IDT CORP
Form 10-Q
December 10, 2008
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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, 2008

or

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

IDT CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
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, 2008, the registrant had the following shares outstanding:

Common Stock, $.01 par value:	14,397,864 shares outstanding (excluding 13,326,996 treasury shares)
Class A common stock, $.01 par value:	9,816,988 shares outstanding
Class B common stock, $.01 par value:	51,737,035 shares outstanding (excluding 16,812,737 treasury shares)

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

IDT CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2008 (Unaudited)	July 31, 2008 (Note 1)
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 122,401	$ 164,886
Restricted cash and cash equivalents (Note 12)	22,110	4,133
Marketable securities (Note 12)	73,414	111,462
Trade accounts receivable, net of allowance for doubtful accounts of $20,726 at October 31, 2008 and $21,589 at July 31, 2008	145,722	178,642
Prepaid expenses	22,801	23,881
Investments short-term	16,974	22,563
Other current assets	68,291	70,416
Total current assets	471,713	575,983
Property, plant and equipment, net	218,261	229,931
Goodwill	73,982	74,509
Licenses and other intangibles, net	8,353	9,437
Investments long-term	27,514	40,295
Deferred income tax assets, net	2,106	2,300
Other assets	66,066	70,520
Total assets	$ 867,995	$ 1,002,975
Liabilities and stockholders equity		
Current liabilities:		
Trade accounts payable	$ 54,088	$ 82,976
Accrued expenses	179,989	203,487
Deferred revenue	76,567	88,618
Income taxes payable	106,340	123,000
Capital lease obligations current portion	8,327	9,316
Notes payable current portion	2,206	2,115
Other current liabilities	12,789	15,021
Total current liabilities	440,306	524,533
Capital lease obligations long-term portion	9,940	11,148
Notes payable long-term portion	99,629	100,150
Other liabilities	17,863	18,957
Total liabilities	567,738	654,788
Minority interests	5,456	5,850
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; 27,725 and 25,075 shares issued and 16,184 and 14,542 shares outstanding at October 31, 2008 and July 31, 2008, respectively	277	251
Class A common stock, $.01 par value; authorized shares 35,000; 9,817 shares issued and outstanding at October 31, 2008 and July 31, 2008	98	98
Class B common stock, $.01 par value; authorized shares 200,000; 67,481 and 63,904 shares issued and 51,225 and 51,249 shares outstanding at October 31, 2008 and July 31, 2008, respectively	675	639
Additional paid-in capital	717,873	716,598

Treasury stock, at cost, consisting of 11,541 and 10,533 shares of common stock and 16,256 and 12,655 shares of Class B common stock at October 31, 2008 and July 31, 2008, respectively	(288,430)	(285,536)
Accumulated other comprehensive (loss) income	(1,967)	6,754
Accumulated deficit	(133,725)	(96,467)
Total stockholders equity	294,801	342,337
Total liabilities and stockholders equity	$ 867,995	$ 1,002,975

See accompanying notes to condensed consolidated financial statements.

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IDT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended October 31, 2008	Three Months Ended October 31, 2007
	(in thousands, except per share data)	
Revenues	$ 441,354	$ 468,054
Costs and expenses:		
Direct cost of revenues (exclusive of depreciation and amortization)	339,340	366,464
Selling, general and administrative (i)	94,944	115,008
Depreciation and amortization	14,029	17,819
Bad debt	1,900	2,307
Research and development	1,644	371
Restructuring and severance charges	2,017	1,743
Total costs and expenses	453,874	503,712
Arbitration award income		40,000
(Loss) income from operations	(12,520)	4,342
Interest (expense) income, net	(932)	2,378
Other (expense) income, net	(21,202)	6,333
(Loss) income from continuing operations before minority interests and income taxes	(34,654)	13,053
Minority interests	364	(626)
Provision for income taxes	(2,968)	(3,835)
(Loss) income from continuing operations	(37,258)	8,592
Discontinued operations, net of tax:		
Loss on sale of discontinued operations		(1,812)
Net (loss) income	$ (37,258)	$ 6,780
Earnings per share:		
Basic:		
(Loss) income from continuing operations	$ (0.51)	$ 0.11
Loss on sale of discontinued operations		(0.02)
Net (loss) income	$ (0.51)	$ 0.09
Weighted-average number of shares used in calculation of basic earnings per share	72,960	79,624
Diluted:		
(Loss) income from continuing operations	$ (0.51)	$ 0.10
Loss on sale of discontinued operations		(0.02)
Net (loss) income	$ (0.51)	$ 0.08
Weighted-average number of shares used in calculation of diluted earnings per share	72,960	80,228

(i)	Stock-based compensation included in selling, general and administrative expenses	$ 1,337	$ 1,430

See accompanying notes to condensed consolidated financial statements.

