

CROCKER & CROCKER, P.C.

ATTORNEYS AT LAW

PATRICK D. CROCKER
patrick@crockerlawfirm.com

Filed via E-filing

February 10, 2010

Patricia Van Gerpen, Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capital Avenue
Pierre, SD 57501

RE: Neutral Tandem-South Dakota, LLC
Application for a Certificate of Authority to Provide Facilities-based and Resold
Local Exchange and Interexchange Telecommunications Services

Dear Ms. Van Gerpen:

An Application for a Certificate of Authority to Provide Facilities-based and Resold Local Exchange and Interexchange Telecommunications Services has been filed electronically in the Commission e-filing system for Neutral Tandem-South Dakota, LLC. Enclosed please find a check in the amount of \$250.00 to cover the filing fee related to same.

Also enclosed is an exact duplicate of this letter. Please stamp the duplicate and return same in the enclosed, postage-paid envelope.

Should you have any questions, please contact me.

Very truly yours,

CROCKER & CROCKER, P.C.

Patrick D. Crocker

PDC/pas

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

In the of the Application of)	
Neutral Tandem-South Dakota, LLC)	
For a Certificate of Authority to Provide)	Docket No.
Facilities-based and Resold)	
Local Exchange and Interexchange)	
Telecommunications Services in South Dakota)	

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

I. INTRODUCTION

Pursuant to S.D.C.L. 49-31-3 and South Dakota Administrative Rules 20:10:24:02 and 20:10:32:03 Neutral Tandem-South Dakota, LLC (“Applicant”) respectfully seeks a Certificate of Public Convenience and Necessity to permit it to provide facilities-based and resold local exchange and interexchange services in the State of South Dakota. Applicant requests that a Certificate be granted without hearing or any other formal proceeding that would delay its expansion into the telecommunications market.

II. QUALIFICATIONS

In accordance with ARSD 20:10:24:02 and 20:10:32:03 in support thereof, Applicant provides the following information:

(1) The applicant’s name, address, telephone number, facsimile number, web page URL, and E-mail address;

**Neutral Tandem-South Dakota, LLC
One South Wacker Drive, Suite 200
Chicago, IL 60606
Telephone: (312) 384-8000
Facsimile: (312) 346-3276
Web page: www.neutraltandem.com
E-mail: rmonto@neutraltandem.com**

(2) A description of the legal and organizational structure of the applicant's company;

Applicant is a limited liability company organized in the State of Delaware and authorized to transact business in South Dakota as a foreign limited liability company. Applicant is a wholly owned subsidiary of Neutral Tandem, Inc. A copy of Applicant’s Certificate of Formation is attached hereto as Exhibit A.

(3) The name under which applicant will provide local exchange services if different than in subdivision (1) of this section;

Applicant will provide local exchange services under the same name as in subdivision 1 of this section, Neutral Tandem-South Dakota, LLC.

(4) The location of the applicant's principal office, if any, in this state and the name and address of its current registered agent, if applicable;

Applicant does not have an office in South Dakota. Applicant's registered agent is:

**Corporation Service Company
503 South Pierre Street
Pierre, SC 54501-4522**

(5) A copy of its certificate of authority to transact business in South Dakota from the secretary of state;

A copy of Applicant's certificate of authority to transact business in South Dakota is attached hereto as Exhibit B.

(6) A description of the applicant's experience providing any telecommunications services in South Dakota or in other jurisdictions, including the types of services provided, and the dates and nature of state or federal authorization to provide the services;

Attached hereto as Exhibit C.

(7) Names and addresses of applicant's affiliates, subsidiaries, and parent organizations, if any;

Attached hereto as Exhibit D are the names and address of Applicant's parent and affiliates.

(8) A list and specific description of the types of services the applicant seeks to offer and how the services will be provided including:

Applicant intends to initially provide facilities-based and resold non-switched and private line services for the provision of broadband transmission services. Applicant's initial service offering will consist of transport and access services for competitive carriers.

(a) Information indicating the classes of customers the applicant intends to serve;

Applicant intends to serve primarily other carriers and large business customers including ILECs, CLECs, ISPs, paging companies, cellular companies, cable companies, and government and corporate customers providing broadband transmission services. The company has no plans at this time to market services to residential or small businesses.

(b) Information indicating the extent to and time-frame by which applicant will provide service through the use of its own facilities, the purchase of unbundled network elements, or resale;

Applicant intends to provide service shortly after receiving certification through the use of its own facilities and resale.

(c) A description of all facilities that the applicant will utilize to furnish the proposed local exchange services, including any facilities of underlying carriers; and

Applicant does not currently own or control telecommunications facilities within the State of South Dakota. Applicant does not anticipate the construction of its own fiber facilities at this time. Applicant anticipates that it will lease circuits for transmission purposes and will locate equipment as agreed under interconnection agreements.

(d) Information identifying the types of services it seeks authority to provide by reference to the general nature of the service;

Applicant will provide service on both a resale and facilities basis. Initially, the Company intends to provide facilities-based and resold non-switched dedicated and private line services for the provision of broadband transmission services. Applicant's initial service offerings will consist of transport and access services for competitive carriers. Applicant has no plans to provide dial tone services to South Dakota end user customers at this time. If future market conditions warrant, however, Applicant may expand its service offerings to include end user dial tone services. If Applicant does offer end user dial tone services in the future it will comply with all applicable state and federal laws and regulations.

(9) A service area map or narrative description indicating with particularity the geographic area proposed to be served by the applicant;

Applicant proposes to provide services throughout the State of South Dakota. Applicant intends to offer services initially in the territory now served by Qwest. In its operations within that territory, the Company will adhere to the service area maps defined by Qwest. The Company requests a waiver of the requirement to provide maps due to its matching of the Qwest maps. The Applicant further notes that it will adhere to the service area maps of the relevant ILEC in all other ILEC territories in which it operates.

(10) Information regarding the technical competence of the applicant to provide its proposed local exchange services including:

(a) A description of the education and experience of the applicant's management personnel who will oversee the proposed local exchange services; and

A description of Applicant's key management personnel is attached hereto as Exhibit E.

(b) Information regarding policies, personnel, or arrangements made by the applicant which demonstrates the applicant's ability to respond to customer complaints and inquiries promptly and to perform facility and equipment maintenance necessary to ensure compliance with any commission quality of service requirements;

The Applicant understands the importance of effective customer service, and maintains a network operations center that is staffed 24-hours a day. Customers can call the Applicant's toll free number to report problems. If the problem is determined to involve leased facilities, Customer Service Representatives will contact any relevant underlying carrier(s) upon whom the Applicant relies for maintenance and repair of network fault(s) affecting service.

The Applicant's toll free number will be printed on the customer's monthly billing statements. Customers who are unsatisfied with the initial resolution offered by a customer service representative will be referred to a supervisor. A customer who is dissatisfied with the resolution offered by a supervisor will be referred to the South Dakota Public Utilities Commission. The Company will establish a dedicated representative of its legal department for receipt of such escalated complaints from the Commission.

(11) Information explaining how the applicant will provide customers with access to emergency services such as 911 or enhanced 911, operator services, interexchange services, directory assistance, and telecommunications relay services;

Services will be provided through the underlying carrier.

(12) For the most recent 12 month period, financial statements of the applicant consisting of balance sheets, income statements, and cash flow statements. The applicant shall provide audited financial statements, if available;

Applicant is a wholly owned subsidiary of Neutral Tandem, Inc. ("NTI"). As a newly created entity formed solely for the purpose of providing the services for which authority is sought in the instant application, Applicant will rely on the financial support of its parent company, which has the necessary funds to provide the proposed services. NTI 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 NTI's 10-K, as filed with the Securities and Exchange Commission. See Exhibit F attached hereto.

(13) Information detailing the following matters associated with interconnection to provide proposed local exchange services:

(a) The identity of all local exchange carriers with which the applicant plans to interconnect;

Applicant plans to interconnect with Qwest and other certificated LECs that request to become customers of the Applicant.

(b) The likely timing of initiation of interconnection service and a statement as to when negotiations for interconnection started or when negotiations are likely to start; and

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. The Applicant requested an interconnection agreement from Qwest on December 23, 2008.

(c) A copy of any request for interconnection made by the applicant to any local exchange carrier;

See Exhibit H.

(14) A description of how the applicant intends to market its local exchange services, its target market, whether the applicant engages in multilevel marketing, and copies of any company brochures that will be used to assist in sale of the services;

Applicant utilizes a direct sales approach to its marketing efforts. Applicant does not utilize any form of multilevel marketing in the sale of its services.

(15) If the applicant is seeking authority to provide local exchange service in the service area of a rural telephone company, the date by which the applicant expects to meet the service obligations imposed pursuant to § 20:10:32:15 and applicant’s plans for meeting the service obligations;

While Applicant is seeking statewide authority to provide local exchange services (i.e., authority that includes all service areas of rural telephone companies), for reasons as detailed herein, the Applicant does not plan to meet the service obligations imposed pursuant to § 20:10:32:15 and accordingly, seeks a waiver pursuant to § 20:10:32:18.

The Applicant does not plan at this time to provide dial tone services to end user customers in the service areas of any South Dakota rural telephone company or to seek eligible telecommunications carrier designation. Rather than compete with rural telephone companies to provide end user dial tone services in their respective service areas, the Applicant seeks statewide authority in this application in such service areas in order to provide services to such rural telephone companies.

Therefore, while the Applicant is seeking statewide authority, the Applicant does not plan to meet the service conditions imposed pursuant to § 20:10:32:15 because the Applicant does not intend to provide dial tone end user services in the service areas of rural telephone companies. Accordingly, pursuant to § 20:10:32:18, the Applicant hereby requests a waiver of the obligation to satisfy the eligible telecommunications service requirements as set forth in 47 U.S.C. § 214(e)(1) and applicable federal regulations. Because each rural telephone company service area already has at least one rural telephone company already currently providing service and the public will benefit from the diversity of facilities, the granting of the waiver herein requested does not adversely impact universal service, quality of service shall continue, and the granting of the waiver is in the public interest.

The Applicant may, upon receipt of a request from a prospective customer, enter into interconnection and/or commercial agreements with a rural telephone company. The Company has no such requests at the present time.

(16) A list of the states in which the applicant is registered or certified to provide telecommunications services, whether the applicant has ever been denied registration or certification in any state and the reasons for any such denial, a statement as to whether or not the applicant is in good standing with the appropriate regulatory agency in the states where it is registered or certified, and a detailed explanation of why the applicant is not in good standing in a given state, if applicable;

Applicant is a newly created entity that was formed solely for the purpose of providing the services for which authority is sought in the instant application. Accordingly, Applicant is not registered or certified to provide telecommunications services in any state. A list of states where Applicant's affiliates (i.e., subsidiaries of its parent, NTI) are registered or certified to provide telecommunications service is attached hereto as Exhibit C. Neither the Applicant nor its affiliates listed in Exhibit C have been denied registration or certification in any jurisdiction. Since as noted, Applicant is not registered or certified to provide telecommunications services in any state, it has no standing (good or otherwise) to report with any regulatory agencies.

(17) The names, addresses, telephone numbers, E-mail addresses, and facsimile numbers of the applicant's representatives to whom all inquiries must be made regarding customer complaints and other regulatory matters;

Customer complaints:

**Richard L. Monto, General Counsel
Neutral Tandem-South Dakota, LLC
One South Wacker Drive, Suite 200
Chicago, IL 60606
Telephone: (312) 384-8000
Facsimile: (312) 346-3276
Toll Free: (888) 682-6336
E-mail: rmonto@neutraltandem.com**

General regulatory matter:

**Richard L. Monto, General Counsel
Neutral Tandem-South Dakota, LLC
One South Wacker Drive, Suite 200
Chicago, IL 60606
Telephone: (312) 384-8000
Facsimile: (312) 346-3276
Toll Free: (888) 682-6336
E-mail: rmonto@neutraltandem.com**

(18) Information concerning how the applicant plans to bill and collect charges from customers who subscribe to its proposed local exchange services;

Applicant will bill customers directly.

(19) Information concerning the applicant's policies relating to solicitation of new customers and a description of the efforts the applicant shall use to prevent the unauthorized switching of local service customers by the applicant, its employees, or agents;

Applicant utilizes a direct sales approach to its marketing efforts. The Company does not utilize any form of multilevel marketing in the sale of its services. The Company will utilize a written LOA to prevent the unauthorized switching of local service customers.

(20) The number and nature of complaints filed against the applicant with any state or federal commission regarding the unauthorized switching of a customer's telecommunications provider and the act of charging customers for services that have not been ordered;

Applicant has had no complaints filed against it for the unauthorized switching of a customer's telecommunications provider and the act of charging customers for services that have not been ordered.

(21) Information concerning how the applicant will make available to any person information concerning the applicant's current rates, terms, and conditions for all of its telecommunications services;

Applicant will post on the Company website tariffs with all current rates, terms, and conditions for all telecommunications services. A copy of Applicant's proposed tariff is attached hereto as Exhibit H.

(22) Information concerning how the applicant will notify a customer of any materially adverse change to any rate, term, or condition of any telecommunications service being provided to the customer. The notification must be made at least thirty days in advance of the change;

Applicant will notify a customer of any materially adverse change to any rate, term, or condition by bill message.

(23) A written request for waiver of those rules believed to be inapplicable;

Applicant requests no waivers.

(24) Federal tax identification number and South Dakota sales tax number; and

Applicant's federal tax identification number is 26-3916483. Applicant's South Dakota sales tax number is 1012-1475WT.

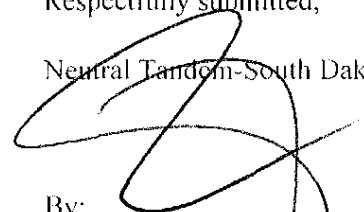
(25) Other information requested by the commission needed to demonstrate that the applicant has sufficient technical, financial, and managerial capabilities to provide the local exchange services it intends to offer consistent with the requirements of this chapter and other applicable rules and laws.

NTI is the sole member and manager of the Applicant and its affiliates as summarized in Exhibit G. Accordingly, through the management of 46 wholly-owned subsidiaries that are certificated or registered (as applicable) to provide telecommunications services in 49 jurisdictions (including the District of Columbia and Puerto Rico), NTI has extensive experience operating as a telecommunications provider. NTI is technically, financially and managerially qualified to provide the telecommunications services that the Applicant intends to offer.

WHEREFORE, Neutral Tandem-South Dakota, LLC respectfully requests that this Commission grant it authority to provide facilities-based and resold local exchange and interexchange telecommunications services within the State of South Dakota, that the Commission regulate it in a streamlined fashion, and that the Commission approve Applicant's initial proposed tariff effective on the date of the Order granting authority.

Respectfully submitted,

Neutral Tandem-South Dakota, LLC



Dated: 2-11-01

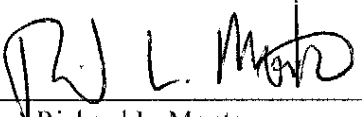
By: _____

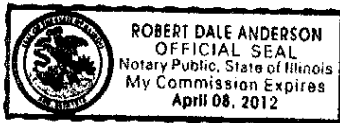
Patrick D. Crocker
Crocker & Crocker, P.C.
The Kalamazoo Building
107 W. Michigan Ave, 4th Floor
Kalamazoo, MI 49007
Tel: (269) 381-8893
Fax: (269) 381-4855

VERIFICATION

Richard L. Monto, General Counsel and Secretary of Neutral Tandem, Inc., the manger of Neutral Tandem-South Dakota, 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.

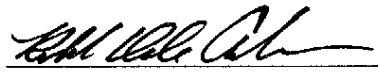
Neutral Tandem-South Dakota, LLC

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



The foregoing instrument was acknowledged before me this 2nd day of Feb,

2010, by Richard L. Monto.


Notary Public
County of DaPage
State of IL
My Commission Expires 4/08/2012

EXHIBITS

Exhibit A	Articles of Organization
Exhibit B	Certificate of Authority to Transact Business
Exhibit C	Jurisdictions and Service Provided
Exhibit D	Parent and Affiliates
Exhibit E	Management Resumes
Exhibit F	Financial Information
Exhibit G	Illustrative Tariff
Exhibit H	Request for Interconnection

EXHIBIT A

Articles of Organization

Delaware

PAGE 1

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-SOUTH DAKOTA, LLC", FILED IN THIS OFFICE ON THE EIGHTH DAY OF OCTOBER, A.D. 2008, AT 9:08 O'CLOCK A.M.



4609659 8100

081021392

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

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 6899470

DATE: 10-08-08

STATE of DELAWARE
LIMITED LIABILITY COMPANY
CERTIFICATE of FORMATION

First: The name of the limited liability company is Neutral Tandem-South
Dakota, LLC

Second: The address of its registered office in the State of Delaware is _____
2711 Centerville Road, Suite 400 in the City of Wilmington
Zip code 19808. The name of its Registered agent at such address is
Corporation Service Company

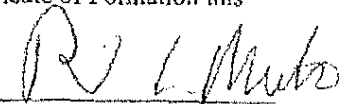
Third: (Use this paragraph only if the company is to have a specific effective date of
dissolution: "The latest date on which the limited liability company is to dissolve is
_____".)

Fourth: (Insert any other matters the members determine to include herein.)

In Witness Whereof, the undersigned have executed this Certificate of Formation this

7th day of October, 2008.

By:



Authorized Person (s)

Neutral Tandem, Inc., manager of Neutral Tandem-

Name: South Dakota, L.L.C. by Richard L. Mouto, VP

EXHIBIT B

Certificate of Authority to Transact Business

State of South Dakota



OFFICE OF THE SECRETARY OF STATE

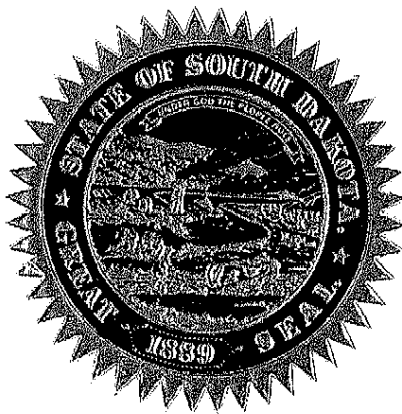
Certificate of Authority Limited Liability Company

ORGANIZATIONAL ID #: FL004276

I, **Chris Nelson**, Secretary of State of the State of South Dakota, hereby certify that duplicate of the Application for a Certificate of Authority of **NEUTRAL TANDEM-SOUTH DAKOTA, LLC (DE)** to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Limited Liability Company Act, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application for certificate of authority.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this October 17, 2008.



