**Entrix Telecom, Inc.**
520 Broad Street
Newark, New Jersey 07102-3111

ORIGINAL

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03 FEB 12 PM 1:46
COMMISSION
CLERK

February 11, 2003

**VIA OVERNIGHT MAIL**

Florida Public Service Commission
Division of the Commission Clerk and Administrative Services
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

**Re: Application Form for Authority to Provide Interexchange Telecommunications Service Between Points Within the State of Florida**
**Docket No.** 030161-TI

To Whom It May Concern:

On behalf of Entrix Telecom, Inc. ("Entrix"), I hereby provide an original and six (6) copies of the above-mentioned Application. Additionally, I have provided a $250.00 filing fee. Please date-stamp the additional copy of this cover letter and return it to me in the enclosed self-addressed, stamped envelope provided.

If you have any questions regarding this Application, please contact me at (973) 438-4854.

Respectfully submitted,

Carl Wolf Billek

Carl Wolf Billek
Entrix Telecom, Inc.

Enclosure

**Entrix Telecom, Inc.**
520 Broad Street
Newark, New Jersey 07102-3111

February 11, 2003

RECEIVED FPSC
03 FEB 12 PM 1:44
COMMISSION CLERK

**VIA OVERNIGHT MAIL**

Florida Public Service Commission
Division of the Commission Clerk and Administrative Services
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

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DOCUMENT NUMBER-DATE
01440 FEB 12 03
FPSC-COMMISSION CLERK

Respectfully submitted,

Carl Wolf Billek

Carl Wolf Billek
Entrix Telecom, Inc.

Enclosure

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Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward deposit information to Records.
Initials of person who forwarded check:

DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

# APPLICATION

1. This is an application for √ (check one):

   **(X)** **Original certificate** (new company).

   ( ) **Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

   ( ) **Approval of assignment of existing certificate:** Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

   ( ) **Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company: **Entrix Telecom, Inc.**

3. Name under which the applicant will do business (fictitious name, etc.):

   **Applicant intends to do business under the name Entrix Telecom, Inc.**

4. Official mailing address (including street name & number, post office box, city, state, zip code):

   **520 Broad Street, Newark, New Jersey 07102-3111**

5. Florida address (including street name & number, post office box, city, state, zip code):

   **Company does not have a Florida address. Company's registered agent in Florida is: CT Corporation System, 1200 South Pine Island Road, Plantation, FL 33324.**

6. Select type of Business your company will be conducting √ (check all that apply):

**( ) Facilities-based carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.

**( ) Operator Service Provider** - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.

**(X) Reseller** - company has or plans to have one or more switches but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.

**( ) Switchless Rebiller** - company has no switch or transmission facilities but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount but generally below the rate end users would pay for unaggregated traffic.

**( ) Multi-Location Discount Aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers, then offers resold service by enrolling unaffiliated customers.

**(X) Prepaid Debit Card Provider** - any person or entity that purchases 800 access from an underlying carrier or unaffiliated entity for use with prepaid debit card service and/or encodes the cards with personal identification numbers.

7. **Structure of organization:**

( ) Individual
(**X** ) Foreign Corporation
( ) General Partnership
( ) Other
( ) Corporation
( ) Foreign Partnership
( ) Limited Partnership

8. **<u>If individual,</u> provide:**

Name: **Not Applicable – Applicant is not an individual**

Title:

Address:

City/State/Zip:

Telephone No.:________________________ Fax No.:

Internet E-Mail Address:

Internet Website Address:

9. **<u>If incorporated in Florida,</u>** provide proof of authority to operate in Florida:

   (a) **The Florida Secretary of State corporate registration number:**

   **Not Applicable – Applicant is not incorporated in Florida.**

10. **<u>If foreign corporation,</u>** provide proof of authority to operate in Florida:

    (a) The Florida Secretary of State corporate registration number:

    **F-02000005482**

11. **<u>If using fictitious name-d/b/a,</u>** provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

    (a) **The Florida Secretary of State fictitious name registration number:**

    **Not Applicable – Applicant is not using a fictitious name.**

12. **<u>If a limited liability partnership</u>,** provide proof of registration to operate in Florida:

    (a) The Florida Secretary of State registration number:

    **Not Applicable – Applicant is not a limited liability partnership.**

13. **If a partnership,** provide name, title and address of all partners and a copy of the partnership agreement.

Name: **Not Applicable – Applicant is not a partnership.**

Title:

Address:

City/State/Zip:

Telephone No.:______________________ Fax No.:

Internet E-Mail Address:

Internet Website Address:

14. **If a foreign limited partnership,** provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

    **Not Applicable – Applicant is not a foreign limited partnership.**

    (a) **The Florida registration number:**

15. Provide **F.E.I. Number**(if applicable): **Not Applicable.**

16. Provide the following (if applicable):

    (a) Will the name of your company appear on the bill for your services? **(X ) Yes ( ) No**

    (b) If not, who will bill for your services?

    **Name:** ______________________________
    **Title:** ______________________________
    **Address:** ______________________________
    **City/State/Zip:** ______________________________
    **Telephone No.:** ______________ **Fax No.:** ______________

(c) How is this information provided?

**Applicant's customers will purchase prepaid phone cards. Phone cards will be decremented based on customer use. Customer will be able to call toll-free number to determine amount of use on phone card.**

17. Who will receive the bills for your service?

(**X**) Residential Customers
( ) PATs providers
( ) Hotels & motels
( ) Universities
( ) Other: (specify) .

(**X**) Business Customers
( ) PATs station end-users
( ) Hotel & motel guests
( ) Universities dormitory residents

18. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: **Carl Wolf Billek**
Title: **Associate General Counsel**
Address: **520 Broad Street**
City/State/Zip: **Newark, New Jersey 07102-3111**
Telephone No.: **(973) 438-4854** Fax No.: **(973) 438-1455**
Internet E-Mail Address: **Carl.Billek@corp.idt.net**
Internet Website Address: **Not Applicable – Applicant does not have a website.**

(b) Official point of contact for the ongoing operations of the company:

**Name:Carl Wolf Billek**

**Title: Associate General Counsel**

**Address: 520 Broad Street**

**City/State/Zip: Newark, New Jersey 07102-3111**

**Telephone No.:(973) 438-4854 Fax No.: (973) 438-1455**
**Internet E-Mail Address: Carl.Billek@corp.idt.net**
**Internet Website Address: Not Applicable – Applicant does not have a website.**

(c) Complaints/Inquiries from customers:

**Name: Anthony Acevedo**

**Title: Legal Department Customer Service Legal Liason**

**Address: 520 Broad Street**

**City/State/Zip: Newark, New Jersey 07102-3111**

**Telephone No.: (973) 438-4827 Fax No.: (973) 438-1455**
**Internet E-Mail Address:Anthony.Acevedo@corp.idt.net**
**Internet Website Address: Not Applicable – Applicant does not have a website.**

19. List the states in which the applicant:

(a) has operated as an interexchange telecommunications company.

**Applicant has not commenced operations in any state.**

(b) has applications pending to be certificated as an interexchange telecommunications exchange company.

**Arkansas, Colorado, Indiana, Kansas, Louisiana, Minnesota, Oklahoma, Washington and Wisconsin.**

(c) is certificated to operate as an interexchange telecommunications company.

**Idaho, Iowa, New York, Virginia and Oregon**

(d) has been denied authority to operate as an interexchange elecommunications company and the circumstances involved.

**Applicant has never been denied authority to operate as an inerexchange telecommunications company.**

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

**Applicant has never had regulatory penalties imposed for violations of telecommunications statutes.**

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

**Applicant has never been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity.**

20. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

**No officer, director or any of the ten largest stock holders has previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, nor may any such actions result from pending proceedings.**

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

**IDT Corporation, the parent corporation of Entrix Telecom, Inc. is also the ultimate corporate parent of IDT America, Corp. and Winstar Communications, LLC, both Florida certificated telephone companies.**

21. The applicant will provide the following interexchange carrier services _ (check all that apply):

a. ____**MTS with distance sensitive per minute rates**

| | |
|---|---|
| ______ | Method of access is FGA |
| ______ | Method of access is FGB |
| ______ | Method of access is FGD |
| ______ | Method of access is 800 |

b. _X_**MTS with route specific rates per minute**

| | |
|---|---|
| ______ | Method of access is FGA |
| ______ | Method of access is FGB |
| __X__ | Method of access is FGD |
| __X__ | Method of access is 800 |

c. ____**MTS with statewide flat rates per minute (i.e. not distance sensitive)**

_____ Method of access is FGA
_____ Method of access is FGB
_____ Method of access is FGD
_____ Method of access is 800

d. _____ **MTS for pay telephone service providers**

e. _____ **Block-of-time calling plan (Reach Out Florida, Ring America, etc.).**

f. _____ **800 service (toll free)**

g. _____ **WATS type service (bulk or volume discount)**

_____ Method of access is via dedicated facilities
_____ Method of access is via switched facilities

h. _____ **Private line services (Channel Services)**
(For ex. 1.544 mbs., DS-3, etc.)

I. _____ **Travel service**

_____ Method of access is 950
_____ Method of access is 800

j. _____ **900 service**

k. _____ **Operator services**

_____ Available to presubscribed customers
_____ Available to non presubscribed customers (for example, to patrons of hotels, students in universities, patients in hospitals).
_____ Available to inmates

l. **Services included are:**

_____ Station assistance
_____ Person-to-person assistance
_____ Directory assistance
_____ Operator verify and interrupt
_____ Conference calling

22. Submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485 (example enclosed).

**See Attachment A.**

23. Submit the following:

A. **Managerial capability**: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

**Please see Attachment B**

B. **Technical capability**: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

**Please See Attachment C**

C. **Financial capability.**

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet:
2. income statement: and
3. statement of retained earnings.

**NOTE**: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

**As a newly formed entity, Applicant does not have 3 years of audited financial statements. At Attachment D, Applicant provides the most recent 3 years' audited financial statements of its corporate parent, IDT Corporation, upon which Applicant relies for a demonstration of its financial capability. Additional financial statements may be found at http://www.idt.net/ir/.**

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.

3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

**Applicant, through its corporate parent, IDT Corporation, has the sufficient financial capability to: (1) provide interexchange service throughout the State of Florida; (2) maintain provision of such service; and (3) meet its lease or ownership obligations.**

**As demonstrated by the enclosed SEC filings and the information below, IDT Corporation is unquestionably financially capable and secure. In the June 24, 2002 issue Business Week, IDT Corporation was listed in the Business Week Info Tech 100, a ranking of the top technology companies in the world based on their performance over the past 12 months. In addition, IDT was ranked among the top ten telecommunications companies in two categories. Based on performance over the last 12 months, IDT was ranked second among all telecommunications companies for Total Shareholder Return at 34%. In the category of Revenue Growth, IDT came in eighth at 23.4%. Overall, IDT ranked number 96 among all tech companies on the global list.**

**Also, in the April 15, 2002 issue of FORTUNE Magazine, IDT Corporation was ranked among the FORTUNE 1,000. The FORTUNE 1,000 ranks the largest publicly-traded U.S. corporations By annual revenues. At $1.231 billion, the magazine noted IDT's 2001 Revenues are up 13% from the year before. In addition, the magazine rated IDT first among all ranked telecommunications companies for total return to investors and for profitability.**

**According to the FORTUNE 1,000 rankings, IDT Corporation led all 23 companies listed in the telecommunications category with a 92% total return to Investors as measured by an increase in share price.**

**IDT Corporation also came out on top in its category in the FORTUNE 1,000 Profitability rankings. The Company was number one in profits as a percent of stockholders' equity at 49%. In addition, IDT's profit as a percent of revenues was also rated first at 43%, and profit as a percent of assets was the highest in the category at 28%.**

THIS PAGE MUST BE COMPLETED AND SIGNED

## APPLICANT ACKNOWLEDGMENT STATEMENT

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

**Norman Rosenberg** ______________________ Norman Rosenberg ______________________
**Print Name** **Signature**

Secretary ______________________ 2/11/03 ______________________
**Title** **Date**

**(973) 438-4001** ______________________ **(973) 438-1455** ______________________
**Telephone No.** **Fax No.**

**Address:** **520 Broad Street, Newark, New Jersey 07102-3111**

## THIS PAGE **MUST BE** COMPLETED AND SIGNED

## CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be provided in one of the following ways (applicant, please check one):

( ) The applicant will **not** collect deposits nor will it collect payments for service more than one month in advance.

(**X**) The applicant intends to collect deposits and/or advance payments for more than one month's service and will file and maintain a surety bond with the Commission in an amount equal to the current balance of deposits and advance payments in excess of one month.

(The bond must accompany the application.)

UTILITY OFFICIAL:

**Norman Rosenberg**
**Print Name**

**Signature**

Secretary
**Title**

2/11/03
**Date**

**(973) 438-4001**
**Telephone No.**

**(973) 438-1455**
**Fax No.**

**Address:** **520 Broad Street, Newark, New Jersey 07102-3111**

THIS PAGE MUST BE COMPLETED AND SIGNED

# AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide interexchange telecommunications company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

**Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."**

UTILITY OFFICIAL:

| | |
|---|---|
| **Norman Rosenberg** | Norman Rosenberg |
| **Print Name** | **Signature** |
| Secretary | 2/11/03 |
| **Title** | **Date** |
| **(973) 438-4001** | **(973) 438-1455** |
| **Telephone No.** | **Fax No.** |

**Address:** **520 Broad Street, Newark, New Jersey 07102-3111**

## CURRENT FLORIDA INTRASTATE SERVICES

Applicant **has** () or **has not** (**X**) previously provided intrastate telecommunications in Florida.

If the answer is has, fully describe the following:

a) What services have been provided and when did these services begin?

______________________________________________

______________________________________________

______________________________________________

b) If the services are not currently offered, when were they discontinued?

______________________________________________

______________________________________________

______________________________________________

UTILITY OFFICIAL:

| | |
|---|---|
| **Norman Rosenberg** | Norman Rosenberg |
| **Print Name** | **Signature** |
| Secretary | 2/18/03 |
| **Title** | **Date** |
| **(973) 438-4001** | **(973) 438-1455** |
| **Telephone No.** | **Fax No.** |

**Address:** **520 Broad Street, Newark, New Jersey 07102-3111**

## CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

**The information below does not apply to the present application, as this application is not for a certificate sale, transfer or assignment.**

I, (Name)
(Title)________________________________________ of (Name of Company)

and current holder of Florida Public Service Commission Certificate Number #
______________, have reviewed this application and join in the petitioner's request for a:

( ) sale

( ) transfer

( ) assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

| | |
|---|---|
| ______________________ | ______________________ |
| **Print Name** | **Signature** |
| ______________________ | ______________________ |
| **Title** | **Date** |
| ______________________ | ______________________ |
| **Telephone No.** | **Fax No.** |

**Address:** ________________________________________

FORM PSC/CMU 8 (11/95)
Required by Commission Rule Nos. 25-24.805, 25-24.810, and 25-24.815

# ATTACHMENT A

## Tariff

**TITLE SHEET**

**FLORIDA TELECOMMUNICATIONS TARIFF**

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of service or facilities for Telecommunications Services furnished by Entrix Telecom, Inc. ("Entrix"), with principal offices at 520 Broad Street, Newark, New Jersey 07102-3111. This tariff applies for services furnished within the State of Florida. This tariff is on file with the Florida Public Service Commission, and copies may be inspected, during normal business hours, at the company's principal place of business.

**CONCURRING, CONNECTING OR**

**OTHER PARTICIPATING CARRIERS AND**

**BILLING AGENTS**

1. Concurring Carriers - None

2. Connecting Carriers - None

3. Other Participating Carriers - None

4. Billing Agents - None

## CHECK SHEET

Sheets 1 through 32 inclusive of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this sheet.

| SHEET | REVISION | SHEET | REVISION |
|---|---|---|---|
| 1 | Original | 21 | Original |
| 2 | Original | 22 | Original |
| 3 | Original | 23 | Original |
| 4 | Original | 24 | Original |
| 5 | Original | 25 | Original |
| 6 | Original | 26 | Original |
| 7 | Original | 27 | Original |
| 8 | Original | 28 | Original |
| 9 | Original | 29 | Original |
| 10 | Original | 30 | Original |
| 11 | Original | 31 | Original |
| 12 | Original | 32 | Original |
| 13 | Original | | |
| 14 | Original | | |
| 15 | Original | | |
| 16 | Original | | |
| 17 | Original | | |
| 18 | Original | | |
| 19 | Original | | |
| 20 | Original | | |

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## TABLE OF CONTENTS (Cont'd)

Page





Issued by: Carl Wolf Billek, Associate General Counsel
520 Broad Street
Newark, New Jersey 07102-3111

## ALPHABETICAL INDEX

## TARIFF FORMAT

A. Sheet Numbering: Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between pages 11 and 12 would be page 11.1.

B. Sheet Revision Numbers: Revision numbers also appear in the upper right corner of each sheet where applicable. These numbers are used to indicate the most current page version on file with the Commission. For example, 4th Revised Sheet 13 cancels 3rd Revised Sheet 13. Consult the Check Sheet for the sheets currently in effect.

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

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

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

## SYMBOLS

The following are the only symbols used for the purposes indicated below:

(D) to signify a deletion
(I) to signify a rate increase
(M) to signify material relocated in the tariff
(N) to signify a new rate or regulation
(R) to signify a rate reduction
(T) to signify a change in text, but no change in rate or regulation

## SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

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

Authorization Code - A numerical code, one or more of which may be assigned to a Customer, to enable Entrix to identify the origin of the Customer so it may rate and bill the call. Automatic number identification (ANI) is used as the authorization code wherever possible.

Commission - Used throughout this tariff to mean the Florida Public Service Commission.

Customer - The person, firm, corporation or other legal entity which orders the services of Entrix or purchases a Entrix Prepaid Calling Card and/or originates prepaid calls using such cards, and is responsible for the payment of charges and for compliance with the Company's tariff regulations.

Company or Entrix - Used throughout this tariff to mean Entrix Telecom, Inc., a New Jersey corporation.

Holiday - New Year's Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Holidays shall be billed at the evening rate from 8 a.m. to 11 p.m. After 11 p.m., the lower night rate shall go into effect.

Prepaid Account - An inventory of Telecom Units purchased in advance by the Customer, and associated with one and only one Authorization Code as contained in a specific Prepaid Calling Card.

Prepaid Calling Card - A card issued by the Company, containing an Authorization Code which identifies a specific Prepaid Account of Telecom Units, which enables calls to be processed, account activity to be logged, and balances to be maintained, on a prepayment basis.

## SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (Cont'd)

Telecom Unit - A measurement of telecommunications service equivalent to one minute of usage between any two points within the State of Florida.

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

Underlying Carrier - The telecommunications carrier whose network facilities provide the technical capability and capacity necessary for the transmission and reception of Customer telecommunications traffic.

## SECTION 2 - RULES AND REGULATIONS

2.1 Undertaking of the Company

This tariff contains the regulations and rates applicable to intrastate resold telecommunications services provided by Entrix for telecommunications between points within the State of Florida. Resale services are furnished subject to the availability of facilities and subject to the terms and conditions of this tariff in compliance with limitations set forth in the Commission's rules. The Company's services are provided on a statewide basis and are not intended to be limited geographically. The Company offers service to all those who desire to purchase service from the Company consistent with all of the provisions of this tariff. Customers interested in the Company's services shall file a service application with the Company which fully identifies the Customer, the services requested and other information requested by the Company. The Company reserves the right to examine the credit record and check the references of all applicants and Customers. The Company may examine the credit profile/record of any applicant prior to accepting the service order or a Customer's deposit, if required. The service application and the deposit shall not in themselves obligate the Company to provide services or to continue to provide service if a later check of applicant's credit record is, in the opinion of the Company, contrary to the best interest of the Company. If service is denied, Customer deposits, if required, will be returned immediately. The Company may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the Customer, to allow connection of a Customer's location to a service provided by the Company. The Customer shall be responsible for all charges due for such service arrangement. The Company does not own any switching, transmission or other physical facilities in Florida.

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.1 Undertaking of the Company (Cont'd)

2.1.1 The services provided by Entrix are not part of a joint undertaking with any other entity providing telecommunications channels facilities, or services, but may involve the resale of the Message Toll Services (MTS) and Wide Area Telecommunications Services (WATS) of underlying common carriers subject to the jurisdiction of this Commission.

2.1.2 The rates and regulations contained in this tariff apply only to the resale services furnished by Entrix and do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carriers for use in accessing the services of Entrix.

2.1.3 The Company reserves the right to limit the length of communications, to discontinue furnishing services, or limit the use of service necessitated by conditions beyond its control, including, without limitation: lack of satellite or other transmission medium capacity; the revision, alteration or repricing of the Underlying Carrier's tariffed offerings; or when the use of service becomes or is in violation of the law or the provisions of this tariff.

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.2 Use of Services

2.2.1 Entrix's services may be used for any lawful purpose consistent with the transmission and switching parameters of the telecommunications facilities utilized in the provision of services, subject to any limitations set forth in this Section 2.2.

2.2.2 The use of Entrix's services to make calls which might reasonably be expected to frighten, abuse, torment, or harass another or in such a way as to unreasonably interfere with use by others is prohibited.

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

2.2.4 Entrix's services are available for use 24 hours per day, 7 days per week.

2.2.5 Entrix does not transmit messages, but the services may be used for that purpose.

2.2.6 Entrix's services may be denied for nonpayment of charges or for other violations of this tariff.

2.2.7 Customers shall not use the service provided under this tariff for any unlawful purpose.

2.2.8 The Customer is responsible for notifying the Company immediately of any unauthorized use of services.

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.3 Liability of the Company

2.3.1 The Company shall not be liable for any claim, loss, expense or damage for any interruption, delay, error, omission, or defect in any service, facility or transmission provided under this tariff, if caused by the Underlying Carrier, an act of God, fire, war, civil disturbance, act of government, or due to any other causes beyond the Company's control.

2.3.2 The Company shall not be liable for, and shall be fully indemnified and held harmless by the Customer against any claim, loss, expense, or damage for defamation, libel, slander, invasion, infringement of copyright or patent, unauthorized use of any trademark, trade name or service mark, proprietary or creative right, or any other injury to any person, property or entity arising out of the material, data or information transmitted.