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IDT CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended October 31, 2008	2007
	(in thousands)	
Net cash used in operating activities	$ (53,029)	$ (55,397)
Investing activities		
Capital expenditures	(2,891)	(9,175)
Collection of notes receivable, net	15	413
Investments and acquisitions		(11,947)
Restricted cash and cash equivalents	(17,977)	174
Proceeds from redemption of investments	5,000	
Proceeds from sale of building		5,388
Purchase of debt portfolios		(36,871)
Principal collections and proceeds on resale of debt portfolios	3,607	6,927
Proceeds from sales and maturities of marketable securities	52,312	419,912
Purchases of marketable securities	(19,890)	(293,891)
Net cash provided by investing activities	20,176	80,930
Financing activities		
Distributions to minority shareholders of subsidiaries	(639)	(1,088)
Proceeds from sale of stock of subsidiary	987	
Repayments of capital lease obligations	(2,259)	(4,538)
Repayments of borrowings	(507)	(681)
Repurchases of common stock and Class B common stock	(2,894)	(38,190)
Net cash used in financing activities	(5,312)	(44,497)
Effect of exchange rate changes on cash and cash equivalents	(4,320)	1,790
Net decrease in cash and cash equivalents	(42,485)	(17,174)
Cash and cash equivalents, beginning of period	164,886	151,404
Cash and cash equivalents, end of period	$ 122,401	$ 134,230
Supplemental schedule of non-cash investing activities		
Purchases of property, plant and equipment through capital lease obligations	$ 95	$ 234

See accompanying notes to condensed consolidated financial statements.

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of IDT Corporation and its subsidiaries (the Company or IDT) have been prepared in accordance with 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, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2009. The balance sheet at July 31, 2008 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, 2008, as filed with the U.S. Securities and Exchange Commission.

The Company s fiscal year ends on July 31 of each calendar year. Each reference below to a fiscal year refers to the fiscal year ending in the calendar year indicated (e.g., fiscal 2009 refers to the fiscal year ending July 31, 2009).

Certain prior year amounts have been reclassified to conform to the current year s presentation. At July 31, 2008, restricted cash and cash equivalents of $4.1 million previously included in cash and cash equivalents has been stated separately in the condensed consolidated balance sheet. Restricted cash and cash equivalents of $4.1 million, $2.4 million and $2.3 million at July 31, 2008, July 31, 2007 and October 31, 2007, respectively, previously included in cash and cash equivalents have been excluded from cash and cash equivalents in the condensed consolidated statements of cash flows. For the three months ended October 31, 2007, bad debt expense of $2.3 million and research and development expense of $0.4 million previously included in selling, general and administrative expenses have been stated separately in the condensed consolidated statement of operations. For the three months ended October 31, 2007, loss on sale of discontinued operations of $1.8 million previously included in other (expense) income, net has been stated separately in the condensed consolidated statement of operations. As described in Note 10, business segment results for the three months ended October 31, 2007 have been reclassified and restated to conform to the current year s presentation.

The Company records Universal Service Fund (USF) charges that are billed to customers on a gross basis in its results of operations, and records other taxes and surcharges on a net basis. USF charges in the amount of $0.8 million and $1.1 million in the three months ended October 31, 2008 and 2007, respectively, were recorded on a gross basis.