Chris Nelson

Chris Nelson
Secretary of State

Secretary of State Office
500 E Capitol Ave
Pierre, SD 57501
(605)773-4845

APPLICATION FOR CERTIFICATE OF AUTHORITY FOREIGN LIMITED LIABILITY COMPANY

Please Type or Print Clearly in Ink

Please submit one **Original** and one **Photocopy**

FILING FEE: \$550 payable to SECRETARY OF STATE

Filed this 17th day of Oct, 2008
Chris Nelson
SECRETARY OF STATE

RECEIVED
OCT 17 2008
S.D. SEC. OF STATE

Telephone # _____
FAX # _____

Application must be accompanied by a one page original certificate of existence issued by the Secretary of State or other official having custody of the organizational records in the state or country under whose law it is organized.

1. The name of the company is Neutral Tandem-South Dakota, LLC

The name must include limited liability company, limited company or the abbreviation L.L.C., LLC, L.C. or LC. Limited may be abbreviated as Ltd. and company may be abbreviated as Co.

2. The name of the state or country under whose laws it is organized is Delaware

3. The period of its duration perpetual

4. The address of its principal office (this is the address of the executive offices of the corporation).

1 South Wacker Drive, Suite 200 Chicago IL 60606
Street Address City State ZIP+4

Mailing Address (Optional) City State ZIP+4

5. The South Dakota Registered Agent name Corporation Service Company

503 South Pierre Street, Pierre, SD 57501
Street Address (Required to be a South Dakota Address) City State ZIP+4

Mailing Address (Optional - Required to be a South Dakota Address) City State ZIP+4

When listing a Commercial Registered Agent, please state their CRA #.
This number can be obtained from the Commercial Registered Agent.
CR000003

6. Please check one:

- The company is member managed.
 The company is manager managed.

If this company is manager managed, please state the name and address of each manager.


Neutral Tandem, Inc.	One South Wacker Drive, Suite 200	Chicago	IL	60606
Manager	Street Address	City	State	ZIP+4
Manager	Street Address	City	State	ZIP+4
Manager	Street Address	City	State	ZIP+4

7. Whether one or more of the members of the company are to be liable for its debts and obligations under a provision similar to SDCL 47-34A-303 (c)

No members of the company are to be liable for its debts and obligations under a provision similar to SDCL 47-34A-303(c).

The application must be signed by a Manager so stated in question number 6 or a Member if the company is member managed.

Dated October 15, 2008


(Signature of an authorized member or manager)

Richard L. Monto
(Printed Name)
Vice President of Neutral Tandem, Inc., the manager of
Neutral Tandem-South Dakota, LLC
(Title)

Delaware

PAGE 1

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "NEUTRAL TANDEM-SOUTH DAKOTA, LLC" IS DULY FORMED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE SIXTEENTH DAY OF OCTOBER, A.D. 2008.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL TAXES HAVE NOT BEEN ASSESSED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "NEUTRAL TANDEM-SOUTH DAKOTA, LLC" WAS FORMED ON THE EIGHTH DAY OF OCTOBER, A.D. 2008.

4609659 8300

081042471

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



Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 6914202

DATE: 10-16-08

EXHIBIT C

Jurisdictions Where Authorized and Service Provided

List of All Other Jurisdictions

Applicant is not authorized to provide service in any jurisdiction. Following is a complete list of affiliates with authority to provide telecommunications service, or applications pending, in other jurisdictions:

JURISDICTION	AFFILIATE	AUTHORIZED TO PROVIDE
Alabama	Neutral Tandem-Alabama, LLC	Local Exchange and Interexchange
Arizona	Neutral Tandem-Arizona, LLC	Local Exchange and Interexchange
Arkansas	Neutral Tandem-Arkansas, LLC	Local Exchange and Interexchange
California	Neutral Tandem-California, LLC	Local Exchange and Interexchange
Colorado	Neutral Tandem-Colorado, LLC	Local Exchange and Interexchange
Connecticut	Neutral Tandem-New York, LLC	Local Exchange and Interexchange
Delaware	Neutral Tandem-Delaware, LLC	Local Exchange and Interexchange
District of Columbia	Neutral Tandem-Washington, D.C., LLC	Local Exchange and Interexchange
Florida	Neutral Tandem-Florida, LLC	Local Exchange and Interexchange
Georgia	Neutral Tandem-Georgia, LLC	Local Exchange and Interexchange
Idaho	Neutral Tandem-Idaho, LLC	Local Exchange and Interexchange
Illinois	Neutral Tandem-Illinois, LLC	Local Exchange and Interexchange
Indiana	Neutral Tandem-Indiana, LLC	Local Exchange and Interexchange
Iowa	Neutral Tandem-Iowa, LLC	Local Exchange and Interexchange
Kansas	Neutral Tandem-Kansas, LLC	Local Exchange and Interexchange
Kentucky	Neutral Tandem-Kentucky, LLC	Local Exchange and Interexchange
Louisiana	Neutral Tandem-Louisiana, LLC	Local Exchange and Interexchange
Maine	Neutral Tandem-Maine, LLC	Local Exchange and Interexchange
Maryland	Neutral Tandem-Maryland, LLC	Local Exchange and Interexchange
Massachusetts	Neutral Tandem-Massachusetts, LLC	Local Exchange and Interexchange
Michigan	Neutral Tandem-Michigan, LLC	Local Exchange and Interexchange
Minnesota	Neutral Tandem-Minnesota, LLC	Local Exchange and Interexchange
Mississippi	Neutral Tandem-Mississippi, LLC	Local Exchange and Interexchange
Missouri	Neutral Tandem-Missouri, LLC	Local Exchange and Interexchange
Montana	Neutral Tandem-Montana, LLC	Local Exchange and Interexchange
Nebraska	Neutral Tandem-Nebraska, LLC	Local Exchange and Interexchange
Nevada	Neutral Tandem-Nevada, LLC	Local Exchange and Interexchange
New Hampshire	Neutral Tandem-New Hampshire, LLC	Local Exchange and Interexchange
New Jersey	Neutral Tandem-New Jersey, LLC	Local Exchange and Interexchange
New Mexico	Neutral Tandem-New Mexico, LLC	Local Exchange and Interexchange
New York	Neutral Tandem-New York, LLC	Local Exchange and Interexchange
North Carolina	Neutral Tandem-North Carolina, LLC	Local Exchange and Interexchange
North Dakota	Neutral Tandem-North Dakota, LLC	Local Exchange and Interexchange
Oklahoma	Neutral Tandem-Oklahoma, LLC	Local Exchange and Interexchange
Ohio	Neutral Tandem-Michigan, LLC	Local Exchange and Interexchange
Oregon	Neutral Tandem-Oregon, LLC	Local Exchange and Interexchange
Pennsylvania	Neutral Tandem-Pennsylvania, LLC	Local Exchange and Interexchange
Puerto Rico	Neutral Tandem-Puerto Rico, LLC	Local Exchange and Interexchange
Rhode Island	Neutral Tandem-Rhode Island, LLC	Local Exchange and Interexchange
South Carolina	Neutral Tandem-South Carolina, LLC	Local Exchange and Interexchange
Tennessee	Neutral Tandem-Tennessee, LLC	Local Exchange and Interexchange
Texas	Neutral Tandem-Texas, LLC	Local Exchange and Interexchange
Utah	Neutral Tandem-Utah, LLC	Local Exchange and Interexchange
Vermont	Neutral Tandem-Vermont, LLC	Local Exchange and Interexchange
Virginia	Neutral Tandem-Virginia, LLC	Local Exchange and Interexchange
Washington	Neutral Tandem-Washington, LLC	Local Exchange and Interexchange
West Virginia	Neutral Tandem-West Virginia, LLC	Local Exchange and Interexchange
Wisconsin	Neutral Tandem-Illinois, LLC	Local Exchange and Interexchange
Wyoming	Neutral Tandem-Wyoming, LLC	Local Exchange and Interexchange

EXHIBIT D

Parent and Affiliates

The Parent Company, Neutral Tandem, Inc., and all affiliates are located at the following address and phone numbers:

Neutral Tandem, Inc.
One South Wacker Drive, Suite 200
Chicago, IL 60606
Telephone: (312) 384-8000
Facsimile: (312) 346-3276

EXHIBIT E

Management Resumes

Neutral Tandem, Inc. ("NTI") is the sole manager of the newly created entity, Neutral Tandem-South Dakota. NTI likewise is the manager of the affiliates identified in Exhibit D as authorized telecommunications service providers. The officers of NTI are as follows:

Rian J. Wren, President and Chief Executive Officer, is a telecommunications industry veteran and pioneer of IP telephony. As Senior Vice President and General Manager of Telephony for Comcast Cable, Wren was responsible for the overall delivery of telephony services for the country's leading cable and broadband communications provider until joining Neutral Tandem in February 2006.

Wren joined Comcast in 1999 and was named CEO of Broadnet, Comcast's international wireless company in 2000. After returning to Comcast Business Communications (CBC), he served as the business unit's President where he had management and leadership responsibility for providing network solutions to Comcast's business customers.

Prior to joining Comcast, Wren held several senior management positions at AT&T, including President of the Southeast Region, and worked in the Consumer, Business, Network Services, and Network Systems Manufacturing organizations for more than 20 years.

Wren holds a Bachelor of Science degree in Electrical Engineering from the New Jersey Institute of Technology and an M.B.A. from Stanford University.

Richard L. Monto is the General Counsel and Secretary of Neutral Tandem-West Virginia, LLC and its parent Neutral Tandem, Inc. Mr. Monto joined Neutral Tandem in 2007 and has over a decade of telecommunications experience. Before joining Neutral Tandem, Mr. Monto held senior legal positions at several companies. Mr. Monto served as the Chief Legal Officer of Universal Access Global Holdings, Inc., a Chicago based wholesale telecommunications carrier. Mr. Monto also worked at MCI, where he was responsible for the provision of legal support for sales to MCI's largest enterprise users in the Mid-West region. Mr. Monto began his career at the law firm of Sonnenschein, Nath and Rosenthal. Mr. Monto has an undergraduate degree in Russian and Eastern European Studies from the University of Michigan and a J.D. from the Boston University School of Law.

Rob Junkroski is the Chief Financial Officer of Neutral Tandem-West Virginia, LLC and its parent, Neutral Tandem, Inc. Mr. Junkroski was most recently Vice President of Finance with Focal Communications. His responsibilities included managing all the working capital functions within the company including accounts payable and receivable, credit and collections, carrier and end-user billing, regulatory compliance and real estate management. Mr. Junkroski previously served as Treasurer and Controller and was responsible for all the accounting, revenue assurance, audit, cash and risk management and customer credit functions. Mr. Junkroski was also involved with capital raising activities at Focal totaling \$1 billion. Before joining Focal, Mr. Junkroski was Controller for Brambles Equipment Services, Inc. and Focus Leasing Corporation.

Surendra Saboo is the Chief Operations Officer and Executive Vice President of Neutral Tandem-West Virginia, LLC. Most recently, Surendra Saboo was the Vice President of Operations for wireless services at Comcast. He brings more than 20 years of executive management experience in the telecommunications industry to Neutral Tandem. Saboo joined Comcast in June 2000 as Executive Vice President and Chief Operating Officer of Broadnet, a pan-European subsidiary of Comcast, where he was responsible for launching broadband services in six countries within 12 months. In 2002, he returned to the U.S. and became the Vice President of Product Development and Operations for Comcast's voice business. In this capacity, he was responsible for the turn-around of the circuit-switched business to profitability and launching of the VoIP based Comcast digital voice service.

Prior to joining Comcast, he was the Chairman, CEO and Founder of Teledigm, an e-CRM software product company in Dallas. Prior to starting Teledigm, he spent 14 years at AT&T in a variety of operating areas including research and development, engineering, product management, strategy, systems development and operations. He began his career with AT&T in 1986 as a Member of Technical Staff at Bell Laboratories in Holmdel, NJ.

Saboo holds a B.S. degree in Mechanical Engineering, a masters in Industrial and Systems Engineering, and a Ph.D in Operations Research. He has also completed the Advanced Management Program at Hawaii University.

EXHIBIT F

Financial Information

**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, 2008

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)

One South Wacker
Suite 200
Chicago, Illinois
(Address of Principal Executive Offices)

31-1786871
(I.R.S. Employer
Identification No.)

60606
(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
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 aggregate market value of the registrant's common stock, \$0.001 par value per share, held by non-affiliates of the registrant on June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was \$294,035,630 (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 March 6, 2009, the registrant had 32,621,000 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Neutral Tandem, Inc. definitive Proxy Statement for its 2009 Annual Meeting of Stockholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after December 31, 2008 are incorporated by reference in Part III of this Form 10-K.

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ITEM 6. SELECTED FINANCIAL DATA

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The selected consolidated financial data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes. The selected consolidated statements of operations data for the years ended December 31, 2008, 2007, and 2006 and the selected consolidated balance sheet data as of December 31, 2008 and 2007 are derived from, and are qualified by reference to, the audited consolidated financial statements included elsewhere in this annual report on Form 10-K. The selected consolidated statements of operations data for the fiscal years ended December 31, 2005 and 2004 and the selected consolidated balance sheet data as of December 31, 2006, 2005 and 2004 are derived from, and are qualified by reference to, our audited consolidated financial statements that are not included in this annual report on Form 10-K. The historical results presented below are not necessarily indicative of future results.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(In thousands, except per share data)				
Statements of Operations					
Revenue	\$120,902	\$85,555	\$52,866	\$27,962	\$ 3,439
Operating Expense:					
Network and facilities expense (excluding depreciation and amortization)	40,327	30,163	21,305	11,349	2,027
Operations	16,929	15,536	11,613	8,189	2,704
Sales and marketing	1,940	1,770	1,553	1,360	775
General and administrative	12,104	9,426	4,166	3,053	2,310
Depreciation and amortization	14,023	11,076	7,160	3,141	655
Impairment of fixed assets	195	—	1,234	—	—
Loss (gain) on disposal of fixed assets	(11)	(144)	333	—	—
Total operating expense	85,507	67,827	47,364	27,092	8,471
Income (loss) from operations	35,395	17,728	5,502	870	(5,032)
Other (income) expense					
Interest expense	924	1,668	1,289	843	276
Interest income	(3,474)	(1,321)	(778)	(170)	(69)
Change in fair value of warrants	—	4,919	832	674	—
Other (income) expense	1,131	—	—	(11)	—
Total other (income) expense	(1,419)	5,266	1,343	1,336	207
Income (loss) before income taxes	36,814	12,462	4,159	(466)	(5,239)
Provision (benefit) for income taxes	12,794	6,204	(499)	—	—
Net income (loss)	\$ 24,020	\$ 6,258	\$ 4,658	\$ (466)	\$ (5,239)
Net income (loss) per common share—basic (1)	\$ 0.76	\$ 0.68	\$ 0.88	\$ (0.08)	\$ (1.02)
Net income (loss) per common share—diluted (1)	\$ 0.72	\$ 0.24	\$ 0.20	\$ (0.08)	\$ (1.02)
Weighted average number of shares outstanding—basic:	31,790	9,248	5,293	5,628	5,117
Weighted average number of shares outstanding—diluted:	33,236	26,378	23,481	5,628	5,117

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	As of December 31,				
	2008	2007	2006	2005	2004
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	\$110,414	\$112,020	\$ 20,084	\$ 1,291	\$ 199
Total current assets	131,335	127,382	31,525	10,566	9,715
Total assets	195,843	166,016	61,991	31,224	19,330
Total current liabilities	10,904	16,276	13,325	6,895	3,579
Total liabilities	15,977	22,094	25,356	11,833	7,769
Total preferred stock	—	—	38,000	26,000	17,500
Total shareholders' equity (deficit)	179,866	143,922	(1,365)	(6,609)	(5,939)
Cash Flow Data:					
Cash flows from operating activities	\$ 35,152	\$ 24,141	\$ 12,967	\$ 2,147	\$ (4,572)
Cash flows from investing activities	(41,136)	(19,947)	(12,719)	(10,240)	(10,030)
Cash flows from financing activities	4,378	87,742	18,545	9,185	14,719

- (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.

To date, we have not declared or paid any cash dividends on our common stock. We do not anticipate paying any dividends on our common stock in the foreseeable future.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This annual report on Form 10-K contains "forward-looking statements" that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include any expectation of earnings, revenues or other financial items; any statements of the plans, strategies and objectives of management for future operations; factors that may affect our operating results; statements related to future capital expenditures; statements related to future economic conditions or performance; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," or "may," and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in Item 1A of Part I of this annual report on Form 10-K. You should review these risk factors for a more complete understanding of the risks associated with an investment in our securities. We undertake no obligation to revise or update any forward-looking statements. The following discussion and analysis should be read in conjunction with our "Risk Factors", "Selected Consolidated Financial Data" and consolidated financial statements and notes thereto included elsewhere in this annual report on Form 10-K.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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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, 2008 and 2007, 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, 2008. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Neutral Tandem, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, 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.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Chicago, Illinois
March 13, 2009

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NEUTRAL TANDEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 110,414	\$ 112,020
Receivables	16,785	12,104
Deferred tax asset-current	2,341	2,242
Other current assets	1,795	1,016
Total current assets	<u>131,335</u>	<u>127,382</u>
Property and equipment—net	45,266	37,410
Restricted cash	440	419
Other assets	18,802	805
Total assets	<u>\$ 195,843</u>	<u>\$ 166,016</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 258	\$ 575
Accrued liabilities:		
Circuit cost	3,358	5,694
Rent	1,183	1,163
Payroll and related items	952	1,692
Other	2,192	2,768
Current installments of long-term debt	2,961	4,384
Total current liabilities	<u>10,904</u>	<u>16,276</u>
Other liabilities	191	527
Deferred tax liability-noncurrent	4,647	2,095
Long-term debt—excluding current installments	235	3,196
Total liabilities	<u>15,977</u>	<u>22,094</u>
Shareholders' equity:		
Preferred stock—par value of \$.001; 50,000,000 authorized shares; no shares issued and outstanding at December 31, 2008 and December 31, 2007	—	—
Common stock—par value of \$.001; 150,000,000 authorized shares; 32,357,383 shares and 30,832,939 shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively	32	32
Warrants	—	6,920
Additional paid-in capital	151,733	132,889
Retained earnings	28,101	4,081
Total shareholders' equity	<u>179,866</u>	<u>143,922</u>
Total liabilities and shareholders' equity	<u>\$ 195,843</u>	<u>\$ 166,016</u>

See notes to consolidated financial statements.

