CROCKER & CROCKER, P.C.
ATTORNEYS AT LAW

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IDAHO PUBLIC UTILITIES COMMISSION

PATRICK D. CROCKER
patrick@crockerlawfirm.com

November 20, 2008

Jean Jewell, Commission Secretary
Idaho Public Utilities Commission
Statehouse
472 West Washington Street
Boise, ID 83702

NTM-T-08-02

RE: Neutral Tandem-Idaho, LLC

Dear Ms. Jewell:

Enclosed herewith for filing with the Commission, please find an original and three (3) copies of the above captioned Corporation's Application for Authority to Provide Resold and Facilities-based Local Exchange and Interexchange Services within the State of Idaho.

In addition, enclosed is a duplicate copy of this letter. Please date-stamp the duplicate and return it to me in the enclosed stamped, self-addressed envelope.

Should you have any questions, please contact me.

Very truly yours,

CROCKER & CROCKER, P.C.

Patrick D. Crocker

PDC/pas

The Kalamazoo Building | 107 West Michigan Avenue, Fourth Floor | Kalamazoo, Michigan 49007
T 269.381.8893 | F 269.381.4855

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of the Application of Neutral Tandem-Idaho, LLC For a Certificate of Public Convenience and Necessity to Provide Facilities-based and Resold Local Exchange and Interexchange Services in the State of Idaho	))))))	PUC Docket No: NTM-T-08-02

APPLICATION FOR AUTHORITY TO PROVIDE RESOLD AND FACILITIES-BASED LOCAL EXCHANGE AND INTEREXCHANGE TELECOMMUNICATIONS SERVICES

Neutral Tandem-Idaho, LLC ("Applicant") hereby applies to the Idaho Public Utilities Commission ("Commission") for a Certificate of Public Convenience and Necessity to provide facilities-based and resold local exchange and interexchange services within the State of Idaho pursuant to *Idaho Code* §§ 61-526-528 and IDAPA 31.01.01.111. In support thereof, Applicant provides the following information:

I. **Proposed Services**

Applicant seeks authority to provide facilities-based and resold local exchange and interexchange telecommunications service to and from all points in the State of Idaho. Applicant initial offering of local and interexchange telecommunications services will be marketed to business customers where facilities permit. Applicant will provide its customers with expert technical assistance and advice on all telecommunications needs.

II **Form of Business**

1. Name, Address and Form of Business

a. **Applicant is not a sole proprietorship.**

b. **Applicant is not a partnership.**

c. **Applicant is a limited liability company;**

1. a short statement of the character of public service in which it may engage,

   Applicant seeks authority to provide all forms of local exchange and interexchange services throughout the State of Idaho. Initially, Applicant intends to market local services in the Qwest Corporation service areas and the company does not plan to provide service in areas of any small or rural local exchange carriers. However, Applicant seeks statewide authority so that it may expand at a later date to serve the areas of other local exchange carriers as market conditions warrant and as additional service areas become open to competition. Applicant's initial local service offering will be marketed to business service customers where facilities permit. As future market conditions warrant, Applicant may expand its services to include a broader array of local service offerings.

2. the name of the state in which it is organized,

   Applicant is organized under the laws of the State of Delaware.

3. its principal business address and

   Neutral Tandem-Idaho, LLC
   One South Wacker Drive, Suite 200
   Chicago, IL 60606

   its principal business address within Idaho,

   Applicant will not have a principal business address in Idaho.

4. a certified copy of its articles of incorporation,

   A copy of Applicant's Articles of Organization is attached as Exhibit A.

5. if not incorporated in Idaho, a certificate of good standing issued by the Secretary of State, and

   Attached hereto as Exhibit B.

6. name and address of registered agent for service in Idaho.

Corporation Service Company
1401 Shoreline Drive, Suite 2
Boise, ID 83702

2. If a corporation, the names and addresses of the ten common stockholders of applicant owning the greatest number of shares of common stock and the number of such shares owned by each, as follows:

Applicant is a limited liability company, solely owned by Neutral Tandem, Inc.

3. Names and addresses of the officers and directors of applicant.

The sole manager and member of the Applicant:

Neutral Tandem Inc. (100% Owner)
One South Wacker Drive, Suite 200
Chicago, IL 60606

Neutral Tandem-Idaho, LLC does not have any separately designated officers. The officers of Neutral Tandem, Inc. are:

Rian J. Wren	**President and Chief Executive Officer**
Richard L. Monto	**General Counsel and Secretary**
Rob Junkroski	**Chief Financial Officer**
Surendra Saboo	**Chief Operations Officer and Executive V.P.**

All officers may be reached at Applicant's principle place of business.

4. Name and addresses of any corporation, association, or similar organization holding a 5% or greater ownership or a management interest in the applicant. As to the ownership, the amount and character of the interest must be indicated. A copy of any management agreement must be attached.

Applicant is a wholly owned subsidiary of Neutral Tandem, Inc.

5. Names and addresses of subsidiaries owned or controlled by applicant.

Applicant does not own or control any subsidiaries.

6. Correspondence pertaining to this Application should be directed to Applicant's counsel:

Patrick D. Crocker
Crocker & Crocker, P.C.
The Kalamazoo Building
107 W. Michigan Ave, 4th Floor
Kalamazoo, MI 49007
Phone: (269) 381-8893
Fax: (269) 381-4855
E-mail: patrick@crockerlawfirm.com

III Telecommunications Service

1. The date on which applicant proposes to begin construction or anticipates it will begin to provide service.

   Applicant anticipates it will begin to provide service shortly after obtaining authorization. It anticipates that it will enter into the appropriate interconnection and service arrangements with Qwest Corporation ("Qwest") or other certificated facilities-based carriers to offer services.

2. A written description of customer classes and customer service[s] that the applicant proposes to offer to the public.

   Applicant plans to offer local telecommunications services to business customers. Applicant will provide its customers with expert technical assistance and advice on all telecommunications needs.

IV Service Territory

1. A description sufficient for determining whether service is to be offered in a particular location; and the names of all incumbent local exchange corporations with whom the proposed utility is likely to compete.

   Applicant intends to provide service throughout the State of Idaho. Initially Applicant intends to provide service in the Qwest service areas and does not plan to provide service in areas of any small or rural local exchange carriers. However, Applicant seeks statewide authority so that it may expand into other service areas as market conditions warrant and as additional service areas become open to competition.

2. Written description of the intended manner of service, for example, resold services or facilities based. A general description of the property owned or controlled by applicant.

Applicant will provide resold and facilities-based local exchange and interexchange services. Applicant does not currently own property and has not yet completed plans for construction of voice or data transport facilities in Idaho. Applicant intends to deploy its own switching platform facilities in collocated sites throughout Idaho and lease fiber optic facilities. Where Applicant otherwise lacks facilities and where customer demand warrants, Applicant may resell the services of the underlying carrier.

3. A statement describing with whom the applicant is likely to compete.

Applicant will compete with Qwest for the provision of service.

4. A description of the property owned by the applicant clarifies the applicant's proposed services and operation.

Applicant does not currently own facilities or property in Idaho. Applicant intends to deploy its own switching platform facilities in collocated sites throughout Idaho and lease fiber optic facilities.

V. Financial Information

1. Latest annual report, if any.

As a newly-created entity, initially Applicant will rely on the financial support of its parent company, Neutral Tandem, Inc., which has the necessary funds to provide local service. The success of Applicant's parent company, Neutral Tandem, Inc. in developing innovative products and services and expanding its geographic reach has translated into impressive growth in recent years and as such Applicant will be relying on it's parent company for full financing. Neutral Tandem, Inc. is well-qualified financially to operate and expand its business through its subsidiary. The ability to honor this commitment is illustrated by the financial statements taken from Neutral Tandem, Inc.'s Form 10-K, as filed with the Securities and Exchange Commission is attached hereto as Exhibit C.

VI "Illustrative" Tariff Filings

Proposed initial tariff and price sheets setting forth rates, rules, terms, and regulations applicable to the contemplated service. .

Attached hereto as Exhibit D, Applicant submits an illustrative tariff containing rates, rules, terms and regulations.

VII Customer contacts

1. Contact information for the applicant.

   a. The name, address, and telephone number and electronic mailing addresses (if available) of the person(s) responsible for consumer inquiries and complaints from the public.

      Jan Hewitt
      Neutral Tandem-Idaho, LLC
      One South Wacker Drive, Suite 200
      Chicago, IL 60606
      (888) 682-6336
      billing@neutraltandem.com

   b A toll-free number for customer inquiries and complaints.

      1-888-682-6336

   c The name, number and electronic mailing addresses (if available) of the person(s) designated as a contact for the Commission Staff for resolving complaints, inquiries and matters concerning rates and price lists or tariffs.

      Richard L. Monto
      Neutral Tandem-Idaho, LLC
      One South Wacker Drive, Suite 200
      Chicago, IL 60606
      (312) 384-8090
      rmonto@neutraltandem.com

VIII **Interconnection Agreements**

1. Statements of whether the applicant has initiated interconnection negotiations. If yes, then when and with whom.

   Applicant has not yet initiated interconnection negotiations but intends to do so upon being granted authority by the Commission.

IX **Compliance with Commission Rules**

1. A written statement that the applicant has reviewed all of the Commission rules and agrees to comply with them, or request for waiver of those rules believed to be inapplicable.

   Applicant has reviewed all of the Commission rules and agrees to comply with them.

X **Escrow Account for Advance Deposits**

1. If a company requires advance deposits by its customers, the company must submit a signed copy of an escrow account with a bonded escrow agent or a security bond. The escrow or bond shall be sufficient to meet customer deposit refunds in case of company default.

   Applicant will not require deposits or prepayments.

WHEREFORE, Neutral Tandem-Idaho, LLC requests that the Idaho Public Utilities Commission approve the request authority to provide facilities-based and resold local exchange and interexchange telecommunications services in Idaho.

Respectfully Submitted,

Patrick D. Crocker
Crocker & Crocker, P.C.
The Kalamazoo Building
107 W. Michigan, 4th Floor
Kalamazoo, MI 49007
269-381-8893
269-381-4855 (fax)

VERIFICATION

Richard L. Monto, General Counsel and Secretary of Neutral Tandem, Inc., the manger of Neutral Tandem-Idaho, LLC, first being duly sworn on oath, deposes and says that he has read the foregoing Application and verifies that the statements made therein are true and correct to the best of his knowledge, information and belief.

Neutral Tandem-Idaho, LLC

BY: R L. Monto

Richard L. Monto
General Counsel and Secretary of
Neutral Tandem, Inc.

The foregoing instrument was acknowledged before me this 4 day of Sept, 2008 by Richard L. Monto.

Holly Brown

Notary Public
County of COOK
State of ILLINOIS
My Commission Expires 12/10/08

OFFICIAL SEAL
HOLLY BROWN
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:12/10/08

EXHIBIT A

Articles of Organization

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF FORMATION OF "NEUTRAL TANDEM-IDAHO, LLC", FILED IN THIS OFFICE ON THE TWENTY-SEVENTH DAY OF DECEMBER, A.D. 2007, AT 5:32 O'CLOCK P.M.

4480959 8100

071368012

SECRETARY'S OFFICE 1793 DELAWARE 1855

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 6268708

DATE: 12-27-07

You may verify this certificate online at corp.delaware.gov/authver.shtml

State of Delaware
Secretary of State
Division of Corporations
Delivered 05:32 PM 12/27/2007
FILED 05:32 PM 12/27/2007
SRV 071368012 - 4480959 FILE

STATE *of* DELAWARE
LIMITED LIABILITY COMPANY
CERTIFICATE *of* FORMATION

- **First:** The name of the limited liability company is Neutral Tandem-Idaho, LLC
- **Second:** The address of its registered office in the State of Delaware is 2711 Centerville Road Suite 400 in the City of Wilmington, DE 19808. The name of its Registered agent at such address is Corporation Service Company
- **Third:** (Use this paragraph only if the company is to have a specific effective date of dissolution: "The latest date on which the limited liability company is to dissolve is ______.")
- **Fourth:** (Insert any other matters the members determine to include herein.)