On September 30, 2008 and October 8, 2008, the Company received notices from the New York Stock Exchange (NYSE) that it was no longer in compliance with the market capitalization threshold and the $1.00 minimum price requirement, respectively, required for continued listing. The Company submitted to the NYSE a plan intended to achieve compliance within the time periods specified by the NYSE rules. The plan is currently in the review process and the Company expects to receive the NYSE s response by early January 2009. If the Company s final plan is rejected, the NYSE will commence delisting procedures. If the Company s final plan is accepted by the NYSE, the Company will have until April 8, 2009 and March 2010 to regain compliance with the minimum stock price and market capitalization standards, respectively. The NYSE will monitor compliance with the plan and may commence delisting procedures prior to either deadline if the Company fails to meet the milestones set forth in its plan.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company incurred a loss from continuing operations in each of the five years in the period ended July 31, 2008 and in the first quarter of fiscal 2009. The Company incurred a net loss in the first quarter of fiscal 2009, and in fiscal 2008, fiscal 2006, fiscal 2005 and fiscal 2004, and would have incurred a net loss in fiscal 2007 except for a gain on the sale of a discontinued operation. The Company also had negative cash flow from operating activities in each of the three years in the period ended July 31, 2008 and in the first quarter of fiscal 2009. The Company had an accumulated deficit at October 31, 2008 of $133.7 million. Historically, the Company satisfied its cash requirements primarily through a combination of its existing cash and cash equivalents, proceeds from the sale of businesses, proceeds from the sales and maturities of marketable securities and investments, arbitration awards and litigation settlements, and borrowings from third parties. The Company currently expects its operations in fiscal 2009 and the balance of cash, cash equivalents, marketable securities and pooled investment vehicles including hedge funds that it held as of October 31, 2008 will be sufficient to meet its currently anticipated working capital and capital expenditure requirements, and to fund any potential operating cash flow deficits within any of its segments for at least the next twelve months. The Company has retained Jefferies & Company, Inc. to serve as its financial advisor to assist with the potential monetization of non-core assets, explore opportunities in the capital markets to finance the growth of core businesses, and advise the Company with respect to strengthening its core businesses through strategic partnerships. Failure to generate sufficient revenue and operating income or to meet the goals in its fiscal 2009 operating budget could have a material adverse effect on the Company s results of operations, financial condition and cash flows. The recoverability of assets is highly dependent on the ability of management to execute its business plan.

Note 2 Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement on Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value, and expands the related disclosure requirements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS 157 indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS 157 defines fair value based upon an exit price model.

In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of the application of SFAS 157 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis to fiscal years beginning after November 15, 2008. Nonrecurring nonfinancial assets and nonfinancial liabilities include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value for impairment testing, those initially measured at fair value in a business combination, and nonfinancial liabilities initially measured at fair value for exit or disposal activities. The Company is required to adopt SFAS 157 for nonrecurring nonfinancial assets and nonfinancial liabilities on August 1, 2009. The Company does not expect the adoption of SFAS 157 for nonrecurring nonfinancial assets and nonfinancial liabilities to have a material impact on its financial position, results of operations or cash flows.

The Company adopted SFAS 157 except as permitted under FSP 157-2 as of August 1, 2008, which did not have a material impact on its financial statements. On October 10, 2008, the FASB issued FSP 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* which clarifies application of SFAS 157 in a market that is not active. FSP 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The Company adopted FSP 157-3 in October 2008.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company s assumptions used to measure assets and liabilities at fair value. A financial asset or liability s classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The following table presents the balances of assets measured at fair value on a recurring basis as of October 31, 2008 (there were no liabilities measured at fair value on a recurring basis as of October 31, 2008):

	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
		(in thousands)		
Assets:				
Marketable securities	$ 59,009	$	$ 13,619	$ 72,628
Auction rate securities included in marketable securities			786	786
Total marketable securities	$ 59,009	$	$ 14,405	$ 73,414

(1) quoted prices in active markets for identical assets or liabilities

(2) observable inputs other than quoted prices in active markets for identical assets and liabilities

(3) no observable pricing inputs in the market

The Company has investments in marketable securities that are considered available for sale. These securities are measured at fair value using quoted prices in active markets and are classified as Level 1. The Company s marketable securities at October 31, 2008 included auction rate securities with a par value of $14.3 million. The underlying asset for these securities is preferred stock of the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac). The fair value of the auction rate securities, which cannot be corroborated by the market, was estimated based on the value of the underlying assets and the Company s assumptions, and are therefore classified as Level 3. The Company s investments in pooled investment vehicles including hedge funds, which are included in Investments short-term and Investments long-term in the accompanying condensed consolidated balance sheets, are accounted for using the equity method unless the Company s interest is so minor that it has virtually no influence over operating and financial policies pursuant to the guidance in Emerging Issues Task Force (EITF) Topic D-46, *Accounting for Limited Partnership Investments* and EITF 03-16, *Accounting for Investments in Limited Liability Companies*. The Company s investments in pooled investment vehicles including hedge funds are therefore excluded from the fair value measurements table above.