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NEUTRAL TANDEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Year Ended December 31,		
	2008	2007	2006
Revenue	\$120,902	\$85,555	\$52,866
Operating expense:			
Network and facilities expense (excluding depreciation and amortization)	40,327	30,163	21,305
Operations	16,929	15,536	11,613
Sales and marketing	1,940	1,770	1,553
General and administrative	12,104	9,426	4,166
Depreciation and amortization	14,023	11,076	7,160
Impairment of fixed assets	195	—	1,234
Loss (gain) on disposal of fixed assets	(11)	(144)	333
Total operating expense	<u>85,507</u>	<u>67,827</u>	<u>47,364</u>
Income from operations	<u>35,395</u>	<u>17,728</u>	<u>5,502</u>
Other (income) expense:			
Interest expense, including debt discount of \$95, \$139 and \$124, respectively	924	1,668	1,289
Interest income	(3,474)	(1,321)	(778)
Change in fair value of warrants	—	4,919	832
Other expense	1,131	—	—
Total other (income) expense	<u>(1,419)</u>	<u>5,266</u>	<u>1,343</u>
Income before income taxes	36,814	12,462	4,159
Provision (benefit) for income taxes	<u>12,794</u>	<u>6,204</u>	<u>(499)</u>
Net income	<u>\$ 24,020</u>	<u>\$ 6,258</u>	<u>\$ 4,658</u>
Net income per share:			
Basic	<u>\$ 0.76</u>	<u>\$ 0.68</u>	<u>\$ 0.88</u>
Diluted	<u>\$ 0.72</u>	<u>\$ 0.24</u>	<u>\$ 0.20</u>
Weighted average number of shares outstanding:			
Basic	<u>31,790</u>	<u>9,248</u>	<u>5,293</u>
Diluted	<u>33,236</u>	<u>26,378</u>	<u>23,481</u>

See notes to consolidated financial statements.

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NEUTRAL TANDEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(Dollars in thousands)

	<u>Shares Outstanding</u>		<u>Common</u>		<u>Additional Paid-In Capital</u>	<u>Accum Deficit/ Retained Earnings</u>	<u>Total Shareholders' Equity</u>
	<u>Common Shares</u>	<u>Warrants</u>	<u>Shares</u>	<u>Warrants</u>			
Balance at January 1, 2006	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
Net income and comprehensive income	—	—	—	—	—	24,020	24,020
Retirement of common shares	(16,500)	—	—	—	—	—	—
Exercise of warrants	356,921	(402,236)	—	(6,920)	6,920	—	—
Excess tax benefit associated with stock option exercise	—	—	—	—	7,600	—	7,600
Exercise of stock options	1,184,023	—	—	—	1,257	—	1,257
Stock option expense	—	—	—	—	3,067	—	3,067
Balance at December 31, 2008	<u>32,357,383</u>	<u>—</u>	<u>\$ 32</u>	<u>\$ —</u>	<u>\$151,733</u>	<u>\$28,101</u>	<u>\$ 179,866</u>

See notes to consolidated financial statements.

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NEUTRAL TANDEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31,		
	2008	2007	2006
Cash Flows From Operating Activities:			
Net income	\$ 24,020	\$ 6,258	\$ 4,658
Adjustments to reconcile net cash flows from operating activities:			
Depreciation and amortization	14,023	11,076	7,160
Deferred income taxes	2,453	526	(673)
Impairment of fixed assets	195	—	1,234
Loss (gain) on disposal of fixed assets	(11)	(144)	333
Non-cash share-based compensation	3,067	906	399
Amortization of debt discount	95	139	124
Changes in fair value of warrants	—	4,919	832
Changes in fair value of ARS	1,957	—	—
Changes in fair value of ARS Rights	(1,376)	—	—
Excess tax benefit associated with stock option exercise	(7,600)	—	—
Changes in assets and liabilities:			
Receivables—net	(4,681)	(4,228)	(3,255)
Other current assets	(844)	(150)	(662)
Other noncurrent assets	247	174	(230)
Accounts payable	(25)	(671)	433
Accrued liabilities	3,534	5,228	2,225
Noncurrent liabilities	98	108	389
Net cash flows from operating activities	<u>35,152</u>	<u>24,141</u>	<u>12,967</u>
Cash Flows From Investing Activities:			
Purchase of equipment	(22,301)	(20,149)	(17,098)
Proceeds from sale of equipment	11	224	—
Increase in restricted cash	(21)	(22)	(71)
Purchase of long-term investments	(25,150)	—	—
Sale of long-term investments	6,325	—	—
Purchase of short-term investments	—	—	(48,000)
Sale of short-term investments	—	—	52,450
Net cash flows from investing activities	<u>(41,136)</u>	<u>(19,947)</u>	<u>(12,719)</u>
Cash Flows From Financing Activities:			
Proceeds from the issuance of common shares associated with stock option exercise	1,257	1,924	262
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
Proceeds from the issuance of long-term debt	—	—	10,000
Excess tax benefit associated with stock option exercise	7,600	—	—
Principal payments on long-term debt	(4,479)	(5,461)	(3,642)
Net cash flows from financing activities	<u>4,378</u>	<u>87,742</u>	<u>18,545</u>
Net Increase In Cash And Cash Equivalents	(1,606)	91,936	18,793
Cash And Cash Equivalents—Beginning	112,020	20,084	1,291
Cash And Cash Equivalents—End	<u>\$110,414</u>	<u>\$112,020</u>	<u>\$ 20,084</u>
Supplemental Disclosure Of Cash Flow Information:			
Cash paid for interest	<u>\$ 1,022</u>	<u>\$ 1,258</u>	<u>\$ 776</u>
Cash paid for taxes	<u>\$ 3,264</u>	<u>\$ 3,385</u>	<u>\$ 781</u>
Cash refunded for taxes	<u>\$ —</u>	<u>\$ 542</u>	<u>\$ —</u>
Supplemental Disclosure Of Noncash Flow Items:			
Investing Activity—Accrued purchases of equipment	<u>\$ 171</u>	<u>\$ 463</u>	<u>\$ 1,136</u>
Financing Activity—Warrants issued	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 289</u>

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 local and long distance 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 indirectly was through the use of the incumbent local exchange carriers, or ILECs', tandem switches. The tandem switching services offered by ILECs consists of transit services, which are provided in connection with local calls, and access services, which are provided in connection with long distance calls. Under certain interpretations of the Telecommunications Act of 1996 and implementing regulations, ILECs are required to provide tandem transit services to competitive carriers. ILECs generally set per minute rates and other charges for tandem transit services according to rate schedules approved by state public utility commissions, although the methodology used to review these rate schedules varies from state to state. ILECs are also required to offer access services to competing telecommunications carriers under the Telecommunications Act of 1996 and implementing regulations. ILECs generally set per minute rates and other charges for access services according to mandated rate schedules set by the Federal Communications Commission, or FCC, for interstate calls and by state public utility commissions for intrastate calls. The Company's solution enables competitive carriers to exchange traffic between their networks without using an ILEC tandem for both local and long distance calls.

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 18.0 million shares of common stock.

Secondary Offering —In April 2008, certain shareholders of the Company completed a secondary offering in which 4.9 million shares of the Company's common stock were sold at a price of \$18.00 per share. The Company did not sell any shares of its common stock and received no proceeds from the secondary offering. The Company paid approximately \$0.6 million of certain expenses related to the offering and recorded the entire amount as other expense in the first quarter 2008.

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 investments, fair value of stock-based awards and warrants issued prior to its IPO 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

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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. At December 31, 2008 the Company had \$3.5 million of cash in banks and \$106.9 million in one money market mutual fund. At December 31, 2007, the Company had \$6.1 million of cash in banks and \$105.9 million in one money market mutual fund.

Long-term Investments —The Company considers all investments with remaining time to maturity of one year or more to be long-term investments. At December 31, 2008, the Company's long-term investments consisted of auction rate securities (ARS) and are recorded within the other non-current asset category of the Company's balance sheet. The Company did not have any long-term investments at December 31, 2007.

The Company's long-term investments were classified as available-for-sale in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115) through the Company's third quarter 2008.

In the fourth quarter 2008, the Company entered into a settlement with UBS related to the ARS, pursuant to which the Company elected to participate in a rights offering that provides it with certain rights (ARS Rights) to sell \$18.8 million (par value) of the ARS, back to UBS at par value, at any time during a two-year sale period beginning June 30, 2010. By electing to participate in the settlement and receive the ARS Rights, the Company granted UBS the right, exercisable at any time prior to June 30, 2010 or during the two-year sale period, to purchase or cause the sale of the Company's ARS Rights.

The Company's ARS Rights are required to be recognized as a free-standing asset, separate from the Company's ARS. Upon entering into the settlement agreement the Company elected to treat the ARS as trading securities and elected to measure the ARS Rights at fair value under SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities— including an amendment of FASB Statement No. 115 (SFAS 159), which permits an entity to elect the fair value option for recognized financial assets. This resulted in the changes in the fair value of the ARS Rights to be recognized in the Company's consolidated statements of income. As such, the Company recorded a gain of \$1.4 million related to the ARS Rights provided by the settlement and a loss of \$2.0 million on the Company's ARS portfolio. The ARS Rights and the ARS were reclassified from available-for-sale to trading securities are recorded in Non-current other assets in the accompanying consolidated balance sheets as of December 31, 2008.

The Company may not to hold these securities until final maturity because of UBS's right to purchase and or right to sell the ARS. The ARS and the ARS Rights will be revalued to fair market value on a quarterly basis until the sale of these securities has been completed.

Fair Values of Financial Instruments —The types of instruments valued based on quoted market prices in active markets includes the Company's money market funds. The types of instruments valued based on unobservable inputs in which there is little or no market data and the unobservable inputs are significant to the fair value measurement includes the Company's ARS and related ARS Rights. See Note 10 to the Consolidated Financial Statements for further details on investment and fair value measurements.

The Company did not elect to measure its debt at fair value. The estimated fair value of the Company's debt at December 31, 2008 was \$3.8 million compared to the carrying amount of \$3.2 million included in the consolidated balance sheet. 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.

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

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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. As discussed in further detail below, the impairment of long-lived assets is periodically evaluated when events or changes in circumstances indicate that a potential impairment has occurred.

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, 2008 and 2007. 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 July 2007, the Company decided to invest in new switch equipment, which replaced existing equipment in February 2008 in its New York location. The new equipment provides greater functionality that improves network efficiency and performance. The equipment that was replaced has no further use in the network. The Company completed a test for impairment consistent with the two-step process described above. As a result, there was no impairment of the existing switch equipment in New York, however, the Company accelerated the depreciation on the switch equipment. The new equipment in New York became operational during the first quarter of 2008.

In June 2008, the Company decided to invest in new switch equipment in its Michigan and Ohio locations. 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. As a result, the Company recorded a charge of approximately \$0.2 million related to the combined asset impairment and accelerated the depreciation on the switch equipment. In both markets, the new equipment was installed and became operational in the fourth quarter 2008.

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. The Company believes the cost to remove all items identified above would be an immaterial amount.

Freestanding Convertible Preferred Stock Warrants —In accordance with the terms of the credit facility, The Company issued warrants to the note holders to purchase shares of its preferred stock. In 2004, the Company issued 200,000 warrants, 92,812 warrants and 21,885 warrants with an exercise price of \$1.00, \$1.48 and \$6.28

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each, respectively. In 2006, the Company issued 87,539 warrants with an exercise price of \$6.28 each. The warrants were exercisable at any time up to eight years after their issuance. 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 the Company's common stock during the three days prior to such exercise. Based upon the closing prices of the Company's common stock on February 20, 2008, February 19, 2008 and February 15, 2008 the Company issued a total of 356,921 shares of common stock on February 25, 2008 in full satisfaction of all outstanding warrants.

Upon the closing of the Company's initial public offering (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). At November 2007, the aggregate fair value of these warrants of \$6.9 million was reclassified from current liabilities to warrants, a component of stockholders' equity, 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.

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 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 — As of December 31, 2007, the Company included an estimate of \$0.4 million for future legal fees to be incurred in connection with the resolution of a vendor dispute when the loss contingency was initially determined. The estimate is consistent with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies. In the fourth quarter of 2008, the vendor dispute was resolved for an amount that approximates what the Company had reserved. At December 31, 2008, there was no estimate for future legal fees to be incurred in connection with a loss contingency.

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 May 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

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maintaining and expanding the switch network. Other primary components of operations expenses include switch repair and maintenance, property taxes, property insurance and supplies.

Earnings 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:

(In thousands, except per share amounts)	Years Ended December 31,		
	2008	2007	2006
Numerator:			
Net income applicable to common stockholders	\$24,020	\$ 6,258	\$ 4,658
Denominator:			
Weighted average common shares outstanding	31,790	9,248	5,293
Effect of dilutive securities:			
Stock options	1,392	1,567	355
Warrants	54	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	<u>33,236</u>	<u>26,378</u>	<u>23,481</u>
Net earnings per share:			
Basic—as reported	<u>\$ 0.76</u>	<u>\$ 0.68</u>	<u>\$ 0.88</u>
Diluted—as reported	<u>\$ 0.72</u>	<u>\$ 0.24</u>	<u>\$ 0.20</u>

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.

Options to purchase 1,551,500, 93,000 and 1,335,000 shares of common stock at a weighted-average price of \$17.91, \$10.40 and \$1.22 per share were outstanding during the year ended December 31, 2008, 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 for the years ended December 31, 2008, 2007 and 2006.

Accounting for Stock-Based Compensation —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. 123R, 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

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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, 2008, 2007 and 2006, is \$3.1 million, \$0.9 million, and \$0.4 million, 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.

Concentrations —For the years ended 2008, 2007 and 2006, the aggregate revenues of four customers accounted for 56%, 54% and 46% of total revenues, respectively. At December 31, 2008 and 2007, the aggregate accounts receivable of four customers accounted for 53% and 55% of the Company's total trade accounts receivable, respectively.

In 2008, the Company had two customers in excess of ten percent of sales, which were 25% and 15% of the Company's total revenue, respectively. At December 31, 2008, the Company had three customers who accounted for 20%, 14% and 11% of the Company's accounts receivable balance, 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.

At December 31, 2008, the Company had \$110.4 million in cash and cash equivalents. Of this amount, approximately \$106.9 million was invested in one money market fund. At December 31, 2007, the Company had \$112 million in cash and cash equivalents. Of this amount, \$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 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

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the fair values as of that date. This replaces 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. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. 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—an amendment of Accounting Research Bulletin No. 51, or SFAS 160. SFAS 160 addresses the accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company determined that the adoption of SFAS 160 will have no impact upon the Company's consolidated financial statements.

In May 2008 the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, or SFAS 162. SFAS 162 identifies the sources of accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles, or GAAP, in the U.S. SFAS 162 is effective 60 days following the SEC approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company currently adheres to the hierarchy of GAAP as presented in SFAS 162, and adoption is not expected to have an impact on our consolidated financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2008 and 2007 consists of the following:

	December 31, 2008	December 31, 2007
(Dollars in thousands)		
Switch equipment	\$ 58,579	\$ 46,745
Construction in process	4,617	5,385
Computer software	1,469	1,156
Computer equipment	1,727	1,237
Tools and test equipment	471	354
Furniture and fixtures	348	310
Leasehold improvements	3,138	1,205
	<u>70,349</u>	<u>56,392</u>
Less accumulated depreciation	(25,083)	(18,982)
Property and equipment-net	<u>\$ 45,266</u>	<u>\$ 37,410</u>

4. RECEIVABLES

Receivables as of December 31, 2008 and 2007 consist of the following:

	December 31, 2008	December 31, 2007
(Dollars in thousands)		
Billed receivables	\$ 13,724	\$ 10,252
Unbilled receivables	2,549	1,839
Other receivables	512	13
	<u>16,785</u>	<u>12,104</u>
Less allowance for doubtful accounts	—	—
Receivables—net of allowance for doubtful accounts	<u>\$ 16,785</u>	<u>\$ 12,104</u>

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The Company primarily 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.

At December 31, 2008, other receivables include \$0.3 million of state income tax prepayments.

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 borrowings of up to \$4.0 million for the Company's capital purchases through July 31, 2004. The agreement was amended in December 2004 to allow for an additional \$5.5 million of borrowings and amended in January 2006 to allow for \$10.0 million of additional borrowings for an aggregate of \$19.5 million.

At December 31, 2008, the Company's has approximately \$3.2 million of debt outstanding with WTI. The outstanding borrowings at December 31, 2008 include the following: \$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.

The Company had issued warrants to WTI in accordance with the terms of the agreement. The warrants were exercisable any time up to eight years after their issuance. On February 21, 2008, WTI elected to exercise all of the outstanding warrants. Pursuant to the terms of the warrants WTI elected to exercise the warrants on a net basis based upon the average closing price of the Company's common stock during the three days prior to such exercise. Based upon the closing prices of the Company's common stock on February 20, 2008, February 19, 2008 and February 15, 2008 the Company issued a total of 356,921 common shares on February 25, 2008 in full satisfaction of all outstanding warrants.

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, 2008, 2007 and 2006 were \$95,000, \$139,000 and \$124,000, respectively.

Prior to completion of the IPO, the Company 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. 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 warrant's expected life ranged 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 was utilized which ranged from 55.5% to 72.1%. As a result, the Company recorded other expense of \$4.9 million in 2007 and \$0.8 million in 2006 due to the change in fair value of these warrants.

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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, 2008, 2007 and 2006, 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, 2008 there was \$440,000 of restricted cash used as collateral for \$374,000 in letters of credit outstanding.

Long-term debt is summarized as follows:

	December 31, 2008	December 31, 2007
<i>(Dollars in thousands)</i>		
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
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
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	536	1,395
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	686	1,528
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	906	1,729
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	1,120	1,924
Less—discount on debt associated with the issuance of warrants	<u>(52)</u>	<u>(147)</u>
Total long-term debt	3,196	7,580
Less—current installments	<u>(2,961)</u>	<u>(4,384)</u>
Long-term debt—excluding current installments	<u>\$ 235</u>	<u>\$ 3,196</u>

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

	December 31,
	<u>2008</u>
2009	\$ 3,013
2010	235
Total	<u>\$ 3,248</u>

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 \$0.3 million and \$0.1 million to this plan during the year ended December 31, 2008 and December 31, 2007, respectively. The Company did not contribute to the Plan during the year ended December 31, 2006.

7. PREFERRED STOCK

In November 2007, in connection with 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, 2008 and December 31, 2007, the Company did not have any preferred shares issued and outstanding.

8. COMMON STOCK

The Company's total authorized capital stock consists of 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 shareholders of the Company.

Dividends —Subject to the preferential rights of any outstanding preferred stock, 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 any outstanding 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 shareholders ratably in proportion to the number of shares of common stock held by them respectively.

During 2008 the Company retired 16,500 of unvested restricted shares from two former employees.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases —The Company leases its facilities and certain equipment under operating leases which expire through May 2018. Rental expense for the years ended December 2008, 2007 and 2006 was \$4.0 million, \$3.2 million, \$2.1 million, respectively.

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

	December 31,
(Dollars in thousands)	2008
2009	\$ 4,287
2010	4,246
2011	3,873
2012	2,548
2013	2,288
Thereafter	4,840
Total	<u>\$ 22,082</u>

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. In February 2007, Level 3 notified the Company that it was 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 had 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 also asserted in these proceedings that it had 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. During the proceedings, the Company continued to terminate traffic to Level 3 in these eight states. The traffic the Company terminated to Level 3 in these eight states which accounted for approximately 5.3% of its total traffic during the first six months of 2008. The Company also discontinued terminating traffic to Level 3 in certain other states.