In Witness Whereof, the undersigned have executed this Certificate of Formation this 27th day of December, 20 07.

By: [signature]
Authorized Person(s)

Name: Neutral Tandem, Inc. by Richard Monto, Vice President
Typed or Printed

EXHIBIT B

Certificate of Authority to Transact Business

FILED EFFECTIVE

253

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SECRETARY OF STATE
STATE OF IDAHO

APPLICATION FOR REGISTRATION OF FOREIGN LIMITED LIABILITY COMPANY

(Instructions on back of application)

1. The name of the limited liability company is:

   Neutral Tandem-Idaho, LLC

2. If the name of the limited liability company is not permissible or is not available in Idaho, the name the foreign limited liability company will use in Idaho is:

   N/A

3. The jurisdiction under whose laws the limited liability company is organized is: Delaware
   and the date of its formation was: December 27, 2007

4. The name and address of the registered agent in Idaho is:

   Corporation Service Company, 1401 Shoreline Drive, Suite 2, Boise, Idaho 83702

5. The address of the limited liability company's office in the jurisdiction under whose laws it is organized is:

   2711 Centerville Road, Suite 400, Wilmington, DE 19808

6. The address of the limited liability company's principal office, if other than the address in #5 above, is:

   1 South Wacker Drive, Suite 200, Chicago, IL 60606

7. The address to which correspondence should be addressed is:

   1 South Wacker Drive, Suite 200, Chicago, IL 60606

   Attn: Ronald Gavillet

8. Signature of a manager, if any, or a member if there are no managers.

Signature RJL Monto

Typed Name Neutral Tandem, Inc. by Richard Monto, VP

Manager ☑ Member ☐

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Secretary of State use only

W70209

IDAHO SECRETARY OF STATE
01/09/2008 05:00
CK: 100004253 CT: 74104 BH: 1093616
1 @ 100.00 = 100.00 REGFORGLLC # 2
1 @ 20.00 = 20.00 EXPEDITE C # 3

EXHIBIT C

Neutral Tandem, Inc.'s

Financials from Form 10-K

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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 2007

or

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

For the transition period from to

Commission file number 001-33778

NEUTRAL TANDEM, INC.
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**31-1786871** **(I.R.S. Employer Identification No.)**
One South Wacker **Suite 200** **Chicago, Illinois** **(Address of principal executive offices)**	**60606** **(Zip Code)**

Registrant's telephone number, including area code (312) 384-8000

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 Par Value Per Share	The NASDAQ Stock Market LLC

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

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

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

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

Indicate by check mark 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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

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

The registrant consummated its initial public offering on November 7, 2007. Accordingly, as of June 29, 2007, the last day of the registrant's most recently completed second fiscal quarter, the registrant's common stock was not publicly traded. The aggregate market value of the registrant's common stock, $0.001 par value per share, held by non-affiliates of the registrant on February 15, 2008, was $293,446,000 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer, director and each other person known to the registrant who beneficially owns more than 5% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 15, 2008, the registrant had 31,003,962 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Neutral Tandem, Inc. definitive Proxy Statement for its 2008 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after December 31, 2007 are incorporated by reference in Part III of this Form 10-K.

NEUTRAL TANDEM, INC.

FORM 10-K

TABLE OF CONTENTS

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Neutral Tandem, Inc.
Chicago, Illinois

We have audited the accompanying consolidated balance sheets of Neutral Tandem, Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such consolidated financial statements present fairly, in all material respects, the financial position of Neutral Tandem, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
March 4, 2008

NEUTRAL TANDEM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share amounts)

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 112,020	$ 20,084
Accounts receivable	12,104	7,876
Deferred tax asset-current	2,242	2,699
Other current assets	1,016	866
Total current assets	127,382	31,525
Property and equipment—net	37,410	29,090
Restricted cash	419	397
Other assets	805	979
Total assets	$ 166,016	$ 61,991
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 575	$ 1,919
Accrued liabilities:		
Circuit cost	5,694	2,735
Rent	1,163	948
Payroll and related items	1,692	891
Other	2,768	1,515
Current installments of long-term debt	4,384	5,317
Total current liabilities	16,276	13,325
Other liabilities	527	2,420
Deferred tax liability-noncurrent	2,095	2,026
Long-term debt—excluding current installments	3,196	7,585
Total liabilities	22,094	25,356
Commitments and Contingencies		
Preferred convertible stock—Series A, par value of $0.001; 9,200,000 authorized shares; 9,000,000 shares issued and outstanding at December 31, 2006 liquidation preference of $9.0 million at December 31, 2006	—	9,000
Preferred convertible stock—Series B-1, par value of $.001; 5,830,228 authorized shares; 5,737,416 shares issued and outstanding at December 31, 2006 liquidation preference of $8.5 million at December 31, 2006	—	8,500
Preferred convertible stock—Series B-2, par value of $.001; 1,374,752 authorized shares; 1,352,867 shares issued and outstanding at December 31, 2006 liquidation preference of $8.5 million at December 31, 2006	—	8,500
Preferred convertible stock—Series C, par value of $.001; 2,009,947 authorized shares; 1,909,947 shares issued and outstanding at December 31, 2006 liquidation preference of $12.0 million at December 31, 2006	—	12,000
Shareholders' equity (deficit):		
Preferred stock—par value of $.001; 50,000,000 authorized shares; no shares issued and outstanding at December 31, 2007	—	—
Common stock—par value of $.001; 150,000,000 authorized shares; 30,832,939 shares and 5,319,434 shares issued and outstanding at December 31, 2007 and December 31, 2006, respectively	32	6
Warrants	6,920	—
Additional paid-in capital	132,889	806
Accumulated earnings (deficit)	4,081	(2,177)
Total shareholders' equity (deficit)	143,922	(1,365)
Total liabilities and shareholders' equity (deficit)	$ 166,016	$ 61,991

See notes to consolidated financial statements.

NEUTRAL TANDEM, INC. AND SUBSIDIARIES

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

	Year Ended December 31, 2007	2006	2005
Revenue	$85,555	$52,866	$27,962
Operating Expense:			
Network and facilities expense (excluding depreciation and amortization)	30,163	21,305	11,349
Operations	15,536	11,613	8,189
Sales and marketing	1,770	1,553	1,360
General and administrative	9,426	4,166	3,053
Depreciation and amortization	11,076	7,160	3,141
Impairment of fixed assets	—	1,234	—
Loss (gain) on disposal of fixed assets	(144)	333	—
Total operating expense	67,827	47,364	27,092
Income from operations	17,728	5,502	870
Other (income) expense			
Interest expense, including debt discount of $139, $124 and $68, respectively	1,668	1,289	843
Interest income	(1,321)	(778)	(170)
Change in fair value of warrants	4,919	832	674
Other income	—	—	(11)
Total other expense	5,266	1,343	1,336
Income (loss) before income taxes	12,462	4,159	(466)
Provision (benefit) for income taxes	6,204	(499)	—
Net income (loss)	$ 6,258	$ 4,658	$ (466)
Net income (loss) per share:			
Basic	$ 0.68	$ 0.88	$ (0.08)
Diluted	$ 0.24	$ 0.20	$ (0.08)
Weighted average number of shares outstanding:			
Basic	9,248	5,293	5,628
Diluted	26,378	23,481	5,628

See notes to consolidated financial statements.

NEUTRAL TANDEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

(Dollars in thousands)

	Shares Outstanding							
	Series X Preferred Shares	Common Shares	Warrants	Common Shares	Warrants	Additional Paid-In Capital	Accum Deficit/ Earnings	Total Shareholders' Equity
Balance at December 31, 2004	100	5,490,000	—	$ 5	$ —	$ 116	$(6,242)	$ (6,121)
Net loss and comprehensive loss	—	—	—	—	—	—	(466)	(466)
Series X conversion to common shares	(100)	417,084	—	—	—	—	—	—
Purchase of common shares for retirement	—	(386,800)	—	—	—	—	—	—
Exercise of stock options	—	15,000	—	—	—	2	—	2
Stock option expense	—	—	—	—	—	29	—	29
Accretion of preferred stock	—	—	—	—	—	—	(53)	(53)
Balance at December 31, 2005	—	5,535,284	—	5	—	147	(6,761)	(6,609)
Net income and comprehensive income	—	—	—	—	—	—	4,658	4,658
Purchase of common shares for retirement	—	(299,100)	—	—	—	(1)	—	(1)
Exercise of stock options	—	83,250	—	1	—	261	—	262
Stock option expense	—	—	—	—	—	399	—	399
Accretion of preferred stock	—	—	—	—	—	—	(74)	(74)
Balance at December 31, 2006	—	5,319,434	—	6	—	806	(2,177)	(1,365)
Net income and comprehensive income	—	—	—	—	—	—	6,258	6,258
Proceeds from issuance of common shares, net of costs	—	7,248,700	—	7	—	93,104	—	93,111
Preferred conversion to common shares	—	18,000,230	—	18	—	37,982	—	38,000
Reclassification of warrants	—	—	402,236	—	6,920	—	—	6,920
Exercise of stock options	—	264,575	—	1	—	91	—	92
Stock option expense	—	—	—	—	—	906	—	906
Balance at December 31, 2007	—	30,832,939	402,236	$ 32	$ 6,920	$132,889	$ 4,081	$ 143,922

See notes to consolidated financial statements.

NEUTRAL TANDEM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year Ended December 31,		
	2007	2006	2005
Cash Flows From Operating Activities:			
Net income	$ 6,258	$ 4,658	$ (466)
Adjustments to reconcile net cash flows from operating activities:			
Depreciation and amortization	11,076	7,160	3,141
Deferred tax	526	(673)	—
Impairment of fixed assets	—	1,234	—
Loss (gain) on disposal of fixed assets	(144)	333	—
Non-cash share-based compensation	906	399	29
Amortization of debt discount	139	124	68
Changes in fair value of warrants	4,919	832	674
Changes in assets and liabilities:			
Accounts receivable—net	(4,228)	(3,255)	(3,568)
Other current assets	(150)	(662)	58
Other noncurrent assets	174	(230)	(193)
Accounts payable	(671)	433	262
Accrued liabilities	5,228	2,225	1,856
Noncurrent liabilities	108	389	286
Net cash flows from operating activities	24,141	12,967	2,147
Cash Flows From Investing Activities:			
Purchase of equipment	(20,149)	(17,098)	(13,977)
Proceeds from sale of equipment	224	—	—
Increase in restricted cash	(22)	(71)	(13)
Purchase of short-term investments	—	(48,000)	(8,000)
Sale of short-term investments	—	52,450	11,750
Net cash flows from investing activities	(19,947)	(12,719)	(10,240)
Cash Flows From Financing Activities:			
Proceeds from the issuance of common shares associated with stock option exercise	1,924	262	2
Proceeds from issuance of common shares, net of issuance cost	91,279	—	—
Purchase of common shares for retirement	—	(1)	—
Proceeds from the issuance of convertible preferred shares, net of issuance cost	—	11,926	8,448
Proceeds from the issuance of long-term debt	—	10,000	2,750
Principal payments on long-term debt	(5,461)	(3,642)	(2,015)
Net cash flows from financing activities	87,742	18,545	9,185
Net Increase In Cash And Cash Equivalents	91,936	18,793	1,092
Cash And Cash Equivalents—Beginning	20,084	1,291	199
Cash And Cash Equivalents—End	$112,020	$ 20,084	$ 1,291
Supplemental Disclosure Of Cash Flow Information:			
Cash paid for interest	$ 1,258	$ 776	$ 434
Cash paid for taxes	$ 3,385	$ 781	$ —
Cash refunded for taxes	$ 542	$ —	$ —
Supplemental Disclosure Of Noncash Flow Items:			
Investing Activity—Accrued purchases of equipment	$ 463	$ 1,136	$ —
Financing Activity—Warrants issued	$ —	$ 289	$ 24

See notes to consolidated financial statements.

