $ (5,460) | $ | $ 4,390 |
| IDT Capital | 834 | (145) | (207) | (211) | 271 |
| Corporate | 8,250 | 749 | (3,141) | 135 | 5,993 |
| Total | $ 17,795 | $ 1,743 | $ (8,808) | $ (76) | $ 10,654 |

*Arbitration Award.* On November 26, 2007, we announced that our Net2Phone Cable Telephony subsidiary, which is included in our Wholesale Telecommunications Services segment, was awarded approximately 23 million, plus interest from November 2005, in an arbitration proceeding against Altice One S.A. and certain of its affiliates. The arbitration proceeding related to Altice s termination of cable telephony license agreements Net2Phone had entered into in November 2004. We recorded a gain of $40.0 million for this arbitration award, including accrued interest, in the three months ended October 31, 2007, which is included in income from operations.

*Gain on sale of U.K.-based Toucan business.* In the first quarter of fiscal 2007, we completed the sale of our United Kingdom-based consumer phone services business, Toucan, to Pipex Communications plc, in exchange for $38.4 million in cash (including the assumption of intercompany obligations owed to IDT and its

subsidiaries) and 43.2 million Pipex ordinary shares, which were later sold for $7.9 million. We recognized a gain of $44.7 million in fiscal 2007 in connection with the sale, of which $41.8 million was recognized in the three months ended October 31, 2006 and is included in income from operations.

| | Three months ended October 31, | | Change | |
|---|---|---|---|---|
| | **2007** | **2006** | **$** | **%** |
| | | (in millions) | | |
| Income from operations | **$ 4.3** | $ 26.3 | $ (22.0) | (83.5)% |
| Interest income, net | **2.4** | 3.6 | (1.2) | (34.0) |
| Other income (expense), net | **4.5** | (1.8) | 6.3 | 353.1 |
| Minority interests | **(0.6)** | (3.7) | 3.1 | 83.2 |
| Provision for income taxes | **(3.8)** | (1.5) | (2.3) | (150.0) |
| Income from continuing operations | **6.8** | 22.9 | (16.1) | (70.3) |
| Income from discontinued operations | | 191.0 | (191.0) | (100.0) |
| Net income | **$ 6.8** | $ 213.9 | $ (207.1) | (96.8)% |

*Interest*. The decrease in net interest income in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was due primarily to a decrease in interest income as a result of lower interest bearing cash, cash equivalents and marketable securities balances as well as lower interest rates.

*Other Income (Expense)*. The change in other income (expense) from expense in the three months ended October 31, 2006 to income in the three months ended October 31, 2007 was due primarily to an increase in income from investments and a $4.1 million gain on the sale of a building in Newark, New Jersey.

*Minority Interests*. Minority interests arise mostly from the 49% minority owners of Union Telecard Alliance, or UTA, our calling card distributor in the United States. The decrease in minority interest expense in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was primarily due to a decrease in the net income of UTA in the three months ended October 31, 2007 compared to the similar period in fiscal 2007.

*Income Taxes*. Effective August 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. Income tax expense increased in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 due primarily to interest of $2.4 million recorded in the three months ended October 31, 2007 on unrecognized tax benefits in accordance with FIN 48. Income tax expense also results from income generated by our foreign subsidiaries that cannot be offset against losses generated in the United States. In fiscal 2006, the Internal Revenue Service (IRS) commenced an audit of our federal tax returns for fiscal years 2001, 2002, 2003 and 2004 that is still in process.

*IDT Telecom Prepaid Products, Consumer Phone Services and Wholesale Telecommunications Services Segments*

IDT Telecom operates as three business segments: Prepaid Products, Consumer Phone Services and Wholesale Telecommunications Services. In the first quarter of fiscal 2008, Wholesale Telecommunications Services began charging for the telecommunications services it provides to other segments. Wholesale Telecommunications Services provides services primarily to Prepaid Products and to external customers. Wholesale Telecommunications Services currently charges its affiliates at a rate of cost plus an agreed mark-up for its services. The costs of connectivity and operating the network assets, which historically were allocated to the Prepaid Products and Wholesale Telecommunications Services segments, are now allocated primarily to the Wholesale Telecommunications Services segment. We believe that this change in structure better reflects the results of operations of both Wholesale Telecommunications Services as a carrier services provider and Prepaid Products as a provider of calling cards and other prepaid products. In addition, in the first quarter of fiscal 2008,

Table of Contents

Ethnic Grocery Brands and certain other businesses that were included in IDT Capital were transferred to IDT Telecom s Prepaid Products segment. To the extent possible, comparative historical results have been reclassified and restated as if the current business segment structure existed in all periods presented, although these results may not be indicative of the results which would have been achieved had the business segment structure been in effect during those periods.