On June 9, 2008, the Company entered into a settlement agreement with Level 3 pursuant to which the parties agreed to withdraw or dismiss, as appropriate, all of their pending disputes being heard before various regulatory bodies and courts. Concurrent with the execution of the settlement agreement, the Company entered into a direct connection agreement with Level 3 pursuant to which Level 3 will accept transit traffic from the Company.

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 the Company filed at the FCC.

Verizon. On November 17, 2008, the Company entered into a settlement agreement with Verizon pursuant to which the Company resolved a billing dispute. During the fourth quarter of 2008 the Company settled this dispute for \$0.3 million, which approximates the amount which had been accrued by the Company previously.

Peerless Networks, LLC. On June 12, 2008, the Company commenced a patent infringement action against Peerless Networks, LLC and John Barnicle, in the United States District Court for the Northern District of Illinois to enforce U.S. Patent No. 7,123,708 (*Neutral Tandem, Inc. v Peerless Networks, LLC, Peerless Networks of Illinois, LLC and John Barnicle, 08 CV 3402*). On July 28, 2008, the defendants filed a response to the Company's complaint denying liability and asserting various affirmative defenses and counterclaims. The

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defendants generally allege (i) that the Company's patent is invalid and unenforceable under a variety of theories, (ii) that assertion of the patent amounts to patent misuse and violation of certain monopolization laws, and (iii) that certain conduct surrounding the litigation gave rise to tortious interference and business disparagement claims and Lanham Act violations. On December 4, 2008, the United States District Court for the Northern District of Illinois granted the Company's motion to dismiss the claims alleging business disparagement and Lanham Act violations but denied the Company's motion to dismiss the claims related to the alleged violation of certain monopolization laws. The Company believes that the defendants' remaining allegations have no merit and intends to vigorously defend itself against these remaining counterclaims.

10. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments

The following is a summary of investments as of December 31, 2008 and December 31, 2007 (in thousands):

	December 31, 2008			
	Amortized Cost	Gross Realized Gains	Gross Realized Losses	Estimated Fair Value
		\$	\$	
Money market	\$106,867	\$ —	\$ —	\$106,867
ARS—trading securities	\$ 18,825	\$ —	\$(1,957)	\$ 16,868
ARS rights	\$ —	\$1,376	\$ —	\$ 1,376

	December 31, 2007			
	Amortized Cost	Gross Realized Gains	Gross Realized Losses	Estimated Fair Value
		\$	\$	
Money market	\$105,880	\$ —	\$ —	\$105,880

The following is a summary of the carrying values and balance sheet classification as of December 31, 2008 and December 31, 2007:

	December 31, 2008	December 31, 2007
	(In thousands)	
Cash in banks	\$ 3,547	\$ 6,140
Money market	106,867	105,880
ARS—trading securities	16,868	—
ARS rights	1,376	—
Restricted cash	440	419
Total	<u>\$ 129,098</u>	<u>\$ 112,439</u>
Reported as:		
Cash and cash equivalents	\$ 110,414	\$ 112,020
Non-current other assets	18,244	—
Non-current restricted cash	440	419
Total	<u>\$ 129,098</u>	<u>\$ 112,439</u>

As of December 31, 2008, we had \$106.9 million invested in one money market mutual fund of which \$99.3 million is guaranteed under the U.S. Department of the Treasury's Temporary Guaranty Program.

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At December 31, 2008, the Company held approximately \$18.8 million (par value) of municipal note investments. These investments were valued at fair value as of December 31, 2008, and the Company recorded a loss of approximately \$2.0 million as of December 31, 2008 related to investments in auction rate securities. The Company's auction rate securities had an auction reset feature whose underlying assets are generally student loans which are insured in part by the federal government under the Federal Family Education Loan Programs (FFELP). In February 2008, auctions began to fail for these securities and each auction since then has failed. The Company has since been able to liquidate \$6.3 million of the securities at par value through issuer redemptions. Based on the overall failure rate of these auctions, the frequency of the failures, and the underlying maturities of the securities, which ranges from 23 years to 31 years, the Company has classified these investments as long-term assets on the balance sheet. The securities were valued using a discounted cash flow model that takes into consideration the following factors among others:

- The anticipated coupon rate for the securities
- a market-based discount rate
- an illiquidity premium
- an anticipated workout period, or the likely timeframe to redemption or liquidation in the open market

In the fourth quarter 2008, the Company entered into a settlement with UBS related to the ARS, pursuant to which the Company elected to participate in a rights offering that provides it with certain rights (ARS Rights) to sell \$18.8 million (par value) of the ARS, back to UBS at par value, at any time during a two-year sale period beginning June 30, 2010. By electing to participate in the settlement and receive the ARS Rights, the Company granted UBS the right, exercisable at any time prior to June 30, 2010 or during the two-year sale period, to purchase or cause the sale of the Company's ARS. Because the ARS Rights provide the Company with the ability to limit the length of the workout period to 18 months, absent redemptions by the issuer or liquidation in the open market, it has value. The ARS Rights were valued by analyzing the value of the underlying ARS on a stand-alone basis compared to their value along with the ARS Rights. The additional value of the ARS with the ARS Rights over the calculated value of the ARS on a stand-alone basis represents the value of the ARS Rights, which the Company utilized the same factors as listed above in making this calculation.

The Company's ARS Rights are required to be recognized as a free-standing asset, separate from the Company's ARS. The Company elected to treat its ARS as trading securities and elected to measure the ARS Rights at fair value under SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*— including an amendment of FASB Statement No. 115 (SFAS 159), which permits an entity to elect the fair value option for recognized financial assets, in order to match the changes in the fair value of the ARS. As such, the Company recorded a gain of \$1.4 million related to the ARS Rights provided by the settlement and a gross unrealized loss of \$2.0 million on the Company's ARS portfolio. The ARS Rights and the ARS reclassified from available-for-sale to trading securities are recorded in non-current other assets in the accompanying consolidated balance sheets as of December 31, 2008.

The Company may not hold these securities until final maturity because of UBS's right to purchase and or right to sell the ARS. The ARS and the ARS Rights will be revalued to fair market value on a quarterly basis until the sale of these securities has been completed.

Fair Value Measurement

SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier

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value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level I) observable inputs such as quoted prices in active markets; (Level II) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level III) unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures its investments and marketable securities at fair value.

The majority of the Company's cash equivalents are classified within Level I of the fair value hierarchy because they are valued using quoted market prices. The types of instruments valued based on quoted market prices in active markets includes the Company's money market funds and certificate of deposits.

The types of instruments valued based on unobservable inputs in which there is little or no market data includes the Company's auction rate securities and ARS Rights. As a result of auction failures related to the auction rate securities during the year 2008, market inputs were not available as of December 31, 2008. A discounted cash flow model has therefore been used to determine the estimated fair value of the Company's investment in ARS as of December 31, 2008. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, discount rates and timing and amounts of cash flows, including assumptions about the expected holding periods of these securities. Such instruments are generally classified as Level III of the fair value hierarchy.

The Company's ARS Rights were valued by determining the value of the underlying auction rate securities on a stand-alone basis compared to their value along with the ARS Rights. The Company utilized the same factors that were used to value the auction rate securities.

Fair value hierarchy of the Company's marketable securities in connection with its adoption of SFAS No. 157:

	December 31, 2008			Total
	Level I	Level II	Level III	
	(In thousands)			
Investments:				
Money market funds	\$106,867	\$ —	\$ —	\$106,867
ARS—Trading securities	—	—	16,868	16,868
Total investments	<u>\$106,867</u>	<u>\$ —</u>	<u>\$16,868</u>	<u>\$123,735</u>
ARS Rights	—	—	1,376	1,376
Total assets measured at fair value	<u>\$106,867</u>	<u>\$ —</u>	<u>\$18,244</u>	<u>\$125,111</u>

Gains and losses associated with Level III financial instruments were recorded in the Company's statement of operations as other expense. The realized loss associated with ARS-trading securities was approximately \$2.0 million for the year ended December 31, 2008. The realized gain associated with the ARS Rights was approximately \$1.4 million for the year ended December 31, 2008. The following table summarizes the change in balance sheet carrying value associated with Level III financial instruments carried at fair value during the year ended December 31, 2008 (in thousands):

	December 31, 2007	Payment, Purchases (Sales), Net	Transfers In (Out), Net	Gains (Losses)		December 31, 2008
				Realized	Unrealized	
ARS—Trading securities	\$ —	\$ 18,825	\$ —	\$(1,957)	\$ —	\$ 16,868
ARS Rights	—	—	—	1,376	—	1,376
Total	<u>\$ —</u>	<u>\$ 18,825</u>	<u>\$ —</u>	<u>\$ (581)</u>	<u>\$ —</u>	<u>\$ 18,244</u>

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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,	December 31,
	2008	2007
Deferred income tax assets (liabilities)		
Current:		
State credit carry forward	\$ 655	\$ 626
Accrued direct costs	831	1,270
Accrued fees	127	91
Other deferred liabilities	(590)	(264)
Stock option compensation	1,462	514
Accrued other	(144)	5
Net current deferred income tax assets (liabilities)	<u>2,341</u>	<u>2,242</u>
Noncurrent:		
Depreciation	(6,022)	(2,567)
Accrued rent	478	468
State credit carry forward	662	—
Accrued other	235	4
Net noncurrent deferred income tax assets (liabilities)	<u>(4,647)</u>	<u>(2,095)</u>
Net deferred income tax assets (liabilities)	<u>\$ (2,306)</u>	<u>\$ 147</u>

The components of the Company's income tax provision for the years ended December 31, 2008, 2007 and 2006 are as follows:

(Dollars in thousands)	December 31,		
	2008	2007	2006
Deferred provision	\$ 2,453	\$ 526	\$ 1,506
Current provision			
Federal	9,365	5,181	98
State	976	497	76
Change in valuation allowance	—	—	(2,179)
	<u>\$12,794</u>	<u>\$6,204</u>	<u>\$ (499)</u>

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

	December 31,		
	2008	2007	2006
Statutory federal rate	35.0%	34.0%	34.0%
State income tax, net of federal benefit	1.9%	3.3%	(7.4)%
Change in fair value of warrants	— %	13.4%	6.7%
Tax exempt interest, benefit	(2.2)%	(1.4)%	— %
Other	0.1%	0.5%	0.4%
Change in valuation allowance	— %	— %	(45.6)%
Effective tax rate	<u>34.8%</u>	<u>49.8%</u>	<u>(11.9)%</u>

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Income taxes were computed using an effective tax rate, which is subject to ongoing review and evaluation by the Company. The Company's estimated effective income tax rate was 34.8% for the year ended December 31, 2008, compared to 49.8% for the same period past year. The decrease in the tax rate was primarily due to non deductible expenses related to the change in fair value of warrants that were exercised in the first quarter. The Company's estimated effective income tax rate varies from the statutory federal income tax rate of 35% primarily due to the impact of state income taxes, Illinois EDGE credit tax benefit, and tax exempt municipal interest.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and local jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state or local examinations for years before 2005. The IRS commenced an examination of the federal income tax return the Company filed for the year 2005 and completed the examination during the second quarter. The IRS had no proposed adjustments for the Company's 2005 income tax return. At December 31, 2007 and December 31, 2008, the Company did not have any income tax liability under FIN 48, Accounting for Uncertainty in Income Taxes.

The Company's State income tax credit carry forward, primarily the Illinois EDGE credit, can be carried forward 5 years and will begin to expire in 2009. The company has not recorded a valuation allowance against the credit as the Company believes it is more likely than not that future taxable income will be sufficient to realize the full benefit of the credit.

Shareholders' equity at December 31, 2008 reflects excess tax benefits related to the exercise of stock options during 2008 of approximately \$7.6 million.

12. STOCK OPTIONS

The Company established the 2003 Stock Option and Stock Incentive Plan (2003 Plan), which provides for issuance of up to 1,600,000 options and restricted stock 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 under the 2003 Plan in February 2006, May 2006 and July 2006, respectively. Prior to completing its IPO, the Company 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, 2008, the Company had granted a total of 2,045,446 options that remained outstanding under the 2003 Plan.

In October 2007, the Company approved the adoption of the Neutral Tandem, Inc. 2007 Equity Incentive Plan (2007 Plan). 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, 2008, the Company had granted a total of 1,558,000 options that remained outstanding under the 2007 Plan. During 2008, the Company cancelled 6,500 options related to the 2007 Plan. Option awards for 1,322,113 shares, representing approximately 4.1% of the Company's outstanding common stock as of December 31, 2008, remained available for additional grants 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

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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, 2008, the Company did not estimate any forfeitures as it has not had any material forfeitures and does not anticipate material forfeitures in the near future. Actual results, and future changes in estimates, may differ substantially from current estimates.

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. The following table shows the exercise price of one share of the Company's common stock on each stock option grant date during the years ended December 31, 2007 and the December 31, 2008:

<u>Grant Date</u>	<u>Number of Stock Options Issued</u>	<u>Weighted average Exercise Price of One Share of Common Stock</u>
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
First Quarter 2008	9,000	\$ 19.11
Second Quarter 2008	1,360,000	\$ 17.91
Third Quarter 2008	109,000	\$ 18.23
Fourth Quarter 2008	62,000	\$ 16.87
Total	<u>1,767,600</u>	

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, 2008, 2007 and 2006 with the following assumptions:

	<u>December 31, 2008</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Expected life	6.3 – 6.5 years	7.7 – 10.0 years	10 years
Risk-free interest rate range	2.4% – 3.8%	3.8% – 4.9%	4.7% – 5.1%
Expected dividends	—	—	—
Volatility	41.9% – 50.8%	39.6% – 40.1%	34.4% – 41.6%

The Company utilizes 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 50.8% at December 31, 2008. The Company calculated the volatility of its own stock for the period between November 2, 2007 and December 31, 2008 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 apply its own volatility.

Commencing in November 2007, the Company elected to use the simplified method to estimate the expected term for valuation of stock options as permitted by Securities and Exchange Commission (SEC) Staff Accounting Bulletin 107 (SAB 107) due to the unknown effect on option holder behavior of the increased liquidity of the underlying options following the Company's IPO. In December 2007, the SEC released Staff Accounting Bulletin No. 110 (SAB 110). SAB 110 amends SAB 107 to allow for the continued use, under certain circumstances, of the "simplified" method in developing an estimate of the expected term of "plain vanilla" stock options accounted for under SFAS 123(R). As a result, the Company used the simplified method in 2008. The Company will continue to utilize the simplified method until it has sufficient historical data to estimate the expected term.

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The weighted-average fair value of options granted, as determined by using the Black-Scholes valuation model, during the period was \$8.48, \$3.88 and \$1.30 for the years ended December 31, 2008, 2007 and 2006, respectively. The total grant date fair value of options that vested during years ended December 31, 2008, 2007 and 2006 was approximately \$1.0 million, \$1.0 million and \$0.1 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, 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		
Granted	1,540	17.90		
Exercised	(1,184)	1.06		
Cancelled	(81)	4.13		
Options outstanding—December 31, 2008	<u>3,603</u>	\$ 9.03	<u>\$33,476</u>	8.2
Vested or expected to vest—December 31, 2008	<u>3,603</u>	\$ 9.03	<u>\$33,476</u>	8.2
Exercisable—December 31, 2008	<u>1,012</u>	\$ 2.08	<u>\$16,428</u>	7.1

The unrecognized compensation cost associated with options outstanding at December 31, 2008 and 2007 is \$12.5 million and \$2.7 million, respectively. The weighted average remaining term that the compensation will be recorded is 2.8 years for both December 31, 2008 and 2007.

13. 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 telephony providers. Therefore, the Company has concluded that it has only one operating segment. 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.

EXHIBIT G

Illustrative Tariff

ACCESS SERVICES TARIFF

NEUTRAL TANDEM-SOUTH DAKOTA, LLC

This Tariff contains the descriptions, regulations, and rates applicable to the provision of intrastate access services provided by Neutral Tandem-South Dakota, LLC ("Company"). This tariff is on file with the South Dakota Public Utilities Commission and copies may be inspected during normal business hours at the Company's principal place of business at 1 South Wacker Drive, Suite 200, Chicago, IL 60606.

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CONCURRING, CONNECTING AND OTHER PARTICIPATING CARRIERS

Concurring Carriers

No Concurring Carriers

Connecting Carriers

No Connecting Carriers

Other Participating Carriers

No Other Participating Carriers

EXPLANATION OF REVISION MARKS

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

- (C) Indicates Changed Regulation
- (D) Indicates Discontinued Rate or Regulation
- (I) Indicates Rate Increase
- (M) Indicates Move in Location of Text (without change of text)
- (N) Indicates New Rate or Regulation
- (R) Indicates Rate Reduction
- (T) Indicates Change of Text Only (but no change in rate or regulation)

CHECK SHEET

The pages listed below of this tariff are effective as of the date shown. Revised pages contain all changes from the original tariff that are in effect as of the date indicated.

PAGE	REVISION		PAGE	REVISION		PAGE	REVISION	
Title	Original	*	27	Original	*	54	Original	*
1	Original	*	28	Original	*	55	Original	*
2	Original	*	29	Original	*	56	Original	*
3	Original	*	30	Original	*	57	Original	*
4	Original	*	31	Original	*	58	Original	*
5	Original	*	32	Original	*	59	Original	*
6	Original	*	33	Original	*	60	Original	*
7	Original	*	34	Original	*	61	Original	*
8	Original	*	35	Original	*	62	Original	*
9	Original	*	36	Original	*	63	Original	*
10	Original	*	37	Original	*	64	Original	*
11	Original	*	38	Original	*	65	Original	*
12	Original	*	39	Original	*	66	Original	*
13	Original	*	40	Original	*	67	Original	*
14	Original	*	41	Original	*	68	Original	*
15	Original	*	42	Original	*	69	Original	*
16	Original	*	43	Original	*	70	Original	*
17	Original	*	44	Original	*	71	Original	*
18	Original	*	45	Original	*	72	Original	*
19	Original	*	46	Original	*	73	Original	*
20	Original	*	47	Original	*			
21	Original	*	48	Original	*			
22	Original	*	49	Original	*			
23	Original	*	50	Original	*			
24	Original	*	51	Original	*			
25	Original	*	52	Original	*			
26	Original	*	53	Original	*			

* - indicates those pages included with this filing

TARIFF FORMAT

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

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

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

- 2.
- 2.1
- 2.1.1
- 2.1.1(A)
- 2.1.1(A)(1)
- 2.1.1(A)(1)(a)
- 2.1.1(A)(1)(a)(1)

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

APPLICATION OF TARIFF

This tariff sets forth the service offerings, rates, terms and conditions applicable to intrastate communications services provided by Neutral Tandem-South Dakota, LLC (Telephone Company). This tariff is on file with the South Dakota Public Utilities Commission, and copies may be inspected, during normal business hours, at the Company's principal place of business, 1 South Wacker, Suite 200, Chicago, IL 60606.