NEUTRAL TANDEM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE BUSINESS

Organization —Neutral Tandem, Inc. ("the Company") provides tandem interconnection services principally to competitive carriers, including wireless, wireline, cable and broadband telephony companies. Competitive carriers use tandem switches to interconnect and exchange traffic between their networks without the need to establish direct switch-to-switch connections. Prior to the introduction of the Company's service, the primary method for competitive carriers to exchange traffic was through use of the incumbent local exchange carriers', or ILECs, tandem switches. Under certain interpretations of the Telecommunications Act of 1996, ILECs are required to provide tandem switching to competitive carriers. For tandem transit services, ILECs generally set per minute rates and other charges according to mandated rate schedules (including varying rates) set by state public utility commissions. The Company's solution enables competitive carriers to exchange traffic between their networks without using an ILEC tandem.

Initial Public Offering —In November 2007, the Company completed its initial public offering ("IPO") of common stock in which it sold 7,247,489 shares of its common stock, including 997,489 shares sold pursuant to the underwriter's full exercise of their over-allotment option, at an issue price of $14.00 per share. The Company raised a total of $101.5 million in gross proceeds from its IPO, or $91.3 million in net proceeds after deducting underwriting discounts and commissions of $7.1 million and other offering costs of $3.1 million. Upon the closing of the IPO, all shares of convertible preferred stock outstanding automatically converted into 18 million shares of common stock. Upon the closing of the Company's IPO, warrants to purchase shares of the Company's convertible preferred stock became warrants to purchase shares of the Company's common stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation —The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates —The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. These accounting principles require management to make certain estimates and assumptions that can affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the periods presented. Significant estimates and assumptions made by management include the determination of fair value of stock-based awards and warrants issued prior to its IPO, the allowance for doubtful accounts and certain accrued expenses. The Company believes that the estimates and assumptions upon which it relies are reasonable based upon information available to it at the time that these estimates and assumptions are made. To the extent there are material differences between these estimates and actual results, the Company's consolidated financial statements will be affected.

Cash and Cash Equivalents —The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Property and Equipment —Property and equipment are recorded at historical cost. These costs are depreciated over the estimated useful lives of the individual assets using the straight-line method. Any gains and losses from the disposition of property and equipment are included in operations as incurred. The estimated useful life for switch equipment and tools and test equipment is five years. The estimated useful life for computer equipment, computer software and furniture and fixtures is three years. Leasehold improvements are amortized on a straight-line basis over an estimated useful life of five years or the life of the lease, whichever is less.

Software Development Costs —The Company capitalizes costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and management has authorized project funding. The carrying value of software and development costs is regularly reviewed by management for potential impairment. The Company amortizes capitalized software costs over the estimated useful life of three years.

Restricted Cash —The Company has letters of credit securing certain building leases. In accordance with the terms of the letters of credit, the Company pledged cash for a portion of the outstanding amount. The Company had restricted cash of $0.4 million at both December 31, 2007 and 2006. As the Company expands into additional markets, the amount of restricted cash pledged to letters of credit may increase.

Long-lived Assets —The carrying value of long-lived assets, primarily property and equipment, is evaluated whenever events or changes in circumstances indicate that a potential impairment has occurred. A potential impairment has occurred if projected undiscounted cash flows are less than the carrying value of the assets. The estimated cash flows include management's assumptions of cash inflows and outflows directly resulting from the use of that asset in operations. The impairment test is a two-step process. If the carrying value of the asset exceeds the expected future cash flows from the asset, impairment is indicated. The impairment loss recognized is the excess of the carrying value of the asset over its fair value. Typically, the fair value of the asset is determined by discounting the estimated future cash flows associated with the asset.

In October 2006, the Company decided to invest in new switch equipment in its Atlanta and Miami locations. The new equipment provides greater functionality that will improve network efficiency and performance. The equipment being replaced had no further use in the network. The Company completed a test for impairment consistent with the two-step process described above. For Atlanta, the expected future cash flows from October 2006 through January 2007 were discounted at 12% to determine the fair value of the equipment to be disposed of. For Miami, the expected future cash flows from October 2006 through March 2007 were discounted at 12% to determine the fair value of the equipment to be disposed of. As a result, the Company recorded a charge of $1.2 million related to the asset impairment. In Atlanta, the new equipment was installed and became operational February 2007. In Miami, the new equipment was installed and became operational at the end of March 2007. The Company assumed no salvage value for disposal of the old Atlanta and Miami switch equipment. The entire impairment amount was recorded in the fourth quarter of 2006.

In July 2007, the Company decided to invest in new switch equipment, which will replace existing equipment in February 2008, in its New York location. The new equipment provides greater functionality that will improve network efficiency and performance. The equipment being replaced has no further use in the network. The Company completed a test for impairment consistent with the two-step process described above. The expected future cash flows from July 2007 through February 2008 were discounted at 12% to determine the fair value of the equipment to be disposed of. As a result, there is no impairment of the existing switch equipment in New York, however, the Company began accelerating the depreciation on the switch equipment to be disposed of in February 2008 when the new switch equipment is expected to be installed and operational.

The Company had no impairment of long-lived assets at December 31, 2007.

Asset Retirement Obligation —The Company leases all of its switch locations. The Company's leases with its landlords require it to return the switch locations back to their original condition or that major work, such as heating and ventilation upgrades, stay with the facility. Therefore, the Company has a basic requirement to remove its switch equipment, telephone connections and battery power supply. This cost is estimated to be immaterial. The Company's operations and engineering management team believes the cost to remove all items identified above would be an immaterial amount.

Freestanding Convertible Preferred Stock Warrants — Upon the closing of the Company's IPO in November 2007, warrants to purchase shares of the Company's convertible preferred stock became warrants to purchase shares of the Company's common stock and, as a result, are no longer subject to Financial Accounting Standards Board Staff Position (FSP) No. 150-5, " *Issuers Accounting under Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares that are Redeemable* " (FSP 150-5). The then-current aggregate fair value of these warrants of $6.9 million was reclassified from current liabilities to warrants, a component of stockholders' equity (deficit), and the Company has ceased to record any further periodic fair value adjustments.

In 2007 (through the completion of its IPO) and 2006, the Company recorded $4.9 million and $0.8 million, respectively, of expense reflected in change in fair value of warrants, a component of other (income) expense, net to reflect the increase in fair value during the period.

On February 21, 2008 the note holders elected to exercise all of the outstanding warrants. Pursuant to the terms of the warrants the note holders elected to exercise the warrants on a net basis based upon the average closing price of our common stock during the three days prior to such exercise. Based upon the closing prices of our common stock on February 20, 2008, February 19, 2008 and February 15, 2008 we issued a total of 356,921 common shares on February 25, 2008 in full satisfaction of all outstanding warrants.

Revenue Recognition —The Company generates revenue from sales of its tandem interconnection services. The Company maintains executed service agreements with each of its customers in which specific fees and rates are determined. Revenue is recorded each month on an accrual basis based upon documented minutes of traffic switched for which service is provided and when collection is probable. The Company provides service primarily to large, well-established competitive carriers, including wireless, wireline and cable and broadband telephony.

Accounting for Legal Costs Expected to Be Incurred In Connection with a Loss Contingency — The Company includes an estimate of future legal fees to be incurred in connection with the resolution of vendor disputes when a loss contingency is initially determined. The estimate is consistent with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies.

Network and Facilities Expense —The Company's network and facilities expenses include transport and signaling network costs, facility rents and utilities, together with other costs that directly support the switch locations. The Company does not defer any costs associated with the start-up of new switch locations and does not capitalize any costs.

Network transport costs typically occur on a repeating monthly basis, which the Company refers to as recurring costs, or on a one-time basis, which the Company refers to as non-recurring costs. Recurring costs primarily include monthly usage charges from telecommunication carriers, related to the circuits utilized by the Company to interconnect our customers. As the Company's traffic increases, it must provide additional circuits. Non-recurring costs primarily include the initial installation of such circuits. Facility rents include the leases on our switch facilities, which expire through April 2018. Additionally, the Company pays the cost of all the utilities for all of its switch locations.

The largest component of other costs relates to charges paid to utilize ILEC services. The Company incurs some monthly charges from the ILECs as it diversifies its network and provides alternative routes to complete the customers' traffic. In some cases, the Company may not have sufficient capacity of network transport lines installed in its network to handle the volume of traffic destined for a particular customer. In this case, it will incur these charges, generally temporarily, in order to maintain a high quality of service.

Operations Expenses —The Company's operations expenses include payroll and benefits for both switch location personnel as well as individuals located at the corporate office who are directly responsible for maintaining and expanding the switch network. Other primary components of operations expenses include switch repair and maintenance, property taxes, property insurance and supplies.

Earnings (Loss) Per Share —Basic earnings per share is computed based on the weighted average number of common shares outstanding. Diluted earnings per share is computed based on the weighted average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive shares of common stock include stock options, convertible warrants, Series A Convertible Preferred Stock, Series B-1 Convertible Preferred Stock, Series B-2 Convertible Preferred Stock and Series C Convertible Preferred Stock. During periods in which a net loss is incurred, diluted earnings per share amounts are the same as the basic per share amounts because the effect of all options, convertible warrants, Series A Convertible Preferred Stock, Series B-1 Convertible Preferred Stock, Series B-2 Convertible Preferred Stock and Series C Convertible Preferred Stock is anti-dilutive. The following table presents a reconciliation of the numerators and denominators of basic and diluted earnings per common share:

	Years Ended December 31,		
(In thousands, except per share amounts)	**2007**	**2006**	**2005**
Numerator:			
Net income (loss) applicable to common stockholders	$ 6,258	$ 4,658	$ (466)
Denominator:			
Weighted average common shares outstanding	9,248	5,293	5,628
Effect of dilutive securities:			
Stock options	1,567	355	—
Warrants	275	—	—
Series A Preferred Stock	7,644	9,000	—
Series B-1 Preferred Stock	4,873	5,737	—
Series B-2 Preferred Stock	1,149	1,353	—
Series C Preferred Stock	1,622	1,743	—
Denominator for diluted earnings per share	26,378	23,481	5,628
Net earnings (loss) per share:			
Basic—as reported	$ 0.68	$ 0.88	$ (0.08)
Diluted—as reported	$ 0.24	$ 0.20	$ (0.08)

For purposes of calculating the 2006 diluted earnings per share, the Company excluded the impact of the convertible warrants on weighted average shares as the cash settlement method results in an anti- dilutive impact on the calculation.

The Company incurred a net loss for the year ended December 31, 2005; therefore, conversion of preferred stock, warrants and potential common stock issuances attributable to stock options were excluded from the calculation of diluted earnings per share amount because the effect would have been anti-dilutive. The number of shares used to calculate diluted per share amounts otherwise would have been increased by 15,775,000.

Options to purchase 93,000 and 1,335,000 shares of common stock at a weighted-average price of $10.40 and $1.22 per share were outstanding during the year ended December 31, 2007 and 2006, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

Comprehensive Income —Comprehensive income includes all changes in equity during a period from non-owner sources. Comprehensive income was the same as net income (loss) for the years ended December 31, 2007, 2006 and 2005.