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the change in the balance of the Company s assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at October 31, 2008:

	Level 3 (in thousands)
Balance, August 1, 2008	$ 53,265
Total gains (losses) (realized or unrealized):	
Included in earnings in Other (expense) income, net	(8,235)
Included in other comprehensive income	2,455
Sales	(33,080)
Transfers in (out) of Level 3	
Balance, October 31, 2008	$ 14,405
The amount of total gains or losses for the period included in earnings in Other (expense) income, net attributable to the change in unrealized gains or losses relating to assets still held at October 31, 2008	$ (6,314)

Effective August 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115*. SFAS 159 permits companies to choose to measure 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 chose not to elect the fair value option for the valuation of any of its eligible assets or liabilities, therefore the adoption of SFAS 159 had no impact on the Company s financial position, results of operations or cash flows.

Note 3 Arbitration Award Income

In November 2007, the Company s 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 Cable Telephony had entered into in November 2004. The Company recorded a gain of $40.0 million for this arbitration award, including accrued interest, in the first quarter of fiscal 2008. The Company received 29.3 million in March 2008, which includes interest from November 2005.

Note 4 Purchased Debt Portfolios

The Company records revenues on its purchased debt portfolios using the effective yield method for substantially all of its debt portfolios. 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 revenue is recognized until the Company has fully collected the cost of the portfolio.

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three Months Ended October 31, 2008	2007
	(in thousands)	
Balance, beginning of period	$ 63,059	$ 51,112
Purchases of debt portfolios		36,871
Collections	(12,191)	(15,545)
Proceeds from portfolio resales applied to carrying value		(638)
Revenue recognized	8,584	9,341
Provision for bad debt		(84)
Balance, end of period	59,452	81,057
Less current portion included in other current assets	(14,310)	(30,503)
Long term portion included in other assets	$ 45,142	$ 50,554

As of October 31, 2008 and 2007, the original undiscounted contractual amount less collections, put backs and resales since acquisition was $1.7 billion and $1.4 billion, respectively.

There were no debt portfolios purchased during the three months ended October 31, 2008. 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 included $0.7 million for debt portfolios accounted for using the cost recovery method. As of October 31, 2008, the carrying value of the debt portfolios accounted for using the cost recovery method was zero.

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, 2008	2007
	(in thousands)	
Balance, beginning of period	$ 77,499	$ 56,963
Additions		31,444
Revenue recognized	(7,690)	(8,483)
Balance, end of period	$ 69,809	$ 79,924

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The change in the provision for bad debt of the portfolios is as follows:

	Three Months Ended October 31, 2008	2007
	(in thousands)	
Balance, beginning of period	$ 22,081	$
Provision for bad debt	243	
Uncollectible accounts written-off	(243)	
Balance, end of period	$ 22,081	$

In November 2008, portions of debt portfolios with an aggregate face value of $185.0 million were sold for cash of $5.4 million. Within 120 days following the closing of the sale, the buyer is permitted to return unqualified accounts and receive a full refund of the purchase price paid for those accounts. Unqualified accounts are accounts that were previously satisfied, settled, released, in bankruptcy, deceased, fraudulent, pending litigation or in dispute as of October 31, 2008. Although the computation of the gain or loss on this sale has not been finalized, the Company does not expect the gain or loss to have a significant effect on its results of operations.

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. The Company is 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, which is included in Other long-term liabilities in the condensed consolidated balance sheet. Loss on sale of discontinued operations in the three months ended October 31, 2007 of $1.8 million included compensation and the costs of a lawsuit, all of which arose from and were directly related to the operations of IDT Entertainment prior to its disposal.

Note 6 Stockholders Equity

On October 31, 2008, the Company entered into an Amended and Restated Employment Agreement with Mr. Howard S. Jonas, the Company s Chairman. Pursuant to this Agreement (i) the term of Mr. Jonas employment with the Company runs until December 31, 2013 and (ii) Mr. Jonas was granted 3.5 million restricted shares of the Company s Class B common stock and 2.7 million restricted shares of the Company s common stock in lieu of a cash base salary beginning January 1, 2009 through December 31, 2013. The restricted shares vest in different installments throughout the term of Mr. Jonas employment as delineated in the agreement, and all of the restricted shares paid to Mr. Jonas under the agreement automatically vest in the event of (i) a change in control of the Company; (ii) Mr. Jonas death; or (iii) if Mr. Jonas is terminated without cause or if he terminates his employment for good reason as defined in the agreement. A pro rata portion of the restricted shares will vest in the event of termination for cause. The restricted shares were granted on October 31, 2008 pursuant to the Company s 2005 Stock Option and Incentive Plan, as amended and restated, and are subject to approval of the amendment of the Plan at the Company s annual meeting of stockholders on December 17, 2008. The 3.5 million restricted shares of the Company s Class B common stock and 2.7 million restricted shares of the Company s common stock granted on October 31, 2008 are included in the shares issued and outstanding at October 31, 2008. Total unrecognized compensation cost on the grant date was $5.5 million. The unrecognized compensation cost is expected to be recognized over the vesting period from January 1, 2009 through December 31, 2013.