| | Three months ended October 31, | | Change | |
|---|---|---|---|---|
| | **2007** | **2006** | **$** | **%** |
| | **(in millions, except revenue-per-minute)** | | | |
| Revenues: | | | | |
| Prepaid Products | **$ 208.9** | $ 260.8 | $ (51.9) | (19.9)% |
| Consumer Phone Services | **25.2** | 53.8 | (28.6) | (53.0) |
| Wholesale Telecommunications Services | **280.1** | 327.7 | (47.6) | (14.5) |
| Intersegment Eliminations | **(111.6)** | (171.1) | 59.5 | 34.7 |
| Total revenues | **$ 402.6** | $ 471.2 | $ (68.6) | (14.6)% |
| Wholesale Telecommunications Services revenues from external customers only | **$ 168.5** | $ 156.6 | $ 11.9 | 7.6% |
| Minutes of use: | | | | |
| Prepaid Products | **2,319** | 3,177 | (858) | (27.0)% |
| Wholesale Telecommunications Services total | **5,788** | 5,778 | 10 | 0.2 |
| Total minutes of use | **5,884** | 5,910 | (26) | (0.4)% |
| Wholesale Telecommunications Services minutes provided to external customers only | **3,565** | 2,733 | 832 | 30.4% |
| Average revenue-per-minute: | | | | |
| Prepaid Products | **$ 0.0831** | $ 0.0786 | $ 0.0045 | 5.8% |
| Wholesale Telecommunications Services total | **0.0484** | 0.0567 | (0.0083) | (14.7) |
| Total average revenue-per-minute | **0.0614** | 0.0687 | (0.0073) | (10.7) |
| Wholesale Telecommunications Services external only | **0.0473** | 0.0573 | (0.0100) | (17.5) |

*Revenues*. We experienced revenue declines in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 in our U.S. and European calling card businesses, and U.S. consumer phone services business. Partially offsetting these declines were increases in revenues from external customers in our Wholesale Telecommunications Services business. Intersegment eliminations represent the revenues that Wholesale Telecommunications Services records from services provided primarily to Prepaid Products and are excluded from total revenues. Wholesale Telecommunications Services currently charges its affiliates at a rate of cost plus an agreed mark-up for its services. As a percentage of IDT Telecom s overall revenues before intersegment eliminations, Prepaid Products revenues was unchanged at 40.6% in the three months ended October 31, 2007 and 2006, Consumer Phone Services revenues decreased from 8.4% in the three months ended October 31, 2006 to 4.9% in the three months ended October 31, 2007 and Wholesale Telecommunications Services revenues increased from 51.0% in the three months ended October 31, 2006 to 54.5% in the three months ended October 31, 2007.

Total minutes-of-use declined by 0.4% in the three months ended October 31, 2007 when compared to the similar period in fiscal 2007. The total minutes-of-use in our Wholesale Telecommunications Services segment remained flat, as the growth of 30.4% in minutes-of-use by external customers was largely offset by a drop in minutes-of-use provided to internal customers. The decrease in Prepaid Products minutes-of-use of 27.0% in the three months ended October 31, 2007 when compared to the similar period in fiscal 2007 was primarily attributable to calling cards in the United States and Europe. The decline in calling card minutes-of-use arose as a result of competitive pressures, a shift in overall market demand away from calling cards and into wireless products, and our decision to raise rates on many of our calling cards.

Average revenue per minute is the average price realization we recognize on the minutes we sell within our Prepaid Products and Wholesale Telecommunications Services businesses. It excludes minutes of use related to our U.S. Consumer Phone Services business, as the domestic traffic generated by this business is not carried on our network, and the international traffic generated by this business, though carried on our own network, is relatively insignificant.

The decline in Prepaid Products revenues of 19.9% in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was primarily driven by lower calling card sales in the United States and Europe, partially offset by a slight increase in Asia, as well as an increase of $7.1 million in TúYo Mobile, the wireless unit of Prepaid Products that operates as a Mobile Virtual Network Operator, or MVNO. In fiscal 2008, we expect further declines in calling card revenues. We expect gains in the smaller, emerging markets of Latin America and Asia to be outweighed by continued weakness in the U.S.

The decline in Consumer Phone Services revenues of $28.6 million in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was primarily a result of a $16.4 million reduction in revenues as a result of the sale of our U.K.-based Toucan consumer phone services business, which was consummated in the first quarter of fiscal 2007. The revenue decline, particularly in our bundled offering, also reflects our decision to stop marketing our services following the FCC s termination of the UNE-P pricing regime in calendar 2005, which resulted in an increased cost structure and inferior economics for this business. The customer base for our U.S. bundled, unlimited local and long distance consumer phone services business was approximately 67,500 as of October 31, 2007 compared to 117,000 as of October 31, 2006. We currently offer local service in the following 11 states: New York, New Jersey, Pennsylvania, Maryland, Delaware, Massachusetts, New Hampshire, West Virginia, Maine, Rhode Island and California. In April and May 2007, we sold our entire bundled, unlimited local and long distance phone services business in Florida and Georgia consisting of approximately 5,400 customers. In addition, the customer base for long distance-only services was 195,500 as of October 31, 2007, compared to 243,000 as of October 31, 2006.

The decrease in total revenues in our Wholesale Telecommunications Services segment in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was due to the decline in intersegment revenues from our Prepaid Products segment, partially offset by an increase in revenues from external customers. The increase in revenues from external customers in our Wholesale Telecommunications Services segment in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was a direct result of increased traffic volumes, which was partially offset by lower per-minute price realizations. Revenues from internationally-originated wholesale minutes continued to account for an increasing proportion of overall wholesale revenues, owing to the continued weakness in the U.S. dollar versus most major foreign currencies, which results in our rates (delineated in U.S. dollars as our costs are in U.S. dollars) being relatively attractive compared to others rates. The decrease in average revenue-per-minute from external customers in our Wholesale Telecommunications Services segment was due primarily to continued competition.