2.3.3 No agent or employee of any other carrier or entity shall be deemed to be an agent or employee of the Company.

2.3.4 The Company's liability for damages, resulting in whole or in part from or arising in connection with the furnishing of service under this tariff, including but not limited to mistakes, omissions, interruptions, delays, errors, or other defects or misrepresentations shall not exceed an amount equal to the charges provided for under this tariff for the long distance call for the period during which the call was affected. No other liability in any event shall attach to the Company.

2.3.5 The Company shall not be liable for and shall be indemnified and saved harmless by any Customer or by any other entity from any and all loss, claims, demands, suits, or other action or any liability whatsoever, whether suffered, made, instituted, or asserted by any Customer or any other entity for any personal injury to, or death of, any person or persons, and for any loss, damage, defacement or destruction of the premises of any Customer or any other entity or any other property whether owned or controlled by the Customer or others.

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.3 Liability of the Company (Cont'd)

2.3.6 The Company shall not be liable for any indirect, special, incidental, or consequential damages under this tariff including, but not limited to, loss of revenue or profits, for any reason whatsoever, including the breakdown of facilities associated with the service, or for any mistakes, omissions, delays, errors, or defects in transmission occurring during the course of furnishing service.

2.3.7 The remedies set forth herein are exclusive and in lieu of all other warranties and remedies, whether express, implied, or statutory, INCLUDING WITHOUT LIMITATION IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.4 Responsibilities of the Customer

2.4.1 The Customer is responsible for placing any necessary orders and complying with tariff regulations. The Customer is also responsible for the payment of charges for services provided under this tariff.

2.4.2 The Customer is responsible for charges incurred for special construction and/or special facilities which the Customer requests and which are ordered by Entrix on the Customer's behalf.

2.4.3 If required for the provision of Entrix's services, the Customer must provide any equipment space, supporting structure, conduit and electrical power without charge to Entrix.

2.4. The Customer is responsible for arranging access to its premises at times mutually agreeable to Entrix and the Customer when required for Entrix personnel to install, repair, maintain, program, inspect or remove equipment associated with the provision of Entrix's services.

2.4.5 The Customer shall cause the temperature and relative humidity in the equipment space provided by Customer for the installation of Entrix's equipment to be maintained within the range normally provided for the operation of microcomputers.

**SECTION 2 - RULES AND REGULATIONS (Cont'd)**

2.4 Responsibilities of the Customer (Cont'd)

2.4.6 The Customer shall ensure that the equipment and/or system is properly interfaced with Entrix's facilities or services, that the signals emitted into Entrix's network are of the proper mode, bandwidth, power and signal level for the intended use of the subscriber and in compliance with criteria set forth in this tariff, and that the signals do not damage equipment, injure personnel, or degrade service to other Customers. If the Federal Communications Commission or some other appropriate certifying body certifies terminal equipment as being technically acceptable for direct electrical connection with interstate communications service, Entrix will permit such equipment to be connected with its channels without the use of protective interface devices. If the Customer fails to maintain the equipment and/or the system properly, with resulting imminent harm to Entrix equipment, personnel or the quality of service to other Customers, Entrix may, upon written notice, require the use of protective equipment at the Customer's expense. If this fails to produce satisfactory quality and safety, Entrix may, upon written notice, terminate the Customer's service.

2.4.7 The Customer must pay Entrix for replacement or repair of damage to the equipment or facilities of Entrix caused by negligence or willful act of the Customer or others, by improper use of the services, or by use of equipment provided by Customer or others.

2.4.8 The Customer must pay for the loss through theft of any Entrix equipment installed at Customer's premises.

2.4.9 If Entrix installs equipment at Customer's premises, the Customer shall be responsible for payment of any applicable installation charge.

2.4.10 The Customer must use the services offered in this tariff in a manner consistent with the terms of this tariff and the policies and regulations of all state, federal and local authorities having jurisdiction over the service.

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.5 Cancellation or Interruption of Services (Cont'd)

2.5.1 Without incurring liability, upon five (5) working days' (defined as any day on which the company's business office is open and the U.S. Mail is delivered) written notice to the Customer, Entrix may immediately discontinue services to a Customer or may withhold the provision of ordered or contracted services:

2.5.1.A For nonpayment of any sum due Entrix for more than thirty (30) days after issuance of the bill for the amount due,

2.5.1.B For violation of any of the provisions of this tariff,

2.5.1.C For violation of any law, rule, regulation, policy of any governing authority having jurisdiction over Entrix's services, or

2.5.1.D By reason of any order or decision of a court, public service commission or federal regulatory body or other governing authority prohibiting Entrix from furnishing its services.

2.5.2 Without incurring liability, IDT may immediately discontinue services, without notice, in the event Customer violates or is suspected of violating any law, rule, regulation and/or policy of any governing authority having jurisdiction over IDT's services.

2.5.3 Without incurring liability, Entrix may interrupt the provision of services at any time in order to perform tests and inspections to assure compliance with tariff regulations and the proper installation and operation of Customer and Entrix's equipment and facilities and may continue such interruption until any items of noncompliance or improper equipment operation so identified are rectified.

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.5 Cancellation or Interruption of Services (Cont'd)

2.5.4 Service may be discontinued by Entrix without notice to the Customer, by blocking traffic to certain countries, cities or NXX exchanges, or by blocking calls using certain Customer authorization codes, when Entrix deems it necessary to take such action to prevent unlawful use of its service. Entrix will restore service as soon as it can be provided without undue risk, and will, upon request by the Customer affected, assign a new authorization code to replace the one that has been deactivated.

2.5.5 The Customer may terminate service upon thirty (30) days' written notice for the Company's standard month-to-month contract. Customer will be liable for all usage on any of the Company's service offerings until the Customer actually leaves the service. Customers will continue to have Company usage until the Customer notifies its local exchange carrier and changes its long distance carrier. Until the Customer so notifies its local exchange carrier, it shall continue to generate and be responsible for long distance usage.

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.6 Credit Allowance

2.6.1 Credit allowance for the interruption of service which is not due to the Company's testing or adjusting, negligence of the Customer, or to the failure of channels or equipment provided by the Customer, are subject to the general liability provisions set forth in 2.3 herein. It shall be the obligation of the Customer to notify the Company immediately of any interruption in service for which a credit allowance is desired. Before giving such notice, the Customer shall ascertain that the trouble is not being caused by any action or omission by the Customer within his control, or is not in wiring or equipment, if any, furnished by the Customer and connected to the Company's facilities.

2.6.2 No credit is allowed in the event that service must be interrupted in order to provide routine service quality or related investigations.

2.6.3 Credit for failure of service shall be allowed only when such failure is caused by or occurs due to causes within the control of the Company or in the event that the Company is entitled to a credit for the failure of the facilities of the Company's Underlying Carrier used to furnish service.

2.6.4 Credit for interruption shall commence after the Customer notifies the Company of the interruption or when the Company becomes aware thereof, and ceases when service has been restored.

2.6.5 For purposes of credit computation, every month shall be considered to have 720 hours.

2.6.6 No credit shall be allowed for an interruption of a continuous duration of less than two hours.



Issued by: Carl Wolf Billek, Associate General Counsel
520 Broad Street
Newark, New Jersey 07102-3111

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.6 Credit Allowance (Cont'd)

2.6.7 The Customer shall be credited for an interruption of two hours or more at the rate of 1/720th of the monthly charge for the facilities affected for each hour or major fraction thereof that the interruption continues.

Credit Formula:

$$\text{Credit} = \frac{A}{720} \times B$$

"A" - outage time in hours
"B" - monthly charge for affected activity

2.7 Restoration of Service

The use and restoration of service shall be in accordance with the priority system specified in part 64, Subpart D of the Rules and Regulations of the Federal Communications Commission.

2.8 Deposit

The Company does not require deposits to commence service.

2.9 Advance Payments

Entrix reserves the right to collect an advance payment from Customers in an amount not to exceed one (1) month's estimated charges as an advance payment for service. This will be applied against the next month's charges, and if necessary, a new advance payment will be collected for the next month.

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.10 Payment and Billing

2.10.1 Service is provided and billed on a billing cycle basis, beginning on the date that service becomes effective. Billing is payable upon receipt. A late fee will be assessed upon unpaid amounts 30 days after rendition of bills.

2.10.2 The customer is responsible for payment of all charges for services furnished to the Customer, as well as to all persons using the Customer's codes, exchange lines, facilities, or equipment, with or without the knowledge or consent of the Customer. The security of the Customer's Authorization Codes, subscribed exchange lines, and direct connect facilities is the responsibility of the Customer. All calls placed using direct connect facilities, subscribed exchange lines, or Authorization Codes will be billed to and must be paid by the Customer. Recurring charges and non-recurring charges are billed in advance. The initial billing may, at Company's option, also include one-month's estimated usage billed in advance. Thereafter, charges based on actual usage during a month and any accrued interest will be billed monthly in arrears.

2.10.3 All bills are presumed accurate, and shall be binding on the customer unless objection is received by the Company in writing within 30 days after such bills are rendered. No credits, refunds, or adjustments shall be granted if demand therefore is not received by the Company in writing within such 30 day period.

2.10.4 Casual callers are responsible for payment of all charges for services furnished.

## SECTION 2 - RULES AND REGULATIONS (Cont'd)

2.11 Collection Costs

In the event Company is required to initiate legal proceedings to collect any amounts due to Company for regulated or non-regulated services, equipment or facilities, or to enforce any judgment obtained against a Customer, or for the enforcement of any other provision of this tariff or applicable law, Customer shall, in addition to all amounts due, be liable to Company for all reasonable costs incurred by Company in such proceedings and enforcement actions, including reasonable attorneys' fees, collection agency fees or payments, and court costs. In any such proceeding, the amount of collection costs, including attorneys' fees, due to the Company, will be determined by the court.

2.12 Taxes

All federal, state and local taxes, assessments, surcharges, or fees, including sales taxes, use taxes, gross receipts taxes, and municipal utilities taxes, are included within a 20% tax which shall be deducted from prepaid calling card for services provided.

2.13 Late Charge

A late fee of 1.5% monthly or the amount otherwise authorized by law, whichever is lower, will be charged on any past due balances.

2.14 Returned Check Charge

A fee of $10.00 will be charged whenever a check or draft presented for payment for service is not accepted by the institution on which it is written.

## SECTION 3 - DESCRIPTION OF SERVICE

3.1 Computation of Charges

3.1.1 The total charge for each completed call may be a variable measured charge dependent on the duration, distance and time of day of the call. The total charge for each completed call may also be dependent only on the duration of the call, i.e. a statewide flat rate per minute charge. The variable measured charge is specified as a rate per minute which is applied to each minute. Calls are measured in initial three-minute increments with the final minute rounded up to a five-minute increment.

3.1.2 Where mileage bands appear in a rate table, rates for all calls are based upon the airline distance between the originating and terminating points of the call, as determined by the vertical and horizontal coordinates associated with the exchange (the area code and three-digit central office code) associated with the originating and terminating telephone numbers. If the Customer obtains access to the Company's network by a dedicated access circuit, that circuit will be assigned an exchange for rating purposes based upon the Customer's main telephone number at the location where the dedicated access circuit terminates. The vertical and horizontal (V & H) coordinates for each exchange and the airline distance between them will be determined according to industry standards.

3.1.3 Timing begins when the called station is answered and two-way communication is possible, as determined by standard industry methods generally in use for ascertaining answer, including hardware answer supervision in which the local telephone company sends a signal to the switch or the software utilizing audio tone detection. Recognition of answer supervision is the responsibility of the Underlying Carrier. Timing for each call ends when either party hangs up. Entrix will not bill for uncompleted calls.

## SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)

3.2 Customer Complaints and/or Billing Disputes

Customer inquiries or complaints regarding service or accounting may be made in writing or by telephone to the Company at:

520 Broad Street
Newark, New Jersey 07102-3111
(800) 889-9126

Any objection to billed charges should be reported promptly to Entrix. Adjustments to Customers' bills shall be made to the extent that records are available and/or circumstances exist which reasonably indicate that such charges are not in accordance with approved rates or that an adjustment may otherwise be appropriate. Where overbilling of a subscriber occurs, due either to Company or subscriber error, no liability exists which will require the Company to pay any interest, dividend or other compensation on the amount overbilled.

If notice of a dispute as to charges is not received in writing by the Company within thirty (30) days after an invoice is rendered, such invoice shall be deemed to be correct and binding upon the Customer.

3.3 Level of Service

A Customer can expect end to end network availability of not less than 99% at all times for all services.

## SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)

3.4 Billing Entity Conditions

When billing functions on behalf of Entrix or its intermediary are performed by local exchange telephone companies or others, the payment of charge conditions and regulations of such companies and any regulations imposed upon these companies by regulatory bodies having jurisdiction apply. Entrix's name and toll-free telephone number will appear on the Customer's bill.

3.5 Service Offerings

3.5.1 Prepaid Toll Free Calling Cards

This service permits the use of prepaid calling cards for placing calls within the State. Customers may purchase Prepaid Toll Free Calling Cards at a variety of retail outlets or through other distribution channels. These cards are available in face values of $5.00, $10.00, and $20.00 and are non-refundable.

Prepaid Toll Free Calling Cards are accessed using a toll free number telephone number printed on the card. The caller is prompted by an automated voice response system to enter his/her Authorization Code and then to enter the terminating telephone number. The Company's processor tracks the call duration on a real time basis to determine the cost consumed. The total consumed cost for each call is deducted from the remaining balance on the card.

All calls must be charged against a card that has a sufficient balance. These cards are not rechargeable, and all calls will be interrupted when the balance on the cards reaches zero. Cardholders may dial another telephone number while using the card by depressing the pound (#) button and entering in the new telephone number.

A credit allowance for Prepaid Toll Free Calling Cards is applicable to calls that are interrupted due to poor transmission, one-way transmission, or involuntary disconnection of a call. To receive proper credit, the Customer must notify the Company at the designated toll-free customer service number printed on the card and furnish the called number, the trouble experienced (e.g. cut off, noisy circuit, reached wrong number, etc.) and the approximate time the call was placed.

## SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)

3.5 Service Offerings (Cont'd)

3.5.1 Prepaid Toll Free Calling Cards (Cont'd)

When a call charged to a Prepaid Toll Free Calling Card is interrupted due to cut-off, one-way transmission, or poor transmission conditions, the Customer will receive a credit equivalent of one minute. Credit allowances for do not apply for interruptions not reported promptly to the Company or interruptions that are due to failure of power, equipment or systems not provided by the Company.

Certain calls may not be completed using the Prepaid Toll Free Calling Card. These include operator services, busy line verification service, interruption service, calls requiring time and charges, air-to-ground calls, marine/satellite calls, and calls placed via dialing a 700 or 900 number.

## SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)

3.5 Service Offerings (Cont'd)

3.5.2 Prepaid Local Access Calling Cards

This service permits the use of prepaid calling cards for placing calls within the State. Customers may purchase Prepaid Local Access Calling Cards at a variety of retail outlets or through other distribution channels. These cards are available in face values of $5.00, $10.00, and $20.00 and are non-refundable.

Prepaid Local Access Calling Cards are accessed using a local access number telephone number printed on the card. The caller is prompted by an automated voice response system to enter his/her Authorization Code and then to enter the terminating telephone number. The Company's processor tracks the call duration on a real time basis to determine the cost consumed. The total consumed cost for each call is deducted from the remaining balance on the card.

All calls must be charged against a card that has a sufficient balance. These cards are not rechargeable, and all calls will be interrupted when the balance on the cards reaches zero. Cardholders may dial another telephone number while using the card by depressing the pound (#) button and entering in the new telephone number.

A credit allowance for Prepaid Local Access Calling Cards is applicable to calls that are interrupted due to poor transmission, one-way transmission, or involuntary disconnection of a call. To receive proper credit, the Customer must notify the Company at the designated toll-free customer service number printed on the card and furnish the called number, the trouble experienced (e.g. cut off, noisy circuit, reached wrong number, etc.) and the approximate time the call was placed.

**SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)**

3.5 Service Offerings (Cont'd)

3.5.2 Prepaid Local Access Calling Cards (Cont'd)

When a call charged to a Prepaid Local Access Calling Card is interrupted due to cut-off, one-way transmission, or poor transmission conditions, the Customer will receive a credit equivalent of one minute. Credit allowances for do not apply for interruptions not reported promptly to the Company or interruptions that are due to failure of power, equipment or systems not provided by the Company.

Certain calls may not be completed using the Prepaid Local Access Calling Card. These include operator services, busy line verification service, interruption service, calls requiring time and charges, air-to-ground calls, marine/satellite calls, and calls placed via dialing a 700 or 900 number.

## SECTION 3 - DESCRIPTION OF SERVICE (Cont'd)

3.5 Service Offerings (Cont'd)

3.5.3 Directory Assistance

Entrix does not provide local directory assistance. Access to long distance directory assistance is obtained by dialing 1 + 555-1212 for listings within the originating area code and 1 + (area code) + 555-1212 for other listings. When more than one number is requested in a single call, a charge may apply for each number requested. A charge will be applicable for each number requested, whether or not the number is listed or published.

3.5.4 Specialized Pricing Arrangements

Customized service packages and competitive pricing packages at negotiated rates may be furnished on a case-by-case basis in response to requests by Customers to the Company for proposals or for competitive bids. Service offered under this tariff provision will be provided to Customers pursuant to contract. Unless otherwise specified, the regulations for such arrangements are in addition to the applicable regulations and prices in other sections of the tariff. Specialized rates or charges will be made available to similarly situated Customers on a non-discriminatory basis.

3.5.5 Emergency Call Handling Procedures

Emergency "911" calls are not routed to company, but are completed through the local network at no charge.

3.5.6 Promotional Offerings

The Company may, from time to time, make promotional offerings to enhance the marketing of its services. These offerings may be limited to certain dates, times and locations. The Company will notify the Commission of such offerings as required by Commission rules and regulations.



Issued by: Carl Wolf Billek, Associate General Counsel
520 Broad Street
Newark, New Jersey 07102-3111

## SECTION 4 - RATES

4.1 Prepaid Toll Free Calling Cards

Prepaid Toll Free Calling Cards may be used as listed below, twenty-four hours a day, seven days a week, three hundred and sixty-five days a year.

The Intrastate Usage Rates for Prepaid Toll Free Calling Cards are:

A maximum per minute rate shall not exceed $1.00.

A maximum per-call connection rate shall not exceed $1.00.

A maximum bi-weekly service charge of $0.79 shall be applied after its first use and every fourteen (14) days thereafter.

A maximum surcharge of $0.65 shall be applied to each completed call made from a payphone using a Prepaid Toll Free Calling Card.

4.2 Prepaid Local Access Calling Cards

Prepaid Local Access Calling Cards may be used as listed below, twenty-four hours a day, seven days a week, three hundred and sixty-five days a year.

The Intrastate Usage Rates for Prepaid Local Access Calling Cards are:

A maximum per minute rate shall not exceed $1.00.

A maximum per-call connection rate shall not exceed $1.00.

A maximum bi-weekly service charge of $0.79 shall be applied after its first use and every fourteen (14) days thereafter.

4.3 Directory Assistance

A surcharge per call of $1.00 shall apply to all Directory Assistance calls made using a Prepaid Toll Free Calling Card.

## SECTION 4 – RATES (Cont'd)

4.4 Special Rates

4.4.1 Discounts for Hearing Impaired Customers and Telecommunications Relay Service:

Intrastate toll messages which are communicated using a telecommunications device for the deaf (TDD) by properly certified hearing or speech impaired persons or properly certified business establishments or individuals equipped with TDDs for communicating with hearing or speech impaired persons will be discounted on a subsequent bill for such calls placed between TDDs by applying the evening rate during business day hours and the night/weekend rate dutinr the evening rate period. Intrastate toll calls received

from the relay services will be discounted 50% off the otherwise applicable rate for a voice nonrelay call except if either the calling party or called party indicates that either party is both hearing and visually impaired, a 60% discount shall apply. Discounts do not apply to surcharges or per call add on charges for operator service when the call is placed by a method that would normally incur the surcharge.

4.4.2 Operator and Directory Assistance for Handicapped Persons:

Operator station surcharges will be waived for operator assistance provided to a caller who identified him or herself as being handicapped and unable to dial because of a handicap. There is no charge for Directory Assistance for calls from handicapped persons. Such persons must contact IDT for credit on their directory assistance calls.

# Attachment B

## Managerial Capability

## Managerial Qualifications

**Morris Lichtenstein** has been the President of Entrix Telecom, Inc. since its inception. He continues to serve as the Executive Vice President of Business Development of IDT Corporation, as he has since January 2000. From January 1999 to December 1999, Mr. Lichtenstein served as Controller for IDT Corporation. Since August 2001, Mr. Lichtenstein has also served as the Vice Chairman and Board of Directors and Chief Executive Officer of IDT Telecom, Inc. From January 1998 to December 1999, Mr. Lichtenstein served as the Controller of Mademoiselle Knitwear, Inc. Mr. Lichtenstein received his B.A. from Touro College.

**Norman Rosenberg** has been the Secretary of Entrix Telecom, Inc. since its inception. He is also the Chief Financial Officer of IDT Corporation's ("IDT") wholly owned subsidiary, IDT Telecom, Inc. Since joining IDT in October 1999, he has served in a variety of roles, including Senior Vice President of Capital Markets, Vice President of Finance and Director of Investor Relations. Before joining IDT, Mr. Rosenberg spent five years at Standard & Poor's Corp., most recently as a Senior Investment Officer in Standard & Poor's Equity Research department, acting as the firm's senior Energy equity analyst. He was also a member of Standard & Poor's Investment Policy and Portfolio committees. Mr. Rosenberg received his M.S. in Finance from the Johns Hopkins University in Baltimore, MD. He is also a Chartered Financial Analyst and a member of the Association of Investment Management and Research and the New York Society of Security Analysts.

## Attachment C

## Technical Capability

## Technical Qualifications

As a wholly owned subsidiary of IDT Corporation, Applicant intends to rely, in part on the technical qualifications of its parent corporation.