APPLICABILITY OF REGULATIONS

The following Regulations are applicable to all of the Telephone Company's services, unless expressly noted otherwise.

SECTION 1 - DEFINITIONS

Certain terms used herein are defined as follows:

Access or Access Service - transmission or switching services to carriers for the purpose of the origination or termination of telephone Toll Service and does not include 911, 411, 976, 311, 611, 500, 950, Directory Assistance, 0+ local, and 0+ operator services.

Access Tandem - a Telephone Company switching system that provides a distribution function for Access Service traffic between Telecommunications Carriers.

Act - means the Communications Act of 1934 [47 U.S.C. 153(R)], as amended by the Telecommunications Act of 1996, Public Law 104-104, 110 Stat. 56 (1996) codified throughout 47 U.S.C., and as interpreted by Applicable Law

Alternate Access Tandem - an access tandem owned by a party other than the Telephone Company.

Alternate Transit Tandem – a transit tandem owned by a party other than the Telephone Company

Answer/Disconnect Supervision - the transmission of the switch trunk equipment supervisory signal (off-hook or on-hook) to the customer's point of termination as an indication that the called party has answered or disconnected.

Automatic Number Identification (ANI) – a multi-frequency signaling Common Switching Optional Feature that provides the automatic transmission of a seven or ten digit number and information digits to the customer's premises for call originating in the LATA, to identify the calling station.

Bit - the smallest unit of information in the binary system of notation.

SECTION 1 – DEFINITIONS, (CONT'D.)

Busy Hour Minutes of Capacity (BHMC) - the customer specified maximum amount of Access Service and/or Transit Service minutes the customer expects to be handled in a designated switch during any hour in an 8:00 A.M. to 11:00 P.M. period for the service ordered. This customer furnished BHMC quantity is the input data the Telephone Company uses to determine the number of transmission paths for the service ordered.

Call – an end user attempt for which the complete address code (e.g., 10 digits) is provided to the serving dial tone office.

Call Classification – Call Classification is the classification of traffic as Access Service or as Transit Service.

Calling Party Number (CPN) - means a Signaling System 7 “SS7” parameter whereby the ten (10) digit number of the calling Party is forwarded from the End Office.

Carrier or Telecommunications Carrier - any individual, partnership, association, joint-stock company, trust, governmental entity or corporation engaged for hire in communication by wire or radio; provided that where the defined term “Non-Carrier” is used in this tariff, the entity will not be considered a Telecommunications Carrier.

Carrier Identification Code - a numeric code currently used for routing traffic and billing purposes.

Central Office - a Telephone Company switching center.

Central Office Code - the first three digits (NXX) of the seven-digit telephone number assigned to an end user's telephone exchange service.

Channel(s) - an electrical or photonic, in the case of fiber optic-based transmission systems, communications path between two or more points of termination.

Commission - Refers to the South Dakota Public Utilities Commission, unless otherwise indicated.

Common Channel Signaling Network - a digital data network carrying signaling, routing, and control information which interfaces with the voice/data network.

SECTION 1 – DEFINITIONS, (CONT'D.)

Company – see “Telephone Company”.

Constructive Order - Delivery or acceptance of calls over Company-switched local exchange services constitutes a Constructive Order by the Customer to purchase switched access services as described herein. Similarly, the selection of the Customer as the presubscribed IXC by any End user constitutes a Constructive Order of switched access by the Customer.

Customer(s) - any individual, partnership, association, joint-stock company, trust, corporation, or governmental entity or any other entity which subscribes to the services offered under this tariff.

Dedicated Transport – Direct-trunked transport provided between the customer's facility and a Telephone Company facility, hub, or tandem.

End Office Switch – a Carrier local switching system, wireless or wireline, where Customer traffic is switched for purposes of interconnection to End User(s).

End User - any customer of a telecommunications service that is not a carrier.

Entrance Facility - A Transport facility that provides dedicated transport from the customer's point of termination to the Telephone Company's facility.

Exchange - a unit generally smaller than a LATA, established by the incumbent local service provider for the administration of communications service in a specified area which usually embraces a city, town or village and its environs. It consists of one or more central offices together with the associated facilities used in furnishing communications service within that area.

SECTION 1 – DEFINITIONS, (CONT'D.)

Grandfathered - Services ordered under the provisions of this tariff and which are considered grandfathered and no longer available to new customers.

Host Office - an electronic switching system which provides call processing capabilities for one or more Remote Switching Modules or Remote Switching Systems.

Immediately Available Funds - a corporate or personal check drawn on a bank account and funds which are available for use by the receiving party on the same day on which they are received and include U.S. Federal Reserve bank wire transfers, U.S. Federal Reserve notes (paper cash), U.S. coins, and U.S. Postal Money Orders.

Individual Case Basis (ICB) - a condition in which the regulations, rates and charges for an offering under the provisions of this tariff are developed based on the circumstances in each case.

Interconnected Carrier (IC) or Interconnected Telecommunications Carrier – A Carrier or Telecommunications Carrier connected to the Telephone Company.

InterMTA Traffic - InterMTA traffic refers to wireless traffic that originates and terminates in two different MTAs.

Interstate Communications - both interstate and foreign communications.

Interexchange Carrier (IXC) – Toll Service provider.

IntraMTA Traffic - IntraMTA traffic refers wireless-to-wireline traffic that originates and terminates within the same MTA.

Intrastate Communications - any communications within a state subject to oversight by a state regulatory commission as provided by the laws of the state involved. Intrastate communication can be intraLATA or InterLATA in nature, with intraLATA calls being between two parties located within the same LATA and intrastate, interLATA calls being between two users in different LATAs in the state.

Local Exchange Routing Guide (LERG) - is the industry reporting tool used to provision the appropriate NPA NXXs in networks.

SECTION 1 – DEFINITIONS, (CONT'D.)

Local Calling Area - a geographical area, as defined in the incumbent telephone company's local exchange service tariff, in which an end user may complete a call without incurring Toll charges.

Local Access and Transport Area (LATA) - a geographic area established for the provision and administration of communications service. It encompasses one or more designated exchanges, which are grouped to serve common social, economic and other purposes.

Line Information Data Base (LIDB) - a transaction-oriented database system that functions as a centralized repository for data storage and retrieval. LIDB contains records associated with End User line numbers and special billing numbers. LIDB accepts queries from other network elements and provides return result, return error, and return reject responses as appropriate. Examples of information that stored in LIDB and in its Line Records are: ABS validation data, originating line number screening (OLNS) data, ZIP Code data, and calling name information.

Line Record - means information in LIDB and/or the LIDB administrative system that is specific to a single telephone number or billing number.

Line-Side Connection - a connection of a transmission path to the line side of a local exchange switching system.

Major Fraction Thereof - is any period of time in excess of 1/2 of the stated amount of time. As an example, in considering a period of one hour, a major fraction of one hour would be 31 minutes. Therefore, if a given service is interrupted for one hour and 31 minutes, the customer would be given a credit for two hours. For one hour and 30 minutes or less, the customer would be given credit for one hour.

Meet-Point Billing (MPB) - refers to the billing associated with interconnection of facilities between two or more carriers for the routing of traffic to and from an interexchange carrier with which one or more of the carriers does not have a direct connection. In a multi-bill environment, each local carrier bills the appropriate tariffed rate for its portion of a jointly provided Access Service.

SECTION 1 – DEFINITIONS, (CONT'D.)

Message - a "Call" as defined preceding.

Minutes of Use (MOUs) – the number of minutes for which a customer is billed in relation to any usage-sensitive service element provided by the Telephone Company

Mixed Access and Transit Service – Both Transit and Access Services provided over a single facility.

Mobile Switching Center (MSC) - is the location of the switch in a cellular telephone network used by a Commercial Mobile Radio Services (CMRS) provider in performing, *inter alia*, terminating and originating functions for calls to and from a CMRS provider's end user.

MTA - Major Trading Area as defined in 47 C.F.R. paragraph 24-102 of the FCC Rules and Regulations.

Network Interface - the point of interconnection between Telephone Company communications facilities and terminal equipment, protective apparatus or wiring at a customer's premises or point of interconnection. The network interface or demarcation point shall be located on the subscriber's side of the telephone company's protector, or the equivalent thereof in cases where a protector is not employed, as provided under the Telephone Company's reasonable and nondiscriminatory standard operating practices.

Non-Authorized Traffic - traffic that is not defined as Transit or Access traffic, including 911, 411, 976, 311, 611, 500, 950, Directory Assistance, 0+ local, and 0+ operator services.

Non-Carrier - any individual, partnership, association, joint-stock company, trust, governmental entity or corporation which has not been explicitly classified as a Telecommunications Carrier by the Federal Communications Commission.

North American Numbering Plan (NANP) - a three-digit area (Numbering Plan Area) code and a seven-digit telephone number made up of a three-digit Central Office code plus a four-digit station number.

Off-hook - the active condition of a Switched Access or Transit Service connection.

On-hook - the idle condition of a Switched Access or Transit Service connection.

SECTION 1 – DEFINITIONS, (CONT'D.)

Operating Company Number (OCN) – a four place alphanumeric code (NNXX), assigned by NECA, that identifies providers of telecommunications services. A separate code is required for each state in which a company provides facility based telecommunication services.

Originating Carrier – The carrier originating a call from an End User.

Originating Direction - the origination of calls from an End User premises.

Originating Point Code - a field within a signaling message that identifies the originating network signaling node.

Other ILEC Areas –designates the rates applicable for areas served by ILECs not specifically named in this tariff.

Percentage of Intrastate IntraLATA Use (PIIU) – Intrastate intraLATA versus intrastate interLATA jurisdictional use of a service as reported by the customer. This percentage is stated as a whole number percentage which is the customer's best estimate of the percentage of the total use of the intrastate service that will be intrastate intraLATA in nature.

Percentage for Interstate Use (PIU) - Interstate jurisdictional use of a service as reported by the customer. This percentage is stated as a whole number percentage which is the customer's best estimate of the percentage of the total use of the service that will be interstate in nature.

Point of Termination - the point of demarcation within a customer-designated premises or point of interconnection at which the Telephone Company's responsibility for the provision of service ends.

Premises - a building, a portion of a building in a multi-tenant building or buildings on continuous property not separated by a public thoroughfare.

SECTION 1 – DEFINITIONS, (CONT'D.)

Service Code - an SS7 parameter that allows individual calls to be identified and routed based on specific service characteristics.

Service Interface - is that point of termination where all tariffed technical/physical parameters are defined. The Service Interface is located at the Network Interface or may be extended at the customer's request.

Signaling System Seven (SS7) - the layered protocol used for standardized Common Channel Signaling in the United States.

Telephone Company – Neutral Tandem-South Dakota, LLC

Toll Service or Long Distance - is as defined in the Act.

Terminating Carrier – The carrier terminating a call to an End User.

Terminating Direction - the completion of calls to an End User premises.

Transit or Transit Service – Transit Service means all Section 251 (b)(5) Traffic, ISP-Bound Traffic, IntraLATA Toll Traffic (not delivered to an IXC), and/or CMRS IntraMTA Traffic. A Transit rate element applies to all MOUs transited over the Telephone Company network. The originating Interconnected Carrier is responsible for payment of the appropriate rates unless otherwise specified. Transit Service does not include 911, 411, 976, 311, 611, 500, 950, Directory Assistance, 0+ local, and 0+ operator services.

Transit Tandem - a Telephone Company switching system that provides a distribution function for Transit Service traffic between Telecommunications Carriers.

Trunk - a communications path connecting two switching systems in a network, used in the establishment of an end-to-end connection.

Trunk Group - a set of trunks which are traffic engineered as a unit for the establishment of connections between switching systems in which all of the communications paths are interchangeable.

Trunk Side Connection - the connection of a transmission path to the trunk side of a local exchange switching system.

V and H Coordinates Method - a method of computing airline miles between two points by utilizing an established formula which is based on the vertical and horizontal coordinates of the two points.

SECTION 2 - GENERAL REGULATIONS

2.1 Undertaking of the Telephone Company

2.1.1 Scope

- (A) The Telephone Company does not undertake to transmit messages under this tariff.
- (B) The Telephone Company shall be responsible only for the installation, operation and maintenance of the services which it provides.
- (C) The Telephone Company will, for maintenance purposes, test its services only to the extent necessary to detect and/or clear troubles.
- (D) Services are provided 24 hours daily, seven days per week, except as set forth in other applicable sections of this tariff.
- (E) The Telephone Company does not warrant that its facilities and services meet standards other than those set forth in this tariff.

2.1.2 Limitations

- (A) The customer may not assign or transfer the use of services provided under this tariff; however, where there is no interruption of use or relocation of the services, such assignment or transfer may be made to:
 - (1) another customer, whether an individual, partnership, association or corporation, provided the assignee or transferee assumes all outstanding indebtedness for such services, and the unexpired portion of the minimum period and the termination liability, if any, applicable to such services, if any; or

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.1.2 Limitations, (Cont'd.)

(A) (Cont'd.)

(2) a court appointed receiver, trustee or other person acting pursuant to law in bankruptcy, receivership, reorganization, insolvency, liquidation or other similar proceedings, provided the assignee or transferee assumes the unexpired portion of the minimum period and the termination liability applicable to such services, if any.

(B) In all cases of assignment or transfer, the written acknowledgment of the Telephone Company is required prior to such assignment or transfer which acknowledgment shall be made within 15 days from the receipt of notification. All regulations and conditions contained in this tariff shall apply to such assignee or transferee.

(C) The assignment or transfer of services does not relieve or discharge the assignor or transferor from remaining jointly or severally liable with the assignee or transferee for any obligations existing at the time of the assignment or transfer.

(D) The regulations for the installation and restoration of Telecommunications Service Priority (TSP) system services shall be subject to the Federal Communications Commission's Rules and Regulations.

(E) Subject to compliance with the rules mentioned in (D) preceding, the services offered herein will be provided to customers on a first-come, first-served basis.

2.1.3 Liability

(A) The Telephone Company's liability, if any, for its willful misconduct is not limited by this tariff. With respect to any other claim or suit, by a customer, or by any others, for damages associated with the installation, provision, preemption, termination, maintenance, repair or restoration of service, and subject to the provisions of (B) through (L) following, the Telephone Company's liability, if any, shall not exceed an amount equal to the proportionate charge for the service for the period during which the service was affected. This liability for damages shall be in addition to any amounts that may otherwise be due the customer under this tariff as a Credit Allowance for a Service Interruption.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.1.3 Liability, (Cont'd.)

- (B) The Telephone Company shall not be liable for:
- (1) Any act or omission of any other carrier or customer providing a portion of a service;
 - (2) Any intentional, wrongful act of a Telephone Company employee when such act is not within the scope of the employee's responsibilities for the Telephone Company and/or is not authorized by the Telephone Company;
 - (3) Any representations made by Telephone Company employees that do not comport, or that are inconsistent, with the provisions of this Tariff;
 - (4) Any noncompletion of calls due to network busy conditions; and
 - (5) Any calls not actually attempted to be completed during any period that service is unavailable.
- (C) The Telephone Company is not liable for damages to the customer premises resulting from the furnishing of a service, including the installation and removal of equipment and associated wiring, unless the damage is caused by the Telephone Company's negligence.
- (D) The Telephone Company shall be indemnified, defended and held harmless by the end user against any claim, loss or damage arising from the end user's use of services offered under this tariff, involving:
- (1) Claims for libel, slander, invasion of privacy, or infringement of copyright arising from the end user's own communications;
 - (2) Claims for patent infringement arising from the end user's acts combining or using the service furnished by the Telephone Company in connection with facilities or equipment furnished by the end user or Interconnected Carrier ("IC");
 - (3) All other claims arising out of any act or omission of the end user in the course of using services provided pursuant to this tariff.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.1.3 Liability, (Cont'd.)

- (E) The Telephone Company shall be indemnified, defended and held harmless by the IC against any claim, loss or damage arising from the IC's use of services offered under this tariff, involving:
 - (1) Claims for libel, slander, invasion of privacy, or infringement of copyright arising from the IC's own communications;
 - (2) Claims for patent infringement arising from the IC's acts combining or using the service furnished by the Telephone Company in connection with facilities or equipment furnished by the end user or IC or;
 - (3) All other claims arising out of any act or omission of the IC in the course of using services provided pursuant to this tariff.
- (F) The Telephone Company does not guarantee or make any warranty with respect to its services when used in an explosive atmosphere. The Telephone Company shall be indemnified, defended and held harmless by the customer from any and all claims by any person relating to such customer's use of services so provided.
- (G) No license under patents (other than the limited license to use) is granted by the Telephone Company or shall be implied or arise by estoppel, with respect to any service offered under this tariff. The Telephone Company will defend the customer against claims of patent infringement arising solely from the use by the customer of services offered under this tariff and will indemnify such customer for any damages awarded based solely on such claims.
- (H) The Telephone Company's failure to provide or maintain services under this tariff shall be excused by labor difficulties, governmental orders, civil commotion, criminal actions taken against the Telephone Company, acts of God and other circumstances beyond the Telephone Company's reasonable control, subject to the Credit Allowance for a Service Interruption as set forth in 2.4.4. following.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.1.3 Liability, (Cont'd.)

- (I) The Telephone Company assumes no responsibility for the availability or performance of any cable or satellite systems or related facilities under the control of other entities, or for other facilities provided by other entities used for service to the Customer, even if the Telephone Company has acted as the Customer's agent in arranging for such facilities or services. Such facilities are provided subject to such degree of protection or nonpreemptibility as may be provided by the other entities.
- (J) Except as otherwise stated in this Tariff, any claim of whatever nature against the Telephone Company shall be deemed conclusively to have been waived unless presented in writing to the Telephone Company within thirty (30) days after the date of the occurrence that gave rise to the claim.
- (K) NEITHER TELEPHONE COMPANY NOR ITS AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR ASSIGNS, SHALL BE LIABLE TO CUSTOMER OR ANY THIRD PARTY, INCLUDING THEIR OWN CUSTOMERS OR END USERS, FOR ANY SPECIAL, INCIDENTAL, PUNITIVE, CONSEQUENTIAL OR OTHER INDIRECT DAMAGES, INCLUDING, BUT NOT LIMITED TO, LOST PROFITS, LOSS OF BUSINESS OR ANY OTHER PECUNIARY LOSS, ARISING IN ANY WAY OUT OF OR UNDER THIS TARIFF OR RELATED AGREEMENT, WHETHER IN TORT, CONTRACT OR OTHERWISE, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. CARRIER'S AND ITS SUBCONTRACTORS LIABILITY TO CUSTOMER AND ITS CUSTOMERS OR END USERS ARISING OUT OF OR UNDER THIS TARIFF OR RELATED AGREEMENT, WHETHER IN CONTRACT, TORT OR OTHERWISE, SHALL BE LIMITED TO THE AMOUNTS PAID BY CUSTOMER TO CARRIER IN THE SIX (6) MONTH PERIOD IMMEDIATELY PRECEDING THE TIME THAT THE EVENT RESULTING IN LIABILITY OCCURS.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.1.3 Liability, (Cont'd.)