| | **Three months ended October 31,** | | **Change** | |
|---|---|---|---|---|
| | **2007** | **2006** | **$** | **%** |
| | **(in millions, except cost-per-minute)** | | | |
| Direct cost of revenues | | | | |
| Prepaid Products | **$ 170.4** | $ 209.3 | $ (38.9) | (18.5)% |
| Consumer Phone Services | **12.6** | 32.8 | (20.2) | (61.6) |
| Wholesale Telecommunications Services | **244.4** | 292.6 | (48.2) | (16.5) |
| Intersegment Eliminations | **(111.6)** | (171.1) | 59.5 | 34.7 |
| Direct cost of revenues | **$ 315.8** | $ 363.6 | $ (47.8) | (13.1)% |
| Average termination cost-per-minute | | | | |
| Prepaid Products | **$ 0.0709** | $ 0.0655 | $ 0.0054 | 8.3% |
| Total Wholesale Telecommunications Services | **0.0429** | 0.0511 | (0.0082) | (16.1) |
| Total average termination cost-per-minute | **0.0509** | 0.0560 | (0.0051) | (9.1) |

*Direct Cost of Revenues*. The decrease in direct cost of revenues in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 in Prepaid Products was due primarily to the lower minutes-of-use and lower revenues. Direct cost of revenues for Consumer Phone Services decreased in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 due to lower revenues and also reflected a decrease of $11.0 million as a result of the sale of our U.K.-based consumer phone services business, which was consummated in the first quarter of fiscal 2007. Direct cost of revenues of Prepaid Products and Consumer Phone Services include charges from Wholesale Telecommunications Services. Direct cost of revenues for Wholesale Telecommunication Services decreased primarily due to reductions in connectivity costs. Our average termination cost-per-minute represents the average direct cost for minutes purchased by Wholesale Telecommunications Services in order to terminate calls related to our Prepaid Products and Wholesale Carrier businesses. These costs exclude minutes of use related to our Consumer Phone Services business, as its on-network traffic is insignificant.

| | Three months ended October 31, | | |
|---|---|---|---|
| | **2007** | **2006** | **Change** |
| Gross margin percentage | | | |
| Prepaid Products | **18.4%** | 19.8% | (1.4)% |
| Consumer Phone Services | **50.2** | 39.0 | 11.2 |
| Wholesale Telecommunications Services | **12.8** | 10.7 | 2.1 |
| Total gross margin percentage | **21.6%** | 22.8% | (1.2)% |

*Gross Margins.* IDT Telecom gross margins decreased primarily because Wholesale Telecommunications Services, which has the lowest gross margin in IDT Telecom, accounted for a larger portion of our total telecommunications business, as well as a decrease in Prepaid Products gross margin.

Gross margins in our Prepaid Products segment decreased because of competitive pressures.

Gross margins in our Consumer Phone Services segment increased primarily as a result of price increases we implemented beginning in the fourth quarter of fiscal 2007, which has also resulted in an increase in customer churn and a decrease in revenue in the first quarter of fiscal 2008.

Gross margins in our Wholesale Telecommunications Services segment increased as a result of a reduction in connectivity costs as described above and an improvement in the gross margin of our cable telephony services.

| | Three months ended October 31, | | Change | |
|---|---|---|---|---|
| | **2007** | **2006** | **$** | **%** |
| | | (in millions) | | |
| Selling, general and administrative expenses | | | | |
| Prepaid Products | **$ 47.2** | $ 41.2 | $ 6.0 | 14.5% |
| Consumer Phone Services | **6.9** | 18.4 | (11.5) | (62.2) |
| Wholesale Telecommunications Services | **24.6** | 27.9 | (3.3) | (11.7) |
| Total selling, general and administrative | **$ 78.7** | $ 87.5 | $ (8.8) | (10.0)% |

*Selling, General and Administrative*. The decrease in selling, general and administrative expenses in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was mainly due to a $7.8 million decrease as a result of the sale of our U.K.-based consumer phone services business in the first quarter of fiscal 2007, as well as lower compensation costs as a result of the cost savings program we initiated in

Table of Contents

the third quarter of fiscal 2006. These reductions were partially offset by an increase in marketing expenses of Tuyo Mobile of $3.4 million, which is included in Prepaid Products. As a percentage of IDT Telecom s total revenues, selling, general and administrative expenses increased from 18.6% in the three months ended October 31, 2006 to 19.6% in the three months ended October 31, 2007 as IDT Telecoms s revenues decreased at a faster rate than its selling, general and administrative expenses.

| | Three months ended | | | |
|---|---|---|---|---|
| | October 31, | | Change | |
| | 2007 | 2006 | $ | % |
| | (in millions) | | | |
| Restructuring and severance charges | | | | |
| Prepaid Products | **$ 0.4** | $ 1.5 | $ (1.1) | (73.9)% |
| Consumer Phone Services | | 0.2 | (0.2) | (100.0) |
| Wholesale Telecommunications Services | **0.7** | 2.5 | (1.8) | (72.5) |
| Total restructuring and severance charges | **$ 1.1** | $ 4.2 | $ (3.1) | (73.0)% |

*Restructuring and Severance Charges.* The charges in the three months ended October 31, 2007 and 2006 consist primarily of severance relating to the company-wide cost savings program initiated towards the end of the third quarter of fiscal 2006.

*Arbitration Award.* On November 26, 2007, we announced that our Net2Phone Cable Telephony subsidiary was awarded approximately 23 million, plus interest from November 2005, in an arbitration proceeding against Altice One S.A. and certain of its affiliates. The arbitration proceeding related to Altice s termination of cable telephony license agreements Net2Phone had entered into in November 2004. We recorded a gain of $40.0 million for this arbitration award, including accrued interest, in our Wholesale Telecommunications Services segment in the three months ended October 31, 2007, which is included in income from operations.