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On November 5, 2008, the Company and Mr. James A. Courter, the Company s Vice Chairman and Chief Executive Officer, entered into an amendment to Mr. Courter s employment agreement. Pursuant to the amendment, Mr. Courter was granted 1.1 million restricted shares of Class B common stock in lieu of a cash base salary from January 1, 2009 until October 21, 2009. The restricted shares are scheduled to vest on October 21, 2009, the last day of the term under the amended employment agreement. Pursuant to the amendment, all of the restricted shares paid to Mr. Courter under the amendment automatically vest in the event of (i) a change in control of the Company; (ii) Mr. Courter s death; or (iii) if Mr. Courter is terminated without cause or if he terminates his employment for good reason as defined by the amendment. A pro rata portion of the restricted shares will vest in the event of termination for cause. The restricted shares were granted on November 5, 2008 pursuant to the Company s 2005 Stock Option and Incentive Plan, and are subject to approval of the amendment of the Plan at the Company s annual meeting of stockholders on December 17, 2008. Total unrecognized compensation cost on the grant date was $0.8 million. The unrecognized compensation cost is expected to be recognized from January 1, 2009 through October 21, 2009.

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, 2008, the Company repurchased an aggregate of 3.6 million shares of Class B common stock and 1.0 million shares of common stock for an aggregate purchase price of $2.9 million. 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. In addition, between November 1, 2008 and December 1, 2008, the Company repurchased an aggregate of 0.6 million shares of Class B common stock and 1.8 million shares of common stock for an aggregate purchase price of $1.9 million. As of December 1, 2008, 10.2 million shares remained available for repurchase under the stock repurchase program.

Note 7 Earnings Per Share

The Company computes earnings per share under the provisions of SFAS No. 128, *Earnings per Share*, whereby basic earnings per share is computed by dividing net income (loss) 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,	
	2008	2007
	(in thousands)	
Weighted-average number of shares used in calculation of basic earnings per share	72,960	79,624
Effect of dilutive securities:		
Stock options		336
Non-vested restricted stock		255
Contingently issuable shares		13
Weighted-average number of shares used in calculation of diluted earnings per share	72,960	80,228

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IDT CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three months ended October 31, 2008, the diluted earnings per share equals basic earnings per share because the Company had losses from continuing operations and the impact of the assumed exercise of stock options and non-vested restricted stock would have been anti-dilutive. The following securities have been excluded from the dilutive earnings per share computations because their inclusion would have been anti-dilutive:

	At October 31, 2008	2007
	(in thousands)	
Stock options	6,475	6,173
Non-vested restricted stock	6,513	
Contingently issuable shares	66	
Total	13,054	6,173

Note 8 Comprehensive (Loss) Income

The Company s comprehensive (loss) income consists of the following:

	Three Months Ended October 31, 2008	2007
	(in thousands)	
Net (loss) income	$ (37,258)	$ 6,780
Foreign currency translation adjustments	(11,229)	(6,617)
Unrealized gains on available-for-sale securities	2,508	6,928
Comprehensive (loss) income	$ (45,979)	$ 7,091

Note 9 Restructuring and Severance Charges

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

	Three Months Ended October 31, 2008	2007
	(in thousands)	
Prepaid Products	$ (722)	$ 404
Consumer Phone Services	(36)	57
Wholesale Telecommunications Services	(22)	678
IDT Energy	15	
IDT Carmel	389	
IDT Capital	1,065	(145)
Corporate	1,328	749

Total	$ 2,017	$ 1,743

The charges in the three months ended October 31, 2008 and 2007 consist primarily of severance related to a company-wide cost savings program initiated towards the end of the third quarter of fiscal 2006. As of October 31, 2008, this program resulted in the termination of approximately 1,260 employees. In the three months ended October 31, 2008, IDT Telecom reversed accrued severance of $2.6 million as a result of