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

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

**ATTACHMENT D**

**Financial Capability**

**2002 IDT Corporation SEC Form 10-K**

**2001 IDT Corporation SEC Form 10-K**

**2000 IDT Corporation SEC Form 10-K**

# 2002 IDT Corporation SEC Form 10-K

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

# FORM 10-K
**FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

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

**Commission File Number: 0-27898**

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

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

## INDEX

## IDT CORPORATION

## ANNUAL REPORT ON FORM 10-K

## PART IV

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

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

1. Financial Statements.
2. Financial Statement Schedules.

| Schedule No. | Description |
| --- | --- |
| I. | Valuation and Qualifying Accounts |

3. Exhibits

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

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

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

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

* filed herewith

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

(b) Reports on Form 8-K.

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

## SIGNATURES

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

IDT CORPORATION

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

Date: October 29, 2002

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

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

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

## CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of IDT Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: October 29, 2002

/s/ JAMES A. COURTER

**James A. Courter**

## CERTIFICATIONS

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

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

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

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

Date: October 29, 2002

/s/ STEPHEN R. BROWN

**Stephen R. Brown**

## IDT CORPORATION

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
IDT Corporation

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

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

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

New York, New York
October 24, 2002

/s/ ERNST & YOUNG LLP

# IDT CORPORATION

## CONSOLIDATED BALANCE SHEETS

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

See accompanying notes to consolidated financial statements.

## IDT CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

See accompanying notes to consolidated financial statements.

# IDT CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share data)

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

See accompanying notes to consolidated financial statements.

# IDT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

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

See accompanying notes to consolidated financial statements.

## 1. Summary of Significant Accounting Policies

*Description of Business*

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

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

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

*Investment in Net2Phone*

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

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

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

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

*Basis of Consolidation and Accounting for Investments*

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

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

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

*Reclassifications*

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

*Use of Estimates*

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

*Revenue Recognition*

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

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

*Purchase of Network Capacity*

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

*Direct Cost of Revenues*

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

*Property, Plant and Equipment*

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

*Advertising Expense*

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

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

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

*Software Development Costs*

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

*Capitalized Internal Use Software Costs*

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

*Repairs and Maintenance*

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

*Long-Lived Assets*

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

*Cash and Cash Equivalents*

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

*Goodwill*

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

*Other Intangibles*

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

*Foreign Currency Translation*

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

*Income Taxes*

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

*Earnings Per Share*

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

*Vulnerability Due to Certain Concentrations*

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

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

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

*Fair Value of Financial Instruments*

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

*Stock Based Compensation*

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

*Recently Issued Accounting Standards*

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

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

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

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

## 2. Marketable Securities

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

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

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

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

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

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

*Terra Networks Transaction*

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

## 3. Property, Plant and Equipment

Property, plant and equipment consists of the following:

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

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

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

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

## 4. Goodwill, Licenses and Other Intangibles

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

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

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

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

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

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

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

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

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

## 5. Related Party Transactions

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

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

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

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

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

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

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

## 6. Income Taxes

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

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

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

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

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

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

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

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

## 7. Stockholders' Equity

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

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

*Stock Options*

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

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

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

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

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

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

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

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

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

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

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

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

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

*Net2Phone Stock Options*

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

*Stock Buyback Program*

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

*Liberty Media Transaction*

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

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

*Liberty Media Investment in IDT Telecom, Inc.*

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

*AT&T Transaction*

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

*Hicks, Muse, Tate & Furst Transaction*

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

*IDT Charitable Foundation*

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

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

## 8. Commitments and Contingencies

*Legal Proceedings*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Lease Obligations*

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

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

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

*Commitments*

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

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

## 9. Defined Contribution Plan

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

## 10. Business Segment Information

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

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

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

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

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

(1) Since acquisition of Winstar in December 2001.

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

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

*Reconciliation To Consolidated Financial Information*

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

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

## 11. Additional Financial Information

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

## 12. Acquisitions

*CTM Brochure Display, Inc.*

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

*Aplio S.A.*

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

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

*PT-1 Communications*

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

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

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

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

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

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

*Winstar*

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

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

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

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

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

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

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

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

## 13. Earnings Per Share

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

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

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

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

## 14. Net2Phone Subsidiary Stock Sales

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

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

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

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

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

## 15. TyCom Ltd. Settlement

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

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

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

## 16. Comprehensive Income (Loss)

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

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

## 17. Price Guarantee of Class B Common Stock

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

## 18. Extraordinary Loss

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

## 19. Selected Quarterly Financial Data (unaudited)

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

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

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

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

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

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

## 20. Subsequent Events

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

## IDT CORPORATION

## FINANCIAL STATEMENT SCHEDULE—VALUATION AND QUALIFYING ACCOUNTS

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

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

## 2001 IDT Corporation SEC Form 10-K

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

# FORM 10-K

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

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JULY 31, 2000, OR

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

**Commission File Number: 0-27898**

# IDT CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

**The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price of the Common Stock on October 27, 2000 of $30.813, as reported on the Nasdaq National Market, was approximately $683 million. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock (assuming conversion of the Registrant's Class A Common Stock into Common Stock) have been excluded from this computation, in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.**

As of October 27, 2000, the Registrant had outstanding 26,104,722 shares of Common Stock, $.01 par value, and 9,970,233 shares of Class A Common Stock, $.01 par value.

## DOCUMENTS INCORPORATED BY REFERENCE

Certain information in the Registrant's definitive Proxy Statement for its 2000 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after July 31, 2000 is incorporated by reference in Part III (Items 10, 11, 12 and 13) of this Form 10-K.

## INDEX

## IDT CORPORATION

## ANNUAL REPORT ON FORM 10-K

## IDT CORPORATION

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
IDT Corporation

We have audited the accompanying consolidated balance sheets of IDT Corporation (the "Company") as of July 31, 1999 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at July 31, 1999 and 2000 and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

New York, New York
October 24, 2000

## IDT CORPORATION

## CONSOLIDATED BALANCE SHEETS

| | July 31, 1999 | July 31, 2000 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 52,903,479 | $ 162,879,042 |
| Marketable securities | 77,869,655 | 230,159,597 |
| Trade accounts and commissions receivable, net of allowance for doubtful accounts of approximately $7,643,000 at July 31, 1999 and $26,771,000 at July 31, 2000 | 106,146,127 | 160,994,911 |
| Notes receivable—current portion | 18,967,967 | 3,630,000 |
| Deposits | 4,646,906 | 17,760,610 |
| Inventory | 8,838,671 | 13,120,993 |
| Other current assets | 22,825,475 | 53,347,819 |
| Total current assets | 292,198,280 | 641,892,972 |
| Property, plant and equipment, at cost, net | 114,122,923 | 225,638,279 |
| Trademark, net of accumulated amortization of $208,000 at July 31, 1999 and $814,576 at July 31, 2000 | 4,791,667 | 10,985,424 |
| Notes receivable—long-term portion | 2,187,071 | 8,001,284 |
| Intangible assets, net | 117,366,124 | 162,232,640 |
| Marketable securities | — | 132,277,504 |
| Deferred tax assets, net | 3,358,500 | — |
| Investments | 12,306,507 | 29,318,383 |
| Other assets | 13,540,307 | 8,708,871 |
| Total assets | $559,871,379 | $1,219,055,357 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Trade accounts payable | $ 79,475,136 | $ 161,873,530 |
| Accrued expenses | 5,354,710 | 36,436,486 |
| Interest payable | 1,564,741 | 15,213 |
| Deferred revenue | 13,209,663 | 48,571,880 |
| Notes payable—current portion | 4,752,780 | 22,604,067 |
| Capital lease obligations—current portion | 6,029,273 | 13,539,647 |
| Other current liabilities | 2,397,234 | 10,922,579 |
| Total current liabilities | 112,783,537 | 293,963,402 |
| Deferred tax liabilities | — | 168,772,000 |
| Notes payable—long-term portion | 112,973,330 | 12,174,113 |
| Capital lease obligations—long-term portion | 15,742,218 | 43,940,097 |
| Other liabilities | — | 708,908 |
| Total liabilities | 241,499,085 | 519,558,520 |
| Minority interests | 42,043,131 | 231,308,958 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; authorized shares—10,000,000; no shares issued | — | — |
| Common stock, $.01 par value; authorized shares—100,000,000; 23,982,854 and 25,959,256 shares issued and outstanding 1999 and 2000, respectively | 239,829 | 259,593 |
| Class A stock, $.01 par value; authorized shares—35,000,000; 10,029,758 and 9,970,233 shares issued and outstanding 1999 and 2000, respectively | 100,298 | 99,703 |
| Loans to stockholders | (251,207) | (251,207) |
| Additional paid-in capital | 317,362,508 | 371,005,060 |
| Accumulated other comprehensive income | — | (92,653,041) |
| Retained earnings/(deficit) | (41,122,265) | 189,727,771 |
| Total stockholders' equity | 276,329,163 | 468,187,879 |
| Total liabilities and stockholders' equity | $559,871,379 | 1,219,055,357 |

See accompanying notes.

## IDT CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year ended July 31, | | |
|---|---|---|---|
| | 1998 | 1999 | 2000 |
| Revenue | $335,372,915 | $732,183,855 | $1,093,911,855 |
| Costs and expenses: | | | |
| Direct cost of revenue | 240,859,809 | 575,049,683 | 918,256,364 |
| Selling, general and administrative | 61,974,851 | 128,499,715 | 343,701,929 |
| Acquired research and development | 17,900,000 | — | — |
| Depreciation and amortization | 13,810,488 | 36,359,986 | 48,564,344 |
| Total costs and expenses | 334,545,148 | 739,909,384 | 1,310,522,637 |
| Income (loss) from operations | 827,767 | (7,725,529) | (216,610,782) |
| Interest expense | (5,978,760) | (11,318,964) | (8,259,515) |
| Interest income | 5,582,951 | 10,090,332 | 15,490,449 |
| Equity loss | — | — | (6,289,004) |
| Gain on sales of investments | — | — | 231,032,051 |
| Gain on sales of subsidiary stock | — | — | 350,343,786 |
| Other | 103,215 | (2,035,150) | 27,186,305 |
| Income (loss) before income taxes, minority interests and extraordinary items | 535,173 | (10,989,311) | 392,893,290 |
| Provision (benefit) for income taxes | (2,523,500) | 7,253,000 | 218,403,383 |
| Minority interests | 3,895,669 | (3,308,552) | (59,335,974) |
| Income (loss) before extraordinary items | (836,996) | (14,933,759) | 233,825,881 |
| Extraordinary loss on retirement of debt, net of income taxes | (132,376) | (3,269,787) | (2,975,845) |
| Net income (loss) | (969,372) | (18,203,546) | 230,850,036 |
| Subsidiary redeemable preferred stock dividends | — | 26,297,426 | — |
| Net loss available to common stockholders | $ (969,372) | $ (44,500,972) | $ 230,850,036 |
| Net income (loss) per share: | | | |
| Net income (loss) before extraordinary items: | | | |
| Basic | ($0.02) | ($1.23) | $6.69 |
| Diluted | ($0.02) | ($1.23) | $6.22 |
| Extraordinary loss on retirement of debt, net of income taxes: | | | |
| Basic | ($0.01) | ($0.10) | ($0.09) |
| Diluted | ($0.01) | ($0.10) | ($0.08) |
| Net income (loss) | | | |
| Basic | ($0.03) | ($1.33) | ($6.60) |
| Diluted | ($0.03) | ($1.33) | ($6.14) |
| Weighted average number of shares used in calculation of net income (loss) per share: | | | |
| Basic | 28,571,421 | 33,529,930 | 34,966,400 |
| Diluted | 28,571,421 | 33,529,930 | 37,619,351 |

See accompanying notes.

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock | | Class A Stock | | Additional Paid-in Capital | Loans to Stockholders | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | | | | | |
| Balance at July 31, 1997 | 10,636,000 | $106,360 | 11,174,330 | $111,743 | $ 46,990,388 | — | $ (21,949,347) | — | $ 25,259,144 |
| Exercise of stock options | 1,615,366 | 16,154 | — | — | 5,281,017 | — | — | — | 5,297,171 |
| Income tax benefit from stock options exercised | — | — | — | — | 8,790,000 | — | — | — | 8,790,000 |
| Conversion of Class A stock to common stock | 918,662 | 9,186 | (918,662) | (9,186) | — | — | — | — | — |
| Issuance of common stock in connection with business acquisitions | 3,967,323 | 39,673 | — | — | 116,540,827 | — | — | — | 116,580,500 |
| Common stock issued upon conversion of notes payable | 582,762 | 5,828 | — | — | 8,648,685 | — | — | — | 8,654,513 |
| Exercise of warrants | 35,003 | 350 | — | — | 530,258 | — | — | — | 530,608 |
| Sale of common stock | 5,093,750 | 50,938 | — | — | 118,208,595 | — | — | — | 118,259,533 |
| Issuance of common stock to employees by related party | — | — | — | — | 390,000 | — | — | — | 390,000 |
| Net loss for the year ended July 31, 1998 | — | — | — | — | — | — | (969,372) | — | (969,372) |
| Balance at July 31, 1998 | 22,848,866 | 228,489 | 10,255,668 | 102,557 | 305,379,770 | — | (22,918,719) | — | 282,792,097 |
| Exercise of stock options | 696,840 | 6,968 | — | — | 4,075,118 | (251,207) | — | — | 3,830,879 |
| Income tax benefit fiom stock options exercised | — | — | — | — | 4,257,973 | — | — | — | 4,257,973 |
| Conversion of Class A stock to common stock | 225,910 | 2,259 | (225,910) | (2,259) | — | — | — | — | — |
| Issuance of common stock in connection with business acquisitions | 100,000 | 1,000 | — | — | 2,849,000 | — | — | — | 2,850,000 |
| Exercise of warrants | 111,238 | 1,113 | — | — | 922,801 | — | — | — | 923,914 |
| Costs associated with stock registration | — | — | — | — | (122,154) | — | — | — | (122,154) |
| Net loss for the year ended July 31, 1999 | — | — | — | — | — | — | (18,203,546) | — | (18,203,546) |
| Balance at July 31, 1999 | 23,982,854 | 239,829 | 10,029,758 | 100,298 | 317,362,508 | (251,207) | (41,122,265) | — | 276,329,163 |
| Exercise of stock options | 1,310,700 | 13,107 | | | 14,521,413 | | | | 14,534,520 |
| Income tax benefit from stock options exercised | | | | | 10,346,394 | | | | 10,346,394 |
| Conversion of Class A stock to common stock | 59,525 | 595 | (59,525) | (595) | | | | | 117,704 |
| Exercise of warrants | 19,963 | 200 | | | 117,504 | | | | |
| Issuance of common stock | 3,728,949 | 37,289 | | | 128,611,541 | | | | 128,648,740 |
| Change in Unrealized gain (loss) in available for sale securities | | | | | | | | | |
| Foreign currency translation adjustment | | | | | | | | | |
| Repurchase of common stock | (3,142,735) | (31,427) | | | (101,855,987) | | | (94,044,241) | (101,887,414) |
| Modification of stock options | | | | | 984,564 | | | | 984,564 |
| Stock option given to partnership | | | | | 917,213 | | | | 917,213 |
| Net income for the year ended July 31, 2000 | | | | | | | 230,850,036 | 230,850,036 | 230,850,036 |
| Comprehensive Income | — | — | — | — | — | — | — | 138,196,995 | — |
| Balance at July 31, 2000 | 25,959,256 | 259,593 | 9,970,233 | 99,703 | 371,005,060 | (251,207) | $189,727,771 | $ (92,653,041) | $ 468,187,879 |

See accompanying notes.

## IDT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended July 31, 1998 | 1999 | 2000 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income (loss) | $ (969,372) | $ (18,203,546) | $ 230,850,036 |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Amortization | 4,096,651 | 15,153,768 | 16,285,633 |
| Depreciation | 9,713,837 | 21,206,218 | 32,278,711 |
| Extraordinary loss on retirement of debt before taxes | 132,376 | 5,359,787 | 4,870,452 |
| Amortization of deferred compensation | — | 15,734,418 | 42,917,133 |
| Other stock option compensation expense | — | — | — |
| Acquired research and development costs by issuance of common stock | 17,900,000 | — | — |
| Minority interests | 3,895,669 | (3,308,552) | (59,335,974) |
| Deferred income taxes | (2,812,500) | (1,156,000) | 216,903,000 |
| Issuance of common stock to employees by related party | 390,000 | — | — |
| Gain on derivative instrument | — | — | (516,610) |
| Gain on sale of investment | — | — | (231,032,051) |
| Gain on sales of subsidiary | — | — | (350,343,786) |
| Net realized gains from sales of marketable securities and investments | — | — | (29,476,446) |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (20,909,084) | (68,108,153) | (52,643,463) |
| Other current assets | (9,138,112) | (24,214,249) | (40,718,219) |
| Other assets | (1,359,248) | (6,770,740) | 12,524,075 |
| Notes receivable | 485,810 | — | — |
| Trade accounts payable | 18,141,813 | 39,056,078 | 81,262,113 |
| Accrued expenses | 878,017 | 1,290,649 | 29,735,880 |
| Deferred revenue | 6,732,370 | 4,034,445 | 34,025,765 |
| Interest payable | 4,063,120 | (2,377,836) | (1,549,528) |
| Other current liabilities | (375,626) | 2,176,909 | (12,357,263) |
| Other | (262,376) | 1,830,450 | (749,209) |
| Net cash provided by (used in) operating activities | 30,603,345 | (18,296,354) | (77,069,751) |
| **Investing activities** | | | |
| Purchases of property, plant and equipment | (41,332,835) | (48,097,692) | (101,192,121) |
| Purchase of trademark | — | (5,000,000) | — |
| Issuance of notes receivable | (23,595,526) | (13,423,462) | — |
| Investments and acquisitions | — | (10,735,031) | (38,802,726) |
| Collection of notes receivable | — | 14,040,147 | 9,523,754 |
| Payments for the purchase of InterExchange, Inc | (20,588,000) | — | — |
| Net purchases of marketable securities | (60,308,768) | (17,560,887) | (7,058,853) |
| Proceeds from sale of subsidiary, net | — | — | 115,434,000 |
| Net cash used in investing activities | (145,825,129) | (80,776,925) | (22,095,946) |
| **Financing activities** | | | |
| Proceeds from issuance of Series A Preferred stock and warrants by Net2Phone | — | 29,900,000 | — |
| Proceeds from exercise of stock options for Net2Phone | — | 1,334,000 | 8,172,042 |
| Proceeds from exercise of warrants for Net2Phone | — | 437,870 | — |
| Payment of debt issuance costs | — | (4,475,029) | — |
| Distribution to minority shareholder | — | (6,079,274) | (3,179,288) |
| Proceeds from borrowings | 110,668,294 | 115,945,551 | 13,897,620 |
| Payment of financing costs | (3,561,070) | — | — |
| Proceeds from exercise of warrants | 530,608 | 923,914 | 117,704 |
| Proceeds from exercise of stock options | 5,297,171 | 7,966,698 | 14,534,520 |
| Repayment of capital lease obligations | (2,665,084) | (5,348,909) | (9,833,000) |
| Repayments of borrowings | (5,698,462) | (103,911,582) | (108,145,550) |
| Proceeds from sale of common stock | 118,259,533 | — | 128,648,740 |
| Proceeds from offerings of common stock by Net2Phone | — | — | 261,188,837 |
| Collection of loans to stockholders by Net2Phone | — | — | 627,049 |
| Proceeds from minority investment in subsidiary | — | — | 5,000,000 |
| Payments to repurchase common stock | — | — | (101,887,414) |
| Net cash provided by financing activities | 222,830,990 | 36,693,239 | 209,141,260 |
| Net increase (decrease) in cash | 107,609,206 | (62,380,040) | 109,975,563 |
| Cash and cash equivalents at beginning of year | 7,674,313 | 115,283,519 | 52,903,479 |
| Cash and cash equivalents at end of year | $ 115,283,519 | $ 52,903,479 | $ 162,879,042 |
| **Supplemental disclosure of cash flow information:** | | | |
| Cash payments made for interest | $ 2,036,000 | $ 13,483,000 | $ 10,073,542 |
| Cash payments made for income taxes | $ — | $ 235,000 | $ 1,050,000 |
| **Supplemental schedule of non-cash activities:** | | | |
| Accrued interest converted to equity | $ 121,000 | $ — | $ — |
| Purchase of fixed assets by capital lease | $ 12,448,000 | $ 11,899,000 | $ 45,541,253 |
| Notes payable converted to equity | $ 8,534,000 | $ — | $ — |

See accompanying notes.

## 1. Summary of Significant Accounting Policies

*Description of Business*

IDT Corporation ("IDT" or the "Company") is a multinational telecommunications carrier that provides a broad range of services to its wholesale and retail customers world wide. The Company provides its customers with integrated international and domestic long distance, prepaid calling cards, Internet access, and through Net2Phone, Inc. ("Net2Phone"), a majority-owned subsidiary, Internet telephony services. The Company also sells prepaid calling cards to distributors.

*Basis of Consolidation and Accounting for Investments*

The consolidated financial statements include the accounts of IDT and all companies in which IDT has a controlling voting interest ("subsidiaries"), as if IDT and its subsidiaries were a single company. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

Investments in companies in which IDT has significant influence, but less than a controlling voting interest, are accounted for using the equity method. Investments in companies in which IDT does not have a controlling interest or an ownership and voting interest so large as to exert significant influence are accounted for at market value if the investments are publicly traded and there are no resale restrictions, or at cost, if the sale of a publicly-traded investment is restricted or if the investment is not publicly traded.

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

*Reclassifications*

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

*Use of Estimates*

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

*Revenue Recognition*

Telecommunication, Internet telephony service, Internet subscription service and debit card revenues are recognized as service is provided. Equipment sales are recognized when installation is completed. Prepayments for services are deferred and recognized as revenue as the services are provided.

Sales of equipment with software necessary to provide the Company's services are accounted for in accordance with the American Institute of Certified Public Accountants' Statement of Position of 97-2, Software Revenue Recognition. Revenue on such sales is recognized when such products are delivered, collection of payments are assured and there are no significant future obligations.