*Consumer Phone Services segment income from operations in the three months ended October 31, 2006.* In the first quarter of fiscal 2007, we completed the sale of our United Kingdom-based consumer phone services business, Toucan, to Pipex Communications plc, in exchange for $38.4 million in cash (including the assumption of intercompany obligations owed to IDT and its subsidiaries) and 43.2 million Pipex ordinary shares, which were later sold for $7.9 million. We recognized a gain of $44.7 million in fiscal 2007 in connection with the sale, of which $41.8 million was recognized in the three months ended October 31, 2006 and is included in income from operations.

| | Three months ended | | | |
|---|---|---|---|---|
| | October 31, | | Change | |
| | 2007 | 2006 | $ | % |
| | (in millions) | | | |
| (Loss) income from operations | | | | |
| Prepaid Products | **$ (15.9)** | $ 0.9 | $ (16.8) | nm |
| Consumer Phone Services | **5.2** | 43.6 | (38.4) | (88.0)% |
| Wholesale Telecommunications Services | **42.1** | (4.8) | 46.9 | 975.4 |
| Total income from operations | **$ 31.4** | $ 39.7 | $ (8.3) | (20.9)% |

nm not meaningful

Table of Contents

*IDT Energy Segment*

| | Three months ended October 31, | | Change | |
|---|---|---|---|---|
| | 2007 | 2006 | $ | % |
| | (in millions) | | | |
| Revenues | **$ 42.1** | $ 36.2 | $ 5.9 | 16.2% |
| Direct cost of revenues | **36.6** | 27.8 | 8.8 | 31.7 |
| Selling, general and administrative | **3.8** | 3.5 | 0.3 | 7.2 |
| Income from operations | **$ 1.7** | $ 4.9 | $ (3.2) | (65.7)% |

*Revenues*. IDT Energy s revenues consisted of electricity sales of $34.4 million in the three months ended October 31, 2007 compared to $28.7 million for the same period in fiscal 2007, and natural gas sales of $7.7 million in the three months ended October 31, 2007 compared to $7.5 million in the same period in fiscal 2007. We experienced higher electricity revenues in the three months ended October 31, 2007 compared to the same period in fiscal 2007 primarily as a result of increased electricity consumption by our larger consumer base since our average quarterly rates declined in the current quarter compared to the same quarter in fiscal 2007. We experienced higher natural gas revenues in the three months ended October 31, 2007 compared to the same period in fiscal 2007 primarily as a result of an increase in our average quarterly rates in the current quarter compared to the same quarter in fiscal 2007 since gas consumption declined due to unseasonably warm weather in September and October 2007 compared to September and October 2006. As of October 31, 2007, IDT Energy s subscriber base consisted of approximately 312,000 meters compared to 258,000 meters as of October 31, 2006. We expect revenues to increase in fiscal 2008 compared to fiscal 2007, although the rate of increase is expected to be less than the increase we experienced in fiscal 2007.

*Direct Cost of Revenues*. IDT Energy purchases natural gas through wholesale suppliers and various utility companies, and electricity through the New York State competitive wholesale market for capacity, energy and ancillary services administrated by the NYISO New York s Independent System Operator. IDT Energy s direct cost of revenues consisted of electricity cost of $29.4 million in the three months ended October 31, 2007 compared to $21.0 million in the same period in fiscal 2007, and cost of natural gas of $7.2 million in the three months ended October 31, 2007 compared to $6.8 million in the same period in fiscal 2007. Direct cost of revenues increased due to the increase in electricity consumption in the three months ended October 31, 2007 compared to the same period in fiscal 2007 and increases in the average unit cost of both electricity and natural gas in the three months ended October 31, 2007 compared to the same period in fiscal 2007.

Gross margins in IDT Energy decreased to 12.9% in the three months ended October 31, 2007 compared to 23.2% in the comparable period in fiscal 2007. Comprising these figures were gross margins on electricity sales in the three months ended October 31, 2007 of 14.3% compared to 26.7% in the comparable period in fiscal 2007 and gross margins on natural gas sales in the three months ended October 31, 2007 of 6.4% compared to 9.5% in the comparable period in fiscal 2007. The gross margin declines were primarily a result of less favorable pricing opportunities in the three months ended October 31, 2007 compared to the same period in fiscal 2007. IDT Energy plans to continue to target margins per unit that will achieve income from operations, and will take advantage of opportunities to maximize the margin per unit as they arise.

*Selling, General and Administrative*. The increase in selling, general and administrative expenses in the three months ended October 31, 2007 as compared to the comparable period in fiscal 2007 were due primarily to increases in payroll expense and billing related fees. As a percentage of total IDT Energy revenues, selling, general and administrative expenses decreased from 9.7% in the three months ended October 31, 2006 to 8.9% in the three months ended October 31, 2007 as IDT Energy s revenue growth was greater than the growth in its selling, general and administrative expenses. In fiscal 2008, we anticipate that the amount of IDT Energy s selling, general and administrative expenses will be similar to fiscal 2007.