Accounting for Stock-Based Compensation —As of January 1, 2005, the Company adopted SFAS No. 123(R) using the modified retrospective method. The modified retrospective method requires the prior period financial statements to be restated to recognize compensation cost in the amounts previously reported in the pro forma footnotes.

The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with the Company's valuation techniques previously utilized for options in footnote disclosures required under SFAS No. 123, Accounting for Stock Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation—Transition and Disclosure. This model takes into account the exercise price of the stock option, the fair value of the common stock underlying the stock option as measured on the date of grant and an estimation of the volatility of the common stock underlying the stock option. Such value is recognized as expense over the service period, net of estimated forfeitures, using the accelerated method under SFAS 123(R). The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from the Company's current estimates.

The amount of share-based expense recorded in the years ended December 31, 2007, 2006 and 2005, is $906,000, $399,000, and $29,000, respectively.

Income Taxes —The Company accounts for income taxes in accordance with SFAS No. 109 Accounting for Income Taxes. Deferred income tax assets and liabilities are recognized for future income tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases and for net operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using 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 income tax assets and liabilities of a change in income tax rates is recorded in earnings in the period of enactment. A valuation allowance is provided for deferred income tax assets whenever it is more likely than not that future tax benefits will not be realized. Deferred income tax assets are reviewed on a quarterly basis to determine if a valuation allowance is necessary based on current and historical performance, along with other relevant factors.

Income tax provision includes U.S. federal, state, and local income taxes and is based on pre-tax income or loss. The interim period provision or benefit for income taxes is based upon the Company's estimate of its annual effective income tax rate. In determining the estimated annual effective income tax rate, the Company analyses various factors, including projections of the Company's annual earnings and taxing jurisdictions in which earnings will be generated, the impact of state and local income taxes and the ability of the Company to use tax credits and net operating loss carryforwards.

Concentrations —For the years ended 2007, 2006 and 2005, the aggregate revenues of four customers accounted for 54%, 46% and 55% of total revenues, respectively. At December 31, 2007 and 2006, the aggregate accounts receivable of four customers accounted for 55% and 43% of the Company's total trade accounts receivable, respectively.

In 2007, the Company had two customers in excess of ten percent of sales, which were 26% and 14% of the Company's total revenue, respectively. At December 31, 2007, the Company had three customers who accounted for 22%, 14% and 11% of the Company's accounts receivable balance, respectively.

In 2006, the Company had two customers in excess of ten percent of sales, which were 23% and 14% of the Company's total revenue, respectively. At December 31, 2006, the Company had two customers who accounted for 21% and 13% of the Company's accounts receivable balance, respectively.

In 2005, the Company had three customers in excess of ten percent of sales, which were 18%, 15% and 13% of the Company's total revenue, respectively. At December 31, 2005, the Company had three customers who accounted for 13%, 11% and 10% of the Company's accounts receivable balance, respectively.

For the year ended December 31, 2007, the company had $112 million in cash and cash equivalents. Of this amount, approximately $105.9 million was invested in one money market fund. Investment policies have been implemented that limit investments to highly liquid investments with an original maturity of 90 days or less.

Recent Accounting Pronouncements —In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No . 109* (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 109. FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted by the Company on January 1, 2007. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of the benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company's policy is to recognize interest and penalty expense associated with uncertain tax positions as a component of income tax expense in the consolidated statement of operations. The adoption of FIN 48 did not have an effect on the Company's consolidated results of operations or financial condition at adoption or for the year ended and as of December 31, 2007.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* . The standard provides guidance for using fair value to measure assets and liabilities. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of SFAS No. 157 will not have a material impact upon the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115* . SFAS 159 permits entities to elect to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has determined that it is not electing to adopt this standard.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* . SFAS 141R retains the fundamental requirements in previously issued Statement 141 that the acquisition method of accounting (the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date at the fair values as of that date. This replaces the Statement 141's cost allocation process which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based upon their estimated fair values. The Company will adopt this standard for acquisitions consummated after the effective date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* . SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements* , to establish accounting and reporting standards for noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Before this statement was issued, limited guidance existed for reporting noncontrolling interest. The Company will adopt this standard for acquisitions consummated after the effective date.

3. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2007 and 2006 consists of the following:

(Dollars in thousands)	December 31, 2007	December 31, 2006
Switch equipment	$ 46,745	$ 35,657
Construction in process	5,385	2,866
Computer software	1,156	1,040
Computer equipment	1,237	860
Tools and test equipment	354	307
Furniture and fixtures	310	245
Leasehold improvements	1,205	230
	56,392	41,205
Less accumulated depreciation	(18,982)	(12,115)
Property and equipment-net	$ 37,410	$ 29,090

4. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2007 and 2006 consists of the following:

(Dollars in thousands)	December 31, 2007	December 31, 2006
Billed receivables	$ 10,252	$ 6,112
Unbilled receivables	1,839	1,145
Other receivables	13	619
	12,104	7,876
Less allowance for doubtful accounts	—	—
Accounts receivable—net of allowance for doubtful accounts	$ 12,104	$ 7,876

The Company invoices customers for services occurring through the 24th of each month. The Company accrues revenue each month for services from the 25th through the end of the month resulting in unbilled receivables. The unbilled receivables at the end of each month are billed as part of the following month's billing cycle.

5. DEBT

In May 2004, the Company entered into an equipment loan and security agreement with an affiliate of Western Technology Investment ("WTI") that provided for aggregate borrowings of up to $4.0 million for the Company's capital purchases through July 31, 2004. The Company borrowed $3.0 million and $1.0 million against this facility in May and July of 2004, respectively. Borrowings are payable in 36 monthly installments and bear interest at prime plus 3.005% (7.0% and 7.3% at May and July 2004, respectively), plus a final payment equal to 8.14% of the principal amount of such borrowings.

The agreement was amended in December 2004 to allow for an additional $5.5 million of borrowings of which $2.8 million was drawn that month and the balance was drawn in August of 2005. The December 2004 borrowing is payable in 36 monthly installments and bears interest at prime plus 1.25% (6.5% at the date of issuance) with a final payment equal to 9.3% of the principal amount borrowed. The August 2005 borrowing is payable in 36 monthly installments and bears interest at prime plus 1.25% (7.5% at the date of issuance) with a final payment equal to 9.3% of the principal amount borrowed.

The agreement was again amended in January 2006 to allow for $10.0 million of additional borrowings of which $2.5 million was drawn on May 1, 2006, $2.5 million was drawn on June 30, 2006, $2.5 million was drawn on September 29, 2006, and another $2.5 million was drawn on December 22, 2006. The May 2006 borrowing is payable in 36 monthly installments and bears interest at prime plus 1.25% (9.6% at the date of issuance) with a final payment equal to 9.6% of the principal amount borrowed. The June 2006 borrowing is payable in 36 monthly installments and bears interest at prime plus 1.25% (9.25% at the date of issuance) with a final payment equal to 9.6% of the principal amount borrowed. The September 2006 borrowing is payable in 36 monthly installments and bears interest at prime plus 1.25% (9.5% at the date of issuance) with a final payment equal to 9.6% of the principal amount borrowed. The December 2006 borrowing is payable in 36 monthly installments and bears interest at prime plus 1.25% (9.5% at the date of issuance) with a final payment equal to 9.6% of the principal amount borrowed.

In accordance with the terms of the agreement, the Company issued warrants to the note holders. The warrants are exercisable any time up to eight years after their issuance. The terms of the agreement provide for the adjustment of stock purchase price and number of shares under the warrant subject to, any stock split, stock dividend, subdivision or combination of shares, reclassification of shares dilution or similar event, merger, sale or issuance of shares below purchase prices. There have been no new sales of securities, or other events, that would lower the conversion price of the warrants. The warrants are required to be settled with physical shares of the applicable Preferred Convertible Stock. As a result of the automatic conversion of the Company's Series A, B-1, B-2 and C preferred convertible stock to common stock the warrants are now exercisable for an equivalent number of the Company's common shares.

With respect to periods ending prior to completion of the IPO, the Company has classified the warrants as a liability given the conditional redemption feature of the underlying preferred stock. The warrants were recorded at the fair value at each period reported. No warrants had been exercised at December 31, 2007. On February 21, 2008 the note holders elected to exercise all of the outstanding warrants. Pursuant to the terms of the warrants the note holders elected to exercise the warrants on a net basis based upon the average closing price of our common stock during the three days prior to such exercise. Based upon the closing prices of our common stock on February 20, 2008, February 19, 2008 and February 15, 2008 we issued a total of 356,921 common shares on February 25, 2008 in full satisfaction of all outstanding warrants.

The Company estimated the fair value of these warrants using the Black-Scholes option pricing model. The Company utilized the full term of the warrants as their expected life. The range of expected life ranges from less than one year to 7.5 years. The risk-free rate assumption ranges from 3.69% to 5.12%. Volatility of the Company's underlying preferred convertible stock is utilized which ranges from 55.5% to 72.1%.

The fair value of these warrants at the time of issuance, as calculated using the Black-Scholes model, was estimated at $495,000 and has been reflected as a reduction of the carrying amount of the note and is being accreted over the term of the note. The charges to interest expense for the years ended December 31, 2007, 2006 and 2005 were $139,000, $124,000 and $68,000, respectively.

Under the terms of its debt agreement, the Company must comply with certain negative covenants that limit our ability to declare or pay dividends, incur additional indebtedness, incur liens, dispose of significant assets, make acquisitions or significantly change the nature of its business without the permission of the lender. For the periods ended December 31, 2007, 2006 and 2005, the Company was in compliance with all the covenants under its debt agreements.

The Company uses cash collateralized letters of credit issued by LaSalle Bank N.A. to secure certain facility leases and other obligations. At December 31, 2007 there was $419,000 of restricted cash used as collateral for $374,000 in letters of credit outstanding.

Long-term debt is summarized as follows:

(Dollars in thousands)	December 31, 2007	December 31, 2006
Secured term loan, interest payable at 7.0%. Principal repaid in 36 equal installments commencing June 1, 2004. A final payment of 8.14% of the borrowed amount was paid in May 2007	$ —	$ 453
Secured term loan, interest payable at 7.3%. Principal repaid in 36 equal installments commencing October, 1, 2004. A final payment of 8.14% of the borrowed amount is required in August of 2007	—	240
Secured term loan, interest payable at 6.5%. Principal repaid in 36 equal installments commencing April 1, 2005. A final payment of 9.3% of the borrowed amount is required in March 2008	249	1,205
Secured term loan, interest payable at 7.5%. Principal repaid in 36 equal installments commencing December 1, 2005. A final payment of 9.3% of the borrowed amount is required in November 2008	902	1,816
Secured term loan, interest payable at 9.0%. Principal repaid in 36 equal installments commencing August 1, 2006. A final payment of 9.6% of the borrowed amount is required in July 2009	1,395	2,175
Secured term loan, interest payable at 9.25%. Principal repaid in 36 equal installments commencing October 1, 2006. A final payment of 9.6% of the borrowed amount is required in September 2009	1,528	2,299
Secured term loan, interest payable at 9.5%. Principal repaid in 36 equal installments commencing January 1, 2007. A final payment of 9.6% of the borrowed amount is required in December 2009	1,729	2,500
Secured term loan, interest payable at 9.5%. Principal repaid in 36 equal installments commencing April 1, 2007. A final payment of 9.6% of the borrowed amount is required in March 2010	1,924	2,500
Less—discount on debt associated with the issuance of warrants	(147)	(286)
Total long-term debt	7,580	12,902
Less—current installments	(4,384)	(5,317)
Long-term debt—excluding current installments	$ 3,196	$ 7,585

Total principal repayments required for each of the next three years under all long-term debt agreements are summarized as follows (dollars in thousands):

	December 31, 2007
2008	$ 4,479
2009	3,013
2010	235
Total	$ 7,727

6. 401(k) SAVINGS PLAN

The Company sponsors a 401(k) plan covering substantially all employees. The plan is a defined contribution savings plan in which employees may contribute up to 15% of their salary, subject to certain limitations. The Company may elect to make discretionary contributions into the Plan. The Company contributed $0.1 million to this plan during the year ended December 31, 2007. The Company did not contribute to the Plan during the years ended December 31, 2006 and 2005.