*Direct Cost of Revenue*

Direct cost of revenue consists primarily of telecommunication costs, connectivity costs and the cost of equipment sold to customers. Direct cost of revenue excludes depreciation and amortization.

*Property, Plant and Equipment*

All property, plant and equipment is depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are depreciated using the straight line method the over the term of the lease or estimated useful life of the assets, whichever is shorter. Computer software is amortized over the shorter of five years or the term of the related agreement. Buildings are depreciated over the estimated 30 year useful lives.

*Trademark and Patents*

Costs associated with obtaining the right to use trademarks and patents owned by third parties are capitalized and amortized on a straight-line basis over the term of the trademark licenses and patents.

*Subscriber Acquisition Costs and Advertising*

Subscriber acquisition costs including sales commissions, license fees and production and shipment of starter packages are expensed as incurred.

The Company expenses the costs of advertising as incurred. Typically, Net2Phone purchases banner advertising on other companies' web sites pursuant to contracts that have one to three year terms and may include the guarantee of (i) a minimum number of impressions, (ii) the number of times that an advertisement appears in pages displayed to users of the web site, or (iii) a minimum amount of revenue that will be recognized by Net2Phone from customers directed to Net2Phone's web site as a direct result of the advertisement. Net2Phone recognizes banner advertising expense with respect to such advertising ratably over the period in which the advertisement is displayed. In addition, some agreements require additional payments as additional impressions are delivered. Thus, additional payments are expensed when the impressions are delivered.

In one case, Net2Phone entered into an agreement with no specified term of years. In this case, the Company amortizes as expense the lessor of (i) the number of impressions to date/minimum guaranteed impressions, or (ii) revenue to date/minimum guaranteed revenue as a percentage of the total payments.

For the years ended July 31, 1998, 1999 and 2000, advertising expense totaled approximately $5,632,000, $10,454,000 and $46,722,000, respectively.

In addition, for the quarter ended July 31, 2000, the Company incurred approximately $28 million of costs to terminate advertising arrangements. These termination costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

*Software Development Costs*

Costs for the internal development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. For the years ended July 31, 1998, 1999 and 2000, research and development costs totaled approximately $481,000, $757,000 and $4,692,000, respectively.

*Capitalized Internal Use Software Costs*

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. These costs consist of payments made to third parties and the salaries of employees working on such software development. At July 31, 1999 and 2000, the Company has capitalized $4,065,000 and $8,593,000, respectively, of internal use software costs as computer software.

*Long-Lived Assets*

In accordance with SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, the Company reviews the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The analysis of the recoverability utilizes undiscounted cash flows. The measurement of the loss, if any, will be calculated as the amount by which the carrying amount of the asset exceeds the fair value.

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are carried at cost which approximates market value. At July 31, 1999 and 2000, the Company has 79% and 66%, respectively, of its cash and cash equivalents in three financial institutions.

*Marketable Securities*

Marketable securities consist of equity securities and U.S. Government Agency Obligations and commercial paper. Certain debt securities held by Net2Phone, with original maturities of greater than three months at the time of purchase are classified as held to maturity and are carried at amortized cost. Interest on these securities is included in interest income as earned.

During fiscal 2000, IDT sold approximately $55,000,000 of held-to-maturity securities prior to their maturity dates and recorded a loss of approximately $1,200,000. The securities were sold to fund certain transactions. In connection with these sales, marketable securities with a cost basis of approximately $22,000,000 were reclassified as available-for-sale and through July 31, 2000, unrealized losses of approximately $850,000 have been included in accumulated other comprehensive income at July 31, 2000.

*Inventory*

Inventories are stated at the lower of cost or market. Cost is computed on a specific identification basis.

*Goodwill and Other Intangible Assets*

Goodwill is amortized over 5 to 20 years using the straight-line method. Other intangible assets consists of core programming technology and assembled workforce which are amortized over 32 to 35 months, and 48 to 54 months, respectively. The Company systematically reviews the recoverability of its acquired intangible assets for each acquired entity to determine whether an impairment may exist. Upon a determination that the carrying value of acquired intangible assets will not be recovered from the undiscounted future cash flows of the acquired business, the carrying value of such acquired intangible assets would be considered impaired and would be reduced by a charge to operations in the amount of the impairment.

*Income Taxes*

The Company accounts for income taxes on the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities.

*Earnings (Loss) Per Share*

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

*Current Vulnerability Due to Certain Concentrations*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, marketable securities, trade receivables and notes receivable. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base. At July 31, 1999, the Company has 90% of its notes receivable with one company, and 11% of its accounts receivable balance with one company. At July 31, 2000, the Company has 43% of its notes receivable with two companies and 9% of the of its accounts receivable with one company.

International customers account for a significant amount of the Company's total revenues. Therefore, the Company is subject to risks associated with international operations, including changes in exchange rates, difficulty in accounts receivable collection and longer payment cycles.

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

*Fair Value of Financial Instruments*

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

*Notes receivable:* For notes receivable which are short-term or have variable interest rates, fair values are based on carrying values. The fair values of notes receivable with fixed interest rates with long-term maturities are estimated using discounted cash flow analysis, using interest rates currently offered for notes with similar terms to borrowers of similar credit quality. The fair values of notes receivable at July 31, 1999 and 2000 approximates $17,082,000 and $11,631,000, respectively.

*Notes payable:* For notes payable which are short-term or have variable interest rates, fair values are based on carrying values. The fair values of notes payable with fixed interest rates with long-term maturities are estimated using discounted cash flow analysis using interest rates that are currently being offered on similar instruments. The fair values of the notes payable at July 31, 1999 and July 31, 2000 approximate carrying values, due to their variable rates of interest.

*Segment Disclosures*

The Company uses the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance.

*Stock Based Compensation*

The Company accounts for stock options issued to employees using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"). Compensation expense for stock options issued to employees is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount employees must pay to acquire the stock.

The Company applies the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, with respect to stock options issued to the Company's employees.

In March 2000, the Financial Accounting Standards Board issued FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB No. 25. The Interpretation, was adopted prospectively as of July 1, 2000.

*Recently Issued Accounting Standards*

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS No. 133"). This statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. This statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows derivative's gains and losses to offset related results on the hedge item in the income statement, and requires a company to formally document, designate and assess the effectiveness of transactions that receive hedge accounting. This statement is effective for fiscal years beginning after June 15, 2000 and cannot be applied retroactively. The Company believes that the adoption of this standard will not have a material effect on the Company's consolidated results of operation or financial position due to their limited use of derivative instruments.

## 2. Marketable Securities

The following is a summary of the marketable securities at July 31, 2000:

| | Carrying Amount | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Short term: | | | | |
| Held-to-maturity securities | | | | |
| U.S. Government Agency | | | | |
| Obligations | $ 9,500,000 | $1,775 | ($12,500) | $ 9,489,275 |
| Commercial paper | 49,642,518 | 17 | (45,568) | 49,596,967 |
| | 59,142,518 | 1,792 | (58,068) | $ 59,086,242 |
| Available-for-sale securities | | | | |
| U.S. Government Agency | | | | |
| Obligations | 23,096,425 | — | — | 23,096,425 |
| Terra common stock | 147,920,654 | — | — | 147,920,654 |
| | 230,159,597 | 1,792 | (58,068) | 230,103,321 |
| Long term: | | | | |
| Held-to-maturity securities | | | | |
| U.S. Government Agency | | | | |
| Obligations | 5,000,000 | — | (21,200) | 4,978,800 |
| Commercial paper | 17,942,877 | — | (37,877) | 17,905,000 |
| | 22,942,877 | — | (59,077) | 22,883,800 |
| Available-for-sale securities | | | | |
| WebEx common stock | 5,331,518 | | | 5,331,518 |
| Yahoo! common stock | 104,003,109 | — | — | 104,003,109 |
| | 132,277,504 | — | (59,077) | 132,218,427 |
| | $362,437,101 | $1,792 | ($117,145) | $362,321,748 |

### 3. Notes Receivable

In May 1998, the Company entered into an agreement with a telecommunication company to provide it with a $25,000,000 revolving credit facility (the "Facility"). The Facility bore interest at a rate of 5% per annum. The unpaid principal and accrued interest on the Facility were payable in quarterly installments, as defined in the agreement, which payments commenced on February 1, 1999. As of July 31, 1999, the outstanding balance on the Facility of approximately $19,000,000 was included in notes receivable. In October 1999, the Facility's remaining principal balance was repaid in full.

### 4. Property, Plant and Equipment

Property, plant and equipment consists of the following:

| | July 31 | |
|---|---|---|
| | 1999 | 2000 |
| Equipment | $100,145,353 | $238,767,013 |
| Computer software | 38,916,589 | 32,215,814 |
| Leasehold improvements | 3,650,936 | 11,918,145 |
| Furniture and fixtures | 2,447,210 | 10,624,846 |
| Land and building | 6,312,190 | 6,326,874 |
| | 151,472,278 | 299,852,692 |
| Less accumulated depreciation and amortization | (37,349,355) | (74,214,413) |
| Property, plant and equipment, net | $114,122,923 | $225,638,279 |

Fixed assets under capital leases aggregate approximately $30,469,000 and $71,835,000 at July 31, 1999 and 2000, respectively. The accumulated amortization related to these assets under capital leases is approximately $8,266,000 and $17,756,000 at July 31, 1999 and 2000, respectively.

### 5. Intangible Assets

Intangible assets consist of the following at July 31:

| | 1999 | 2000 |
|---|---|---|
| Core technology and patents | $ 21,200,000 | $ 35,100,000 |
| Assembled workforce | 2,300,000 | 3,317,000 |
| Goodwill | 110,822,000 | 156,639,000 |
| | 134,322,000 | 195,056,000 |
| Accumulated amortization | (16,956,000) | (32,823,000) |
| | $117,366,000 | $162,233,000 |

## 6. Notes Payable

Notes payable consists of the following:

| | July 31 | |
|---|---|---|
| | 1999 | 2000 |
| Senior Notes (A) | $ 380,000 | $ 380,000 |
| Senior Credit facilities (B) | 108,146,000 | — |
| Promissory note (C) | 7,367,000 | 4,768,000 |
| Promissory notes (D) | — | 16,942,000 |
| Promissory notes (E) | — | 4,800,000 |
| Promissory notes (E) | — | 6,537,000 |
| Other | 1,833,000 | 1,351,000 |
| | 117,726,000 | 34,778,000 |
| Less notes payable—current portion | (4,753,000) | (22,604,000) |
| Notes payable—long-term portion | $112,973,000 | $ 12,174,000 |

(A) On February 18, 1998, the Company completed an offering of $100,000,000 in Senior Notes (the "Notes"). Such Notes bear interest, which is payable semiannually on February 15 and August 15, at 8.75% per annum, mature on February 15, 2006 and are general unsecured obligations of the Company. On May 10, 1999, the Company repaid $99,620,000 of the principal balance together with accrued interest at a redemption price equal to 102% of the repaid principal balance. The Company recorded a pre-tax extraordinary loss in connection with the repayment of $5,359,787 during the year ended July 31, 1999.

(B) On May 10, 1999, the Company obtained a Senior Secured Credit Facility ("Credit Facility") from a consortium of financial institutions. The Credit Facility, as amended, consisted of a $25,000,000 revolving line of credit, maturing on May 9, 2003, a $60,000,000 multi-draw term loan, payable in equal quarterly principal payments commencing February 2001, and ending May 9, 2003, and a $75,000,000 single-draw term loan, requiring payments of 1% of the principal balance for the first four years, and the remaining principal balance in four equal quarterly payments thereafter. The Credit Facility bore interest at base rates, as defined, plus 2.50% to 3.50%. The Credit Facility was collateralized by 100% of the capital stock of IDT's domestic subsidiaries, and other assets. At July 31, 1999, $25,000,000 of the revolving line of credit and $26,854,000 of the $60,000,000 multi-draw term loan remained unused. During the second quarter ended January 31, 2000, the Company repaid all of the outstanding principal balance together with accrued interest. The Company recorded a pre-tax extraordinary loss in connection with the repayment of $4,870,452 during the year ended July 31, 2000.

(C) On May 6, 1999, the Company entered into a $7,800,000 promissory note with a financing company. The note is payable in 36 monthly installments commencing on June 1, 1999, and bears an adjustable interest rate indexed to the one month LIBOR rate. The promissory note is collateralized by certain equipment of the Company.

(D) On June 30, 2000, the Company completed the acquisition of a 100% interest in CTM Brochure Display, Inc. ("CTM"), a brochure distribution company. In connection with the acquisition, the Company issued promissory notes to the former shareholders in the aggregate amount of $16,942,000. The notes bear interest at the rate of 9.50% per annum. The principal balance on the notes, together with accrued interest, are payable in equal monthly installments through June 30, 2001.

(E) The promissory notes were issued in connection with Net2Phone's Aplio acquisition (Note (13)) and bear interest at an annual rate of 6.53%. The Company is required to pay $1,961,235 of the notes on March 31, 2001 and the remaining principal balance of $4,576,215 plus all accrued and unpaid interest on January 31, 2002. In addition Net2Phone is required to pay the former Aplio shareholders $4.8 million over 18 months from the date of sale.

On September 5, 1997, the Company completed a private placement of $7,500,000 in convertible debentures. Such convertible debentures bore interest at 3% per annum which was payable upon their maturity on September 5, 2000. In April 1998, the holders of $6,500,000 in principal amount of the convertible debentures elected to convert all outstanding principal and unpaid accrued interest thereon into 436,781 shares of the Company's common stock. The remaining $1,000,000 in convertible debentures and all unpaid accrued interest thereon were repaid in June 1998.

Annual future principal repayments of long-term debt for the five years subsequent to July 31, 2000 consist of $22,604,000 due in fiscal 2001, $11,829,000 due in fiscal 2002, and $345,000 due in fiscal 2003.

## 7. Related Party Transactions

In connection with the incorporation of Net2Phone in October 1997, Net2Phone and the Company entered into a separation agreement in May 1999 under which the transactions and agreements necessary to govern the relationship between the two companies to effect their separation were determined.

During the periods prior to the signing of the aforementioned agreements, service costs were generally allocated based upon a percentage of total revenue earned or payroll expense incurred by Net2Phone. These allocated costs approximate the amounts that would have been charged under the intercompany agreements if they had been in effect during such periods.

## 8. Income Taxes

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

| | July 31, 1999 | July 31, 2000 |
|---|---|---|
| Deferred tax assets: | | |
| Unrealized losses on securities | $ — | $ 34,484,000 |
| Bad debt reserve | 3,045,000 | 5,331,000 |
| Exercise of stock options | 7,926,000 | 3,277,000 |
| Reserves | — | 4,500,000 |
| Other | 285,000 | 289,000 |
| Deferred tax assets | 11,256,000 | 47,881,000 |
| Deferred tax liabilities: | | |
| Gain on sales of subsidiary stock | — | (97,830,000) |
| Partnership | — | (92,413,000) |
| Depreciation | (2,760,000) | (14,466,000) |
| Identifiable intangibles | (5,137,500) | (1,728,000) |
| Other | | (10,216,000) |
| Deferred tax liabilities | (7,897,500) | (216,653,000) |
| Net deferred tax assets (liabilities) | $ 3,358,500 | $(168,772,000) |

No valuation allowance on the net deferred tax assets has been established as the realization of such net deferred tax assets is considered to be more likely than not.

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

| | 1998 | 1999 | 2000 |
|---|---|---|---|
| Current: | | | |
| Federal | $ — | $ 400,000 | $ — |
| State and local and foreign | 200,000 | — | — |
| | 200,000 | 400,000 | (395,000) |
| Deferred: | | | |
| Federal | (2,207,000) | 3,768,000 | 175,191,000 |
| State and local | (605,500) | 995,000 | 41,712,000 |
| | (2,812,500) | 4,763,000 | 216,903,000 |
| | $(2,612,500) | $5,163,000 | $216,508,000 |

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

| | 1998 | 1999 | 2000 |
|---|---|---|---|
| Income tax provision (benefit) attributable to continuing operations | $(2,523,500) | $ 7,253,000 | $218,403,000 |
| Income tax benefit attributable to extraordinary loss | (89,000) | (2,090,000) | (1,895,000) |
| | $(2,612,500) | $ 5,163,000 | $216,508,000 |

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

| | 1998 | 1999 | 2000 |
|---|---|---|---|
| Federal income tax at statutory rate | $ 281,000 | $(3,842,000) | $137,513,000 |
| Purchased research and development | 6,240,000 | — | — |
| Change in valuation allowance | (9,294,000) | — | — |
| Losses for which no benefit provided | — | 6,110,000 | 32,703,000 |
| Non-deductible expenses | — | 2,226,000 | 17,625,000 |
| State and local and foreign income tax | 369,500 | 647,000 | 28,612,000 |
| Other, net | (209,000) | 22,000 | 55,000 |
| | $(2,612,500) | $ 5,163,000 | $216,508,000 |

## 9. Stockholders' Equity

*Common Stock and Class A Stock*

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

*Warrants*

In July 1997, the Company issued warrants to purchase 35,906 shares of its common stock at $8.34 per share and 63,098 shares of its common stock at $6.96 per share to a leasing company in connection with a capital lease. During the years ended July 31, 1998 and 1999, all of such warrants were exercised.

In September 1997, the Company issued warrants to purchase 75,000 shares of the Company's common stock at $15.16 per share to placement agents in connection with a private placement of $7,500,000 in convertible debentures. The holders of these warrants exercised warrants to purchase 35,003 and 12,234 shares, respectively, of the Company's common stock in Fiscal 1998, and 1999. During the year ended July 31, 2000 all of the remaining warrants were exercised.

*Stock Options*

Prior to March 15, 1996, the Company had an informal stock option program whereby employees were granted options to purchase shares of common stock. Under this informal program, options to purchase 2,158,770 shares of Common stock were granted.

The Company adopted a stock option plan as amended (the "Option Plan") for officers, employees and non-employee directors to purchase up to 6,300,000 shares of the Company's common stock. In September 2000, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance 3,000,000 shares of Class B stock. Class B stock will have 1/10 the voting rights of the Company's common shares. Generally, options become exercisable over vesting periods up to six years and expire ten years from the date of grant.

On February 15, 1997, the Company canceled 1,272,250 outstanding options with an exercise price of $10.00 and granted new options with an exercise price at the market value on that date of $7.75. On April 16, 1997, the Company canceled 603,500 outstanding options with an exercise price of $7.75 and granted new options with an exercise price at the market value on that date of $4.375.

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

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at July 31, 1997 | 4,399,026 | $ 3.89 |
| Granted | 1,270,300 | 14.00 |
| Exercised | (1,615,366) | 3.28 |
| Forfeited | (839,325) | 5.00 |
| Outstanding at July 31, 1998 | 3,214,635 | 7.90 |
| Granted | 1,136,241 | 15.21 |
| Exercised | (696,840) | 5.86 |
| Canceled | (58,000) | 14.85 |
| Forfeited | (8,070) | 8.27 |
| Outstanding at July 31, 1999 | 3,587,966 | 10.50 |
| Granted | 4,425,543 | 19.96 |
| Exercised | (1,310,700) | 11.09 |
| Canceled | (47,500) | 17.72 |
| Forfeited | (15,750) | 21.85 |
| Outstanding at July 31, 2000 | 6,639,559 | $16.61 |

The following table summarizes the status of stock options outstanding and exercisable at July 31, 2000:

| | Stock Options Outstanding | | |
|---|---|---|---|
| Range of Exercise Prices | Number of Options | Weighted-Remaining Contractual Life | Number of Stock Options Exercisable |
| \$ 0.21 - \$ 0.21 | 292,150 | 4.0 | 292,150 |
| \$ 0.41 - \$ 0.41 | 8,816 | 4.7 | 8,816 |
| \$ 0.83 - \$ 0.83 | 40,500 | 4.0 | 40,500 |
| \$ 1.65 - \$ 1.65 | 15,000 | 4.7 | 15,000 |
| \$ 4.38 - \$ 5.25 | 389,200 | 6.6 | 389,200 |
| \$ 6.88 - \$10.00 | 610,825 | 6.5 | 464,325 |
| \$11.25 - \$16.00 | 1,631,633 | 8.5 | 419,903 |
| \$17.44 - \$24.25 | 3,000,185 | 9.3 | 198,449 |
| \$26.25 - \$37.02 | 651,250 | 9.1 | 195,000 |
| | 6,639,559 | | 2,023,343 |

The weighted average fair value of options granted was \$4.46, \$9.26 and \$14.84 for the years ended July 31, 1998, 1999, and 2000, respectively.

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

| | July 31 | | |
|---|---|---|---|
| | 1998 | 1999 | 2000 |
| **Assumptions** | | | |
| Average risk-free interest rate | 5.92% | 4.67% | 6.49% |
| Dividend yield | — | — | — |
| Volatility factor of the expected market price of the Company's common stock | 84% | 84% | 81% |
| Average life | 5 years | 5 years | 5 years |

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

For purposes of pro forma disclosures, the estimated fair value of the options under SFAS 123 is amortized to expense over the options' vesting period. For the years ended July 31, 1998, 1999 and 2000, pro forma net income (loss) and pro forma net income (loss) income per share under SFAS 123 amounted to approximately \$(11,082,000), \$(53,295,000) and \$214,285,657, respectively, and \$(0.39), \$(1.59) and \$6.12, respectively.

During the year ended July 31, 2000, the Company modified stock options granted for certain employees of the Company to accelerate or extend their terms. Accordingly, the Company recorded additional compensation expense of approximately \$985,000.

*Net2Phone Stock Options*

In the fourth quarter of fiscal 1999, Net2Phone granted options to purchase 8,811,500 shares of its common stock at exercise prices ranging from \$3.33 to \$15.00 per share to its employees and employees of IDT. In connection with the exercise of these options, Net2Phone extended \$3,149,900 of recourse loans to its employees. In order to obtain the loans, optionees agreed to the cancellation of 23,382 outstanding options.

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

*Net2Phone Series A Stock*

On May 13, 1999, Net2Phone designated 3,150,000 shares of its preferred stock as Series A ("Series A Stock") and sold 3,140,000 of such shares to unrelated third parties in a private placement transaction for aggregate gross proceeds of $31,400,000.