*IDT Capital*

In the first quarter of fiscal 2008, Ethnic Grocery Brands and certain other businesses that were included in IDT Capital were transferred to IDT Telecom s Prepaid Products segment. To the extent possible, comparative historical results for IDT Capital and IDT Telecom have been reclassified to conform to the current business segment presentation, although these results may not be indicative of the results which would have been achieved had the business segment structure been in effect during those periods.

| | Three months ended October 31, | | Change | |
|---|---|---|---|---|
| | **2007** | **2006** | **$** | **%** |
| | | **(in millions)** | | |
| Revenues | | | | |
| Carmel | **$ 9.7** | $ 1.9 | $ 7.8 | 414.5% |
| Local Media | **6.0** | 5.8 | 0.2 | 4.7 |
| Internet Mobile Group | **2.2** | 0.2 | 2.0 | 838.3 |
| All other | **5.4** | 7.0 | (1.6) | (23.1) |
| Total revenues | **$ 23.3** | $ 14.9 | $ 8.4 | 56.7% |

*Revenues*. The increase in IDT Capital revenues in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was primarily due to an increase in IDT Carmel revenues. IDT Carmel s revenues increased in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 primarily because IDT Carmel began using the effective yield method to recognize revenues effective August 1, 2007. Under the effective yield method, revenue is recognized on a level-yield basis over the expected life of the pool of portfolios based on the expected internal rate of return. In fiscal 2007, IDT Carmel s first full year of operations in the debt acquisition business, IDT Carmel used the cost recovery method to recognize revenues since it was developing the experience necessary to reasonably predict the timing and amount of collections from the individual portfolios purchased. Under the cost recovery method, no revenue is recognized until the cost of the portfolio is completely recovered or sold.

Our Local Media business unit is primarily comprised of CTM Brochure Display and WMET radio. CTM s revenues were $5.3 million and $5.3 million in the three months ended October 31, 2007 and 2006, respectively.

IDT Internet Mobile Group revenues increased in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 primarily as a result of business acquisitions. In December 2006, we acquired for IDT Internet Mobile Group 90% of Norway-based Zedge.net, a social networking community for mobile users and provider of free mobile content. In June 2007, we acquired for IDT Internet Mobile Group a controlling interest in IDW Publishing, an independent comics and graphic novel publisher pre-eminent in the horror and action genres, boasting such high-profile titles as *The Transformers, 30 Days of Night, CSI, Star Trek, 24, and Scarface*.

Table of Contents

The all other lines of business include IDT Spectrum, IDT Global Israel (which is primarily comprised of call center operations) and other smaller initiatives and operations, including certain real estate investments. Revenues of IDT Global Israel included in the all other lines of business decreased $1.3 million in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 due to the loss of two significant customers in fiscal 2007.

| | Three months ended October 31, | | Change | |
|---|---|---|---|---|
| | **2007** | **2006** | **$** | **%** |
| | | (in millions) | | |
| Direct cost of revenues | | | | |
| Carmel | **$ 6.4** | $ 1.4 | $ 5.0 | 363.0% |
| Local Media | **1.6** | 1.5 | 0.1 | 8.0 |
| Internet Mobile Group | **1.4** | 0.1 | 1.3 | nm |
| All other | **4.6** | 4.5 | 0.1 | 4.3 |
| Total direct cost of revenues | **$ 14.0** | $ 7.5 | $ 6.5 | 87.4% |

nm not meaningful

*Direct Cost of Revenues*. The increase in direct cost of revenues in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 was primarily due to increases in IDT Carmel and IDT Internet Mobile Group. The increase in IDT Carmel s direct cost of revenues was a result of the growth in collection activity at IDT Carmel in the second half of fiscal 2007 and into the first quarter of fiscal 2008. The increase in IDT Internet Mobile Group s direct cost of revenues reflects the increase in revenues, which was primarily a result of business acquisitions in December 2006 and June 2007.

IDT Capital s aggregate gross margin decreased from 49.7% in three months ended October 31, 2006 to 39.9% in the three months ended October 31, 2007 primarily due to the declines in the gross margins of IDT Internet Mobile Group and in the all other lines of business, partially offset by an increase in the gross margin of IDT Carmel. IDT Internet Mobile Group s gross margin declined because the increase in its direct cost of revenues exceeded the increase in its revenues. The gross margin in the all other lines of business declined because direct costs of revenues were flat while revenues declined as described above. IDT Carmel s gross margin increased because the increase in its revenues exceeded the increase in its direct cost of revenues as described above.

| | Three months ended October 31, | | Change | |
|---|---|---|---|---|
| | **2007** | **2006** | **$** | **%** |
| | | (in millions) | | |
| Selling, general and administrative | | | | |
| Carmel | **$ 1.2** | $ 0.7 | $ 0.5 | 82.2% |
| Local Media | **4.6** | 3.5 | 1.1 | 31.0 |
| Internet Mobile Group | **1.9** | 0.4 | 1.5 | 343.0 |
| All other | **7.8** | 5.0 | 2.8 | 55.8 |
| Total selling, general and administrative | **$ 15.5** | $ 9.6 | $ 5.9 | 61.9% |

*Selling, General and Administrative*. Selling, general and administrative expenses increased in the three months ended October 31, 2007 compared to the similar period in fiscal 2007 primarily due to increases in the selling, general and administrative expenses of Local Media, IDT Internet Mobile Group and the all other lines of business. The increase in Local Media s selling, general and administrative expenses was primarily due to costs of new initiatives and expansion of CTM Brochure Display in fiscal 2008. IDT Internet Mobile Group s business acquisitions in December 2006 and June 2007 account for its increase in selling, general and

29

**Table of Contents**

administrative expenses. The all other increase was primarily due to an increase in legal fees. As a percentage of IDT Capital s aggregate revenues, selling, general and administrative expenses increased from 64.3% in the three months ended October 31, 2006 to 66.4% in the three months ended October 31, 2007 as the increase in IDT Capital s selling, general and administrative expenses was greater than the increase in its aggregate revenues.