7. PREFERRED CONVERTIBLE STOCK

At December 31, 2007, the Company no longer had any shares of convertible preferred stock issued and outstanding.

In 2003, the Company issued 8,723,000 shares of Series A Preferred Convertible Stock (Series A Preferred) with a par value of $0.001 per share for approximately $8.6 million. Also in 2003, the Company issued 100 shares of Series X Preferred Convertible Stock (Series X Preferred) with a par value of $0.001 per share for less than $0.1 million. The Series X Preferred Convertible Stock was issued to NT Holdings, LLC as part of the Company's initial capitalization. The Series X Preferred are non-redeemable and are automatically convertible based on conversion rate per the stock terms once the Company has raised, in aggregate, more than $10.0 million of equity financing.

In 2004, an additional 277,000 shares of Series A Preferred Convertible Stock were issued for $0.3 million. Also in 2004, the Company issued 5,737,416 shares of Series B-1 Preferred Convertible Stock (Series B-1 Preferred) with a par value of $0.001 per share for approximately $8.3 million.

In June 2005, the entire outstanding 100 shares of Series X Preferred converted to $1.0 million of Common Stock, or 417,084 shares, at a blended rate (Series B-1 Preferred and Series B-2 Preferred) price of $2.3976. Also in 2005, the Company issued 1,352,867 shares of Series B-2 Preferred Convertible Stock (Series B-2 Preferred) with a par value of $0.001 per share for approximately $8.4 million.

In February 2006, the Company issued 1,909,947 shares of Series C Preferred Convertible Stock (Series C Preferred) with a par value of $0.001 per share for approximately $11.9 million

In 2006, the Company classified the preferred convertible stock as mezzanine equity on the consolidated balance sheet. The Company recognized changes in the redemption value immediately as they occur and adjusts the carrying value of the security equal to the redemption value at the end of each reporting period.

On November 7, 2007, upon closing of the Company's IPO, the Series A, B-1, B-2, and C Preferred Convertible Stock automatically converted into common stock. On this date, the Series A, B-1, B-2, and C preferred convertible stock converted into 9,000,000 shares, 5,737,000 shares, 1,353,000 shares and 1,910,000 shares, respectively, of the Company's common stock.

Series A, B-1, B-2 and C Preferred Convertible Shares —Series A Preferred Convertible Shareholders, Series B-1 Preferred Convertible Shareholders, Series B-2 Preferred Convertible Shareholders and Series C Preferred Convertible Shareholders had the following rights and privileges:

Voting —Holders of each Series A, B-1, B-2 and C Preferred Stock shall have voting rights on an as if converted basis.

Conversion —The holder of any shares of Series A Preferred, Series B-1 Preferred, Series B-2 Preferred and Series C Preferred have the right at such holder's option, at any time, to convert any of such shares into such number of fully paid and nonassessable shares of Common Stock as is determined (i) in the case of Series A Preferred by dividing $1.00 by the Series A Preferred Conversion Price in effect at the time of conversion; (ii) in the case of Series B-1 Preferred by dividing $1.4815 by the Series B-1 Preferred Conversion Price in effect at the time of conversion; (iii) in the case of Series B-2 Preferred by dividing $6.2829 by the Series B-2 Preferred Conversion price in effect at the time of conversion; and (iv) in the case of Series C Preferred by dividing $6.2829 by the Series C Preferred Conversion Price in effect at the time of conversion. No payment or adjustment will be made for any dividends on the Common Stock issuable upon such conversion.

Dividends —The holders of shares of Series A Preferred, Series B-1 Preferred, Series B-2 Preferred and Series C Preferred are entitled to receive, when and if declared by the Board of Directors, out of assets of the Company which are by law available therefore under the Delaware General Corporation Law and other applicable law, prior and in preference to any declaration or payment on Common Stock, non-cumulative dividends at an annual rate of eight percent (8%) of the original purchase price paid per share for the Series A Preferred, Series B-1 Preferred, Series B-2 Preferred and Series C Preferred payable either in cash, in property or in shares of capital stock.

Liquidation —In the event of a change in control or any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, the holders of shares of Series A Preferred, Series B-1 Preferred, Series B-2 Preferred and Series C Preferred are entitled to receive from the assets of the Company available for distribution to the stockholders prior and in preference to the holders of all other classes and series of stock, an amount equal to $1.00 for each outstanding share of Series A Preferred, $1.4815 for each outstanding share of Series B-1 Preferred, $6.2829 for each outstanding share of Series B-2 Preferred and $6.2829 for each outstanding share of Series C Preferred (in each case as adjusted for any stock split, stock dividend, combination, reclassification of shares dilution or similar event), plus all dividends declared and unpaid thereon. If, upon the occurrence of such event, the assets and funds thus distributed among the holders of shares of Series A Preferred, Series B-1 Preferred, Series B-2 Preferred and Series C Preferred are insufficient to permit the payment to all holders of shares of Series A Preferred, Series B-1 Preferred, Series B-2 Preferred and Series C Preferred of the aforesaid preferential amounts, then the entire assets of the Company legally available for distribution are distributed ratably among the holders of the holders of shares of Series A Preferred, Series B-1 Preferred, Series B-2 Preferred and Series C Preferred in proportion to the full preferential amount each holder is otherwise entitled to receive.

8. COMMON STOCK

In 2003, the Company authorized 25,000,000 shares of Common Stock with a par value of $0.001 per share. In that same year, the Company issued 4,918,320 shares of Common Stock, in the form of restricted stock, with a par value of $0.001 per share for less than $0.1 million. In 2004, an additional 481,680 shares of Common Stock were issued, in the form of restricted stock, for $0.1 million and the Company issued 90,000 shares of Common Stock to two employees who exercised stock options.

During June 2005, the entire outstanding 100 shares of Series X Preferred converted to 417,084 shares of Common Stock. Series X Preferred automatically converted into $1.0 million worth of Common Stock at a blended rate (Series B-1 Preferred and Series B-2 Preferred) price of $2.3976. In 2005, the Company issued 15,000 shares of Common Stock to one employee who exercised stock options. Also in 2005, the Company repurchased 386,800 unvested restricted shares at a price of $0.001 per share, or $387, from two former employees.

The repurchase of unvested restricted shares in 2004 and 2005 was approved by the Board of Directors and is pursuant to section 2(a) of the Restricted Stock Agreements and Restated Restricted Stock Agreements between the employees and the Company. In both such agreements, the Company has the right to repurchase unvested restricted shares at the lower of the price paid to the Company for such shares, or the par value of $0.001 per share in most cases, or the fair market value of such shares at the time of repurchase.

In February 2006, the Company authorized an additional 1,500,000 shares of Common Stock with a par value of $0.001 per share to accommodate the increase of 1,050,000 in authorized stock options (see note 12) and the issuance of 1,909,947 shares of Series C Convertible Preferred Stock. In July 2006, the Company authorized an additional 2,000,000 options and restricted stock within the 2003 Stock Option Plan. Also in July 2006, the Company authorized an additional 2,000,000 shares of Common Stock with a par value of $0.001 per share. During the year 2006, the Company issued a total of 83,250 shares of Common Stock to five employees and one director who exercised stock options.

The Company repurchased 299,100 unvested restricted shares in February 2006, at a price of $0.001 per share, or $299, from a former employee. This action was approved by the Board of Directors and is pursuant to section 2(a) of the Restricted Stock Agreements and Restated Restricted Stock Agreements between the employees and the Company.

All shares of common stock issued prior to the IPO were subject to either the Company's Amended and Restated Stockholders' Agreement, (the "Stockholders' Agreement") or the Restricted Stock Agreements and Restated Restricted Stock Agreements between certain employees and the Company. Certain restricted shares are subject to a vesting period. Of these shares, approximately 4.7 million shares were outstanding of which 4.3 million shares were vested at December 31, 2007. The Stockholders' Agreement was terminated upon completion of the IPO.

In November 2007, the Company completed its IPO of common stock in which it sold 7,247,489 shares of its common stock, including 997,489 shares sold pursuant to the underwriter's full exercise of their over-allotment option, at an issue price of $14.00 per share. The Company raised a total of $101.5 million in gross proceeds from its IPO, or $91.3 million in net proceeds after deducting underwriting discounts and commissions of $7.1 million and other offering costs of $3.1 million.

The Series A, B-1, B-2, and C Preferred Convertible Stock automatically converted into common stock upon the closing of the Company's IPO on November 7, 2007. On this date, the Series A, B-1, B-2, and C preferred convertible stock convert into 9,000,000 shares, 5,737,000 shares, 1,353,000 shares and 1,910,000 shares, respectively, of the Company's common stock.

The Company's authorized capital stock after the IPO is 150,000,000 shares of common stock, par value $0.001 per share.

Voting —Each holder of Common Stock has one vote in respect to each share of stock held on record for the election of directors and on all matters submitted to a vote of stockholders of the Company.

Dividends —The holders of shares of Common Stock are entitled to receive, when and if declared by the Board of Directors, out of assets of the Company which are by law available therefore, dividends payable either in cash, in property or in shares of capital stock.

Liquidation —In the event of any liquidation, dissolution or winding up of the Company, after distribution in full of the preferential amounts, if any, to be distributed to the holders of shares of the Preferred Stock, holders of all Common Stock shares, including converted Preferred Stock, are entitled to receive all of the remaining assets of the Company of whatever kind available for distribution to stockholders ratably in proportion to the number of shares of Common Stock held by them respectively.

9. PREFERRED STOCK

In November 2007, after its IPO, the Company authorized 50,000,000 shares of preferred stock, par value $0.001 per share. The Board of Directors is authorized to issue shares of Preferred Stock in one or more series, to establish the number of shares to be included in each such series, and to fix the voting powers, preferences, of the shares of each such series.

At December 31, 2007 the Company does not have any preferred shares issued.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases —The Company leases its facilities and certain equipment under operating leases which expire through April 2018. Rental expense for the years ended December 2007, 2006 and 2005 was $3.2 million, $2.1 million, $2.1 million, respectively.

The following table represents future lease payments under the operating leases having lease terms in excess of one year:

(Dollars in thousands)	December 31, 2007
2008	$ 3,617
2009	3,717
2010	3,648
2011	3,403
2012	2,135
Thereafter	5,809
Total	$ 22,329

Legal Proceedings —From time to time, the Company is a party to legal or regulatory proceedings arising in the normal course of its business. Aside from the matters discussed below, management does not believe that the Company is party to any pending legal action that could reasonably be expected to have a material adverse effect on its business or operating results.

Level 3 State Regulatory Proceedings.