- (L) DISCLAIMER OF WARRANTIES. TELEPHONE COMPANY MAKES NO WARRANTY TO CUSTOMER, OR TO ITS OWN CUSTOMERS, END USERS, OR ANY OTHER PERSON, WHETHER EXPRESS, IMPLIED OR STATUTORY, AS TO THE MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE, LACK OF VIRUSES, ACCURACY OR COMPLETENESS OF RESPONSES OR RESULTS, TITLE, NONINFRINGEMENT, QUIET ENJOYMENT OR QUIET POSSESSION, OR CORRESPONDENCE TO DESCRIPTION WITH RESPECT TO THE SERVICES AND ANYTHING PROVIDED OR USED UNDER, OR AS A RESULT OF, THIS TARIFF OR ANY RELATED AGREEMENT.

2.1.4 Provision of Services

The Telephone Company, to the extent that such services are or can be made available with reasonable effort, will provide to the customer upon reasonable notice services offered in other applicable sections of this tariff at rates and charges specified therein.

2.1.5 Maintenance of Services

The services provided under this tariff shall be maintained by the Telephone Company. The customer or others may not rearrange, move, disconnect, remove or attempt to repair any facilities provided by the Telephone Company, other than by connection or disconnection to any interface means used, except with the written consent of the Telephone Company.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.1.6 Refusal and Discontinuance of Service

- (A) Unless the provisions of 2.2.1(B) apply, if a customer fails to comply with the provisions of this Tariff or other requirements agreed to by the customer, including any payments to be made by it on the dates and times herein specified, the Telephone Company may, on five (5) days written notice of noncompliance, refuse additional applications for service and/or refuse to complete any pending orders for service by the non-complying customer and/or discontinue the provision of services at any time thereafter. Telephone Company reserves the right to refuse service to any carrier whose use or continued use of the Service would be materially adverse to the interest of the Telephone Company or Interconnected Carriers.

If the Telephone Company does not refuse additional applications for service on the date specified in the five (5) days notice, and the customer's noncompliance continues, nothing contained herein shall preclude the Telephone Company's right to refuse additional applications for service by the non-complying customer without further notice.

- (B) If the Telephone Company discontinues service, it will no longer route any traffic that uses the customer's Carrier Identification Code (CIC), Local Routing Number (LRN), carrier owned NPA-NXX or any other element used to route traffic. In the case of such discontinuance, all applicable charges, including termination charges, if any, shall become due. If the Telephone Company does not discontinue the provision of the services involved on the date specified in the five (5) days notice, and the customer's noncompliance continues, nothing contained herein shall preclude the Telephone Company's right to discontinue the provision of the services to the non-complying customer without further notice.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.1.6 Refusal and Discontinuance of Service, (Cont'd.)

- (C) If the Company refuses or discontinues providing service pursuant to this tariff or the Customer elects to discontinue receiving service pursuant to this tariff, in an effort to preserve uninterrupted termination of traffic and to avoid unnecessary disruptions in PSTN calling, the Customer will maintain the existing interconnections for the purpose of receiving traffic from the Company while the Company and Customer negotiate a termination agreement to govern the interconnections. The Company will be responsible for all costs associated with delivering traffic to the existing point of interconnection. These terms will continue to apply until such time as a termination agreement under which the Customer will receive traffic from the Company becomes effective. The Customer and the Company will use their best endeavors to resolve promptly and in good faith all outstanding issues in the negotiation of such an agreement, and will escalate any disputes to members of senior management. However, if the Customer and the Company are unable to come to a resolution of certain issues during the negotiation process, either the Customer or the Company may at any time request arbitration, mediation or assistance from the Commission or, if applicable, the Federal Communications Commission, to resolve the remaining issues, in accordance with the applicable commission's procedures. For purposes of this provision, "providing/receiving service pursuant to this tariff" includes services that are provided under a separate written agreement that only incorporates the General Regulations section of this tariff.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.1.7 Notification of Service-Affecting Activities

The Telephone Company will provide the customer reasonable notification of service affecting activities that may occur in normal operation of its business. Such activities may include, but are not limited to, equipment or facilities additions, removals or rearrangements, routine preventative maintenance and major switching machine change-out. Generally, such activities are not individual customer service specific; they affect many customer services. No specific advance notification period is applicable to all service activities. The Telephone Company will work cooperatively with the customer to determine reasonable notification requirements.

2.1.8 Coordination with Respect to Network Contingencies

The Telephone Company intends to work cooperatively with the customer to develop network contingency plans in order to maintain maximum network capability following natural or man-made disasters which affect telecommunications services.

2.1.9 Emergency Blocking

Customer agrees that if the Telephone Company, in its sole discretion, determines that an emergency action is necessary to protect the Telephone Company network or business, the Telephone Company may block any transmission path over the Telephone Company network to Customer transmissions that are needed to protect the integrity of the Telephone Company network or business. Neither Party shall have any obligation to the other Party for any claim, judgment or liability resulting from such blockage.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.2 Use

2.2.1 Interference or Impairment

- (A) The characteristics and methods of operation of any circuits, facilities or equipment provided by other than the Telephone Company and associated with the facilities utilized to provide services under this tariff shall not interfere with or impair service over any facilities of the Telephone Company, its affiliated companies, or its connecting and concurring carriers involved in its services, cause damage to their plant, impair the privacy of any communications carried over their facilities or create hazards to the employees of any of them or the public.
- (B) Except as provided for equipment or systems subject to the FCC Part 68 Rules in 47 C.F.R. Section 68.108, if such characteristics or methods of operation are not in accordance with (A) preceding, the Telephone Company will, where practicable, notify the customer that temporary discontinuance of the use of a service may be required; however, where prior notice is not practicable, nothing contained herein shall be deemed to preclude the Telephone Company's right to temporarily discontinue forthwith the use of a service if such action is reasonable under the circumstances. In case of such temporary discontinuance, the customer will be promptly notified and afforded the opportunity to correct the condition which gave rise to the temporary discontinuance. During such period of temporary discontinuance, credit allowance for service interruptions as set forth in 2.4.4 (A) and (B) following is not applicable.

2.2.2 Unlawful Use

The service provided under this tariff shall not be used for an unlawful purpose.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)**2.3 Obligations of the Customer****2.3.1 Damages**

The customer shall reimburse the Telephone Company for damages to the Telephone Company facilities utilized to provide services under this tariff caused by the negligence or willful act of the customer or resulting from the customer's improper use of the Telephone Company facilities, or due to malfunction of any facilities or equipment provided by other than the Telephone Company. The Telephone Company will, upon reimbursement for damages, cooperate with the customer in prosecuting a claim against the person causing such damage and the customer shall be subrogated to the right of recovery by the Telephone Company for the damages to the extent of such payment.

2.3.2 Ownership of Facilities and Theft

Facilities utilized by the Telephone Company to provide service under the provisions of this tariff shall remain the property of the Telephone Company. Such facilities shall be returned to the Telephone Company by the customer, whenever requested, within a reasonable period following the request in as good condition as reasonable wear will permit.

2.3.3 Equipment Space and Power

The customer shall furnish or arrange to have furnished to the Telephone Company, at no charge, equipment space and electrical power required by the Telephone Company to provide services under this tariff at the points of termination of such services. The selection of ac or dc power shall be mutually agreed to by the customer and the Telephone Company. The customer shall also make necessary arrangements in order that the Telephone Company will have access to such spaces at reasonable times for installing, testing, inspecting, repairing or removing Telephone Company services. Customer shall prepare its site for and accept delivery of any equipment before the requested service start date. Customer shall provide reasonable access for Carrier to install, maintain, or remove any equipment.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.3.4 Availability for Testing

The services provided under this tariff shall be available from the Telephone Company at times mutually agreed upon in order to permit the Telephone Company to make tests and adjustments appropriate for maintaining the services in satisfactory operating condition. Such tests and adjustments shall be completed within a reasonable time. No credit will be allowed for any interruptions involved during such tests and adjustments.

2.3.5 Design of Customer Services

The customer shall be solely responsible, at its own expense, for the overall design of its services and for any redesigning or rearrangement of its services which may be required because of changes in facilities, operations or procedures of the Telephone Company, minimum protection criteria or operating or maintenance characteristics of the facilities.

2.3.6 References to the Telephone Company

The customer may advise End Users that certain services are provided by the Telephone Company in connection with the service the customer furnishes to End Users; however, the customer shall not represent that the Telephone Company jointly participates in the customer's services.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.3.7 Claims and Demands for Damages

- (A) With respect to claims of patent infringement made by third persons, the customer shall defend, indemnify, protect and save harmless the Telephone Company from and against all claims arising out of the combining with, or use in connection with, the services provided under this tariff, any circuit, apparatus, system or method provided by the customer.
- (B) The customer shall defend, indemnify, protect and save harmless the Telephone Company from and against any and all suits, claims, and demands by third persons arising out of the construction, installation, operation, maintenance, or removal of the customer's circuits, facilities, or equipment connected to the Telephone Company's services provided under this tariff, including, without limitation, Workmen's Compensation claims, actions for infringement of copyright and/or unauthorized use of program material, libel and slander actions based on the content of communications transmitted over the customer's circuits, facilities or equipment, and proceedings to recover taxes, fines, or penalties for failure of the customer to obtain or maintain in effect any necessary certificates, permits, licenses, or other authority to acquire or operate the services provided under this tariff; provided, however, the foregoing indemnification shall not apply to suits, claims, and demands to recover damages for damage to property, death, or personal injury unless such suits, claims or demands are based on the tortious conduct of the customer, its officers, agents or employees.
- (C) The customer shall defend, indemnify and save harmless the Telephone Company from and against any suits, claims, losses or damages, including punitive damages, attorney fees and court costs by the customer or third parties arising out of any act or omission of the customer in the course of using services provided under this tariff.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.3.8 Traffic Information

- (A) Customer shall provide Signaling Data (as defined below) and shall not, directly or indirectly, including in concert with a third party, strip, alter, modify, add, delete, change, mask, manipulate, or incorrectly assign any Signaling Data. Signaling Data shall, at a minimum, include: (a) information that accurately reflects the geographic location of the end user that originated and/or dialed the call, when including such information is technically feasible, (b) calling party number as defined in 47 C.F.R. Section 64.1600(c) ("CPN"), (c) Automatic Number Identification as defined in 47 C.F.R. Section 64.1600(b) ("ANI"), (d) Charge Number as defined in 47 C.F.R. Section 64.1600(d), (e) Jurisdictional Indicator Parameter ("JIP") and (f) any other signaling data that affects the terminating Party's ability to jurisdictionalize traffic. If it is determined that Customer has: (a) directly or indirectly made any such addition, deletion, change, mask, manipulation, alteration, modification, or incorrect assignment, or (b) intentionally or unintentionally failed to provide any Signaling Data, all of Customer's traffic, including prior traffic, will be re-rated to the highest tariff rate. Upon request, Telephone Company will provide to Customer available Signaling Data for traffic terminated to Customer.
- (B) Where SS7 connections exist, customer will include the original and true Line Information, including the Calling Party Number (CPN), in the information transmitted to the Telephone Company for each call.
- (C) If customer is passing Line Information but the Telephone Company is not properly receiving information, the parties will work cooperatively to correct the problem.
- (D) For transit traffic, if the original and true CPN is not received from the originating third party, the Telephone Company cannot forward the CPN and will not be billed as the default originator.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)**2.3 Obligations of the Customer, (Cont'd.)****2.3.9 Jurisdictional Report Requirements***

- (A) In this section the terms "trunk group" shall be assumed to also represent a single line or trunk.
- (B) Reporting by the customer of the expected jurisdictional use of services is required because the Telephone Company cannot determine the actual jurisdiction of the customer's usage from every type of call detail recording. In some cases the Telephone Company cannot record the customer's usage of the service at all. The information reported by the customer will be used by the Telephone Company in an effort to determine the appropriate charges, as set forth in 2.3.10 following. The customer must always report this information for those services or portions of services for which the actual jurisdictional use cannot be determined by Telephone Company. * (Pursuant to Federal Communications Commission order FCC 85-145 released April 16, 1985, interstate usage is to be developed as though every call that enters a customer network at a point within the same state as that in which the called station (as designated by the called station number) is situated is an intrastate communication and every call for which the point of entry is in a state other than that where the called station (as designated by the called station number) is situated is interstate in nature.)
 - (1) When a customer orders a new Access Service, the customer shall, in its order, state the proportion of the service which is to be provided for interstate use. This proportion is the Percent for Interstate Use or PIU. The customer can either specify one general PIU for the service usage or the customer can specify an 800 terminating PIU and a residual PIU. All PIUs shall be stated as whole number percentages. If the customer chooses to report one general Percent for Interstate Use, then the general PIU will be the customer's best estimate of the percentage of the total use of the trunk group that will be interstate in nature.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.3.9 Jurisdictional Report Requirements, (Cont'd.)

(B) (1), (Cont'd.)

If the customer chooses to provide a separate 800 terminating PIU, then that PIU will be the customer's best estimate of the percentage of the total 800 terminating use of the trunk group usage that will be interstate in nature. The residual PIU would then be the customer's best estimate of the percentage of the total trunk group usage that will not be 800 terminating usage and will be interstate in nature.

The reported Percentage(s) for Interstate Use PIU(s) will be used in the determination of all interstate and intrastate charges for the trunk group, as set forth in 2.3.10 following, as well as for the associated charges for transport and port charges. The PIU(s) remains in effect until it is superseded by a revised PIU(s), as set forth in (3) following.

When the customer determines that any currently effective PIU(s) for one or more trunk groups is no longer accurate, the customer shall report a revised PIU(s) for each trunk group. The customer can report the new PIU(s) to the Telephone Company in writing. The report must clearly identify each trunk group, the account number under which it is billed, and both the current and revised PIU(s). The revised PIU(s) will become effective on the first day of the next monthly billing period that begins at least 15 business days after the day on which the customer reports the revised PIU(s) to the Telephone Company. No revisions to bills preceding the effective date of the revised PIU(s) will be made based on this report.

If no PIU is submitted as specified herein, then the PIU will be set on a default basis of 50 percent interstate traffic and 50 percent intrastate traffic.

The Telephone Company will charge the intrastate terminating switched access rates to Customers for those minutes lacking jurisdictional information that are in excess of a reasonable percentage (10%) of minutes for which this information is not transmitted. For example, if 40% of a Customer's minutes sent to the Telephone Company do not contain sufficient originating information to allow the Telephone Company to determine the originating location, the Telephone Company would apply these provisions to those minutes exceeding the 10% "floor," or 30% in this example.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.3.9 Jurisdictional Report Requirements, (Cont'd.)

(B) (Cont'd.)

(2) NPA-NXX Surrogate

If the customer's end users utilize NPA-NXXs from outside of a local market to terminate Transit calls, customer shall report an NPA-NXX Surrogate, which shall be customer's estimate of Transit traffic that appears to be access traffic. For example, a cellular end user with an NPA-NXX different than the market in which the end user is roaming and terminating a Transit call or an end user assigned an NPA-NXX from a market different than the market in which the end user is terminating Transit calls.

(3) Call Classification Report Verification

If a billing dispute arises or a regulatory commission questions the PIU, the Telephone Company will ask the customer to provide the data the customer uses to determine the PIU. The customer shall supply the data within 15 days of the Telephone Company request. The customer shall keep records of call detail, including not altering directly or indirectly with a third party call origination or termination data from which the Call Classification can be ascertained. Upon request of the Telephone Company, customer shall make the records available for inspection as reasonably necessary for purposes of verification. Requests for verification shall be limited to no more than two per year, except in extreme circumstances. Audits may be conducted by independent auditors if the Telephone Company and the customer or the customer alone is willing to pay the expenses of the audit.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

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

2.3.10 Determination of Interstate Charges for Mixed Interstate and Intrastate Tandem Service

When mixed interstate and intrastate Service is provided, all charges (i.e., nonrecurring, monthly and/or usage) including the associated charges for transport and port charges and optional features, will be prorated between interstate and intrastate. The Percentage for Interstate Use PIU(s) reported as set forth in 2.3.9 preceding will serve as the basis for prorating the charges. The percentage of a Tandem Service to be charged as interstate is applied in the following manner:

(A) For monthly and nonrecurring chargeable rate elements

(1) Tandem Services Except Direct-Trunk Transport Facilities or Entrance Facilities

Multiply the general PIU or the residual PIU, if the customer has chosen to provide usage type PIUs, times the quantity of chargeable elements times the stated applicable tariff rate per element

(2) Direct-Trunked Transport Facilities and Entrance Facilities

Multiply the Direct-Trunked Transport Facility or Entrance Facility PIU, times the quantity of chargeable elements times the stated applicable tariff rate per element.

(B) For all Tandem Services usage sensitive chargeable rate elements:

(1) If the actual jurisdiction of the usage can be reasonably identified, multiply the actual measured use that is identified by jurisdiction times the applicable stated tariff rate.

(2) If the customer has chosen to provide one general PIU for all usage types, then multiply the general PIU times actual usage (i.e., measured or Telephone Company assumed average usage) which cannot be reasonably jurisdictionally identified times the stated tariff rate. If the customer has chosen to provide separate usage type PIUs and the residual PIU, then multiply the usage type PIU or the residual PIU times the corresponding actual usage type minutes of use times the stated applicable tariff rate.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)**2.3 Obligations of the Customer, (Cont'd.)****2.3.11 Certification of Tandem Services As Intrastate****(A) Determination of Jurisdiction of Tandem Service**

Jurisdiction refers to the classification of a service as interstate (subject to the jurisdiction of the Federal Communications Commission) or as intrastate (subject to the jurisdiction of a state regulatory body). Every call that enters a customer network at a point within the same state as that in which the called station (as designated by the called station number) is situated is an intrastate communication and every call for which the point of entry is in a state other than that where the called station (as designated by the called station number) is situated is an interstate communication.

(B) Jurisdictional Use Certification Requirement

When a customer orders a service from this tariff, the customer shall certify in its order that the service meets the requirements for classification as interstate. The customer shall be responsible for advising the Telephone Company of any changes in such classification.