| | Three months ended October 31, 2007 | Three months ended October 31, 2006 | Change $ | Change % |
|---|---|---|---|---|
| | (in millions) | | | |
| (Loss) income from operations | | | | |
| Carmel | **$ 2.0** | $ (0.2) | $ 2.2 | nm |
| Local Media | **(0.5)** | 0.4 | (0.9) | (212.5)% |
| Internet Mobile Group | **(1.2)** | (0.3) | (0.9) | (280.0) |
| All other | **(8.0)** | (4.4) | (3.6) | (79.6) |
| Total loss from operations | **$ (7.7)** | $ (4.5) | $ (3.2) | (70.8)% |

nm not meaningful

*Corporate*

| | Three months ended October 31, 2007 | Three months ended October 31, 2006 | Change $ | Change % |
|---|---|---|---|---|
| | (in millions) | | | |
| General and administrative expenses | **$ 19.7** | $ 13.2 | $ 6.5 | 49.1% |
| Depreciation and amortization | **0.6** | 0.6 | | |
| Restructuring and severance charges | **0.7** | | 0.7 | nm |
| Loss from operations | **$ 21.0** | $ 13.8 | $ 7.2 | 52.7% |

nm not meaningful

Corporate costs include certain services, such as corporate executive compensation, treasury, tax and accounting services, public and investor relations, corporate insurance, corporate legal, business development and other general corporate expenses, as well as depreciation expense on corporate assets. Such corporate costs are not allocable to any specific segment. Corporate does not generate any revenues, nor does it incur any direct cost of revenues.

*General and Administrative*. Corporate general and administrative expenses increased in the three months ended October 31, 2007 as compared to the similar period in fiscal 2007 primarily due to increases in payroll and related expenses, a reduction in rent charged to other segments as a result of the smaller employee workforce, as well as higher legal and professional fees. As a percentage of our total consolidated revenues from continuing operations, corporate general and administrative expenses increased from 2.5% in the three months ended October 31, 2006 to 4.2% in the three months ended October 31, 2007 as corporate general and administrative expenses increased while our consolidated revenues decreased.

*Restructuring and Severance Charges*. Restructuring charges in the three months ended October 31, 2007 related to severance expense under the company-wide cost savings program.

Table of Contents

**Liquidity and Capital Resources**

*General*

Historically, we have satisfied our cash requirements through a combination of our existing cash, cash equivalents, cash flow from operating activities, proceeds from the sales and maturities of marketable securities and investments, sales of our equity securities including the exercise of stock options and sales under our employee stock purchase plan, borrowings from third parties, and the sales of businesses (e.g. Corbina Telecom, IDT Entertainment and U.K.-based Toucan business).

As of October 31, 2007, we had cash, cash equivalents, marketable securities and investments of $542.1 million and working capital (current assets less current liabilities) of $244.0 million. Investments include $127.5 million in holdings of pooled investment vehicles, including hedge funds.

| | Three months ended October 31, | |
|---|---|---|
| | **2007** | **2006** |
| | (in millions) | |
| **Cash flows (used in) provided by** | | |
| Operating activities | **$ (55.4)** | $ (15.2) |
| Investing activities | **80.8** | 184.3 |
| Financing activities | **(44.5)** | (9.3) |
| Effect of exchange rate changes on cash and cash equivalents | **1.8** | 0.1 |
| (Decrease) increase in cash and cash equivalents from continuing operations | **(17.3)** | 159.9 |
| Net cash used in discontinued operations | | (8.9) |
| **(Decrease) increase in cash and cash equivalents** | **$ (17.3)** | $ 151.0 |

*Operating Activities*

Our cash flow from operations varies significantly from quarter to quarter and from year to year, depending on our operating results and the timing of operating cash receipts and payments, specifically trade accounts receivable and trade accounts payable.

Towards the end of the third quarter of fiscal 2006, we initiated a company-wide cost savings program to better align our infrastructure to our current business needs. As of October 31, 2007, this program resulted in the termination of approximately 900 employees. Severance and other payments related to this cost savings program were $8.8 million in the three months ended October 31, 2007. As of October 31, 2007, $10.7 million remained accrued for the ultimate payment of severance and other costs related to this cost savings initiative.

We are currently under audit by the IRS for our Federal tax returns for fiscal 2001, 2002, 2003, and 2004. Should an assessment by the IRS result from the audit, the Company may be liable for income taxes, interest and penalties, which could have an adverse effect on our results of operations, cash flows and financial condition.

*Investing Activities*

In the three months ended October 31, 2007, proceeds from sales and maturities of marketable securities net of purchases of marketable securities was $126.0 million. In the three months ended October 31, 2006, purchases of marketable securities net of proceeds from sales and maturities of marketable securities was $103.5 million.

Our capital expenditures were $9.2 million in the three months ended October 31, 2007 compared to $10.1 million in the three months ended October 31, 2006. We currently anticipate that total capital expenditures for all of our divisions for the remainder of fiscal 2008, excluding the purchase of our main office building, will be in the $15 million to $20 million range. We expect to fund our capital expenditures with our cash, cash equivalents and marketable securities on hand. From time to time, we may also finance a portion of our capital expenditures through capital

leases.

On September 19, 2007, we entered into an agreement for the purchase of our main office building in exchange for approximately $22.8 million in cash and the assumption of the remainder of the existing mortgage on the building in the approximate amount of $27.2 million for a total purchase price of $50.0 million. The purchase is subject to certain customary conditions and contingencies. We expect the closing to occur during the second or third quarter of fiscal 2008.