In February 2007, Level 3 notified the Company that they were terminating two contracts under which the Company delivered transit traffic to Level 3 in a number of states. That same month, the Company began filing regulatory proceedings in eight states, asserting that the Company has the legal right to remain directly connected to Level 3 in order to terminate transit traffic to Level 3 on behalf of its third party carrier customers. The Company has also asserted in these proceedings that the Company has the right to terminate this traffic to Level 3 on non-discriminatory terms, including without the payment to Level 3 of a per minute of use or similar charge. The Company currently continues to terminate traffic to Level 3 in these eight states. The traffic the Company terminated to Level 3 in these eight states accounted for approximately 9.2% of the Company's total traffic during the 2007 calendar year. The following summarizes the status of these proceedings:

Illinois . On July 10, 2007, the Illinois Commerce Commission, or the Illinois Commission, issued an order requiring that Level 3 remain directly connected to the Company and finding that the Company should not be required to pay Level 3 any fee or compensation for transit traffic delivered to Level 3. The decision by the Illinois Commission also directs the parties to negotiate an interconnection agreement consistent with the decision's conditions and finds that, absent such an agreement, Level 3 must continue to directly interconnect with the Company under the operational interconnection terms in effect between the parties as of January 30, 2007. The decision also ordered Level 3 to pay 80% of the Company's attorney's fees and costs and 90% of the Illinois Commission's costs. On August 15, 2007, the Illinois Commission denied Level 3's petition for rehearing, and on September 10, 2007, Level 3 filed a notice of appeal of the Illinois Commission's July 10 order with the Appellate Court of Illinois, First District. Level 3 filed its opening brief with the Illinois Appellate Court on December 14, 2007. The Illinois Commission filed a motion with the Illinois Appellate Court requesting that response briefs be due on March 13, 2008. As of March 3, 2008, the Illinois Appellate Court has not ruled on that motion. If that motion is granted, Level 3's reply brief will be due on March 27, 2008.

On February 22, 2008, Level 3 filed a Petition with the Illinois Commission requesting that the Illinois Commission reopen the state proceeding to permit Level 3 to discontinue its direct connection to the Company. On February 29, 2008, the Company filed its opposition to Level 3's petition to reopen the proceedings before the Illinois Commission.

On November 29, 2007, Level 3 filed a complaint for declaratory and injunctive relief in the United States District Court for the Northern District of Illinois against the commissioners of the Illinois Commission, in their official capacity, challenging the Commission's July 10 order. Among the relief Level 3 seeks in its federal court complaint is a ruling that the federal Telecommunications Act of 1996 preempts the Commission's July 10 order and an injunction permanently barring the Illinois Commission from enforcing its July 10 order. Although Level 3 did not name the Company as a defendant in its federal court action, on February 6, 2008, the Company filed an unopposed motion to intervene in the proceeding. The Court granted the Company's motion to intervene on February 11, 2008. On February 19, 2008, the Company filed a motion to stay or dismiss Level 3's federal complaint. On February 19, 2008, the Illinois Commission commissioners similarly filed a motion to stay or dismiss Level 3's federal complaint. Level 3's responses to the Company's motion and the Illinois Commission's motion to stay or dismiss are due on March 21, 2008. The Company's reply and the Illinois Commission's reply in support of their respective motions are due on April 4, 2008. A status hearing and/or ruling on the Company's motion and the Illinois Commission's motion is set for June 6, 2008.

On February 22, 2008, Level 3 filed a Petition with the Illinois Commerce Commission requesting that the Illinois Commission reopen the state proceeding to permit Level 3 to discontinue its direct connection to us. The Company plans to respond to this Petition shortly.

On August 13, 2007, the Company filed a petition in the Circuit Court of Cook County, Illinois seeking enforcement of that part of the Illinois Commission's July 10 decision requiring Level 3 to pay 80% of the Company's attorneys' fees and costs. The Company also sought an award of punitive damages against Level 3. On October 1, 2007, the Circuit Court of Cook County ordered the Company to file a motion to enforce the Illinois Commission's attorneys' fee award on or before October 10, 2007. The Circuit Court ordered Level 3 to file any response to the Company's motion to enforce on or before November 7, 2007 and ordered the Company to file any reply on or before November 21, 2007. On December 3, 2007, the court held a hearing on the Company's motion to enforce. On February 6, 2008, the Circuit Court of Cook County issued an order finding that the Illinois Commission's attorneys' fees order did not constitute an enforceable judgment and suggesting that the Company proceed before the Illinois Commission for a determination of the specific amount of attorneys' fees that Level 3 is required to pay to the Company. On February 19, 2008, the Company filed with the Illinois Commission a motion for approval of attorneys' fees and costs.

On February 29, 2008, simultaneous with the filing of the Company's opposition to Level 3's petition to reopen the proceedings before the Illinois Commission, the Company filed a notice of withdrawal, without prejudice, of the Company's motion for approval of attorneys' fees. The Company's opposition to Level 3's petition to reopen the proceedings before the Illinois Commission indicated that if the Illinois Commission reopens the parties' proceeding, the Company will ask the commission to address the Company's request for approval of attorneys' fees as part of the reopened proceeding. The Company's opposition to Level 3's petition to reopen also stated that if the Illinois Commission does not reopen the parties' proceeding, the Company will raise the Company's request for attorneys' fees through a subsequent procedurally appropriate submission.

Georgia . On June 19, 2007, the Georgia Public Service Commission, or the Georgia Commission, adopted the recommended findings of the staff of the Georgia Commission, which the staff had issued on June 12, 2007. On August 27, 2007, the Georgia Commission issued an Order Mandating Direct Interconnection and finding, among other things, that: (i) Level 3 must remain directly connected with the Company, (ii) the Company should not be required to pay reciprocal compensation or any other additional fee to Level 3 as a condition of such direct interconnection, (iii) the Company must pay all reasonable costs of direct interconnection and (iv) it is unreasonably discriminatory for Level 3 to require that the Company pay reciprocal compensation, or some other fee, or collect reciprocal compensation payments from its carrier customers to pass on to Level 3, as a condition of direct interconnection. On September 6, 2007, Level 3 filed with the Georgia Commission a petition for rehearing and reconsideration of the August 27 order. On September 21, 2007, the Company filed an opposition to Level 3's petition for reconsideration. On November 20, 2007, the Georgia Commission orally denied Level 3's petition for rehearing and reconsideration and on December 20, 2007, the Georgia Commission issued a written order confirming its denial of Level 3's petition. Our response to Level 3's federal complaint in Georgia is due to be filed on March 24, 2008.

On January 22, 2008, Level 3 filed a complaint for declaratory and injunctive relief in the United States District Court for the Northern District of Georgia against the Company and the commissioners of the Georgia Commission, in their official capacity, challenging the Commission's August 27, 2007 order. Among the relief Level 3 seeks in its federal court complaint is a ruling that the federal Telecommunications Act of 1996 preempts the Commission's August 27 order and an injunction permanently barring the Georgia Commission from enforcing its August 27 order.

New York. On June 22, 2007, the New York Public Service Commission, or the NYPSC, determined that Level 3 must remain directly connected with the Company to receive terminating transit traffic. The NYPSC also found that if the parties do not first resolve the dispute, the NYPSC will hold further proceedings to investigate the rates, rules and regulations related to the termination services at issue. On September 24, 2007, the NYPSC issued an order denying Level 3's petition for rehearing and/or clarification of the NYPSC's June 22 order. In the order denying the petition for rehearing, the NYPSC stated that it would initiate a rate proceeding in November 2007. Pending the rate proceeding, the NYPSC ordered the parties to continue performing their respective obligations as if the canceled termination agreements remained in effect. On November 9, 2007, the NYPSC issued an order initiating a proceeding to investigate the rates, rules and regulations related to the termination services at issue. On January 30, 2008, Level 3 filed with the NYPSC a petition to stay and/or suspend the rate proceeding. On February 8, 2008, the Company filed its opposition to Level 3's petition to stay and/or suspend the NYPSC rate proceeding.

On January 25, 2008, Level 3 filed a complaint for declaratory and injunctive relief in the United States District Court for the Northern District of New York against the commissioners of the NYPSC, in their official capacity, challenging the Commission's June 22 order. Among the relief Level 3 seeks in its federal court complaint is a ruling that the federal Telecommunications Act of 1996 preempts the NYPSC's June 22 order and an injunction permanently barring the NYPSC from enforcing its June 22 order. Although Level 3 did not name the Company as a defendant in its federal court action, Level 3 does not oppose the Company intervening in the matter. The Company anticipates filing a motion to intervene in March 2008. In addition, the Company's response to Level 3's federal complaint in New York is due to be filed on March 25, 2008.

Connecticut. On June 20, 2007, the Connecticut Department of Public Utility Control, or the CDPUC, held that the evidentiary record developed to date did not warrant CDPUC intervention at this time, but ordered the parties to make a good-faith effort to resolve their dispute pursuant to a settlement that produces a nondiscriminatory commercial agreement governing the delivery of tandem transit traffic by the Company to Level 3. The CDPUC also stated that it retained jurisdiction over the dispute and, if the parties were unable to arrive at a commercial agreement by November 1, 2007, the parties were required to report the details of their negotiations to the CDPUC no later than November 15, 2007. On November 6, 2007, Level 3 filed with the CDPUC a purported "Report on Negotiations For A Commercial Traffic Exchange Agreement and Request For Final Decision" ("Report"). On November 15, 2007, the Company filed a motion to strike Level 3's Report. In the Company's November 15 motion, the Company also requested that the CDPUC convene an in-person technical meeting to establish an appropriate procedural schedule for the Connecticut proceeding. On November 28, 2007, Level 3 responded to the Company's motion to strike and request for a technical meeting.

On January 18, 2008, a "Draft Decision" was issued, finding, among other things, that the CDPUC "lacks the necessary statutory authority to decide" the issues raised by the parties' disputes and lacks authority to resolve CLEC-to-CLEC interconnection disputes of the type at issue in the proceeding. The Draft Decision stated further, however, that "the Department is of the opinion that the optimum resolution of this issue is through the commercial agreement process." On January 30, 2008, the Company and the Connecticut Office of Consumer Counsel filed exceptions to the Draft Decision. In its exceptions, the Company argued, among other things, that the CDPUC has authority under Connecticut law to address the merits of the Company's petition and that the

Company's petition implicated significant public policy concerns. The Connecticut Office of Consumer Counsel argued, among other things, that the CDPUC has jurisdiction to resolve the parties' disputes and that removing the Company's services from the Connecticut market would "be devastating to network integrity and the economics of the Connecticut competitive market." The CDPUC will hold oral argument on the Company's and the Office of Consumer Counsel's exceptions on March 17, 2008 and is scheduled to issue its final decision on the exceptions on March 26, 2008.

Florida . On February 26, 2007, the Company filed a petition against Level 3 before the Florida Public Service Commission, or the Florida Commission. On June 27, 2007, the staff of the Florida Commission issued a proposed recommendation regarding whether the Company's case should proceed to a hearing on the merits. In its recommended ruling, the staff found that the Florida Commission had jurisdiction over the dispute and that the Company's service benefits competition. The staff of the Florida Commission also suggested that the Company did not make an adequate demonstration of standing to pursue the matter. On July 9, 2007, the Company voluntarily withdrew its petition and on July 11, 2007, the Company filed a revised petition with the Florida Commission. The Company's revised petition includes additional legal arguments and information the Company hopes will demonstrate that the Company has standing. On July 25, 2007, Level 3 filed a motion to dismiss the Company's revised petition. On August 3, 2007, the Company filed its opposition to Level 3's motion to dismiss the Company's revised petition. On September 21, 2007, the Florida Commission issued an order directing the parties to file supplemental briefs to address issues related to Level 3's motion to dismiss the Company's revised petition. The parties filed their supplemental briefs on October 5, 2007. On November 20, 2007, the staff of the Florida Commission issued a proposed recommendation regarding whether the Company's revised petition should proceed to a hearing on the merits. In its recommended ruling, the staff again found that the Florida Commission had jurisdiction over the Company's petition and that the Company's service benefits competition. The staff of the Florida Commission also suggested, however, that the Company did not have standing to pursue the matter.