*Public Offerings and Other Transactions*

On February 3, 1998, the Company completed a public offering of 5,093,750 shares of its common stock for $24.875 a share. The Company realized net proceeds of approximately $115.4 million from this offering.

On August 3, 1999, Net2Phone completed an initial public offering of 6,210,000 shares of common stock at an initial public offering price of $15.00 per share, resulting in net proceeds of approximately $85.3 million. Upon completion of the initial public offering, 3,140,000 shares of Net2Phone Series A Preferred Stock were converted into 9,420,000 shares of Net2Phone Class A Stock. As a result of the initial public offering and concurrent conversion of Series A Stock to Class A stock, the Company's ownership percentage in Net2Phone decreased from approximately 90.0% to approximately 56.2%. In connection with such offering, the Company recorded a gain on sale of stock by a subsidiary of approximately $65,464,000. Such gain is included in gain on sales of subsidiary stock for the year ended July 31, 2000.

In December 1999, the Net2Phone completed a secondary offering of 6,300,000 shares of common stock at a price of $55.00 per share. In connection with the offering, IDT also sold 2,200,000 share of Net2Phone common stock at $55.00 per share. Proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses were approximately $292.8 million. The Company's ownership percentage in Net2Phone before and after these transactions decreased from 56.4% to 47.97%. The Company recorded gains on sales of stock by a subsidiary of approximately $182,594,000 in connection with these offerings. Such gains are included in gain on sales of subsidiary stock for the year ended July 31, 2000.

In March 2000, the Company acquired 806,452 shares of Yahoo! Inc. in exchange for 2,777,778 shares of the Net2Phone common stock at a then equivalent market value of approximately $150,000,000. In connection with the transaction, the Company recorded a gain on sale of subsidiary stock of $102,286,000.

*Stock Buyback Program*

During the year ended July 31, 2000 the Board of Directors of the Company authorized the repurchase of up to ten million shares of the Company's common stock. As of July 31, 2000, the Company had repurchased and retired approximately 3.1 million shares of common stock for an aggregate consideration of approximately $101.9 million.

*Liberty Media Transaction*

On March 27, 2000, Liberty Media Group agreed to purchase approximately 9.9% of the equity of IDT, equal to approximately 3,775,000 shares of IDT's common stock exchangeable for shares of Class B common stock. On June 6, 2000, Liberty Media Group completed the purchase of 3,728,949 shares of IDT's common stock at $34.50 per share, resulting in aggregate cash consideration of approximately $128.6 million. Liberty Media also has the right to nominate a director for election to the IDT Board of Directors.

*Terra Networks Transaction*

In October 1999, IDT entered into a joint venture agreement with Terra Networks, S.A. ("Terra") pursuant to which the two parties formed two limited liability companies to provide Internet services and products to customers in the United States. One company was formed to provide internet access to customers and the other company was formed to develop and manage an internet portal that will provide content-based Internet services. IDT's 49% interest in the Internet access company was accounted for using the equity method of accounting. The equity method was used since IDT had significant influence, but less than a controlling voting interest. IDT's 10% interest in the Internet portal company was accounted for at cost. The cost method was used since IDT did not have a controlling voting interest, or an ownership or voting interest so large as to exert significant influence, and the venture was not publicly traded. On April 30, 2000, the Company sold its interests in the two joint ventures for the right to receive 3,750,000 shares of Terra common stock. The Company recognized a pre-tax gain of approximately $231.0 million in connection with this transaction for the year ended July 31, 2000.

## 10. Commitments and Contingencies

*Legal Proceedings*

In October 1999, Union commenced an action against DigiTEC 2000, Inc. ("DigiTEC") and TecNet, Inc. ("TecNet") in the Supreme Court of the State of New York, County of New York, alleging damages of approximately $725,000 based upon, among other things, non-payment for prepaid calling cards. DigiTEC and TecNET have answered the complaint and DigiTEC has asserted a third-party claim against IDT seeking damages of $2.5 million dollars based upon IDT's alleged breach of a settlement agreement between IDT and DigiTEC which had resolved a prior litigation between those parties. The court adjourned the return date without assigning a specific return date for IDT to answer the Third-Party Complaint, subject to DigiTEC's right to make a written thirty day demand for an Answer. This action is currently in the early stages of discovery.

In February 2000, IDT Europe B.V.B.A., a subsidiary of IDT, filed a Complaint against Tyco Group S.A.R.L. ("Tyco") and Tyco Submarine Systems, Ltd. ("TSSL") in the United States District Court, Newark, New Jersey, alleging breach of implied covenant of good faith and fair dealing and breach of contract for breaching a Memorandum of Understanding and Instruction to Proceed entered into on November 9, 1999. IDT sought to enjoin and restrain Tyco and TSSL from undertaking contrary business activity inconsistent with the Memorandum of Understanding and Instruction to Proceed and sought compensatory, consequential and punitive damages. On March 24, 2000, Tyco filed an answer and a motion to dismiss the action for lack of subject matter jurisdiction and Tyco, TSSL, Tyco International Ltd., Tyco International (US) Inc., and Tycom Ltd. filed suit against IDT Europe B.V.B.A. and IDT in the Supreme Court for New York county. The suit alleges breach of contract and tortious interference with prospective business relations and seeks declaratory and/or injunctive relief. The plaintiffs are seeking compensatory damages in an undefined amount and punitive damages in the amount of $3 billion. On April 13, 2000, IDT filed a motion to dismiss the action for lack of personal jurisdiction and failure to state a claim, on which a hearing was scheduled for June 19, 2000. On June 7, 1999, the United States District Court in Newark, New Jersey dismissed IDT's complaint for lack of federal court jurisdiction. On June 14, 2000, IDT filed a substantially similar action in the New Jersey state court.

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

Under the terms of the settlement, Tycom Ltd. ("TyCom") granted to IDT Europe B.V.B.A. ("IDT Europe"), free of charge, certain exclusive rights to use capacity on the transatlantic and transpacific segments of TyCom's global undersea fiber optic network (the "TyCom Global Network") which TyCom is currently deploying. The settlement agreement provides for IDT Europe to obtain exclusive indefeasible rights to use 2 (two) 10 Gb/s wavelengths on the transatlantic segment and 2 (two) 10 Gb/s wavelengths on the transpacific segment for fifteen years from the applicable Handover Dates (as described below). TyCom previously announced that it expects the TyCom transatlantic network to be ready for service in September of 2001 and the TyCom transpacific network to be ready for service in the second quarter of 2002, the respective "Ready for Service Dates." Under the terms of the settlement agreement, the Handover Dates for the wavelengths on the transatlantic segment are six months (for the first wavelength) and 18 months (for the second wavelength), respectively, after the Ready for Service Date of the TyCom transatlantic network and the Handover Dates for the wavelengths on the transpacific segment are six months (for the first wavelength) and 18 months (for the second wavelength), respectively, after the Ready for Service Date of the TyCom transpacific network. Operation, administration and maintenance for the wavelengths used by IDT will be provided by TyCom for a fifteen year period after the relevant Handover Date, free of charge. TyCom has also granted IDT certain rights to resell any unused capacity on the wavelengths through TyCom as its sole and exclusive agent. In addition, IDT will also have the option, exercisable at least annually, to convert the available capacity on its wavelengths to available equivalent capacity on another portion of the Tycom Global Network.

In February 2000, Multi-Tech Systems, Inc. ("Multi-Tech") filed suit against Net2Phone and other companies in the United States Federal District Court in Minneapolis, Minnesota. In its press release, Multi-Tech stated that "the defendant companies are infringing because they are providing the end users with the software necessary to simultaneously transmit voice and data on their computers in the form of making a phone call over the Internet." Net2Phone intends to defend the lawsuit vigorously. Net2Phone believes that the Multi-Tech claims are without merit. However, should a judge issue an injunction against Net2Phone requiring that Net2Phone cease distributing its software or providing its software-based services, such an injunction could have an adverse effect on Net2Phone's business. Net2Phone has filed an answer and this action is currently in the early stages of discovery.

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

*Lease Obligations*

The future minimum payments for all capital and operating leases as of July 31, 2000 are approximately as follows:

| Year ending July 31: | Operating Leases | Capital |
|---|---|---|
| 2001 | $ 9,215,000 | $ 16,646,000 |
| 2002 | 8,471,000 | 16,595,000 |
| 2003 | 7,772,000 | 14,182,000 |
| 2004 | 7,539,000 | 11,071,000 |
| 2005 | 7,233,000 | 6,233,000 |
| Thereafter | 112,628,000 | — |
| Total payments | $152,858,000 | 64,727,000 |
| Less amount representing interest | | (7,247,000) |
| Less current portion | | (13,540,000) |
| Capital lease obligations—long-term portion | | $ 43,940,000 |

Rental expense under operating leases was approximately $1,225,000, $2,821,000 and $6,857,000 for the years ended July 31, 1998, 1999 and 2000, respectively.

*Commitments*

For the years ended July 31, 1998 and 1999, the Company had an agreement with a supplier of telecommunications services ("Vendor") which began in August 1994. Under such agreement, the Vendor bills and collects, on behalf of the Company, for long distance telephone services provided to the Company's customers. The Company is responsible for all uncollected receivables. The Company purchased approximately $5,997,000 and $10,214,000 during 1998 and 1999, respectively, of such services from the Vendor.

The Company has entered into agreements with certain carriers to buy and sell communications services. At July 31, 2000, the Company's minimum purchase commitments related to such agreements consist of $3,127,000 in Fiscal 2001, $1,771,000 in Fiscal 2002, $500,000 in Fiscal 2003, and $194,000 in Fiscal 2004.

In September 1998, the Company entered into a 20 year agreement with a carrier to provide the Company with nationwide bandwidth capacity and maintenance services in exchange for total payments estimated at $32.0 million.

Net2Phone has entered into various marketing and distribution agreements under which it is obligated to make upfront and future payments. At July 31, 2000 $12,162,000 of prepayments are included in contract deposits. Future minimum payments under the agreements are:

| | |
|---|---|
| Fiscal 2001 | $12,643,000 |
| Fiscal 2002 | 7,036,000 |
| Fiscal 2003 | 1,860,000 |
| | $21,539,000 |

In connection with the Company's distribution and marketing agreement with ICQ, the Company issued a warrant to America Online to purchase up to 3% of Net2Phone's outstanding capital stock on a fully-diluted basis. This warrant will vest in 1% increments upon the achievement of each of three incremental thresholds of revenue generated under the agreement during the first four years that the warrant is outstanding. The per share exercise price under the warrant will be equal to the lesser of 80% of the price per share in Net2Phone's initial public offering, or $450 million divided by the number of the Company's fully-diluted shares on the initial exercise date. The warrant may be exercised for a period of five years from the date of issuance.

The warrants are accounted for in accordance with the provisions of EITF 96-18, "Accounting for Equity Investments that are Issued to Other than Employees for Acquiring or in Conjunction with Selling Goods or Services." Due to the uncertainty of reaching performance measures stipulated in the warrant agreement, the Company has not recorded any expense relating to the issuance of the warrant. Upon determination that the achievement of the revenue thresholds is probable, the Company will value the warrant and expense it over the remaining period until the performance criteria is met. The three revenue thresholds are $10 million, $50 million and $75 million and the term of the distribution and marketing agreement is four years. If the three incremental thresholds had been met on July 31, 2000, the Company would have expensed approximately $25.3 million.

## 11. Business Segment Information

Based principally on products and services provided, the Company has identified four reportable business segments: Wholesale Telecommunications Services, Retail Telecommunications Services, Internet Services and Internet Telephony. The operating results of these business segments are distinguishable, are regularly reviewed by Company management and are integral to their decision making process.

The Wholesale Telecommunications Services business segment is comprised of wholesale carrier services sold to other U.S. and international carriers. The Retail Telecommunications Services business segment includes prepaid calling cards, international retail services and domestic long distance services. The Internet Services business segment includes dial-up access services and direct connect dedicated service. The Internet Telephony business segment reflects the results of the Company's majority-owned subsidiary, Net2Phone, prior to the elimination of minority interests. The Ventures business segment, new for the current fiscal year, includes new industries explored by the Company such as IDT Wireless and TV.TV.

The Company evaluates the performance of its business segments based primarily on operating income after depreciation and amortization but prior to interest expense and income taxes; all corporate overhead is allocated to the business segments based on time and usage studies. Operating results and other financial data presented for the principal business segments of the Company for the years ended July 31, 1998, 1999 and 2000 are as follows ($ in thousands):

| | Wholesale Telecommunications Services | Retail Telecommunications Services | Internet Services | Internet Telephony | Ventures | Total |
|---|---|---|---|---|---|---|
| **Year ended July 31, 1998** | | | | | | |
| Total segment revenue | $170,240 | $137,159 | $ 20,721 | $ 12,006 | | $ 340,126 |
| Less: revenues between segments | (3,535) | — | (720) | (498) | | (4,753) |
| Total unaffiliated revenue | 166,705 | 137,159 | 20,001 | 11,508 | | 335,373 |
| Income (loss) from operations | 9,460 | 1,048 | (7,030) | (2,650) | | 828 |
| Depreciation and amortization | 4,810 | 3,721 | 4,409 | 871 | | 13,811 |
| Total assets | 230,998 | 186,000 | 36,415 | 7,827 | | 461,240 |
| **Year ended July 31, 1999** | | | | | | |
| Total segment revenue | $301,413 | $395,542 | $ 17,882 | $ 33,256 | | $ 748,093 |
| Less: revenues between segments | (12,383) | — | (948) | (2,578) | | (15,909) |
| Total unaffiliated revenue | 289,030 | 395,542 | 16,934 | 30,678 | | 732,184 |
| Income (loss) from operations | 12,596 | 12,283 | (8,197) | (24,408) | | (7,726) |
| Depreciation and amortization | 14,120 | 15,275 | 4,699 | 2,266 | | 36,360 |
| Total assets | 294,941 | 179,607 | 23,057 | 62,266 | | 559,871 |
| **Year ended July 31, 2000** | | | | | | |
| Total segment revenue | $549,213 | $504,594 | $ 13,768 | $ 72,401 | $ 1,638 | $1,141,614 |
| Less: revenues between segments | (28,695) | (2,082) | (600) | (16,326) | — | (47,703) |
| Total unaffiliated revenue | 520,518 | 502,512 | 13,168 | 56,075 | 1,638 | 1,093,911 |
| Income (loss) from operations | (11,458) | (33,877) | (18,112) | (125,865) | (27,298) | (216,610) |
| Depreciation and amortization | 18,407 | 17,771 | 5,285 | 6,804 | 297 | 48,564 |
| Total assets | 431,659 | 358,656 | 13,145 | 403,202 | 12,393 | 1,219,055 |

The income (loss) from operations for the Wholesale Telecommunications Services and Retail Telecommunications Services business segments for fiscal 1998 includes their pro-rata portion of a $17.9 million non-recurring expense for the write-off of in-process research and development in connection with the acquisition of InterExchange, Inc. which was allocated to acquired research and development.

Revenue from customers located outside of the United States represented approximately 11%, 13% and 17% of total revenue for the years ended July 31, 1998, 1999 and 2000, respectively, with no single foreign geographic area representing more than 10% of total revenues for any period presented. Revenues are attributed to countries based on the location of the customer. Long-lived assets held outside of the United States totaled approximately $24.9 million and $24.4 million as of July 31, 1999 and 2000, respectively.

### 12. Additional Financial Information

Trade accounts payable includes approximately $57,336,000 and $96,215,000 due to Telecommunication carriers at July 31, 1999 and 2000, respectively.

## 13. Acquisitions

In November 1997, the Company completed the acquisition of 100% of the issued and outstanding common stock of Rock Enterprises, Inc. ("Rock"), a former consultant of the Company, for an aggregate purchase price of $5,312,500. The purchase price consists of 625,000 shares of the Company's common stock. The Company issued 312,500 of such shares on the closing date of the acquisition in November 1997. The remaining shares were issued in May 1998. The Company is accounting for such acquisition using the purchase method. Since Rock had no assets or liabilities, the entire purchase price has been allocated to goodwill. The operations of Rock have been included in the statement of operations since the date of the acquisition.

In May 1998, the Company completed the acquisition of 51% of the issued and outstanding stock of Union Telecard Alliance, Inc. ("Union"), a former debit card reseller of the Company for an aggregate purchase price of $2,650,000. The purchase price consisted of 100,000 shares of the Company's common stock. Pursuant to the acquisition agreement, the Company issued an additional 100,000 shares of the Company's common stock valued at $2,850,000 in April 1999. Such issuance was the result of Union's net income exceeding $2.4 million in the one year period following the completion of the acquisition. There is no other contingent consideration. The Company accounted for the acquisition using the purchase method and consolidates its 51% interest in Union. The operations of Union have been included in the statement of operations since the date of the acquisition. Union had no assets or liabilities. The Company acquired Union as it gave IDT the ability to immediately enter the rapidly growing market for prepaid calling cards geared to specific ethnic markets. The initial entry into this market allowed the Company to become a significant participant in the market and be dominant in certain segments. Therefore, the entire purchase price has been allocated to goodwill.

In May 1998, the Company completed the acquisition of InterExchange, Inc., a former debit card service platform provider of the Company, for an aggregate purchase price of $129,206,000. The purchase price consists of $20,000,000 in cash, 3,242,323 shares of the Company's common stock and $588,000 in professional fees incurred in connection with the acquisition. The common stock was valued based on a price per share of $33.50, which is the average price of the Company's common stock a few days before and after the acquisition was announced. The Company is accounting for such acquisition using the purchase method.

The fair value of the assets acquired and liabilities assumed from InterExchange at the date of acquisition is summarized as follows:

| | |
|---|---|
| Current assets | $ 36,000 |
| Property and equipment | 5,539,000 |
| Current liabilities | (7,357,000) |
| Assembled workforce | 2,300,000 |
| Core technology | 21,200,000 |
| Acquired research and development | 17,900,000 |
| Goodwill | 98,988,000 |
| Deferred Tax Liability on identifiable intangible assets | (9,400,000) |
| | $129,206,000 |

In connection with the acquisition of InterExchange, Inc., the Company immediately expensed the amount allocated to in-process research and development of $17.9 million in accordance with generally accepted accounting principles, as technological feasibility had not been established and the technology had no alternative future use as of the date of the acquisition.

*CTM Brochure Display, Inc. Acquisition*

On June 30, 2000, the Company acquired a 100% interest in CTM Brochure Display, Inc. ("CTM"), a brochure distribution company, for an aggregate purchase price of approximately $23,800,000. The purchase price consisted primarily of $5.1 million in cash, $16.9 million in notes payable to the former owners and the liquidation of $1,400,000 of CTM's bank debt. In connection with the transaction, the Company recorded goodwill of $23,000,000 which is being amortized over 20 years and tax liabilities of $3,000,000. The acquisition was accounted for as a purchase, and accordingly, the net assets and results of operations of the acquired business have been included in the consolidated financial statements from the date of acquisition.

*IDT/Westmintech Joint Venture*

In September 1999, a subsidiary of the Company entered into an agreement to form a joint venture with Westmintech Company, L.L.C., to provide high speed voice and data services, including without limitation local and long distance telephone service (dedicated and 1+), cable television service (cable and/or fiber optic), on line service with direct Internet access and Internet access services and various other Internet services (DSL, dedicated and dial up) and various other Internet services and other technology to the tenants of commercial and residential properties worldwide. The Company consolidates its 75% ownership interest in the joint venture.

*Aplio Acquisition*

On July 7, 2000, Net2Phone acquired all of the outstanding capital stock of Aplio, S.A ("Aplio") a company located in France with technology that enables VoIP devices. Consideration consisted of $2.9 million in cash at closing and 582,749 shares of Net2Phone's common stock which were valued at $35.50 per share, promissory notes aggregating $6.5 million, $1.1 million in acquisition related costs and $4.8 million in cash to be paid within eighteen months of the closing of the transaction. In addition, Net2Phone is required to pay two contingent cash payments of $2,778,230 on July 7, 2001 and July 7, 2002. These contingent payments are dependent on certain individuals continuing their employment with Net2Phone and will be recorded as expense if and when they become due.

Net2Phone may also be required to repurchase the shares of common stock issued to the selling shareholders on or prior to January 31, 2002 for a per share purchase price of $36.947.

As collateral for the $4.8 million payment, Net2Phone has placed 152,390 shares of its common stock in escrow. The aggregate purchase price of $36.0 million plus the fair value of net liabilities assumed of $2.7 million totaled approximately $38.7 million which was preliminarily allocated as follows: approximately $17.5 million to goodwill, $13.9 million to technology, $2.3 million to trademark, $4.5 million to patents and $500,000 to workforce. The acquisition was accounted for as a purchase, and accordingly, the net assets and results of operations of the acquired business have been included in the consolidated financial statements from July 7, 2000, the date of acquisition.

## 14. Subsequent Events

*AT&T transaction*

On March 28, 2000, IDT entered into an agreement with AT&T Corporation ("AT&T") which closed on August 11, 2000 pursuant to which IDT sold AT&T 14.9 million shares of Class A Common Stock, par value $0.01 per share, of Net2Phone ("Class A Stock"), at a price of $75 per share. In addition, AT&T purchased four million newly-issued shares of Class A Stock from Net2Phone at a price of $75 per share. Following these transactions, AT&T had a 39% voting stake and a 32% economic stake in Net2Phone for a total cash investment of approximately $1.4 billion. These transactions reduce IDT's voting stake in Net2Phone from its current 56% to 21% and its economic stake in Net2Phone from its current 45% to 17%. Accordingly, IDT has deconsolidated Net2Phone effective August 11, 2000 and accounts for it using the equity method. In addition, AT&T and IDT have reached an agreement that gives AT&T the right of first refusal to purchase IDT's remaining stake of 10 million shares of Class A Stock. If this right is exercised, AT&T will have a 60% voting interest and a 49% economic interest in Net2Phone. AT&T will also receive the option to convert IDT's remaining 10 million shares of Class A Stock into shares of Common Stock, par value $0.01 per share, of Net2Phone ("Common Stock"). Shares of Class A Stock have two votes per share, while shares of Common Stock have one vote per share.