In the three months ended October 31, 2007 and 2006, IDT Carmel Portfolio Management purchased debt portfolios for $36.9 million and $6.4 million, respectively, and IDT Carmel s principal collections and proceeds from resale of debt portfolios totaled $6.9 million and $4.1 million, respectively. Our total investment in debt portfolios through FFPM Carmel Holdings I, LLC will depend on the size of the portfolios provided by the selling bank, to a maximum commitment of $125 million for the 12-monthly portfolios. As of October 31, 2007, FFPM Carmel Holdings I, LLC s maximum remaining outstanding commitment was $20.1 million.

In the three months ended October 31, 2007 and 2006, cash used for investments and acquisitions was $11.9 million and $0.4 million, respectively. Cash used for investments and acquisitions includes cash used for additional investments in pooled investment vehicles including hedge funds of $11.0 million in the three months ended October 31, 2007.

We sold a building in Newark, New Jersey in the three months ended October 31, 2007 and received cash of $5.4 million from the sale. We recorded a $4.1 million gain on the sale of the building in the three months ended October 31, 2007.

In the first quarter of fiscal 2007, we completed the sale of IDT Entertainment to Liberty Media Corporation for (i) 14.9 million shares of our Class B common stock and Liberty Media s approximate 4.8% interest in IDT Telecom, (ii) $220.0 million in cash, net of certain working capital adjustments, (iii) the repayment of $58.7 million of IDT Entertainment s intercompany indebtedness payable to IDT and (iv) the assumption of all of IDT Entertainment s existing indebtedness. In addition, we would have to pay Liberty Media up to $3.5 million if the net equity value of IDT Entertainment over the five-year period following the closing of the transaction or a shorter period under specified circumstances does not exceed $439 million. We recognized a gain of $205.2 million in fiscal 2007 in connection with the sale, of which $198.2 million was recognized in the three months ended October 31, 2006.

In the first quarter of fiscal 2007, we sold our United Kingdom-based consumer phone services business, Toucan, to Pipex Communications plc for $38.4 million in cash (including the assumption of intercompany obligations owed to IDT and its subsidiaries) and 43.2 million Pipex ordinary shares, which were subsequently sold for $7.9 million. We recognized a gain of $44.7 million in fiscal 2007 in connection with the sale, of which $41.8 million was recognized in the three months ended October 31, 2006.

*Financing Activities*

We distributed to the minority equity holders of our Union Telecard Alliance subsidiary and its consolidated partners $1.1 million and $4.2 million in cash in the three months ended October 31, 2007 and 2006, respectively. Repayments of borrowings were $0.7 million and $0.6 million in the three months ended October 31, 2007 and 2006, respectively. We also repaid capital lease obligations of $4.5 million and $5.9 million in the three months ended October 31, 2007 and 2006, respectively. In the three months ended October 31, 2006, we received $1.1 million in proceeds from the exercise of our stock options and proceeds from borrowings were $1.3 million. There were no stock option exercises and no new borrowings in the three months ended October 31, 2007.

In June 2006, our Board of Directors authorized a stock repurchase program for the repurchase of up to an aggregate of 25 million shares of our Class B common stock and common stock, without regard to class. In the three months ended October 31, 2007, we repurchased an aggregate of 4.9 million shares of our common stock and Class B common stock for an aggregate purchase price of $38.2 million. As of October 31, 2007, 18.0 million shares remained available for repurchase under our stock repurchase program.

On October 24, 2007, our Board of Directors authorized us to enter into a Rule 10b5-1 plan to facilitate further repurchases of our Class B common stock and common stock within our stock repurchase program. The Rule 10b5-1 plan, which was effective on November 5, 2007 and expires upon the re-opening of the trading window under our insider trading policy occurring on or after December 16, 2007, covers up to the total number of shares that remain available for repurchase under our stock repurchase program. A Rule 10b5-1 plan allows us to execute trades during periods when we would ordinarily not be permitted to do so because we may be in possession of material non-public information, because of insider trading laws or because of self-imposed trading blackout periods. A broker chosen by us will have the authority, under the price, terms and limitations set forth in the Rule 10b5-1 plan, to repurchase shares on our behalf. Because the repurchases under the Rule 10b5-1 plan will be tied to certain share prices, there is no guarantee as to the exact number of shares that will be repurchased under the plan, or that there will be any repurchases at all pursuant to the plan.

*Changes in Trade Accounts Receivable and Allowance for Doubtful Accounts*

Gross trade accounts receivable decreased $24.1 million from $191.4 million at July 31, 2007 to $167.3 million at October 31, 2007 mostly due to collections of accounts receivable and reductions in revenues. The allowance for doubtful accounts as a percentage of gross trade accounts receivable increased from 10.3% at July 31, 2007 to 12.3% at October 31, 2007 due primarily to an increase in the allowance and a decrease in gross trade accounts receivable.

*Other Sources and Uses of Resources*

We intend to, where appropriate, make strategic investments and acquisitions to complement, expand and/or enter into new businesses. In considering acquisitions and investments, we search for opportunities to profitably grow our existing businesses, to add qualitatively to the range of businesses in the IDT portfolio and to achieve operational synergies. At this time, we cannot guarantee that we will be presented with acquisition opportunities that meet our return on investment criteria, or that our efforts to make acquisitions that meet our criteria will be successful. In addition from time to time, we have made strategic dispositions of certain businesses (such as Corbina Telecom, IDT Entertainment and Toucan). We continually evaluate our portfolio for opportunities to monetize select businesses where we deem appropriate.