2.3.12 Certification of Tandem Services As Access and Transit

When a customer orders a Tandem Service from this tariff, the customer shall certify in its order that the traffic it is sending via the Tandem Service meets the requirements for Call Classification as Access and/or Transit Service. The customer shall be responsible for advising the Telephone Company of any changes in such classification.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)**2.3 Obligations of the Customer, (Cont'd.)****2.3.13 Forecasts**

Customer shall exchange technical descriptions and forecasts of its interconnection and traffic requirements in sufficient detail necessary to establish the interconnections required to assure traffic completion to and from all End Users in their respective designated service areas.

2.3.14 Coordination with Respect to Network Contingencies

The customer shall, in cooperation with the Telephone Company, coordinate in planning the actions to be taken to maintain maximum network capability, including following natural or manmade disasters which affect telecommunications services.

2.3.15 Updating Data Bases

The Telephone Company and customer shall use the Local Exchange Routing Guide (LERG) to provision the appropriate NPA NXXs. Customer shall be responsible for updating its routing tables and internal databases to reflect changes in the Telephone Company profile and terminations.

2.3.16 Resale of Services

Customer agrees not to resell the Telephone Company service in any manner without prior written consent of the Telephone Company.

2.3.17 Compliance with Laws

Customer shall comply with all applicable laws and regulations in its use of the service. Customer is solely responsible for all products and services it provides to its End Users and to other carriers.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)**2.3 Obligations of the Customer, (Cont'd.)****2.3.18 Exchange of Traffic and Information**

All facilities interconnected to the Telephone Company by Customer shall be two-way in nature, unless otherwise agreed in writing by the Telephone Company. Customer shall accept both originating and terminating traffic from the Telephone Company. At all times, Customer shall provide facilities within its network that are necessary for routing, transporting, measuring, and billing of traffic originated by other customers of the Telephone Company and for delivering traffic to the Telephone Company for termination to other carriers. Customer shall transmit traffic in the standard format compatible with the Telephone Company's network as referenced in Telcordia BOC Notes on LEC Networks Practice No. SR-TSV-002275, and terminate the traffic it receives in that standard format to the proper address on its network. Customer shall exercise best efforts in responding to requests by the Telephone Company to install additional facilities and capacity with the customer to accommodate traffic volumes and maintain the highest network quality standards. Customer agrees that Telephone Company may share certain customer information with other customers of the Telephone Company for the sole purpose of providing service.

2.3.19 Non-Authorized Traffic

Customers agree to not send Carrier Non-Authorized Traffic (i.e., traffic that is not Transit and Access traffic, including 911, 411, 976, directory assistance, and 0+ operator services local calls). Telephone Company will block any Carrier Non-Authorized Traffic sent to the Telephone Company switches and will have no obligation to carry such traffic. Customer will not send to the Telephone Company local traffic that is destined for the network of a third party carrier unless Customer has the authority to exchange traffic with that carrier.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)**2.3 Obligations of the Customer, (Cont'd.)****2.3.20 Customer Responsibility**

Customers seeking to cancel service for traffic terminating to the Company have an obligation to cease sending such traffic to the Company's network. Customers will remain responsible for traffic originating from the Company's network if the Customer accepts such traffic.

2.3.21 Determination of InterMTA and IntraMTA Traffic

CMRS provider will have the responsibility of providing, on a quarterly basis (or as otherwise agreed to by the Company), a report to the Company providing the percentage of the CMRS provider's traffic terminated to the Company that is intraMTA or interMTA. The report will also detail what percentage of the interMTA traffic is intrastate and what percentage is interstate (PIU).

Reports regarding the percentages of intraMTA or interMTA traffic (and the intrastate or interstate jurisdiction of interMTA traffic) shall be based on a reasonable traffic study conducted by the CMRS provider and available to the Company upon request. Upon reasonable written notice, the Company or its authorized representative shall have the right to conduct a review and verification of the CMRS provider's reported percentages. This includes on-site verification reviews at the CMRS provider's or vendor locations. The review may consist of an examination and verification of data involving records, systems, procedures and other information related to the traffic originated by the CMRS provider and terminated to the Company. The customer shall keep records of call detail, including not altering directly or indirectly with a third party call origination or termination data from which the call jurisdiction can be ascertained. The CMRS provider will provide the Company with reasonable access to such information as is necessary to determine amounts payable under this tariff.

If the CMRS provider fails to provide the verifiable reports required under this section, the Company will apply a default percent interMTA of 50% (and a default PIU of 50% on all interMTA traffic), on all traffic originated by the CMRS provider for termination by the Company.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.4 Payment Arrangements and Credit Allowances

2.4.1 Payment of Rates, Charges and Deposits

- (A) The Telephone Company will, in order to safeguard its interests, require a customer which has a history of late payments or does not have acceptable credit, to make a deposit prior to or at any time after the provision of a service to the customer to be held by the Telephone Company as a guarantee of the payment of rates and charges. No such deposit will be required of a customer which is a successor of a company which has established credit with the Telephone Company and has no history of late payments to the Telephone Company. Such deposit may not exceed the estimated rates and charges for the service for a two-month period. The fact that a deposit has been made in no way relieves the customer from complying with the Telephone Company's regulations as to the prompt payment of bills. At such time as the provision of the service to the customer is terminated, the amount of the deposit will be credited to the customer's account and any credit balance that may remain will be refunded.

Such a deposit will be refunded or credited in any event to the account when the customer has acceptable credit or after the customer has established a one-year prompt payment record with no late payments at any time prior to the termination of the provision of the service to the customer. In case of a cash deposit, for the period the deposit is held by the Telephone Company, the customer will receive interest at the same percentage rate as that set forth in (C) following. Simple interest will be applied to the rate for the number of days from the date the customer deposit is received by the Telephone Company to and including the date such deposit is credited to the customer's account or the date the deposit is refunded by the Telephone Company. Should a deposit be credited to the customer's account, as indicated above, no interest will accrue on the deposit from the date such deposit is credited to the customer's account.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.4 Payment Arrangements and Credit Allowances, (Cont'd.)

2.4.1 Payment of Rates, Charges and Deposits, (Cont'd.)

- (B) The Telephone Company shall bill all charges incurred by and credits due to the customer under this tariff attributable to services. In addition, the Telephone Company shall bill in advance charges for all services to be provided during the ensuing billing period except for charges associated with service usage will be billed in arrears.

The Telephone Company will establish a bill day each month for each customer account. The bill will cover non-usage sensitive service charges for the ensuing billing period for which the bill is rendered, any known unbilled non-usage sensitive charges for prior periods and unbilled usage charges for the period after the last bill day through the current bill day. Any known unbilled usage charges for prior periods and any known unbilled adjustments will be applied to this bill. Payment for bills is due as set forth in (C) following. If payment is not received by the payment date, as set forth in (C) following in immediately available funds, a late payment penalty will apply as set forth in (C) following

- (C) All bills dated as set forth in (B) preceding for service are due 30 days (payment date) after the bill day or by the next bill date (i.e., same date in the following month as the bill date) whichever is the shortest interval, except as provided herein, and are payable in immediately available funds. If such payment date would cause payment to be due on a Saturday, Sunday or Holiday (i.e., New Year's Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and a day when Martin Luther King Day, Washington's Birthday, Memorial Day, Columbus Day and Veterans Day are legally observed), payment for such bills will be due from the customer as follows:

- (1) If such payment date falls on a Sunday or on a Holiday which is observed on a Monday, the payment date shall be the first non-Holiday day following such Sunday or Holiday. If such payment date falls on a Saturday or on a Holiday which is observed on Tuesday, Wednesday, Thursday or Friday, the payment date shall be the last non-Holiday day preceding such Saturday or Holiday.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.4 Payment Arrangements and Credit Allowances, (Cont'd.)

2.4.1 Payment of Rates, Charges and Deposits, (Cont'd.)

(C) (1), (Cont'd.)

Further, if any portion of the payment is received by the Telephone Company after the payment date as set forth herein, or if any portion of the payment is received by the Telephone Company in funds which are not immediately available to the Telephone Company, then a late payment penalty shall be due to the Telephone Company. The late payment penalty shall be the portion of the payment not received by the payment date times a late factor. The late factor shall be the lesser of:

- (a) the highest interest rate (in decimal value) which may be levied by law for commercial transactions, applied on a simple interest basis for the number of days from the payment due date to and including the date that the customer actually makes the payment to the Telephone Company, or
- (b) 0.000493 per day, (annual percentage rate of 18.0% applied on a simple interest basis for the number of days from the payment date to and including the date that the customer actually makes the payment to the Telephone Company.

- (D) In the event that a billing dispute concerning any charges billed to the customer by the Telephone Company is resolved in favor of the Telephone Company, any payments withheld pending settlement of the dispute shall be subject to the late payment penalty set forth in (C) preceding. If the customer disputes the bill on or before the payment date, and pays the undisputed amount on or before the payment date, any late payment charge for the disputed amount will not start until 10 working days after the payment date. If the billing dispute is resolved in favor of the customer, no late payment penalty will apply to the disputed amount. If the customer disputes the billed amount and the billing dispute is resolved in the favor of the customer, the customer will receive a refund for any amount overpaid plus interest if applicable as described below.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.4 Payment Arrangements and Credit Allowances, (Cont'd.)

2.4.1 Payment of Rates, Charges and Deposits, (Cont'd.)

(D) (Cont'd.)

If a customer has overpaid because of a billing error, a refund in the amount of the overpayment will be made to the customer. If a claim for a refund pertaining to the overpayment was submitted by the customer within six months of the payment date, interest on the refund will be paid to the customer from the date of the overpayment to and including the date on which the refund is made to the customer. The interest rate will be 0.000493 per day (annual percentage rate of 18.0%), applied on a simple interest basis. Refunds will be made by crediting the customer's account.

(E) Adjustments for the quantities of services established or discontinued in any billing period beyond the minimum period set forth for services in other sections of this tariff will be prorated to the number of days or major fraction of days based on a 30 day month. The Telephone Company will, upon written request and if available, furnish such detailed information as may reasonably be required for verification of any bill.

(F) When a rate as set forth in this tariff is shown to more than two decimal places, the charges will be determined using the rate shown. The resulting amount will be rounded to the nearest penny (i.e., rounded to two decimal places).

(G) Customer shall pay to the Telephone Company all taxes and fees that are associated with Customer's lease, use or purchase of the Services, or any other transaction hereunder, including, but not limited to, any sales, use, federal excise or similar taxes, franchise fees, right-of-way fees, license fees and surcharges. All such taxes and fees shall be stated separately on Customer's invoices. To the extent Customer claims exemption from any tax or fee, Customer must provide a valid exemption certificate. Customer agrees to pay and to hold the Telephone Company harmless from and against any penalty, interest, additional tax, or other charge that may be levied or assessed as a result of a delay or failure of Customer, for any reason, to pay any tax or fee charged to Customer by the Telephone Company.

(H) Customer shall be liable for the payment of all fees and expenses (including, without limitation, attorney's fees and expenses, costs of investigation, and costs of litigation) reasonably incurred by the Telephone Company in collecting, or attempting to collect, any charges owed hereunder, including, without limitation, charges for services provided by the Telephone Company.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)**2.4 Payment Arrangements and Credit Allowances, (Cont'd.)****2.4.2 Minimum Periods**

The minimum period for which services are provided and for which rates and charges are applicable is one month except for those services ordered with a longer minimum term.

When a service is discontinued prior to the expiration of the minimum period, charges are applicable, whether the service is used or not, as follows:

- (A) When a service with a one-month minimum period is discontinued prior to the expiration of the minimum period, a one-month charge will apply at the rate level in effect at the time service is discontinued.
- (B) When a service with a minimum period greater than one month is discontinued prior to the expiration of the minimum period, the applicable charge will be the total monthly charges, at the rate level in effect at the time service is discontinued, for the remainder of the minimum period, unless otherwise expressly specified under the terms of the written service order.

2.4.3 Cancellation of an Order for Service

Provisions for the cancellation of an order for service are established in the service order.

2.4.4 Credit Allowance for Service Interruptions**(A) General**

A service is interrupted when it becomes unusable to the customer because of a failure of a facility component used to furnish service under this tariff or in the event that the protective controls applied by the Telephone Company result in the complete loss of service by the customer, through no fault of the customer directly or indirectly. An interruption period starts when an inoperative service is reported to the Telephone Company, and ends when the service is operative.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.4 Payment Arrangements and Credit Allowances, (Cont'd.)

2.4.4 Credit Allowance for Service Interruptions, (Cont'd.)

(B) When a Credit Allowance Applies

In case of an interruption to any service, allowance for the period of interruption, when requested by the Customer in writing within ninety (90) days of the interruption and if not due to the negligence of the customer or the customer's end user, shall be as follows:

- (1) For Dedicated Services, except as specified in the written service order, no credit shall be allowed for an interruption of less than 30 minutes. The customer shall be credited for an interruption of 30 minutes or more at the rate of 1/1440 of the monthly charges for the facility or service for each period of 30 minutes or major fraction thereof that the interruption continues for all services except as described herein. The Telephone Company may require joint out of service testing between the customer and the Telephone Company for investigation and correction of the interruption.
- (2) For interruptions of Services other than those provided for in 2.4.4.(B).(1), the Customer shall be credited for an interruption of 24 hours or more at the rate of 1/30 of the applicable fixed monthly rates, if any.
- (3) The credit allowance(s) for service interruptions in any month shall not exceed applicable fixed monthly rates for that month for that particular rate element. An interruption period starts when an inoperative service is released by the customer to the Telephone Company for testing/repair and ends when the service is operative. The customer must make an inoperative circuit available for testing by the Telephone Company and provide access as needed. Suspension of the calculated interruption period will occur when access to the customer premises cannot be gained or the customer does not release the circuit experiencing trouble.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.4 Payment Arrangements and Credit Allowances, (Cont'd.)

2.4.4 Credit Allowance for Service Interruptions, (Cont'd.)

(B) When a Credit Allowance Applies, (Cont'd.)

(4) No credit shall be allowed for interruptions required to perform preventative or routine maintenance, or to perform software updates when the customer has been notified at least 24 hours prior to such occurrences.

(5) The monthly charges used to determine the credit shall be the recurring, non-usage sensitive charges associated with that rate element (less any credits) that is inoperative.

(C) When A Credit Allowance Does Not Apply

No credit allowance will be made for:

(1) Interruptions caused by the negligence of the customer.

(2) Interruptions of a service due to the failure of equipment or systems provided by the customer or others.

(3) Interruptions of a service during any period in which the Telephone Company is not afforded access to the premises where the service is terminated.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.4 Payment Arrangements and Credit Allowances, (Cont'd.)

2.4.4 Credit Allowance for Service Interruptions, (Cont'd.)

(C) When a Credit Allowance Does Not Apply, (Cont'd.)

- (4) Interruptions of a service when the customer has released that service to the Telephone Company for maintenance purposes, to make rearrangements, or for the implementation of an order for a change in the service during the time that was negotiated with the customer prior to the release of that service.
- (5) Periods when the customer elects not to release the service for testing and/or repair and continues to use it on an impaired basis.
- (6) An interruption or a group of interruptions, resulting from a common cause, for amounts less than one dollar.

(D) Use of an Alternative Service Provided by the Telephone Company

Should the customer elect to use an alternative service provided by the Telephone Company during the period that a service is interrupted, the customer must pay the tariffed rates and charges for the alternative service used.

(E) Temporary Surrender of a Service

In certain instances, the customer may be requested by the Telephone Company to surrender a service for purposes other than maintenance, testing or activity relating to a service order. If the customer consents, a credit allowance will be granted. The credit allowance will be 1/1440 of the monthly rate for each period of 30 minutes or fraction thereof that the service is surrendered. In no case will the credit allowance exceed the monthly rate for the service rendered in any one monthly billing period.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)**2.4 Payment Arrangements and Credit Allowances, (Cont'd.)****2.4.5 Reestablishment of Service Following Fire, Flood or Other Occurrence****(A) Nonrecurring Charges Do Not Apply**

Charges do not apply for the reestablishment of service following a fire, flood or other occurrence attributed to an Act of God provided that:

- (1) The service is for the same customer.
- (2) The service is at the same location on the same premises.
- (3) The reestablishment of service begins within 60 days after Telephone Company service is available. (The 60 day period may be extended a reasonable period if the renovation of the original location on the premises affected is not practical within the allotted time period).
- (4) The services is the same type as that provided previous to the occurrence.
- (5) The customer is current for all charges for services.

(B) Nonrecurring Charges Apply

Nonrecurring Charges apply for establishing service at a different location on the same premises or at a different premise pending reestablishment of service at the original location.

2.4.6 Title or Ownership Rights

The payment of rates and charges by customers for the services offered under the provisions of this tariff does not assign, confer or transfer title or ownership rights to proposals or facilities developed or utilized, respectively, by the Telephone Company in the provision of such services.

SECTION 2 - GENERAL REGULATIONS, (CONT'D.)

2.4 Payment Arrangements and Credit Allowances, (Cont'd.)

2.4.7 Ordering, Rating and Billing of Access Services Where More Than One Exchange Telephone Company is Involved

- (A) When an Access Service is ordered by a customer where one portion of the service is provided by one Exchange Telephone Company and the other portion of the service is provided by another Exchange Telephone Company, the Telephone Company accepts and adheres to the Ordering and Billing Forum guidelines, Multiple Exchange Carrier Access Billing (MECAB) and Multiple Exchange Carrier Ordering and Design (MECOD).

2.5 Notices

2.5.1 Any notices or other communications required or permitted to be given or the terms of this section shall be in hard-copy writing, unless otherwise specifically provided herein. Such notices or communications shall be sufficiently given if delivered personally, or if delivered by prepaid overnight express service, or if delivered by confirmed facsimile transmission and with a copy delivered thereafter either personally, or by prepaid overnight express service, to the Customer's authorized representative.

2.5.2 Notice shall be given to the Telephone Company's Vice President – Regulatory, 1 South Wacker Drive, Suite 200, Chicago, IL 60606. Facsimile: (312) 346-3276.

A copy of each notice relating to an action, suit, proceeding or claim is to be sent simultaneously to the Telephone Company's General Counsel, 1 South Wacker Drive, Suite 200, Chicago, IL 60606. Facsimile: (312) 346-3276.

2.5.3 Either party may unilaterally change its designated representative and/or address for the receipt of notices by giving seven days' prior written notice to the other party in compliance with this section. Any notice or other communication shall be deemed given when received.