On December 26, 2007, the staff of the Florida Commission issued a revised proposed recommendation. In its December 26 recommendation, staff again found that the Florida Commission had jurisdiction over the Company's petition and that the Company's service benefits competition. Staff's December 26 recommendation also again suggested that the Company did not have standing to pursue this matter and recommended that the Commission should grant Level 3's motion to dismiss the Company's petition. At an agenda conference held on January 8, 2008, the Florida Commission agreed with staff's recommendation that the Commission has jurisdiction over the Company's petition. The Commission rejected, however, staff's recommendation that the Commission should grant Level 3's motion to dismiss the Company's petition and ordered staff to work with the office of the Commission Chairman to set this matter for hearing. At the January 8 agenda conference, the Commission also deemed "moot," for purposes of Level 3's motion to dismiss the Company's petition, staff's recommendation that the Company does not have standing to pursue this matter. The Commission did not make an express finding with respect to the Company's standing to pursue this matter. On January 30, 2008, the Commission issued an order denying Level 3's motion to dismiss the Company's petition and ordering that the docket of the matter remain open to conduct an administrative hearing.

California . On March 2, 2007, the Company filed a complaint with the California Public Utility Commission, or the CPUC, seeking an order requiring Level 3 to maintain its direct interconnection with the Company and to receive terminating transit traffic from the Company on non-discriminatory terms and conditions. On June 4 and 5, 2007, hearings were held before a California Commission Administrative Law Judge. There is no date certain by which the Administrative Law Judge must issue a ruling.

Minnesota . On March 6, 2007, the Company filed a complaint with the Minnesota Public Utilities Commission, or the MPUC, seeking an order requiring Level 3 to maintain its direct interconnection with the Company and to receive terminating transit traffic from the Company on non-discriminatory terms and conditions. On July 31 and August 1, 2007, hearings were held before a MPUC Administrative Law Judge. On November 7, 2007, the Administrative Law Judge issued his "Findings of Fact, Conclusions, and

Recommendation," recommending, among other things, that (1) the MPUC has authority to grant the Company the relief the Company seeks in the Minnesota proceeding; (2) the record established that the public convenience requires the continuation of the direct physical connection between the Company and Level 3; (3) Minnesota law prohibits Level 3 from attempting to impose a discriminatory termination charge on the Company and not on the only other tandem transit service provider in the State; (4) Level 3's effort to impose a termination fee on the Company is inconsistent with well-established reciprocal compensation principles; and (5) the relevant provisions of Minnesota law are not preempted by federal law. On November 27, 2007, Level 3 filed its exceptions to the Administrative Law Judge's findings and on December 7, 2007, the Company filed its reply to Level 3's exceptions. On February 28, 2008, the MPUC held a hearing on Level 3's exceptions to the Administrative Law Judge's findings on February 28, 2008. Following argument, the MPUC adopted the Administrative Law Judge's findings with respect to the recommendations described above.

Michigan . On March 2, 2007, the Company filed a complaint with the Michigan Public Service Commission, or the Michigan Commission, seeking an order requiring Level 3 to maintain its direct interconnection with the Company and to receive terminating transit traffic from the Company on non-discriminatory terms and conditions. On August 8 through August 10, 2007 hearings were held before a Michigan Commission Administrative Law Judge. On November 26, 2007, the Michigan Commission issued an order finding, among other things, that: (1) Level 3 must remain directly connected with the Company; (2) Level 3 shall not require the Company to pay any fee or other compensation to recover termination costs recoverable as reciprocal compensation from originating carriers, or to impose on the Company a market-based rate that is not based on Level 3's costs to maintain direct interconnection with the Company; (3) the relevant provisions of Michigan law are not preempted by federal law; and (4) the parties should negotiate non-discriminatory rates and conditions for their continued direct interconnection. On December 21, 2007, Level 3 filed its Claim of Appeal with the Michigan Court of Appeals, indicating Level 3's intent to appeal the Michigan Commission's November 26, 2007 order. Level 3's opening brief with the Michigan Court of Appeals currently is due to be filed on March 14, 2008.

In December 2007, the Company filed with the Michigan Commission a motion seeking an order approving the Company's request that Level 3 reimburse the Company for the attorneys' fees and costs that it incurred in connection with the Michigan proceeding. In January 2008, Level 3 responded to the Company's request for attorneys' fees and the Company filed a reply in support of its request.

As a result of rulings in the Illinois, Connecticut New York, and Michigan proceedings, the Company has attempted to negotiate new interconnection agreements with Level 3 for each such state. Future rulings in additional states may also require that the Company negotiate one or more agreements for each such state. It is possible that disputes may arise during these negotiations that may cause the Company or Level 3 to seek additional regulatory or judicial relief. As described above, Level 3 also has appealed the Illinois Commission's and the Michigan Commission's decision and filed federal complaints for declaratory and injunctive relief in connection with the decisions in Illinois, Georgia and New York. Level 3 may also seek reconsideration, appeal or otherwise challenge one or more of any other existing or prospective ruling described above. Although the Company believes its position is meritorious, and the Company will continue to assert its position vigorously in any such additional proceeding, there can be no assurance that the Company will prevail. In any event, the Company's efforts could have a material adverse effect on the Company's results of operations and financial condition because of, among other things, legal costs, diversion of management resources and other factors.

Additional State Proceedings . After the Company commenced the state proceedings described above, Level 3 initiated regulatory proceedings in additional states. In these proceedings, Level 3 requested orders from the relevant state regulatory bodies directing the Company to notify its customers that the Company would not be able to terminate transit traffic directly to Level 3 and/or allowing Level 3 to disconnect the interconnection facility. In some states, Level 3 also sought to institute a per minute charge of $0.001 per minute of use. The Company believes that under applicable law, the Company would have prevailed in these actions if the matter had proceeded to a hearing on the merits. After filing submissions to prevent Level 3 from disconnecting existing direct interconnections in some of the additional states, the Company elected not to pursue further its right to maintain direct interconnection to Level 3 in these additional states and moved to dismiss the proceedings in those states. The Company no longer directly terminates traffic to Level 3 in these additional states. The traffic the Company terminated to Level 3 in these additional states accounted for approximately 1.9% of the Company's revenue during the first six months of 2007. In September and October 2007, Level 3 voluntarily withdrew its petitions for disconnection in each of the states in which it had initiated regulatory proceedings against the Company.

Level 3 Billing Disputes. The Company is also engaged in various billing disputes with Level 3 regarding amounts Level 3 claims the Company owes it. Although there can be no assurance as to the ultimate resolution of these disputes, the Company does not believe they will have a material adverse effect on the Company's business, results of operations or financial condition.

Verizon Wireless.

In July 2006, Verizon Wireless notified the Company that it wished to terminate its existing Master Service Agreement. In response to the notification, in August 2006, the Company filed a petition for interconnection with the FCC. On January 14, 2008, the Company entered into a Direct Connection Agreement under which the Company may terminate traffic to Verizon Wireless and the Company dismissed without prejudice the petition for interconnection it had filed at the FCC.

Verizon.

The Company is considering initiating an arbitration proceeding against Verizon regarding a billing dispute of approximately $1.8 million. The dispute originates from an invoice which the Company feels is not owed under the Verizon tariff. There can be no assurance regarding how, whether or when this matter will be resolved.

11. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and of net operating loss carryforwards. Significant components of the Company's deferred income taxes are as follows:

(Dollars in thousands)	December 31, 2007	December 31, 2006
Deferred income tax assets (liabilities)		
Current:		
Net operating loss carry forward	$ 626	$ 1,609
Accrued rent	1	373
Accrued direct costs	1,269	687
Accrued fees	91	47
Other deferred liabilities	(264)	(92)
Organizational costs	61	—
Accrued other	458	75
Net current deferred income taxes	2,242	2,699
Noncurrent:		
Depreciation	(2,567)	(2,239)
Accrued rent	468	
AMT carryover	—	98
Organizational costs	—	115
Accrued other	4	—
Net noncurrent deferred income taxes	(2,095)	(2,026)
Net deferred income tax assets	$ 147	$ 673

The income tax provision for the years ended December 31, 2007, 2006 and 2005 are as follows:

(Dollars in thousands)	December 31, 2007	2006	2005
Deferred provision	$ 526	$ 1,506	$ 62
Current provision			
Federal	5,181	98	—
State	497	76	—
Change in valuation allowance	—	(2,179)	(62)
	$6,204	$ (499)	$—

A reconciliation of the federal statutory rate to our effective tax rate is as follows:

	December 31, 2007	2006	2005
Statutory federal rate	34.0%	34.0%	34.0%
State income tax, net of federal benefit	3.3%	(7.4)%	4.8%
Change in fair value of warrants	13.4%	6.7%	— %
Other	(0.9)%	0.4%	— %
Change in valuation allowance	— %	(45.6)%	(38.8)%
Effective tax rate	49.8%	(11.9)%	— %

In 2003, the Company began to establish a valuation allowance for deferred tax assets such as those relating to its net operating loss and credit carryforward. In 2006, as required by SFAS No. 109, the Company continued its assessment of the realization of the deferred tax assets and as a result, concluded that a full valuation allowance was no longer appropriate. Consistent with prior assessments, the Company considered its current and historical performance, along with other relevant factors, in determining the adequacy of the valuation allowance. As part of the Company's assessment, certain objective factors, such as previous operating losses, were given substantially more weight than management's outlook for future profitability. Management believes that the Company will generate sufficient taxable income to utilize all of the net operating loss carryforward and credit amounts. No net operating loss carryforwards remain as of December 31, 2007. As of December 31, 2007, the Company has Illinois state credit carryforwards of approximately $0.6 million, which will begin to expire in the year 2010 if not utilized.

The Company adopted the provisions of FIN No. 48 on January 1, 2007. Upon adoption and at December 31, 2007, the Company did not recognize any adjustments for unrecognized income tax benefits. The tax years 2003-2007 remain open to examination by the major taxing jurisdictions to which the Company is subject.

12. STOCK OPTIONS

The Company established the 2003 Stock Option and Stock Incentive Plan (the "2003 Plan"), which provides for issuance of options and restricted stock for up to 1,600,000 shares under incentive stock option and nonqualified stock option agreements to eligible employees, officers, and independent contractors of the Company. The Company authorized an additional 700,000, 350,000 and 2,000,000 options and restricted stock within the 2003 Plan in February 2006, May 2006 and July 2006, respectively. Prior to completing our initial public offering, we adopted the Neutral Tandem, Inc. 2007 Long-Term Equity Incentive Plan discussed below and ceased awarding equity grants under the 2003 Plan. As of December 31, 2007, there were 3,310,412 shares reserved for issuance under the 2003 Plan in respect of awards made prior to our initial public offering. Under the 2003 Plan, employees, officers and directors have been granted options to acquire shares of common stock of the Company. The number of shares, exercise price of the shares, and vesting conditions are determined by the Compensation Committee of our Board of Directors. Under the 2003 Plan, options generally vest ratably over four years and have a maximum term of 10 years as long as the option holder remains an employee of the Company.

In October 2007, the Company approved the adoption of the Neutral Tandem, Inc. 2007 Equity Incentive Plan (the "2007 Plan") to become effective immediately prior to the consummation of the IPO. The 2007 Plan provides for grants of incentive or non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units, performance awards or any combination of the foregoing to directors, officers, employees and other individuals performing services for, or to whom an offer of employment has been extended, by the Company or its subsidiaries. The Company has reserved a total of 2,873,613 shares of common stock for issuance pursuant to the 2007 Plan. Unless terminated sooner, the 2007 Plan will terminate automatically on November 2, 2017.