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modifications to retention agreements with two IDT Telecom executive employees. 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 the Company s restructuring activities (substantially all of which relates to workforce reductions):

	Balance at July 31, 2008	Charged to Expense	Payments	Balance at October 31, 2008
		(in thousands)		
IDT Telecom	$ 10,854	$ (780)	$ (3,629)	$ 6,445
IDT Energy		15	(15)	
IDT Carmel	713	389	(671)	431
IDT Capital	526	1,065	(1,420)	171
Corporate	7,076	1,328	(1,806)	6,598
Total	$ 19,169	$ 2,017	$ (7,541)	$ 13,645

Note 10 Business Segment Information

The Company has the following five reportable business segments: Prepaid Products, Consumer Phone Services, Wholesale Telecommunications Services, IDT Energy and IDT Carmel. 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 Company s reportable segments are distinguished by types of service, customers and methods used to provide their services. The operating results of these business segments are regularly reviewed by the Company s chief operating decision maker.

The Prepaid Products segment markets and sells 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. The IDT Energy segment operates the Company s Energy Services Company, or ESCO, in New York State. IDT Carmel manages receivables portfolios and performs debt collection services. IDT Capital consists of the IDT Local Media businesses (principally CTM Media Group, WMET radio and IDW Publishing), Zedge (which provides a web-based, worldwide destination for free, user-generated mobile content distribution and sharing), Alternative Energy (which consists of American Shale Oil Corporation (AMSO), which manages the Company s U.S. oil shale initiative, and other alternative energy initiatives), certain real estate investments and other smaller businesses. Corporate costs include certain services, such as corporate executive compensation, consulting fees, treasury and accounts payable, tax and accounting services, human resources and payroll, corporate purchasing, corporate governance including Board of Directors fees, internal and external audit, public and investor relations, corporate insurance, corporate legal, and business development, and other corporate-related general and administrative expenses including, among others, facilities costs, charitable contributions and travel, as well as depreciation expense on corporate assets. Corporate does not generate any revenues, nor does it incur any direct cost of revenues.

In fiscal 2008, the telecommunications termination network services and costs incurred by IDT Telecom on behalf of all of its segments were treated as belonging to the Wholesale Telecommunications Services segment, which then recovered a portion of such services and costs, plus an agreed-upon mark-up profit, through an intersegment billing process. IDT Telecom s senior management changed in the second half of fiscal 2008, and

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began to treat such termination network services and costs as a pass-through shared cost to all its segments rather than a profit center within Wholesale Telecommunications Services. As such, beginning in fiscal 2009, Wholesale Telecommunications Services ceased charging for the telecommunications services it provides to other segments, and the allocation of such services and related costs within IDT Telecom was revised accordingly. In addition, in the first quarter of fiscal 2009, (1) IDT Connect, the Company s conferencing solutions business, which was historically included in IDT Capital was transferred to IDT Telecom s Prepaid Products segment, (2) certain real estate investments that were historically included in Corporate were transferred to IDT Capital and (3) IDW Publishing was transferred from the IDT Internet Mobile Group in IDT Capital to IDT Local Media in IDT Capital. To the extent possible, comparative historical results have been reclassified and restated as if the fiscal 2009 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 accounting policies of the segments are the same as the accounting policies of the Company as a whole. The Company evaluates the performance of its business segments based primarily on operating income (loss). IDT Telecom depreciation and amortization are allocated to Prepaid Products, Consumer Phone Services and Wholesale Telecommunications Services because the related assets are not tracked separately by segment. There are no other significant asymmetrical allocations to segments.

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 Carmel	IDT Capital	Corporate	Total
Three Months Ended October 31, 2008								
Revenues	$ 175,243	$ 17,779	$ 160,517	$ 67,160	$ 8,852	$ 11,803	$	$ 441,354
Operating (loss) income	(10,643)	5,649	848	11,104	(708)	(6,057)	(12,713)	(12,520)
Restructuring and severance charges	(722)	(36)	(22)	15	389	1,065	1,328	2,017
Three Months Ended October 31, 2007								
Revenues	$ 209,202	$ 25,261	$ 168,485	$ 42,076	$ 9,667	$ 13,363	$	$ 468,054
Operating (loss) income	(13,553)	5,054	39,932	1,671	1,988	(11,518)	(19,232)	4,342
Restructuring and severance charges	404	57	678			(145)	749	1,743

The Wholesale Telecommunications Services segment s income from operations in the three months ended October 31, 2007 includes arbitration award income of $40.0 million (see Note 3).