On March 3, 2000, AT&T entered into an agreement with IDT granting IDT an option, for a period of 180 days, to cause AT&T to purchase 2,040,817 shares of Class B Common Stock of IDT, at a price of $36.75 per share for an aggregate purchase price of approximately $75,000,000. The option is exercisable from April 2, 2000 until the earlier of (i) 180 days following March 3, 2000 and (ii) the date IDT sells at least 12,500,000 shares of Class A Stock, $0.01 par value, of Net2Phone to a current holder of shares of such Class A Stock of Net2Phone. The Class B Common Stock will carry 1/10 of a vote per share. For a period of 18 months, if AT&T buys shares of Class A Stock from another holder of shares of Class A Stock, IDT will have the option to cause AT&T to purchase up to 5 million additional shares of its Class A Stock on the same terms and conditions. AT&T and IDT have agreed to enter into various definitive commercial arrangements for a period of three years. AT&T has the right to nominate three members to the Board of Directors of Net2Phone. Until August 1, 2003 AT&T and IDT will agree to vote their shares in favor of mutually acceptable nominees to the Board of Directors of Net2Phone. Net2Phone also granted each of AT&T and IDT a license to use Net2Phone's technologies in their own communications services.

Effective August 11, 2000 IDT will no longer consolidate Net2Phone. Summary financial information for Net2Phone as of July 31, 2000 is as follow:

| | |
|---|---|
| Current assets | $ 156,023,000 |
| Total assets | $ 411,728,000 |
| Working Capital | $ 106,372,000 |
| Revenue | $ 72,401,000 |
| Operating loss | $(128,512,694) |

### 15. Earnings Per Share

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

| | Year ended July 31 | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Numerator: | | | |
| Net Loss | | | |
| Subsidiary preferred stock dividends | 230,850,036 | (18,203,546) | (969,372) |
| Net Loss available for common stockholders | — | (26,297,426) | — |
| Denominator: | 230,850,036 | 44,500,972 | (969,372) |
| Weighted average shares outstanding—basic | 34,966,400 | 33,529,930 | 28,571,421 |
| Effect of stock options | 2,652,952 | — | — |
| Weighted average shares outstanding—diluted | 37,619,351 | 33,529,930 | 28,571,421 |
| Basic earnings (loss) per share | $6.60 | ($1.33) | ($0.03) |
| Diluted earnings (loss) per share | $6.14 | ($1.33) | ($0.03) |

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

| | Year ended July 31 | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Stock options | 449,500 | 3,587,966 | 3,214,635 |

**16. Net2Phone subsidiary stock sales**

During the course of the year ended July 31, 2000, the Company recognized approximately $350.3 million in gains, included in gain on sales of subsidiary stock, related to Net2Phone subsidiary stock sales as follows:

On August 3, 1999, Net2Phone, Inc. a majority owned subsidiary, completed an initial public offering of 6,210,000 shares of its common stock at a price of $15 per share, resulting in net proceeds of approximately $85.3 million. Upon completion of the initial public offering, 3,140,000 shares of Net2Phone Series A Preferred Stock were converted into 9,420,000 shares of Net2Phone Class A Stock. As a result of the initial public offering and concurrent conversion of Series A Stock to Class A Stock, IDT's ownership percentage in Net2Phone decreased from 90.0% to approximately 56.2%. This resulted in the Company recording a gain on the sale of stock by a subsidiary of approximately $65.5 million. Deferred taxes of $26.2 million have been provided on the gain.

A $76.8 million pre-tax gain was recognized in December 1999 (second quarter of fiscal 2000) in connection with Net2Phone's secondary offering of 6.3 million shares of its common stock, at a price of $55.00 per share for net proceeds to Net2Phone of approximately $177.4 million. Deferred taxes of approximately $30.7 million have been provided for this gain.

A $105.8 million pre-tax gain was recognized in December 1999 (second quarter of fiscal 2000) in connection with IDT's sale of 2,200,000 shares of common stock of Net2Phone in Net2Phone's secondary, at a price of $55.00 per share for net proceeds of approximately $115.4 million. IDT's ownership interest before and after this transaction and the secondary (which occurred at the same time) was 56.24% and 47.97%, respectively.

A $102.3 million pretax gain was recognized in fiscal 2000 in connection with Net2Phone's exchange of its stock for Yahoo common stock and the exercise of stock options.

IDT CORPORATION

FINANCIAL STATEMENT SCHEDULE—VALUATION AND QUALIFYING ACCOUNTS

| Description | Balance at Beginning of Period | Additions Charged to Costs and Expenses | Deduction(1) | Balance at End of Period |
|---|---|---|---|---|
| **1998** | | | | |
| Reserves deducted from accounts receivable: | | | | |
| Allowance for doubtful accounts | $3,190,000 | $ 6,190,000 | $(3,125,000) | $ 6,255,000 |
| **1999** | | | | |
| Reserves deducted from accounts receivable: | | | | |
| Allowance for doubtful accounts | $6,255,000 | $ 5,558,000 | $(4,170,000) | $ 7,643,000 |
| **2000** | | | | |
| Reserves deducted from accounts receivable: | | | | |
| Allowance for doubtful accounts | $7,643,000 | $20,154,000 | $(1,025,000) | $26,771,000 |

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

## Stockholder Information

- **Headquarters**
  IDT Corporation
  520 Broad Street
  Newark, New Jersey 07102
  http://www.idt.net

- **Board of Directors**

| | |
|---|---|
| Howard S. Jonas | Chairman |
| James A. Courter | Vice Chairman |
| Joyce J. Mason | Director |
| Marc E. Knoller | Director |
| Hal Brecher | Director |
| Stephen R. Brown | Director |
| Moshe Kaganoff | Director |
| Geoffrey Rochwarger | Director |
| Meyer A. Berman | Director |
| J. Warren Blaker | Director |
| Denis A. Bovin | Director |
| Saul K. Fenster | Director |
| William A. Owens | Director |
| William F. Weld | Director |

- **Annual Meeting of Stockholders**

| | |
|---|---|
| Date: | December 14, 2000 |
| Time: | 11:00 a.m. |
| Place: | 520 Broad Street<br>Newark, New Jersey 07102 |
| Phone: | (973) 438-1000 |

- **Availability of Form 10-K**
  IDT Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission is contained in this Annual Report to Stockholders.

- **Outside Counsel**
  Sullivan & Cromwell
  New York, New York

  McDermott, Will & Emery
  New York, New York

- **Executive Officers**

| | |
|---|---|
| Howard S. Jonas | Chief Executive Officer, Chairman of the Board and Treasurer |
| Hal Brecher | Chief Operating Officer |
| James A. Courter | President and Vice Chairman of the Board |
| Stephen R. Brown | Chief Financial Officer |
| Joyce J. Mason | Senior Vice President, General Counsel and Secretary |
| Marc E. Knoller | Senior Vice President |
| Moshe Kaganoff | Executive Vice President of Strategic Planning |
| Geoffrey Rochwarger | Executive Vice President of Telecommunications |
| Morris Lichtenstein | Executive Vice President of Business Development |
| Michael Fischberger | Executive Vice President of Operations |

- **Independent Auditors**
  Ernst & Young LLP
  New York, New York

- **Transfer Agent**
  American Stock Transfer & Trust Company
  New York, New York

- **Stock Exchange Listing**
  The Common Stock of IDT Corporation is traded on the NASDAQ National Market under the symbol "IDTC."

- **Price of Stock and Dividends**
  On November 6, 2000, the last sale price reported on the Nasdaq National Market for the Common Stock was $33.00 per share. On the same date, there were approximately 352 holders of record of the Common Stock. The aggregate market value of the voting stock held by non-affiliates of the Company, based on the closing price of the Common Stock on November 6, 2000, was approximately $731 million.

  The Company has never declared or paid any dividends on its Common Stock and does not expect to pay dividends for the foreseeable future. The Company's current policy is to retain all of its earnings to finance future growth. Any future declaration of dividends will be subject to the discretion of the Board of Directors of the Company.

## 2000 IDT Corporation SEC Form 10-K

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-K

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

[x] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JULY 31, 2001, or**

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

**Commission File Number: 0-27898**

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

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **22-3415036**<br>(I.R.S. Employer Identification Number) |
| **520 Broad Street**<br>**Newark, New Jersey 07102**<br>(Address of principal executive offices, including zip code) | **(973) 438-1000**<br>(Registrant's telephone number, including area code) |

**Securities registered pursuant to Section 12(b) of the Act:** None

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

Common Stock, par value $.01 per share
Class B Common Stock, par value $.01 per share (Title of class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the closing price on October 26, 2001 of the Common Stock of $11.50 and of the Class B Common Stock of $9.35 was approximately $240,978,400.80 million and $264,078,996.50 million, respectively, as reported on the New York Stock Exchange. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock (assuming conversion of the Registrant's Class A Common Stock) have been excluded from this computation, in that such persons may be deemed to be affiliates of the Registrant. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of October 26, 2001, the Registrant had outstanding 23,212,753 shares of Common Stock, $.01 par value, 9,816,988 shares of Class A Common Stock, $.01 par value, and 47,263,289 shares of Class B Common Stock, $.01 par value. As of October 26, 2001, 5,390,163 shares of Common Stock and 4,019,063 shares of Class B Common Stock were held by IDT Telecom, Inc.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information in the Registrant's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after July 31, 2001, is incorporated by reference in Part III (Items 10, 11, 12 and 13) of this Form 10-K.

# INDEX

## IDT CORPORATION

## ANNUAL REPORT ON FORM 10-K

## IDT CORPORATION

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
IDT Corporation

We have audited the accompanying consolidated balance sheets of IDT Corporation (the "Company") as of July 31, 2000 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended July 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at July 31, 2000 and 2001 and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

New York, New York
October 23, 2001

## IDT CORPORATION

## CONSOLIDATED BALANCE SHEETS

| | July 31 2000 | July 31 2001 |
|---|---|---|
| | (In thousands, except share data) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 162,879 | $1,091,071 |
| Marketable securities | 230,160 | 3,489 |
| Trade accounts receivable, net of allowance for doubtful accounts of approximately $26,771 at July 31, 2000 and $22,508 at July 31, 2001 | 160,995 | 116,759 |
| Other current assets | 87,859 | 32,413 |
| Total current assets | 641,893 | 1,243,732 |
| Property, plant and equipment, net | 225,638 | 224,042 |
| Goodwill and other intangibles, net | 162,233 | 197,804 |
| Marketable securities | 132,278 | — |
| Investments | 29,318 | 60,732 |
| Other assets | 27,695 | 155,028 |
| Total assets | $1,219,055 | $1,881,338 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Trade accounts payable | $ 161,888 | $ 163,313 |
| Accrued expenses | 36,436 | 54,893 |
| Deferred revenue | 48,572 | 71,387 |
| Notes payable—current portion | 22,604 | 2,657 |
| Capital lease obligations—current portion | 13,540 | 18,270 |
| Other current liabilities | 10,923 | 17,819 |
| Total current liabilities | 293,963 | 328,339 |
| Deferred tax liabilities | 168,772 | 390,914 |
| Notes payable—long-term portion | 12,174 | 380 |
| Capital lease obligations—long-term portion | 43,940 | 49,799 |
| Other liabilities | 709 | 14,502 |
| Total liabilities | 519,558 | 783,934 |
| Minority interests | 231,309 | 21,419 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value; authorized shares–10,000,000; no shares issued | — | — |
| Common stock, $.01 par value; authorized shares–100,000,000; 25,959,256 and 22,791,789 shares issued and outstanding in 2000 and 2001, respectively | 260 | 228 |
| Class A common stock, $.01 par value; authorized shares–35,000,000; 9,970,233 and 9,816,988 shares issued and outstanding in 2000 and 2001, respectively | 100 | 98 |
| Class B common stock, $.01 par value; authorized shares–100,000,000; 35,929,489 and 39,291,411 shares issued and outstanding in 2000 and 2001, respectively | 359 | 393 |
| Loans to stockholders | (251) | (251) |
| Additional paid-in capital | 370,646 | 494,093 |
| Treasury stock, at cost | — | (138,087) |
| Accumulated other comprehensive income | (92,653) | (2,575) |
| Retained earnings | 189,727 | 722,086 |
| Total stockholders' equity | 468,188 | 1,075,985 |
| Total liabilities and stockholders' equity | $1,219,055 | $1,881,338 |

See accompanying notes.

## IDT CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended July 31 | | |
|---|---|---|---|
| | 1999 | 2000 | 2001 |
| | (In thousands, except per share data) | | |
| Revenues | $732,184 | $1,093,912 | $1,230,950 |
| Costs and expenses: | | | |
| Direct cost of revenues | 575,050 | 918,257 | 1,066,845 |
| Selling, general and administrative | 128,500 | 343,702 | 337,107 |
| Depreciation and amortization | 36,360 | 48,564 | 60,351 |
| Impairment charges | — | — | 199,357 |
| Total costs and expenses | 739,910 | 1,310,523 | 1,663,660 |
| Loss from operations | (7,726) | (216,611) | (432,710) |
| Interest income (expense), net | (1,228) | 7,231 | 52,768 |
| Equity loss | — | (6,289) | (75,066) |
| Gain on sales of subsidiary stock | — | 350,344 | 1,037,726 |
| Other income (expense) | (2,035) | 258,218 | 164,762 |
| Income (loss) before income taxes, minority interests and extraordinary item | (10,989) | 392,893 | 747,480 |
| Provision for income taxes | 7,253 | 218,403 | 209,395 |
| Minority interests | (3,308) | (59,336) | 5,726 |
| Income (loss) before extraordinary item | (14,934) | 233,826 | 532,359 |
| Extraordinary loss on retirement of debt, net of income taxes | (3,270) | (2,976) | — |
| Net income (loss) | (18,204) | 230,850 | 532,359 |
| Subsidiary redeemable preferred stock dividends | 26,297 | — | — |
| Net income (loss) attributable to common stockholders | $ (44,501) | $ 230,850 | $ 532,359 |
| Net income (loss) per share: | | | |
| Net income (loss) attributable to common stockholders before extraordinary item: | | | |
| Basic | $ (0.61) | $ 3.34 | $ 7.79 |
| Diluted | $ (0.61) | $ 3.11 | $ 7.12 |
| Extraordinary loss on retirement of debt, net of income taxes: | | | |
| Basic | $ (0.05) | $ (0.04) | $ — |
| Diluted | $ (0.05) | $ (0.04) | $ — |
| Net income (loss) attributable to common stockholders: | | | |
| Basic | $ (0.66) | $ 3.30 | $ 7.79 |
| Diluted | $ (0.66) | $ 3.07 | $ 7.12 |
| Weighted-average number of shares used in calculation of net income (loss) per share: | | | |
| Basic | 67,060 | 69,933 | 68,301 |
| Diluted | 67,060 | 75,239 | 74,786 |

See accompanying notes.

# IDT CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
**(In thousands, except share data)**

| | Common Stock Shares | Common Stock Amount | Class A Stock Shares | Class A Stock Amount | Class B Stock Shares | Class B Stock Amount | Loans to Stockholders | Additional Paid-In Capital | Treasury Stock | Accumulated Other Comprehensive Income | Retained Earnings (Deficit) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at July 31, 1998 | 22,848,866 | $229 | 10,255,668 | $102 | 33,104,534 | $330 | $ — | $ 305,049 | $ — | $ — | $(22,919) | $ 282,791 |
| Exercise of stock options | 696,840 | 7 | — | — | 696,840 | 7 | (251) | 4,068 | — | — | — | 3,831 |
| Income tax benefit from stock options exercised | — | — | — | — | — | — | — | 4,258 | — | — | — | 4,258 |
| Conversion of Class A stock to common stock | 225,910 | 2 | (225,910) | (2) | — | — | — | — | — | — | — | — |
| Issuance of common stock in connection with business acquisitions | 100,000 | 1 | — | — | 100,000 | 1 | — | 2,848 | — | — | — | 2,850 |
| Exercise of warrants | 111,238 | 1 | — | — | 111,238 | 1 | — | 922 | — | — | — | 924 |
| Costs associated with stock registration | — | — | — | — | — | — | — | (123) | — | — | — | (123) |
| Net loss for the year ended July 31, 1999 | — | — | — | — | — | — | — | — | — | — | (18,204) | (18,204) |
| Balance at July 31, 1999 | 23,982,854 | 240 | 10,029,758 | 100 | 34,012,612 | 339 | (251) | 317,022 | — | — | (41,123) | 276,327 |
| Exercise of stock options | 1,310,700 | 13 | — | — | 1,310,700 | 13 | — | 14,508 | — | — | — | 14,534 |
| Income tax benefit from stock options exercised | — | — | — | — | — | — | — | 10,346 | — | — | — | 10,346 |
| Conversion of Class A stock to common stock | 59,525 | — | (59,525) | — | — | — | — | — | — | — | — | — |
| Exercise of warrants | 19,963 | — | — | — | 19,963 | — | — | 117 | — | — | — | 117 |
| Issuance of common stock | 3,728,949 | 37 | — | — | 3,728,949 | 37 | — | 128,574 | — | — | — | 128,648 |
| Change in unrealized gain (loss) in available for sale securities | — | — | — | — | — | — | — | — | — | (94,044) | — | (94,044) |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | — | 1,391 | — | 1,391 |
| Repurchase of common stock | (3,142,735) | (30) | — | — | (3,142,735) | (30) | — | (101,822) | — | — | — | (101,882) |
| Modification of stock options | — | — | — | — | — | — | — | 985 | — | — | — | 985 |
| Stock options given to partnership | — | — | — | — | — | — | — | 916 | — | — | — | 916 |
| Net income for the year ended July 31, 2000 | — | — | — | — | — | — | — | — | — | 230,850 | 230,850 | 230,850 |
| Comprehensive income | | | | | | | | | | 138,197 | | |
| Balance at July 31, 2000 | 25,959,256 | 260 | 9,970,233 | 100 | 35,929,489 | 359 | (251) | 370,646 | — | (92,653) | 189,727 | 468,188 |
| Exercise of stock options | 698,451 | 7 | — | — | 343,000 | 4 | — | 6,872 | — | — | — | 6,883 |
| Income tax benefit from stock options exercised | — | — | — | — | — | — | — | 2,676 | — | — | — | 2,676 |
| Conversion of Class A stock to common stock | 153,245 | 2 | (153,245) | (2) | — | — | — | — | — | — | — | — |
| Issuance of stock options | — | — | — | — | — | — | — | 2,000 | — | — | — | 2,000 |
| Modification of stock options | — | — | — | — | — | — | — | 3,082 | — | — | — | 3,082 |
| Issuance of Class B common stock | — | — | — | — | 7,038,085 | 71 | — | 106,497 | — | — | — | 106,568 |
| Change in unrealized gain (loss) in available for sale securities | — | — | — | — | — | — | — | — | — | 89,148 | — | 89,148 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | — | 930 | — | 930 |
| Repurchase of common stock | (4,019,163) | (41) | — | — | (4,019,163) | (41) | — | 2,320 | (138,087) | — | — | (135,849) |
| Net income for the year ended July 31, 2001 | — | — | — | — | — | — | — | — | — | 532,359 | 532,359 | 532,359 |
| Comprehensive income | | | | | | | | | | 622,437 | | |
| Balance at July 31, 2001 | 22,791,789 | $228 | 9,816,988 | $ 98 | 39,291,411 | $393 | $(251) | $ 494,093 | $(138,087) | $ (2,575) | $722,086 | $1,075,985 |

See accompanying notes.

# IDT CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended July 31 | | |
|---|---|---|---|
| | 1999 | 2000 | 2001 |
| | | (In thousands) | |
| Operating activities | | | |
| Net income (loss) | $ (18,204) | $ 230,850 | $ 532,359 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 36,360 | 48,564 | 60,351 |
| Impairment charges | — | — | 199,357 |
| Extraordinary loss on retirement of debt before taxes | 5,360 | 4,870 | — |
| Minority interests | (3,309) | (59,336) | 5,726 |
| Deferred tax liabilities | (1,156) | 216,903 | 204,188 |
| Issuance of common stock to charitable foundation | — | — | 26,378 |
| Net realized (gains)/losses from sales of marketable securities and investments | — | (261,025) | 148,724 |
| Equity loss | — | 6,289 | 75,066 |
| Non-cash compensation | 15,734 | 42,917 | 3,082 |
| Gain on TyCom settlement | — | — | (313,486) |
| Gain on sales of subsidiary stock | — | (350,344) | (1,037,726) |
| Changes in assets and liabilities: | | | |
| Trade accounts receivable | (68,108) | (52,643) | 36,029 |
| Other current assets | (24,214) | (40,718) | 26,941 |
| Other assets | (6,771) | 12,524 | (12,707) |
| Deferred revenue | 4,035 | 34,026 | 7,271 |
| Trade accounts payable and other | 41,976 | 90,053 | 64,675 |
| Net cash provided by (used in) operating activities | (18,297) | (77,070) | 26,228 |
| Investing activities | | | |
| Purchases of property, plant and equipment | (48,098) | (101,192) | (106,513) |
| Purchase of trademark | (5,000) | — | — |
| Issuance of notes receivable | (13,423) | — | (12,089) |
| Investments and acquisitions, net of cash acquired | (10,735) | (38,803) | (73,722) |
| Collection of notes receivable | 14,040 | 9,524 | — |
| Sales of marketable securities | — | — | 164,052 |
| Net purchases of marketable securities | (17,561) | (7,059) | — |
| Net proceeds from sales of subsidiary stock | — | 115,434 | 1,042,113 |
| Net cash provided by (used in) investing activities | (80,777) | (22,096) | 1,013,841 |
| Financing activities | | | |
| Proceeds from issuance of Series A preferred stock and warrants by Net2Phone | 29,900 | — | — |
| Proceeds from exercise of stock options foı Net2Phone | 1,334 | 8,172 | — |
| Proceeds from exercise of warrants for Net2Phone | 438 | — | — |
| Payment of debt issuance costs | (4,475) | — | — |
| Distributions to minority shareholder | (6,079) | (3,179) | (18,908) |
| Proceeds from borrowings | 115,945 | 13,898 | — |
| Proceeds from exercise of warrants | 924 | 118 | — |
| Proceeds from exercise of stock options | 7,967 | 14,534 | 6,883 |
| Repayments of capital lease obligations | (5,349) | (9,833) | (14,736) |
| Repayments of borrowings | (103,912) | (108,146) | (26,054) |
| Proceeds from sale of common stock | — | 128,648 | 74,787 |
| Proceeds from offerings of common stock by Net2Phone | — | 261,189 | — |
| Collection of loans to stockholders by Net2Phone | — | 623 | — |
| Proceeds from minority investment in subsidiary | — | 5,000 | — |
| Proceeds from issuance of stock options | — | — | 2,000 |
| Payments to repurchase common stock | — | (101,882) | (135,849) |
| Net cash (used in) provided by financing activities | 36,693 | 209,142 | (111,877) |
| Net increase (decrease) in cash | (62,381) | 109,976 | 928,192 |
| Cash and cash equivalents at beginning of year | 115,284 | 52,903 | 162,879 |
| Cash and cash equivalents at end of year | $ 52,903 | $ 162,879 | $ 1,091,071 |
| Supplemental disclosure of cash flow information | | | |
| Cash payments made for interest | $ 13,483 | $ 10,074 | $ 7,997 |
| Cash payments made for income taxes | $ 235 | $ 1,050 | $ 5,963 |
| Supplemental schedule of noncash activities | | | |
| Purchase of fixed assets by capital lease | $ 11,899 | $ 45,541 | $ 759 |

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2001

## 1. Summary of Significant Accounting Policies

*Description of Business*

IDT Corporation ("IDT" or the "Company") is a multinational telecommunications carrier that provides a broad range of services to its retail and wholesale customers worldwide. The Company mainly provides its customers with integrated international and domestic long distance, and prepaid calling cards.