At December 31, 2007 there were awards for 18,000 shares issued under the 2007 Plan and 2,855,613 shares representing approximately 9.3% of the Company's outstanding common stock as of December 31, 2007, available for issuance under the 2007 plan.

The Company currently records stock-based compensation expense in connection with any grant of options to its employees and independent contractors. The Company records stock-based compensation expense associated with its stock options in accordance with SFAS No. 123(R), which requires it to calculate the expense associated with its stock options by determining the fair value of the options.

The fair value of stock options is determined using the Black-Scholes valuation model, which takes into account the exercise price of the stock option, the fair value of the common stock underlying the stock option as measured on the date of grant and an estimation of the volatility of the common stock underlying the stock option. Such value is recognized as expense over the service period, net of estimated forfeitures, using the accelerated method under SFAS 123(R). The estimation of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company's current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class and historical experience. At December 31, 2007 we did not estimate any forfeitures as the Company has not had any material forfeitures and does not anticipate future forfeitures. Actual results, and future changes in estimates, may differ substantially from current estimates.

The Company follows the fair-value method of accounting for stock options under SFAS No. 123(R) to account for the 2003 Plan and the 2007 Plan. Stock-based employee compensation is reflected in the statement of operations. All options granted under the 2003 Plan and the 2007 Plan have an exercise price equal to the market value of the underlying common stock on the date of the grant. In 2007, the Company issued 10,000 stock options to contractors. The following table shows the fair value of one share of the Company's common stock on each stock option grant date during the years ended December 31, 2007, 2006 and 2005:

Grant Date	Number of Stock Options Issued	Weighted Average Fair Value of One Share of Common Stock
First Quarter 2005	120,500	$ 0.30
Second Quarter 2005	145,875	$ 0.49
Third Quarter 2005	67,500	$ 0.50
Fourth Quarter 2005	85,500	$ 0.78
First Quarter 2006	920,825	$ 1.17
Second Quarter 2006	397,500	$ 1.33
Third Quarter 2006	258,650	$ 2.56
Fourth Quarter 2006	778,400	$ 3.68
First Quarter 2007	—	$ 4.09
Second Quarter 2007	131,650	$ 4.14
Third Quarter 2007	77,950	$ 8.26
Fourth Quarter 2007	18,000	$ 19.30
Total	3,002,350	

The fair value of each option granted is estimated on the date of grant using the Black- Scholes option-pricing model for the years ended December 31, 2007 and 2006 with the following assumptions:

	December 31, 2007	December 31, 2006	December 31, 2005
Expected life	7.7 – 10.0 years	10 years	10 years
Risk-free interest rate range	3.8% – 4.9%	4.7% – 5.1%	4.2% – 4.5%
Expected dividends	—	—	—
Volatility	39.6% – 40.1%	34.4% – 41.6%	31.0%

During the timeframe leading up to 2006, the Company's volatility assumption was updated quarterly based upon historical prices of the Fidelity Select Telecommunications "FSTCX" index fund. In 2006, a new method for estimating volatility was adopted. This method focuses specifically on the simple average volatility of three telecommunication companies that share similar business characteristics. The simple average volatility of the three companies selected range from 34.4% at the beginning of 2006 to 40.1% at December 31, 2007. The Company calculated the volatility of its own stock for the period between November 2, 2007 and December 31, 2007 and found that it is not materially different than the results of the three company average. The Company will continue to calculate its own volatility. Once sufficient historical data is available, the Company will determine when it is appropriate to adopt its own volatility.

The weighted-average fair value of options granted, as determined by using the Black-Scholes valuation model, during the period was \$3.88, \$1.30 and \$0.24 for the years ended December 31, 2007, 2006 and 2005, respectively. The total grant date fair value of options that vested during years ended December 31, 2007, 2006 and 2005 was approximately \$1.0 million, \$0.1 million and \$0.0 million, respectively.

The following summarizes activity under the Company's stock option plan:

	Shares (000)	Weighted-Average Exercise Price	Aggregate Intrinsic Value (\$000)	Weighted-Average Remaining Term (yrs)
Options outstanding—December 31, 2005	1,149	\$ 0.29		
Granted	2,355	2.18		
Exercised	(83)	3.13		
Cancelled	(29)	0.53		
Options outstanding—December 31, 2006	3,392	\$ 1.53		
Granted	228	6.75		
Exercised	(265)	0.34		
Cancelled	(27)	2.26		
Options outstanding—December 31, 2007	3,328	\$ 1.98	\$20,340	8.1
Vested or expected to vest-December 31, 2007	3,328	\$ 1.98	\$20,340	8.1
Exercisable-December 31, 2007	1,356	\$ 1.33	\$ 9,078	7.8

The unrecognized compensation cost associated with options outstanding at December 31, 2007 and 2006 is \$2.7 million and \$2.8 million, respectively. The weighted average remaining term that the compensation will be recorded is 2.8 years and 3.7 years as of December 31, 2007 and 2006, respectively.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and cash equivalents, receivables, payables and debt. Except as described below, the estimated fair value of such financial instruments at December 31, 2007 and 2006 approximate their carrying value as reflected in the consolidated balance sheets. The fair value of the convertible preferred stock warrant liability was estimated using the Black-Scholes valuation model.

The estimated fair value of the Company's debt at December 31, 2007 was $8.3 million compared to the carrying amount of $7.6 million included in the consolidated balance sheet. The estimated fair value of the Company's debt at December 31, 2006 was $13.3 million compared to the carrying amount of $12.9 million included in the consolidated balance sheet.

14. SEGMENT AND GEOGRAPHIC INFORMATION

SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company's chief operating decision maker is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis. The Company operates in one industry segment, which is to provide tandem interconnection services to competitive carriers, including wireless, wireline, cable and broadband companies. Although the Company services different customer groups, it does not maintain separate product lines. All of the Company's revenues are generated within the United States. Therefore, the Company has concluded that it has only one operating segment.

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

	2007 Quarter Ended			
	March 31,	June 30,	September 30,	December 31, (3)
	(In thousands, except per share amounts)			
Revenue	$17,616	$20,507	$ 22,617	$ 24,815
Operating Expense:				
Network and facilities expense (excluding depreciation and amortization)	6,320	6,898	8,199	8,746
Operations	3,711	4,669	3,354	3,802
Sales and marketing	438	405	392	535
General and administrative	1,552	2,354	3,467	2,053
Depreciation and amortization	2,749	2,222	2,795	3,310
Impairment of fixed assets	—	—	—	—
Loss (gain) on disposal of fixed assets	(19)	(142)	23	(6)
Total operating expense	14,751	16,406	18,230	18,440
Income from operations	2,865	4,101	4,387	6,375
Other (income) expense				
Interest expense	484	439	395	350
Interest income	(207)	(210)	(222)	(682)
Change in fair value of warrants (2)	(10)	1,641	681	2,607
Total other expense	267	1,870	854	2,275
Income before income taxes	2,598	2,231	3,533	4,100
Provision for income taxes	923	1,427	1,561	2,293
Net income	$ 1,675	$ 804	$ 1,972	$ 1,807
Earnings per common share-basic (1)	$ 0.31	$ 0.15	$ 0.37	$ 0.09
Earnings per common share-diluted (1)	$ 0.07	$ 0.03	$ 0.08	$ 0.06
Weighted average number of shares outstanding-basic:	5,319	5,319	5,320	20,907
Weighted average number of shares outstanding-diluted:	24,425	24,455	25,024	30,416

	2006 Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
	(In thousands, except per share amounts)			
Revenue	$11,284	$12,900	$ 13,680	$ 15,002
Operating Expense:				
Network and facilities expense (excluding depreciation and amortization)	5,045	4,351	5,225	6,684
Operations	2,309	2,857	2,984	3,463
Sales and marketing	373	422	354	404
General and administrative	969	852	964	1,381
Depreciation and amortization	1,248	1,455	1,761	2,696
Impairment of fixed assets	—	—	—	1,234
Loss (gain) on disposal of fixed assets	—	—	—	333
Total operating expense	9,944	9,937	11,288	16,195
Income (loss) from operations	1,340	2,963	2,392	(1,193)
Other (income) expense				
Interest expense	226	253	370	440
Interest income	(148)	(198)	(210)	(222)
Change in fair value of warrants (2)	87	338	302	105
Total other expense	165	393	462	323
Income (loss) before income taxes	1,175	2,570	1,930	(1,516)
Provision (benefit) for income taxes	43	367	(253)	(656)
Net income (loss)	$ 1,132	$ 2,203	$ 2,183	$ (860)
Earnings (loss) per common share-basic (1)	$ 0.21	$ 0.42	$ 0.42	$ (0.16)
Earnings (loss) per common share-diluted (1)	$ 0.05	$ 0.09	$ 0.09	$ (0.16)
Weighted average number of shares outstanding-basic:	5,409	5,244	5,249	5,273
Weighted average number of shares outstanding-diluted:	23,196	23,728	23,924	5,273

The Company's operating results may fluctuate due to a variety of factors, many of which are outside of the Company's control. As a result, comparing the Company's operating results on a period-to-period basis may not be meaningful. You should not rely on the Company's past results as an indication of its future performance.

Revenue has increased sequentially in each of the quarters presented due to increases in the number of minutes billed to new and existing customers. In the fourth quarter of 2006, the Company recorded $1.2 million of impairment of fixed assets for switch equipment at both its Atlanta and Miami locations, see footnote 2—Long-lived assets.

(1) Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed giving effect to all dilutive potential common shares that were outstanding during the period. The effect of preferred shares, stock options and warrants represents the only difference between the weighted average shares used for the basic earnings (loss) per share computation compared to the diluted earnings (loss) per share computation.

(2) With respect to periods ending prior to completion of the IPO, the Company has classified the warrants as a liability given the conditional redemption feature of the underlying preferred stock. The warrants were recorded at the fair value at each period reported. No warrants had been exercised at December 31, 2007.

(3) In November 2007, the Company completed its initial public offering ("IPO") of common stock in which it sold 7,247,489 shares of its common stock, including 997,489 shares sold pursuant to the underwriter's full exercise of their over-allotment option, at an issue price of $14.00 per share. The Company raised a total of $101.5 million in gross proceeds from its IPO, or $91.3 million in net proceeds after deducting underwriting discounts and commissions of $7.1 million and other offering costs of $3.1 million. Upon the closing of the IPO, all shares of convertible preferred stock outstanding automatically converted into 18 million shares of common stock.

16. SUBSEQUENT EVENT

On February 21, 2008 the note holders elected to exercise all of the outstanding warrants. Pursuant to the terms of the warrants the note holders elected to exercise the warrants on a net basis based upon the average closing price of our common stock during the three days prior to such exercise. Based upon the closing prices of our common stock on February 20, 2008, February 19, 2008 and February 15, 2008 we issued a total of 356,921 common shares on February 25, 2008 in full satisfaction of all outstanding warrants.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this Form 10-K are certifications of Neutral Tandem's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications.

Evaluation of Disclosure Controls and Procedures

We are not yet subject to Section 404 of the Sarbanes-Oxley Act which, when applicable, will require us to include Management's Annual Report on Internal Control Over Financial Reporting and an Attestation Report of an Independent Registered Public Accounting Firm in our Annual Report on Form 10-K. Under the applicable rules of the Securities and Exchange Commission, or SEC, Section 404 will not apply to us until the due date of our annual report for the year ending December 31, 2008.

As of December 31, 2007, an evaluation was performed by management, with the participation of our CEO and our CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15-d and 15(e) under the Securities Exchange Act of 1934, as amended). Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the fiscal year covered by this annual report on Form 10-K, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Internal Controls Over Financial Reporting

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered independent public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Changes in Internal Controls

During the quarter ended December 31, 2007, there were no changes in our internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.