Note 11 Legal Proceedings

On August 27, 2003, Aerotel, Ltd., Aerotel U.S.A., and Aerotel U.S.A., LLC (Aerotel) filed a complaint against the Company in the United States District Court, Southern District of New York, seeking damages for alleged infringement of a patent. The parties reached a settlement and pursuant to a stipulation of dismissal all claims and counterclaims have been dismissed. The settlement provided for a payment of $15 million in cash to Aerotel, which the Company paid in the first quarter of fiscal 2008, and making available to Aerotel calling cards or PINs over time with potential termination costs of up to $15 million, subject to certain other conditions. In

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connection with this settlement, the Company accrued an expense of $24 million in the fourth quarter of fiscal 2007. On May 13, 2008, Aerotel, Ltd. filed a complaint against the Company in the United States District Court Southern District of New York related to a dispute concerning the settlement agreement between the Company and Aerotel. The complaint alleges Breach of Contract, Anticipatory Breach, and Breach of Covenant of Good Faith and Fair Dealing. Aerotel, Ltd. is seeking damages in the amount of at least $30 million. The parties are engaged in settlement discussions. On November 19, 2008, based on the parties communications with the Court with regard to settlement, the Court issued an Order of Discontinuance, in which the Court ordered that the action is discontinued without prejudice to restoration of the action within 30 days of the Order if no settlement is reached. In connection with this matter, the Company accrued an additional expense of $6 million in the fourth quarter of fiscal 2008.

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. On January 24, 2008, the Appellate Court granted a motion made by Tyco and stayed proceedings in the trial court until the appeal is decided. On August 19, 2008, the Appellate Division issued a decision and order reversing the trial court s grant of partial summary judgment on the issue of liability to the Company and granted the portion of defendants cross motion seeking summary judgment dismissing the complaint and remanded the matter to the Supreme Court for further proceedings. On September 18, 2008, the Company filed its request for reargument, or in the alternative, for leave to appeal to the Court of Appeals and briefing has now been completed.

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 (IIED). 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. The Company denies liability for the remaining claims. 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 IIED.

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Thereafter, defendants were permitted to file another motion to dismiss plaintiff s IIED claim in the amended supplemental complaint, which the plaintiff opposed. On February 19, 2008, Judge Chesler issued an Opinion and Order dismissing plaintiff s IIED claim. Plaintiff also sought leave to amend his complaint and supplemental complaint to add some additional claims, which was denied as well. The parties are scheduled to participate in non-binding mediation on December 15, 2008 and discovery is stayed for a sixty day period.

On 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 (DOJ), the Securities and Exchange Commission (SEC) 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 investigations, 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, which the SEC and DOJ have confirmed are still ongoing.

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 and asserted counterclaims. The parties have exchanged expert reports, are completing pre-trial discovery and will be submitting a final pre-trial order to the Court in December 2008. After the upcoming claim construction hearing (which has not been scheduled yet), the Court will set a summary judgment briefing schedule. On February 20, 2008, eBay, Inc. filed a complaint (which was subsequently amended) in the United States District Court for the Western District of Arkansas alleging that IDT Corporation, Net2Phone, Inc., IDT Telecom, Inc. and the Company s 51%-owned U.S. calling card distribution partnership, Union Telecard Alliance, LLC (UTA) infringed U.S. Patent No. 6,067,350 that is owned by eBay, Inc. The lawsuit seeks, among other things, an injunction enjoining the Company from infringing the patent and an undetermined amount of monetary damages in connection with the Company s alleged infringement. On April 23, 2008, the Company answered eBay s complaint and denied all wrongdoing. The Company also filed counterclaims against eBay, for infringement of three Net2Phone patents: U.S. Patents numbers 6,275,490; 5,974,414; and 6,631,399. The Company asked the court in Arkansas to enjoin those portions of eBay s auction business that infringe Net2Phone patents and to award Net2Phone damages as a result of eBay s patent infringement. eBay has answered Net2Phone s counterclaims, denied all wrongdoing and asserted counterclaims. An initial conference was held on September 5, 2008 and the Court issued an order, which among other things schedules a claim construction hearing for February 2009 and schedules the trial for October 2009. The parties are now actively engaged in pre-trial discovery.

On March 8, 2007, IDT Telecom, Inc. and UTA 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 car