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

As discussed in footnote 15, "Subsequent Events", on October 23, 2001, IDT, Liberty Media Group ("Liberty Media") and AT&T formed a limited liability company ("LLC"), which through a series of transactions among IDT, Liberty Media and AT&T now holds an aggregate of 28.9 million shares of Net2Phone's Class A common stock, representing approximately 50% of Net2Phone's outstanding capital stock. Because the LLC holds Class A common stock with two votes per share, the LLC has approximately 64% of the shareholder voting power in Net2Phone. IDT holds the controlling membership interest in the LLC.

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

*Basis of Consolidation and Accounting for Investments*

The consolidated financial statements include the accounts of IDT and all companies in which IDT has a controlling voting interest ("subsidiaries"), as if IDT and its subsidiaries were a single company. Significant intercompany accounts and transactions between the consolidated companies have been eliminated.

Investments in companies in which IDT has significant influence, but less than a controlling voting interest, are accounted for using the equity method. Investments in companies in which IDT does not have a controlling interest or an ownership and voting interest so large as to exert significant influence are accounted for at market value if the investments are publicly traded and there are no resale restrictions, or at cost, if the sale of a publicly-traded investment is restricted or if the investment is not publicly traded.

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

*Reclassifications*

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

**1. Summary of Significant Accounting Policies — (Continued)**

*Use of Estimates*

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

*Revenue Recognition*

Telecommunication services, Internet telephony services, Internet subscription services, and prepaid calling card revenues are recognized as services are provided. Equipment sales are recognized when installation is completed. Prepayments for services are deferred and recognized as revenue as the services are provided.

Sales of equipment with software necessary to provide the Company's services are accounted for in accordance with the American Institute of Certified Public Accountants' Statement of Position 97-2, Software Revenue Recognition. Revenue on such sales is recognized when such products are delivered, collection of payments are assured and there are no significant future obligations.

*Direct Cost of Revenue*

Direct cost of revenue consists primarily of telecommunication costs, connectivity costs and the cost of equipment sold to customers. Direct cost of revenue excludes depreciation and amortization.

*Property, Plant and Equipment*

Equipment, buildings, furniture and fixtures are depreciated using the straight-line method over the estimated useful lives of the assets, which range from three to thirty years. Leasehold improvements are depreciated using the straight line method over the term of their lease or their estimated useful lives, whichever is shorter. Computer software is amortized over a period not exceeding five years.

*Subscriber Acquisition Costs and Advertising*

Subscriber acquisition costs including sales commissions, license fees and production and shipment of starter packages are expensed as incurred.

The Company expenses the costs of advertising as incurred. Typically, Net2Phone purchases banner advertising on other companies' web sites pursuant to contracts that have one to three year terms and may include the guarantee of (i) a minimum number of impressions, (ii) the number of times that an advertisement appears in pages displayed to users of the web site, or (iii) a minimum amount of revenue that will be recognized by Net2Phone from customers directed to Net2Phone's web site as a direct result of the advertisement. Net2Phone recognizes banner advertising expense with respect to such advertising ratably over the period in which the advertisement is displayed. In addition, some agreements require additional payments as additional impressions are delivered. Thus, additional payments are expensed when the impressions are delivered.

In one case, Net2Phone entered into an agreement with no specified term of years. In this case, the Company amortizes as expense the lesser of (i) the number of impressions to date/minimum guaranteed impressions, or (ii) revenue to date/minimum guaranteed revenue as a percentage of the total payments.

For the years ended July 31, 1999, 2000 and 2001, advertising expense totaled approximately $10,454,000, $46,722,000 and $17,071,000, respectively.

During the year ended July 31, 2000, the Company incurred approximately $28,000,000 of costs to terminate advertising arrangements. These termination costs are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

**1. Summary of Significant Accounting Policies — (Continued)**

*Software Development Costs*

Costs for the internal development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional costs are capitalized. For the years ended July 31, 1999, 2000 and 2001, research and development costs totaled approximately $757,000, $4,692,000 and $2,484,000, respectively.

*Capitalized Internal Use Software Costs*

The Company capitalizes certain costs incurred in connection with developing or obtaining internal use software. These costs consist of payments made to third parties and the salaries of employees working on such software development. For the years ended July 31, 1999, 2000 and 2001, the Company has capitalized $4,065,000, $8,593,000 and $2,463,000, respectively, of internal use software costs as computer software.

*Long-Lived Assets*

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

*Cash and Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents are carried at cost which approximates market value. At July 31, 2000 and 2001, the Company had 66% and 89%, respectively, of its cash and cash equivalents in three financial institutions.

*Marketable Securities*

Marketable securities consist of equity securities, U.S. Government Agency Obligations and commercial paper. Certain debt securities held by Net2Phone, with original maturities of greater than three months at the time of purchase are classified as held to maturity and are carried at amortized cost. Interest on these securities is included in interest income as earned.

During fiscal 2000, IDT sold approximately $55,000,000 of held-to-maturity securities prior to their maturity dates and recorded a loss of approximately $1,200,000. The securities were sold to fund certain transactions. In connection with these sales, marketable securities with a cost basis of approximately $22,000,000 were reclassified as available-for-sale and through July 31, 2000, unrealized losses of approximately $850,000 were included in accumulated other comprehensive income.

*Goodwill and Other Intangibles*

Goodwill is amortized over 5 to 20 years using the straight-line method. Costs associated with obtaining the right to use trademarks and patents owned by third parties are capitalized and amortized on a straight-line basis over the term of the trademark licenses and patents. Other intangible assets consist of core programming technology and assembled workforce which are amortized over 32 to 35 months, and 48 to 54 months, respectively. The Company systematically reviews the recoverability of its acquired intangible assets for each acquired entity to determine whether an impairment has occurred. Upon determination that the carrying value of acquired intangible assets will not be recovered based on the undiscounted future cash flows of the acquired business, the carrying value of such acquired intangible assets would be considered impaired and would be reduced by a charge to operations in the amount that the carrying value exceeds the fair value.

**1. Summary of Significant Accounting Policies — (Continued)**

*Income Taxes*

The Company accounts for income taxes under the liability method in accordance with SFAS No. 109, Accounting for Income Taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities.

*Earnings (Loss) Per Share*

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

*Vulnerability Due to Certain Concentrations*

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents, marketable securities and trade accounts receivables. Concentration of credit risk with respect to trade accounts receivable is limited due to the large number of customers comprising the Company's customer base.

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

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

*Fair Value of Financial Instruments*

The estimated fair value of financial instruments has been determined using available market information or other appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Consequently, the estimates are not necessarily indicative of the amounts that could be realized or would be paid in a current market exchange. At July 31, 2001, the book carrying value of the Company's notes receivable and notes payable approximates fair value.

*Stock Based Compensation*

The Company accounts for stock options issued to employees using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Compensation expense for stock options issued to employees is measured as the excess of the quoted market price of the Company's stock at the date of grant over the amount employees must pay to acquire the stock.

The Company applies the disclosure-only provisions of SFAS No. 123, Accounting for Stock-Based Compensation, with respect to stock options issued to the Company's employees.

*Recently Issued Accounting Standards*

In June 2001, the FASB issued SFAS No.142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001, with early adoption permitted for companies with fiscal years beginning after March 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives.

The Company has chosen to early adopt the new rules on accounting for goodwill and other intangible assets and apply them beginning in the first quarter of fiscal 2002. The Company is currently performing the required

**1. Summary of Significant Accounting Policies — (Continued)**

impairment tests of goodwill and indefinite lived intangible assets as of August 1, 2001. Although the tests have not yet been finalized, preliminary indications are that the Company will record a significant impairment charge on its goodwill in the first quarter of fiscal 2002. The impairment charge will be recorded as a cumulative effect adjustment of a change in accounting principle.

## 2. Marketable Securities

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

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

The following is a summary of marketable securities as of July 31, 2000:

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | | (In thousands) | | |
| Short-term | | | | |
| Held-to-maturity securities: | | | | |
| U.S. Government Agency Obligations | $ 9,500 | $ 2 | $ (13) | $ 9,489 |
| Commercial paper | 49,642 | — | (45) | 49,597 |
| | 59,142 | 2 | (58) | 59,086 |
| Available-for-sale securities: | | | | |
| U.S. Government Agency Obligations | 23,097 | — | — | 23,097 |
| Terra common stock | 147,921 | — | — | 147,921 |
| | 171,018 | — | — | 171,018 |
| Long-term | | | | |
| Held-to-maturity securities: | | | | |
| U.S. Government Agency Obligations | 5,000 | — | (21) | 4,979 |
| Commercial paper | 17,943 | — | (38) | 17,905 |
| | 22,943 | | (59) | 22,884 |
| Available-for-sale securities: | | | | |
| WebEx common stock | 5,332 | — | — | 5,332 |
| Yahoo! Inc. common stock | 104,003 | — | — | 104,003 |
| | $109,335 | $ — | $ — | $109,335 |

Proceeds and realized losses from the sale of available-for-sale securities for the year ended July 31, 2001 amounted to approximately $164,052,000 and $138,019,000, respectively.

### 2. Marketable Securities — (Continued)

*Terra Networks Transaction*

In October 1999, IDT entered into a joint venture agreement with Terra Networks, S.A. ("Terra") pursuant to which the two parties formed two limited liability companies to provide Internet services and products to customers in the United States. One company was formed to provide Internet access to customers and the other company was formed to develop and manage an Internet portal that would provide content-based Internet services. IDT's 49% interest in the Internet access company was accounted for using the equity method of accounting. The equity method was used since IDT had significant influence, but less than a controlling voting interest. IDT's 10% interest in the Internet portal company was accounted for at cost. The cost method was used since IDT did not have a controlling voting interest, or an ownership or voting interest so large as to exert significant influence, and the venture was not publicly traded. On April 30, 2000, the Company sold its interests in the two joint ventures for the right to receive 3,750,000 shares of Terra common stock. In connection with this transaction, the Company recognized a pre-tax gain of approximately $231,032,000 for the year ended July 31, 2000. During the year ended July 31, 2001, the Company sold 3,745,000 of its Terra shares and recognized a loss of approximately $129,200,000, which has been included as a component of "Other income."

### 3. Property, Plant and Equipment

*Property, plant and equipment consists of the following:*

| | July 31 | |
|---|---|---|
| | 2000 | 2001 |
| | (In thousands) | |
| Equipment | $238,767 | $264,422 |
| Computer software | 32,215 | 10,192 |
| Leasehold improvements | 11,918 | 16,930 |
| Furniture and fixtures | 10,625 | 15,793 |
| Land and building | 6,327 | 8,937 |
| | 299,852 | 316,274 |
| Less accumulated depreciation and amortization | (74,214) | (92,232) |
| Property, plant and equipment, net | $225,638 | $224,042 |

Fixed assets under capital leases aggregate approximately $71,835,000 and $104,215,000 at July 31, 2000 and 2001, respectively. The accumulated amortization related to these assets under capital leases is approximately $17,756,000 and $35,361,000 at July 31, 2000 and 2001, respectively.

### 4. Goodwill and Other Intangibles

Goodwill and other intangibles consist of the following:

| | July 31 | |
|---|---|---|
| | 2000 | 2001 |
| | (In thousands) | |
| Goodwill | $156,639 | $197,863 |
| Assembled workforce | 3,317 | 2,817 |
| Core technology and patents | 35,100 | 42,523 |
| | 195,056 | 243,203 |
| Less accumulated amortization | (32,823) | (45,399) |
| Goodwill and other intangibles, net | $162,233 | $197,804 |

Effective Fiscal 2002, the Company intends to adopt SFAS No. 142. As a result, the Company will no longer amortize goodwill and other intangibles deemed to have indefinite lives, but will be subject to annual impairment tests. Assembled workforce will be subsumed into goodwill.

## 5. Notes Payable

Notes payable consists of the following:

| | July 31 | |
|---|---|---|
| | 2000 | 2001 |
| | (In thousands) | |
| Promissory note (A) | $ 4,768 | $ 2,332 |
| Promissory note (B) | 16,942 | — |
| Promissory note (C) | 4,800 | — |
| Promissory note (C) | 6,537 | — |
| Other | 1,731 | 705 |
| | 34,778 | 3,037 |
| Less notes payable—current portion | (22,604) | (2,657) |
| Notes payable—long-term portion | $ 12,174 | $ 380 |

(A) On May 6, 1999, the Company entered into a $7,800,000 promissory note with a financing company. The note is payable in 36 monthly installments commencing on June 1, 1999, and bears an adjustable interest rate indexed to the one month LIBOR rate. The promissory note is collateralized by certain equipment of the Company.

(B) On June 30, 2000, the Company completed the acquisition of a 100% interest in CTM Brochure Display, Inc. ("CTM"), a brochure distribution company. In connection with the acquisition, the Company issued promissory notes to the former shareholders in the aggregate amount of $16,942,000. The notes bear interest at the rate of 9.50% per annum. The principal balance on the notes, together with accrued interest, were repaid in full during the year ended July 31, 2001.

(C) The promissory notes were issued in connection with Net2Phone's Aplio acquisition and bore interest at an annual rate of 6.53%. The Company was required to pay $1,961,235 of the notes on March 31, 2001 and the remaining principal balance of $4,576,215 plus all accrued and unpaid interest on January 31, 2002. In addition Net2Phone was required to pay the former Aplio shareholders $4,800,000 over 18 months from the date of sale.

On May 10, 1999, the Company obtained a Senior Secured Credit Facility ("Credit Facility") from a consortium of financial institutions. During the second quarter ended January 31, 2000, the Company repaid all of the outstanding principal balance together with accrued interest. The Company recorded a pre-tax extraordinary loss in connection with the repayment of $4,870,000 during the year ended July 31, 2000.

Annual future principal repayments of long-term debt for the five years subsequent to July 31, 2001 consist of $2,657,000 due in fiscal 2002, and $380,000 due in fiscal 2006.

## 6. Income Taxes

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

| | July 31 2000 | July 31 2001 |
|---|---|---|
| | (In thousands) | |
| Deferred tax assets: | | |
| Unrealized losses on securities | $ 34,484 | $ 857 |
| Bad debt reserve | 5,331 | 3,980 |
| Exercise of stock options | 3,277 | 9,857 |
| Reserves | 4,500 | 4,500 |
| Charitable contributions | — | 10,765 |
| Other | 289 | 8,992 |
| Deferred tax assets | 47,881 | 38,951 |
| Deferred tax liabilities: | | |
| Deferred Revenue | — | (196,000) |
| Unrecognized gain on securities | — | (100,313) |
| Gain on sales of subsidiary stock | (97,830) | (105,466) |
| Partnership | (92,413) | — |
| Depreciation | (14,466) | (16,074) |
| Identifiable intangibles | (1,728) | (3,583) |
| Other | (10,216) | (8,429) |
| Deferred tax liabilities | (216,653) | (429,865) |
| Net deferred tax liabilities | $(168,772) | $(390,914) |

No valuation allowance on the net deferred tax assets has been established as the realization of such net deferred tax assets is considered to be more likely than not.

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

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Current: | | | |
| Federal | $ 400 | $ — | $ 6,600 |
| State and local and foreign | — | (395) | 14,249 |
| | 400 | (395) | 20,849 |
| Deferred: | | | |
| Federal | 3,768 | 175,191 | 150,997 |
| State and local and foreign | 995 | 41,712 | 37,549 |
| | 4,763 | 216,903 | 188,546 |
| | $5,163 | $216,508 | $209,395 |

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

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Income tax provision attributable to continuing operations | $ 7,253 | $218,403 | $209,395 |
| Income tax benefit attributable to extraordinary loss | (2,090) | (1,895) | — |
| | $ 5,163 | $216,508 | $209,395 |

**6. Income Taxes — (Continued)**

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

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| | | (in thousands) | |
| Federal income tax at statutory rate | $(3,842) | $137,513 | $261,618 |
| Foreign tax rate differential | — | — | (99,563) |
| Losses for which no benefit provided | 6,110 | 32,703 | 19,141 |
| Nondeductible expenses | 2,226 | 17,625 | 2,162 |
| State and local and foreign income tax | 647 | 28,612 | 26,037 |
| Other | 22 | 55 | — |
| | $ 5,163 | $216,508 | $209,395 |

**7. Stockholders' Equity**

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

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

*Stock Options*

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

The Company adopted a stock option plan as amended (the "Option Plan") for officers, employees and non-employee directors to purchase up to 6,300,000 shares of the Company's common stock. In September 2000, the Board of Directors of the Company approved an amendment to the Option Plan to reserve for issuance of 6,000,000 shares of Class B common stock. Generally, options become exercisable over vesting periods up to six years and expire ten years from the date of grant.

**7. Stockholders' Equity — (Continued)**

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

| | Shares | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding at July 31, 1998 | 6,429,270 | $ 3.95 |
| Granted | 2,272,482 | 7.61 |
| Exercised | (1,393,680) | 2.93 |
| Canceled | (116,000) | 7.43 |
| Forfeited | (16,140) | 4.14 |
| Outstanding at July 31, 1999 | 7,175,932 | 5.25 |
| Granted | 8,851,086 | 9.98 |
| Exercised | (2,621,400) | 5.54 |
| Canceled | (95,000) | 8.86 |
| Forfeited | (31,500) | 10.93 |
| Outstanding at July 31, 2000 | 13,279,118 | 8.31 |
| Granted | 5,112,004 | 9.15 |
| Exercised | (1,041,451) | 6.61 |
| Canceled | (299,247) | 5.71 |
| Forfeited | (55,200) | 12.63 |
| Outstanding at July 31, 2001 | 16,995,224 | $ 8.70 |

The following table summarizes the status of stock options outstanding and exercisable at July 31, 2001:

| | Stock Options Outstanding | | |
|---|---|---|---|
| Range of Exercise Prices | Number of Options | Weighted-Average Remaining Contractual Life (in years) | Number of Stock Options Exercisable |
| $0.10 – $0.10 | 470,500 | 3.0 | 470,500 |
| $0.21 – $0.21 | 17,632 | 3.7 | 17,632 |
| $0.41 – $0.41 | 81,000 | 3.0 | 81,000 |
| $0.83 – $0.83 | 30,000 | 3.7 | 30,000 |
| $2.19 – $2.63 | 705,400 | 5.6 | 705,400 |
| $3.44 – $4.13 | 985,250 | 5.7 | 835,250 |
| $5.63 – $8.00 | 2,581,400 | 6.5 | 1,823,091 |
| $8.72 – $12.13 | 10,960,542 | 8.9 | 3,065,020 |
| $13.13 – $18.51 | 1,163,500 | 8.2 | 732,350 |
| | 16,995,224 | 7.9 | 7,760,243 |

The weighted-average fair value of options granted was $4.63, $7.42 and $7.05 for the years ended July 31, 1999, 2000, and 2001, respectively.

Pro forma information regarding net income (loss) and income (loss) per share is required by SFAS No. 123, and has been determined as if the Company had accounted for employees' stock options under the fair value method provided by that statement. The fair value of the stock options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions for vested and non-vested options.

**7. Stockholders' Equity — (Continued)**

| | 1999 | 2000 | 2001 |
|---|---|---|---|
| Assumptions | | | |
| Average risk-free interest rate | 4.67% | 6.49% | 4.77% |
| Dividend yield | — | — | — |
| Volatility factor of the expected market price of the Company's common stock | 84% | 81% | 90% |
| Average life | 5 years | 5 years | 5 years |

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

For purposes of pro forma disclosures, the estimated fair value of the options under SFAS No. 123 is amortized to expense over the options' vesting period. For the years ended July 31, 1999, 2000 and 2001, pro forma net income (loss) and pro forma net income (loss) per share under SFAS No.123 amounted to the following:

| | Year ended July 31 | | |
|---|---|---|---|
| | 1999 | 2000 | 2001 |
| Pro forma net income (loss) | $(53,295,000) | $214,286,000 | $514,716,000 |
| Pro forma net income (loss) per share: | | | |
| Basic | $(0.80) | $3.06 | $7.54 |
| Diluted | $(0.80) | $2.84 | $6.88 |

The Company has modified stock options granted for certain employees of the Company to accelerate or extend their terms. Accordingly, the Company recorded additional compensation expense of approximately $3,082,000 and $985,000, for the years ended July 31, 2001 and 2000, respectively.

*Net2Phone Stock Options*

In the fourth quarter of fiscal 1999, Net2Phone granted options to purchase 8,811,500 shares of its common stock at exercise prices ranging from $3.33 to $15.00 per share to its employees and employees of IDT. In connection with the exercise of these options, Net2Phone extended $3,149,900 of recourse loans to its employees. In order to obtain the loans, optionees agreed to the cancellation of 23,382 outstanding options.