We believe that, based upon our present business plan, and due to the balance of cash, cash equivalents and marketable securities we held as of October 31, 2007, 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 segments for at least the next twelve months. If our results differ from our 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 would be able to raise such capital on favorable terms or at all.

*Foreign Currency Risk*

Revenues from our international operations represented 35.6% and 29.4% of our consolidated revenues from continuing operations for the three months ended October 31, 2007 and 2006, respectively. A significant portion of these revenues is in currencies other than the U.S. Dollar. Our foreign currency exchange risk is somewhat mitigated by our ability to offset the majority of these non dollar-denominated revenues with operating expenses that are paid in the same currencies. As such, the net amount of our exposure to foreign currency exchange rate changes is generally not material.

*Recently Issued Accounting Standards and Standards Not Yet Adopted*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements,

however, for some entities, the application of this Statement will change current practice. We are required to adopt SFAS 157 effective August 1, 2008 and are currently evaluating the impact of SFAS 157 on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS 107, *Disclosures about Fair Value of Financial Instruments*. We are required to adopt SFAS 159 effective August 1, 2008 and are currently evaluating the impact of SFAS 159 on our consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risks**

We are exposed to various types of market risks in the normal course of business, including the impact of changes in commodity prices, interest rates and foreign currency exchange rates. We may hedge market price fluctuations associated with physical purchases and sales of electricity and natural gas by using derivative instruments including futures, forwards, basis swaps, transmission congestion contracts and financial transmission rights contracts. We are exposed to changes in interest rates primarily from our investments in cash equivalents and marketable debt securities. On occasion, we use interest rate derivative instruments and investment strategies to manage our exposure to interest rate changes, such as short sale strategies and repurchase and reverse repurchase agreements. In addition, fluctuations in market interest rates may lead to significant fluctuations in the fair value of our notes payable and capital lease obligations. If necessary, we may take appropriate actions to limit the negative effect of interest rate fluctuations on our obligations. Our market risk exposure relating to foreign currency exchange is generally not material, as we have cash outflows denominated in foreign currencies to partially offset the cash inflows denominated in the same currencies, thereby creating a natural hedge. In order to mitigate the risk associated with any remaining net foreign exchange exposure, 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 portion of our total asset portfolio in pooled investment vehicles including hedge funds for strategic and speculative purposes. As of October 31, 2007, the carrying value of such investments was $127.5 million out of a total of cash, cash equivalents, marketable securities and investments of $542.1 million. Investments in hedge funds carry a degree of risk, and depend to a great extent on correct assessments of the future course of price movements of securities and other instruments. There can be no assurance that the managers of the hedge funds in which we have invested will be able to accurately predict these price movements. In order to minimize our exposure to such risk, we attempt to ensure that our hedge fund portfolio remains diversified, and it is managed by the Investment Committee, which reports to the Audit Committee of our Board of Directors, with the assistance of professional investment advisers utilized by the Company. Nevertheless, the securities markets have in recent years been characterized by great volatility and unpredictability. Accordingly, the value of our interests in these funds may go down as well as 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 our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, such officers have concluded that as of such date, our disclosure controls and procedures are effective.

*Changes in Internal Control over Financial Reporting*. There were no changes in our internal control over financial reporting during the quarter ended October 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

Legal proceedings in which we are involved are more fully described in Note 12 to the Condensed Consolidated Financial Statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q.

We are subject to other legal proceedings, which have arisen in the ordinary course of business and have not been finally adjudicated. Although there can be no assurances in this regard, in the opinion of management, none of the legal proceedings to which we are a party will have a material adverse effect on our results of operations, cash flows, or our financial condition.

**Item 1A. Risk Factors**

There are no material changes from the risk factors previously disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the year ended July 31, 2007.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information with respect to purchases by the Company of its shares during the first quarter of fiscal 2008:

| | Total Number of Shares Purchased | Average Price per Share | Total Number of Shares Purchased as part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| August 1 31, 2007 | 0 | $ 0 | 0 | 22,891,200 |
| September 1 30, 2007 (2) | 134 | $ 8.28 | 0 | 22,891,200 |
| October 1 31, 2007 (3) | 4,895,200 | $ 7.77 | 4,895,200 | 17,996,000 |
| Total | 4,895,334 | $ 7.77 | 4,895,200 | |

(1) Under our existing stock repurchase program, approved by our Board of Directors on June 13, 2006, we are authorized to repurchase up to an aggregate of 25 million shares of our Class B common stock and our common stock, without regard to class.

(2) Consists of shares of Class B common stock that were tendered by employees of the Company to satisfy the employees tax withholding obligations in connection with the vesting of awards of restricted stock. Such shares are repurchased by the Company based on their fair market value on the trading day immediately prior to the vesting date.

(3) Consists of shares of Class B common stock purchased pursuant to the stock repurchase program, resulting in an aggregate of 17,996,000 shares that may yet be purchased under the stock repurchase program.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

Table of Contents

**Item 6. Exhibits**

| Exhibit Number | Description |
|---|---|
| 31.1* | Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002. |

* Filed herewith.

**Table of Contents**

## SIGNATURES

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

| | | |
|---|---|---|
| | | **IDT CORPORATION** |
| December 10, 2007 | By: | /s/ JAMES A. COURTER<br>**James A. Courter**<br>**Chief Executive Officer and Vice-Chairman**<br>**(Principal Executive Officer)** |
| December 10, 2007 | By: | /s/ MARC J. OPPENHEIMER<br>**Marc J. Oppenheimer**<br>**Executive Vice President, Chief Financial Officer and Treasurer**<br>**(Principal Financial Officer)** |

37