During the quarter ended July 31, 2000, stock options issued to certain officers and employees of Net2Phone were accelerated in accordance with the original stock option awards and as a result Net2Phone recorded approximately $12,500,000 in compensation charges as a result of the acceleration. During the quarter ended July 31, 2000, stock options issued to certain officers and employees of IDT were modified and as a result, Net2Phone recorded $18,300,000 in compensation charges.

*Net2Phone Series A Stock*

On May 13, 1999, Net2Phone designated 3,150,000 shares of its preferred stock as Series A ("Series A Stock") and sold 3,140,000 of such shares to unrelated third parties in a private placement transaction for aggregate gross proceeds of $31,400,000.

**7. Stockholders' Equity — (Continued)**

*Stock Buyback Program*

During the year ended July 31, 2000, the Board of Directors of the Company authorized the repurchase of up to twenty million shares of the Company's common stock. In October 2000, the Board of Directors authorized a further increase in the share repurchase program to 25 million shares. During fiscal 2001, the Company repurchased 8.0 million shares, for an aggregate purchase price of $135,849,000. Combined with 6.3 million shares purchased during Fiscal 2000, the Company has repurchased a total of approximately 14.3 million shares of common stock through the end of Fiscal 2001. In addition, the Company has repurchased 1.4 million common shares during the first quarter of Fiscal 2002.

*Liberty Media Transaction*

On March 27, 2000, Liberty Media agreed to purchase approximately 9.9% of the equity of IDT, equal to approximately 7,550,000 shares of IDT's common stock and exchangeable for shares of Class B common stock. On June 6, 2000, Liberty Media completed the purchase of 7,457,898 shares of IDT's common stock at $17.25 per share, resulting in aggregate cash consideration of approximately $128,648,000. Liberty Media also has the right to nominate a director for election to the IDT Board of Directors.

*AT&T Transaction*

In March 2000, the Company was granted the option to sell AT&T 4,081,632 shares of its Class B common stock for approximately $74,787,000. In March 2001, the Company exercised this option.

*Hicks Muse Tate & First Transaction*

In June 2001, the Company issued stock options to Hicks, Muse, Tate & Furst Incorporated ("HMTF") to purchase up to 2,200,000 shares of the Company's Class B common stock at exercise prices ranging from $11.25 to $15.00 per share, as defined. The stock options are exercisable on the first anniversary of the agreement, and expire on the fifth anniversary date. In consideration for the stock options issued to HMTF, the Company received $2,000,000 in cash.

*IDT Charitable Foundation*

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

In July 2001, the Company funded the Foundation with 2.2 million shares of Class B common stock worth approximately $26,378,000 million at that time.

*Net2Phone Summary Financial Information*

Summary financial information for Net2Phone as of July 31, 2000 is as follows:

| ($'s in thousands): | |
|---|---|
| Current assets | $ 156,023 |
| Total assets | $ 411,728 |
| Working capital | $ 106,372 |
| Revenue | $ 72,401 |
| Operating loss | $(128,513) |

**8. Commitments and Contingencies**

*Legal Proceedings*

On February 15, 2000, Multi-Tech Systems, Inc. filed suit against Net2Phone, Inc. and other companies in the United States Federal District Court in Minneapolis, Minnesota. In its press release, Multi-Tech stated that "the defendant companies are infringing because they are providing the end users with the software necessary to simultaneously transmit voice and data on their computers in the form of making a phone call over the Internet." Net2Phone has defended the lawsuit vigorously. Net2Phone has filed an answer and discovery has now been completed. Trial of this matter is tentatively scheduled for August 1, 2002. In the interim, it is likely that various motions will be filed to limit the scope of the plaintiff's claims or to dismiss the action in its entirety. Net2Phone believes that the Multi-Tech claims are without merit. However, should a judge issue an injunction against Net2Phone requiring that they cease distributing Multi-Tech's software or providing Multi-Tech's software-based services, such an injunction could have a material adverse effect on Net2Phone's business operations, financial condition, results of operations and cash flows.

IDT filed a Complaint with the United States District Court for the District of New Jersey on January 29, 2001, against Telefonica S.A., Terra Networks, S.A., Terra Networks, U.S.A., Inc. and Lycos, Inc. The complaint asserts claims against the defendants for, among other things, breaches of various contracts, breach of fiduciary duty, securities violations, fraudulent misrepresentation, negligent misrepresentation, fraudulent concealment and tortious interference with prospective economic advantage. The defendants have been served with the complaint. IDT has filed an amended complaint and the defendants have filed an answer to the amended complaint. Terra Networks, S.A., has filed a Counterclaim for breach of contract alleging that IDT was required to pay to Terra Networks, S.A. $3,000,000, and that IDT has allegedly failed to do so. The Defendants have filed a Motion to Dismiss the Complaint. On September 14, 2001, the Court issued an Order: (a) permitting IDT to take discovery relevant to the subject of whether Telefonica is subject to personal jurisdiction, (b) denying Telefonica's motion to dismiss for lack of personal jurisdiction without prejudice to Telefonica's right to renew the motion upon the completion of jurisdictional discovery, and (c) carrying on the calendar defendants' motion to dismiss on non-jurisdictional grounds pending the completion of jurisdictional discovery.

On May 25, 2001, IDT filed a Statement of Claim with the American Arbitration Association naming Telefonica Internacional, S.A. ("Telefonica") as the Respondent. The Statement of Claim asserts that IDT and Telefonica entered into a Memorandum of Understanding ("MOU") that involved, among other things, the construction and operation of a submarine cable network around South America ("SAm-I"). IDT is claiming, among other things, that Telefonica breached the MOU by: (1) failing to negotiate SAm-I agreements; (2) refusing to comply with the equity provisions of the MOU; (3) refusing to sell capacity and back-haul capacity pursuant to the MOU; and (4) failing to follow through on the joint venture. In addition to IDT's request that Telefonica comply with the terms of the MOU, IDT is alleging that it has been damaged in amounts not less than: (1) $1.15 billion for claim number 1 above; (2) $1.15 billion for claim number 2 above; (3) $100 million for claim number 3 above; and (4) $750 million for claim number 4 above. Telefonica has responded to IDT's Statement of Claims and has filed a Statement of Counterclaim which alleges, inter alia: (1) Fraud in the Inducement; (2) Tortious Interference with Prospective Business Relations; (3) Breach of the Obligations of Good Faith and Fair Dealing; and (4) Declaratory and Injunctive Relief. This action is currently in the early stages of discovery.

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

**8. Commitments and Contingencies — (Continued)**

*Lease Obligations*

The future minimum payments for all capital and operating leases as of July 31, 2001 are approximately as follows:

| | Operating Leases | Capital Leases |
|---|---|---|
| | (In thousands) | |
| Year ending July 31: | | |
| 2002 | $ 9,595 | $ 21,386 |
| 2003 | 8,527 | 21,710 |
| 2004 | 8,042 | 15,557 |
| 2005 | 7,780 | 10,212 |
| 2006 | 6,920 | 8,179 |
| Thereafter | 93,331 | — |
| Total payments | $134,195 | 77,044 |
| Less amount representing interest | | (8,975) |
| Less current portion | | (18,270) |
| Capital lease obligations–long-term portion | | $ 49,799 |

Rental expense under operating leases was approximately $2,821,000, $6,857,000 and $4,857,000 for the years ended July 31, 1999, 2000 and 2001, respectively.

*Commitments*

The Company has entered into purchase commitments of approximately $31,000,000, primarily related to connectivity agreements.

**9. Business Segment Information**

Based principally on products and services provided, the Company has identified five reportable business segments: Wholesale Telecommunications Services, Retail Telecommunications Services, Internet Services, Internet Telephony, and Ventures The operating results of these business segments are distinguishable, are regularly reviewed by Company management and are integral to their decision making process.

The Wholesale Telecommunications Services business segment is comprised of wholesale carrier services sold to other U.S. and international carriers. The Retail Telecommunications Services business segment includes prepaid and rechargeable calling cards, international retail services and domestic long distance services. The Internet Services business segment includes dial-up access services and direct connect dedicated service. The Internet Telephony business segment reflects the results of the Company's formerly majority-owned subsidiary, Net2Phone, prior to the elimination of minority interests. The Ventures business segment, new for the fiscal year ended July 31, 2000, includes new industries explored by the Company, such as CTM Brochure Display, Inc.

The Company evaluates the performance of its business segments based primarily on operating income after depreciation and amortization but prior to interest expense and income taxes. All corporate overhead is allocated to the business segments based on time and usage studies, except for certain specific corporate transactions that are not associated with the operations of the business segments. Operating results and other financial data presented for the principal business segments of the Company for the years ended July 31, 1999, 2000 and 2001 are as follows (in thousands):

### 9. Business Segment Information — (Continued)

| | Wholesale Telecommunications Services | Retail Telecommunications Services | Internet Services | Internet Telephony | Ventures | Corporate | Total |
|---|---|---|---|---|---|---|---|
| Year ended July 31, 1999 | | | | | | | |
| Total segment revenue | $301,413 | $ 395,542 | $ 17,882 | $ 33,256 | $ — | $ — | $ 748,093 |
| Less revenue between segments | (12,383) | — | (948) | (2,578) | — | — | (15,909) |
| Total unaffiliated revenue | 289,030 | 395,542 | 16,934 | 30,678 | — | — | 732,184 |
| Income (loss) from operations | 12,596 | 12,283 | (8,197) | (24,408) | — | — | (7,726) |
| Depreciation and amortization | 14,120 | 15,275 | 4,699 | 2,266 | — | — | 36,360 |
| Year ended July 31, 2000 | | | | | | | |
| Total segment revenue | 549,213 | 504,594 | 13,768 | 72,401 | 1,639 | — | 1,141,615 |
| Less revenues between segments | (28,695) | (2,082) | (600) | (16,326) | — | — | (47,703) |
| Total unaffiliated revenue | 520,518 | 502,512 | 13,168 | 56,075 | 1,639 | — | 1,093,912 |
| Income (loss) from operations | (11,458) | (33,877) | (18,112) | (125,865) | (27,299) | — | (216,611) |
| Depreciation and amortization | 18,407 | 17,771 | 5,285 | 6,804 | 297 | — | 48,564 |
| Total assets | 431,659 | 358,656 | 13,145 | 403,202 | 12,393 | — | 1,219,055 |
| Year ended July 31, 2001 | | | | | | | |
| Total segment revenue | 388,120 | 816,384 | 9,876 | — | 16,570 | — | 1,230,950 |
| Less revenues between segments | — | — | — | — | — | — | — |
| Total unaffiliated revenue | 388,120 | 816,384 | 9,876 | — | 16,570 | — | 1,230,950 |
| Income (loss) from operations | (68,289) | (58,082) | (19,949) | — | (253,502) | (32,888) | (432,710) |
| Depreciation and amortization | 24,542 | 27,937 | 4,396 | — | 3,476 | — | 60,351 |
| Total assets | $535,776 | $1,066,402 | $ 14,587 | $ — | $ 264,573 | $ — | $1,881,338 |

Revenue from customers located outside of the United States represented approximately 13%, 17% and 16% of total revenue for the years ended July 31, 1999, 2000 and 2001, respectively, with no single foreign geographic area representing more than 10% of total revenues for the years ended July 31, 1999 and 2000 and Western Europe representing approximately 15% of total revenues for the year ended July 31, 2001. Revenues are attributed to countries based on the location of the customer. Long-lived assets held outside of the United States totaled approximately $24,400,000 and $88,800,000 as of July 31, 2000 and 2001, respectively.

As a result of the Company's gradual exit from the dial-up Internet access service business, including the sale of the majority of its dial-up Internet access customers, the Company recorded an impairment charge of approximately $5,957,000 during the year ended July 31, 2001 for the write-down of certain Internet Services segment fixed assets, primarily relating to equipment previously used to provide dial-up Internet access services.

### 10. Additional Financial Information

Trade accounts payable includes approximately $96,215,000 and $112,918,000 due to telecommunication carriers at July 31, 2000 and 2001, respectively.

## 11. Acquisitions

*CTM Brochure Display, Inc.*

On June 30, 2000, the Company acquired a 100% interest in CTM Brochure Display, Inc. ("CTM"), a brochure distribution company, for an aggregate purchase price of approximately $23,800,000. The purchase price consisted primarily of $5,100,000 in cash, $16,942,000 in notes payable to the former owners and the liquidation of $1,400,000 of CTM's bank debt. In connection with the transaction, the Company recorded goodwill of $23,000,000 which is being amortized over 20 years and tax liabilities of $3,000,000. The acquisition was accounted for as a purchase, and accordingly, the net assets and results of operations of the acquired business have been included in the consolidated financial statements from the date of acquisition. During the year ended July 31, 2001, the Company repaid the entire principal balance on the notes payable, together with accrued interest.

*Aplio, S.A.*

On July 7, 2000, Net2Phone acquired all of the outstanding capital stock of Aplio, S.A ("Aplio"), a company located in France with technology that enables VoIP devices. Consideration consisted of $2,900,000 in cash at closing, 582,749 shares of Net2Phone's common stock which were valued at $35.50 per share, issuance of promissory notes aggregating $6,500,000, $1,100,000 in acquisition related costs and $4,800,000 in cash to be paid within eighteen months of the closing of the transaction.

As collateral for the $4,800,000 payment, Net2Phone has acquired 152,390 shares of its common stock in escrow. The aggregate purchase price of $36,000,000 plus the fair value of net liabilities assumed of $2,700,000 totaled approximately $38,700,000 which was allocated as follows: approximately $17,500,000 to goodwill, $20,700,000 to core technology and patents and $500,000 to assembled workforce.

The acquisition was accounted for as a purchase by Net2phone, and accordingly, the net assets and results of operations of the acquired business was included in the consolidated financial statements through August 2000.

*PT-1 Communications*

In February 2001, the Company purchased certain assets of PT-1 Communications, Inc. ("PT-1"), a wholly-owned subsidiary of STAR Telecommunications, Inc., relating to its prepaid card business with a payment of cash and assumption of certain liabilities, including the obligation to honor the outstanding phone cards of PT-1. The cash payment and assumption of net liabilities incurred were approximately $26,300,000 with substantially all of the purchase price recorded as goodwill and being amortized over a period of 20 years.

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

In April 2001, through its IDT Investments Inc. subsidiary ("IDT Investments") the Company acquired from Liberty Media 21,436,689 shares of Teligent, Inc. ("Teligent"), as well as an interest in ICG Communications, Inc. ("ICG"), represented by 50,000 shares of ICG's A-3 Preferred Stock and warrants to purchase 6,666,667 ICG common shares. In exchange, IDT Investments issued Liberty Media a total of 10,000 shares of its Class B Common Stock and 40,000 shares of its Preferred Class A stock. Upon completing the transaction, IDT effectively owned approximately 29% of the equity of Teligent, and approximately 40% of the equity of ICG.

In May 2001, through its IDT Investments subsidiary, the Company entered into an agreement with various affiliates of HMTF to increase IDT's strategic investments in Teligent and ICG. Under the terms of the agreement, the HMTF affiliates received 18,195 shares of IDT Investments' Series B Convertible Preferred Stock in exchange for the HMTF affiliates' stakes in Teligent and ICG. The HMTF affiliates owned 219,998 shares of Teligent's Series A Convertible Preferred Stock, 23,000 shares of ICG's 8% Series A-2 Convertible Preferred Stock and warrants to purchase 3,066,667 shares of ICG's common stock. The share of the equity losses recorded by IDT subsequent to all of the above Teligent and ICG transactions have eliminated the carrying value of the investments in these companies.

**11. Acquisitions — (Continued)**

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

**12. Earnings Per Share**

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

| | Year ended July 31 | | |
|---|---|---|---|
| | 1999 | 2000 | 2001 |
| | | (in thousands) | |
| Numerator: | | | |
| Net income (loss) | $(18,204) | $230,850 | $532,359 |
| Subsidiary redeemable preferred stock dividends | (26,297) | — | — |
| Net income (loss) attributable to common stockholders | $(44,501) | $230,850 | $532,359 |
| Denominator: | | | |
| Weighted-average number of shares outstanding—Basic | 67,060 | 69,933 | 68,301 |
| Effect of stock options | — | 5,306 | 6,485 |
| Weighted-average number of shares outstanding—Diluted | 67,060 | 75,239 | 74,786 |
| Basic earnings (loss) per share | $ (0.66) | $ 3.30 | $ 7.79 |
| Diluted earnings (loss) per share | (0.66) | 3.07 | 7.12 |

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

| | Year ended July 31 | | |
|---|---|---|---|
| | 1999 | 2000 | 2001 |
| Stock options: | 3,587,966 | 449,500 | 1,163,500 |

**13. Net2Phone Subsidiary Stock Sales**

During the year ended July 31, 2000, the Company recognized approximately $350,344,000 in gains, including gain on sales of subsidiary stock related to Net2Phone stock sales as follows:

On August 3, 1999, Net2Phone completed an initial public offering of 6,210,000 shares of common stock at an initial public offering price of $15.00 per share, resulting in net proceeds of approximately $85,300,000. Upon completion of the initial public offering, 3,140,000 shares of Net2Phone Series A Preferred Stock were converted into 9,420,000 shares of Net2Phone Class A Stock. As a result of the initial public offering and concurrent conversion of Series A Stock to Class A stock, the Company's ownership percentage in Net2Phone decreased from approximately 90.0% to approximately 56.2%. In connection with such offering, the Company recorded a gain on sale of stock by a subsidiary of approximately $65,464,000. Such gain is included in gain on sales of subsidiary stock for the year ended July 31, 2000. Deferred taxes of $26,200,000 have been provided on the gain.

In December 1999, Net2Phone completed a secondary offering of 6,300,000 shares of common stock at a price of $55.00 per share. In connection with this offering, IDT also sold 2,200,000 shares of Net2Phone common stock at $55.00 per share. Proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses were approximately $292,800,000. The Company's ownership interest in Net2Phone before and after these transactions decreased from 56.2% to 47.97%. The Company recorded gains on sales of stock of approximately $182,594,000 in connection with these offerings. Such gains are included in gain on sales of subsidiary stock for the year ended July 31, 2000. Deferred taxes of approximately $30,700,000 have been provided for these gains.

### 13. Net2Phone Subsidiary Stock Sales — (Continued)

In March 2000, the Company acquired 806,452 shares of Yahoo! Inc. in exchange for 2,777,778 shares of Net2Phone common stock at a then equivalent market value of approximately $150,000,000. In connection with this transaction, the Company recorded a gain on sale of subsidiary stock of $102,286,000.

### 14. TyCom Settlement

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

Under the terms of the settlement, TyCom granted to IDT Europe B.V.B.A. ("IDT Europe"), free of charge, certain exclusive rights to use capacity on the transatlantic and transpacific segments of TyCom's global undersea fiber optic network (the "TyCom Global Network"), which TyCom is currently deploying. The settlement agreement provides for IDT Europe to obtain exclusive indefeasible rights to use two 10 Gb/s wavelengths on the transatlantic segment and two 10 Gb/s wavelengths on the transpacific segment for fifteen years from the applicable Handover Dates ("IRU") (as described below). TyCom previously announced that it expects the TyCom transatlantic network to be ready for service in September 2001, and the TyCom transpacific network to be ready for service in the second quarter of 2002, the respective "Ready for Service Dates." Under the terms of the settlement agreement, the Handover Dates for the wavelengths on the transatlantic segment are nine months (for the first wavelength) and 18 months (for the second wavelength), respectively, after the Ready for Service Date of the TyCom transatlantic network; and the Handover Date for the wavelengths on the transpacific segment are nine months (for the first wavelength) and 18 months (for the second wavelength), respectively, after the Ready for Service Date of the TyCom transpacific network.

Operation, administration and maintenance for the wavelengths used by the Company will be provided by TyCom for a fifteen year period after the relevant Handover Date, free of charge. TyCom has also granted the Company certain rights to resell any unused capacity on the wavelengths through TyCom as its sole and exclusive agent. In addition, the Company will also have the option, exercisable at least annually, to convert the available capacity on its wavelengths to available equivalent capacity on another portion of the TyCom Global Network. In recognition of the settlement, a gain of $313,486,000 was included as a component of "Other income" in the second quarter of Fiscal 2001. Due to a significant decline in IRU pricing and on demand for bandwidth capacity, the Company subsequently re-evaluated the recoverability of the carrying value of its IRU in accordance with SFAS No. 121 and as a result, the Company has recorded an impairment loss of $193,400,000 in the fourth quarter of Fiscal 2001 to reflect the asset's fair value.

### 15. Subsequent Events

On October 23, 2001 IDT entered into an agreement to lead a consortium that would concentrate ownership of approximately 50% (64% of the voting power) of Net2Phone. The consortium consists of IDT, Liberty Media, and AT&T, resulting in significant economic stakes in Net2Phone for all three parties. As part of the agreement, IDT and AT&T contributed their shares of Net2Phone (approximately 10.0 million and 18.9 million shares, respectively) to a newly formed Limited Liability Company (LLC). Liberty then acquired a susbtantial portion of the LLC's units from AT&T, while IDT increased its stake and AT&T retained a significant interest. IDT will be the managing member of the LLC.

## IDT CORPORATION

## FINANCIAL STATEMENT SCHEDULE—VALUATION AND QUALIFYING ACCOUNTS

| | Balance at Beginning of Period | Additions Charged to Costs and Expenses | Deductions (1) | Balance at End of Period |
|---|---|---|---|---|
| 1999 | | | | |
| Reserves deducted from accounts receivable: | | | | |
| Allowance for doubtful accounts | $ 6,255,000 | $ 5,558,000 | $ (4,170,000) | $ 7,643,000 |
| 2000 | | | | |
| Reserves deducted from accounts receivable: | | | | |
| Allowance for doubtful accounts | 7,643,000 | 20,154,000 | (1,026,000) | 26,771,000 |
| 2001 | | | | |
| Reserves deducted from accounts receivable: | | | | |
| Allowance for doubtful accounts | 26,771,000 | 32,873,000 | (37,136,000) | 22,508,000 |

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

## Attachment E

## Bond

**Bond shall be provided under separate cover.**