SECTION 3 – SERVICE DESCRIPTIONS**3.1 Tandem Service**

- 3.1.1 Tandem Services are comprised of Transit and Access Services.
- 3.1.2 All facilities installed for provisioning Tandem Services are bi-directional, two-way in nature, unless expressly agreed to by the Telephone Company. Customer ordering Tandem Service agrees to accept additional facilities to accommodate traffic volume at reasonable fill rates.
- 3.1.3 Customer must be authorized to send traffic to third party Interconnected Telecommunications Carriers prior to delivering traffic to such parties using the Tandem Service.
- 3.1.4 In the event Customer sends traffic through the Telephone Company to a carrier with whom customer does not have a traffic exchange agreement, then Customer will indemnify the Telephone Company against any and all charges levied by such third party carrier, including any charges related to such traffic and any attorneys fees and expenses.
- 3.1.5 The Telephone Company will bill its respective portion of the charges directly to the Customer, and will not function as a billing intermediary, e.g. clearinghouse.
- 3.1.6 The Terminating Carrier shall not bill the Telephone Company for terminating any Tandem Service traffic, whether identified or unidentified, i.e. whether the Telephone Company is sent CPN or is not sent CPN by the Originating Carrier.
- 3.1.7 For Access traffic routed from or to Non-Carriers, the Company will function as an End Office provider rather than as an Access Tandem provider.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)**3.2 Transit Service**

3.2.1 Transit Service allows an Originating Carrier to send all Section 251 (b)(5) Traffic, ISP-Bound Traffic, IntraLATA Toll Traffic (not delivered via IXC), and/or CMRS IntraMTA Traffic to a Terminating Carrier through the Telephone Company tandem. A Transit rate element applies to all MOUs transmitted over the Telephone Company network. The Originating Carrier is responsible for payment of the appropriate rates unless otherwise specified. Transit Service does not include 911, 411, 976, 311, 611, 500, 950, Directory Assistance, 0+ local, and 0+ operator services. Notwithstanding any other provision, Customer appoints Telephone Company to act on its behalf for the limited purpose of establishing arrangements for the termination of Transit Traffic to Terminating Carriers. This authority is limited to the establishment of the technical and operational aspects of such arrangements.

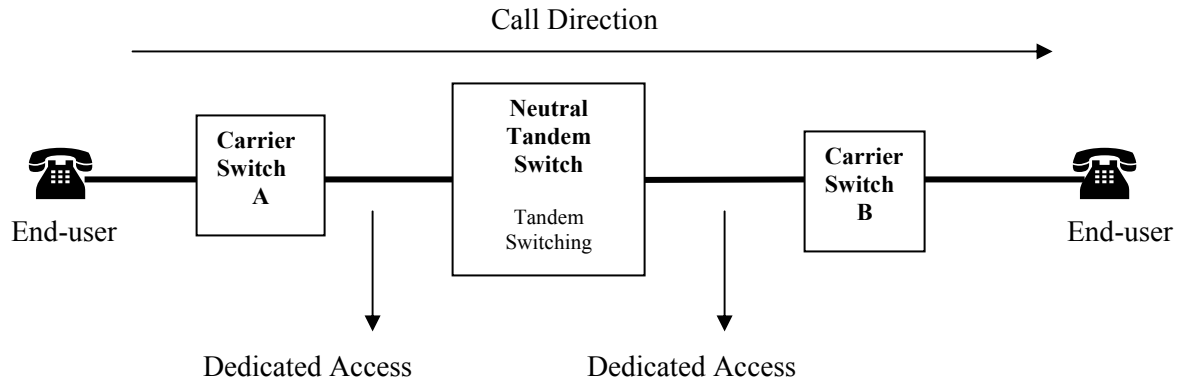
At the request of the Customer, Telephone Company will provide electronic terminating Transit billing records to the Customer to assist in their billing process. The records will be provided in standard EMI format and will be delivered to the Customer either weekly or monthly utilizing an electronic delivery method negotiated on a case by case basis. Rates are listed in section 4.1.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.2 Transit Service, (Cont'd.)

3.2.2 Transit Diagram

Carrier Switch A is the Originating Carrier
Carrier Switch B is the Terminating Carrier



3.2.3 Customer is responsible for compliance with all third party traffic termination arrangements, including primary toll carrier agreements, and optional and/or extended calling area plans.

3.2.4 Customer, the Originating Carrier, will be charged a Tandem Transit MOU charge for all Transit traffic delivered to the Telephone Company, including On-Net and Off-Net traffic, except as provided in 3.2.5 below. The Tandem Transit MOU charge may differ based on the Exchange of the terminating number.

3.2.5 If the Company re-routes an On-Net call to an Alternate Transit Tandem due to a third party failure or insufficient capacity on the Telephone Company network to terminate the call, the Customer may be charged a tandem transit MOU charge by the Alternate Transit Tandem Company. If the Customer is charged a tandem transit MOU charge by the Alternate Transit Tandem Company, the Customer will not be charged a Tandem Transit MOU by the Company. If the Company is billed by the Alternate Transit Tandem Company for that traffic, then the Company will charge Customer the same Tandem Transit MOU charge that the Company is billed by the Alternate Transit Tandem Company.

3.2.6 Transit Service shall be on a Meet Point Billing ("MPB") basis, with the Terminating Carrier and the Telephone Company billing their respective portions of the charges directly to the Originating Carrier, and neither the Terminating Carrier nor the Telephone Company will be required to function as a billing intermediary, e.g. clearinghouse.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.3 Access Service

- 3.3.1 Access Service enables Interconnected Carriers or the Company to originate Toll Service to Toll Service providers and Toll Service providers to terminate Toll Services to Interconnected Carriers or the Company. Access Services do not include 911, 411, 976, 311, 611, 500, 950, Directory Assistance, 0+ local, and 0+ operator services.

Access Service for traffic originating to Toll Service providers can be delivered either over a direct connection between the Company and Toll Service provider when the connection exists, or when the connection does not exist, via an Alternate Access Tandem.

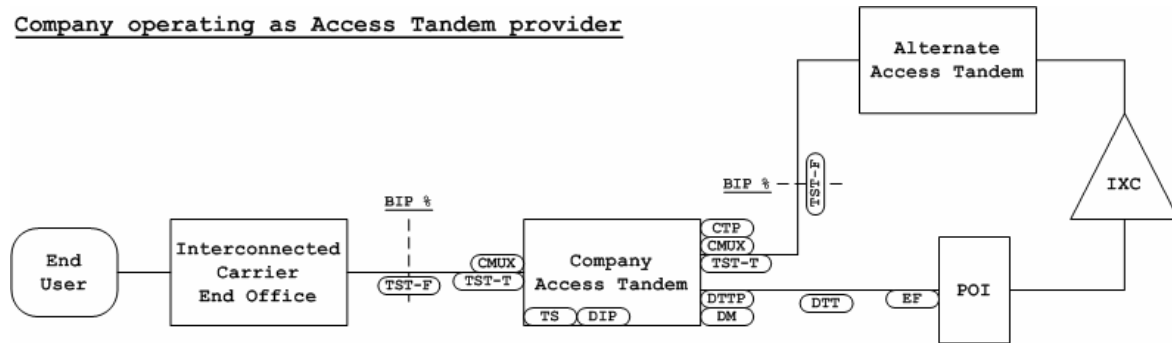
Access Service for traffic terminating to Interconnected Carriers or Company End Office can be delivered either over a direct connection between the Company and Toll Service provider when the connection exists, or when the connection does not exist, via an Alternate Access Tandem.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

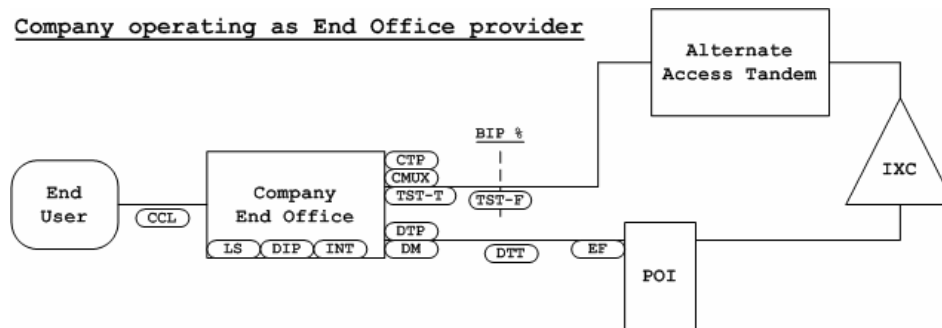
3.3 Access Service, (Cont'd.)

3.3.2 Access Diagrams

Company operating as Access Tandem provider



Company operating as End Office provider



<u>Element</u>	<u>Element Description</u>
DIP	Database Query Charge (where it occurs)
CCL	Carrier Common Line
LS	Local Switching
INT	Interconnection
CTP	Common Trunk Port
TST-T	Tandem Switched Transport – Termination
TST-F	Tandem Switched Transport – Facility
CMUX	Common Transport Multiplexing
TS	Tandem Switching
DTP	Dedicated Trunk Port
DTTP	Dedicated Tandem Trunk Port
DM	Dedicated Multiplexing
DTT	Direct-Trunked Transport (fixed and per mile)
EF	Entrance Facility

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.3 Access Service, (Cont'd.)

- 3.3.3 Customer is responsible for compliance with all third party traffic termination arrangements, including primary toll carrier agreements, and optional and/or extended calling area plans.
- 3.3.4 In addition to all applicable nonrecurring and monthly recurring charges, Customer for Access Service will be charged a MOU charge for all Access Service traffic delivered to or from the Telephone Company.
- 3.3.5 Customer for Access Service is the Toll Service provider
- 3.3.6 Access Service shall be on a Meet Point Billing (“MPB”) basis, with all applicable carriers billing their respective portions of the charges directly to the Toll Service provider, and Telephone Company will not be required to function as or use a billing intermediary, e.g. clearinghouse.
- 3.3.7 The rates charged for Switched Access elements identified herein are applied in a manner such that the rate charged by the Company reasonably approximates the rate charged by the relevant Incumbent Local Exchange Carrier for each Switched Access element.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)**3.4 Collocation**

Unless otherwise specified herein, the general regulations specified in Section 3, apply and are in addition to the regulations for collocation specified in this tariff. Rates and charges for the individual collocation arrangements are contained in Section 4.3.

3.4.1 General

- (A) Collocation provides for access to central office cross connect points that will serve as a point of interconnection for the exchange of traffic with the Telephone Company.
- (B) Connection to physical collocation or cageless collocation is available through fiber optic facilities, or leased facilities of a third party.

3.4.2 Forecasting and Forecast Requirements

- (A) Forecast Requests - The Telephone Company will request from the Customer, forecasts on a semiannual basis, with each forecast covering a two-year period. The Customer will be required to update the near-term (six month) forecasted application dates. Information requested will include central office, month applications are expected to be sent, requested in-service month, and square footage required. For augments, the Customer may elect to substitute alternative CLLI codes within a LATA for the forecasted demand.
 - (1) If the Telephone Company has a written guarantee of reimbursement, it will examine forecasts for offices in which it is necessary to condition space, and discuss these forecasts with Customer to determine the required space to be conditioned.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.4 Collocation, (Cont'd.)

3.4.2 Forecasting and Forecast Requirements, (Cont'd.)

- (A) Forecast Requests, (Cont'd.)
- (2) If the Telephone Company commits to condition space based on forecasts, Customer will give the Telephone Company a non-refundable deposit equal to the application fee.
 - (3) The Telephone Company will perform initial reviews of requested central offices forecasted for the next six months to identify potential problem sites.
 - (4) The Telephone Company will consider forecasts in staffing decisions.
 - (5) The Telephone Company will enter into planning discussions with forecasting Customer to validate forecasts, discuss flexibility in potential trouble areas, and assist in application preparation.
- (B) The Telephone Company will aggregate data received in Customer forecasts and provide Customer with information which includes the central offices requested, the number of applications for each central office, and any previously known space constraints.
- (C) Unforecasted demand (including augments) will be given a lesser priority than forecasted demand. The Telephone Company will make every attempt to meet standard intervals for unforecasted requests. However, if unanticipated requests push demand beyond the Telephone Company's capacity limits, the Telephone Company will negotiate longer intervals as required (and within reason).
- (D) Interval adjustments will be discussed with the Customer at the time the application is received. In general, if forecasts are received less than two months prior to the application date, the interval start day may be postponed as follows:
- (1) No Forecast Received—Interval start date commences two months after application receipt date.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.4 Collocation, (Cont'd.)

3.4.2 Forecasting and Forecast Requirements, (Cont'd.)

(D) (Cont'd.)

(2) Forecast Received One Month or Less Prior to Application Receipt Date - Interval start date commences two months after application receipt date.

(3) Forecast Received Greater than One Month and Less Than Two Months Prior to Application Receipt Date - Interval start date commences one month after application receipt date.

(4) Forecast Received Two Months or More Prior to Application Receipt Date - Interval start date commences on the application receipt date.

(E) The Telephone Company will inform all forecasting Customers of the total square footage available and the total number of Customers requesting space in that central office. The Telephone Company will offer each Customer an equal share of the central office space, and request applications immediately, with appropriate fees, to reserve the space. The Customers will have one month to respond. If a Customer does not respond within the specified time, its apportioned share will be allocated evenly among those that do respond.

(F) If there is not enough space available to provide all requesting Customers with a minimum configuration (i.e., 25 square feet), a drawing for the space will be held. The Telephone Company will inform each Customer of the number of requesting Customers and the quantity of Customers that can be accommodated in the available space. The Telephone Company will request applications immediately, with appropriate fees, to enter the drawing. Each Customer will have one month to respond or be ineligible for the drawing. Applications and associated fees will be returned to those not selected in the drawing.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)**3.4 Collocation, (Cont'd.)****3.4.3 Termination of Arrangement**

- (A) The Telephone Company shall have the right to terminate a collocation arrangement at any time with respect to any area(s) of the Telephone Company central office premises which becomes the subject of a taking by eminent authority having such power. The Telephone Company shall notify the Customer of such termination immediately after it receives notice of the taking. The Customer shall have no claim against the Telephone Company for any relocation expenses, any part of any award that may be made for such taking or value of any unexpired arrangement that results from a termination by the Telephone Company under this provision, or any loss of business from full or partial interruption or interference due to any such termination
- (B) If at anytime the Telephone Company reasonably determines that any Customer's facilities or equipment or the installation of the Customer's facilities or equipment does not meet the requirements of these terms and conditions, the Customer will be responsible for the costs associated with the removal or modifications of such facilities to render it compliant. If the Customer fails to correct any non-compliance with these standards within 15 days' written notice, the Telephone Company may have the facilities or equipment removed or the condition corrected at the Customer's expense, subject to the collocation dispute resolution procedures.
- (C) If the Telephone Company reasonably determines that any Customer's activities, equipment or facilities are unsafe, or are in violation of any applicable fire, environmental, health, safety or other laws or regulations, or pose an immediate threat to the safety of the Telephone Company's employees or others or to the Telephone Company's network, the Telephone Company has the right to immediately stop such activities or the operation of such facilities or equipment without prior notice. The Customer will be charged for any costs incurred as a result of such actions.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.4 Collocation, (Cont'd.)

3.4.3 Termination of Arrangement, (Cont'd.)

- (D) The Telephone Company may also discontinue service or cancel an application for the arrangement without incurring any liability for any of the following reasons.
- (1) Upon non-payment of any sum owing to the Telephone Company for more than 30 days beyond the date of rendition of the bill for the arrangement, the Telephone Company may, on 30 days advance notice in writing to the Customer without incurring any liability, discontinue the furnishing of a new or existing arrangement, subject to the provisions for dispute resolution.
 - (2) The Telephone Company shall be prohibited from furnishing services by order of a court or other government authority having jurisdiction.
 - (3) In the event of fraudulent use of the Telephone Company's network, the Telephone Company may discontinue the arrangement without notice and/or seek legal recourse to recover all costs involved in enforcement of this provision.
- (E) Grounds for Termination by the Telephone Company - The Telephone Company reserves the right to inspect the Customer's collocation arrangement to determine if the collocation arrangement is being used for interconnection. If the Telephone Company determines that the collocation arrangement is not being used for interconnection, the Telephone Company reserves the right to terminate the Customer's collocation service upon thirty (30) calendar days notice. If the Telephone Company elects to terminate a collocation arrangement pursuant to this section, the termination shall be governed by this Section 3.4.3.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.4 Collocation, (Cont'd.)

3.4.3 Termination of Arrangement, (Cont'd.)

(F) Termination by the Customer - A Customer must notify the Telephone Company in writing of its plans to terminate a collocation arrangement (“Customer Termination Notice”), and such Customer termination shall be governed by this Section 3.4.3.

(1) Termination After Completion If a Customer elects to terminate an existing collocation arrangement after a collocation arrangement has been completed, the termination will be effective thirty (30) calendar days after the Telephone Company’s receipt of the Customer Termination Notice.

If Customer terminates a collocation arrangement under this section, the termination shall be governed by this Section 3.4.3 and the Customer remains responsible to pay any unpaid Nonrecurring Charges associated with the terminated arrangement as set forth in Section 4.3. If the collocation arrangement being terminated contains equipment in which a third party maintains an ownership or a security interest, the Customer shall include a list of any such owners and secured parties in the Customer Termination Notice.

(2) Termination Prior to Completion If the Customer elects to terminate a request for collocation when construction is in progress and prior to completion of the collocation arrangement, the termination will be effective upon the Telephone Company’s receipt of the Customer Termination Notice. Application fees submitted will not be refunded. The Customer Termination Notice must be received by the Telephone Company prior to the Scheduled Completion Date to avoid incurring any monthly recurring charges.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.4 Collocation, (Cont'd.)

3.4.3 Termination of Arrangement, (Cont'd.)

(G) Effect Of Termination If the Telephone Company or Customer terminates a collocation arrangement under this Tariff, the following provisions shall apply:

- (1) Equipment Removal and Monthly Recurring Charges - The Customer shall disconnect and remove its equipment from the designated collocation space by the effective date of the termination. Upon removal by the Customer of all its equipment from the collocation space, if the Customer does not restore the collocation space to its original condition at time of occupancy, the Customer will reimburse the Telephone Company for the cost to do so.

Due to physical and technical constraints, removal of the Customer's cables will be at the Telephone Company's option. The Telephone Company reserves the right to remove the Customer's equipment if the Customer fails to remove and dispose of the equipment by the effective date of the termination. The Customer will be charged the appropriate additional labor charge in Section 4.3 for the removal and disposal of such equipment. All monthly recurring charges will continue to be charged to the Customer until the effective date of the termination or, at the Telephone Company's discretion, until any later date, not to exceed 60 days, that all equipment is removed and the collocation space is restored to its original condition at space turnover.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.4 Collocation, (Cont'd.)

3.4.4 Collocation Capacity

- (A) Telephone Company Capacity - The Telephone Company's estimate of its present capacity (i.e., no more than an increase of 15% over the average number of applications received for the preceding three months in a particular geographic area) is based on current staffing and current vendor arrangements. If the forecasts indicate spikes in demand, the Telephone Company will attempt to smooth the demand via negotiations with the forecasting Customers. If the Telephone Company and the Customer fail to agree to smooth demand, the Telephone Company will determine if additional expenditures would be required to satisfy the spikes in demand.
- (B) Vendor Delays - No party shall be excused from their obligations due to the acts or omissions of a party's subcontractors, material, person, suppliers or other third persons providing such products or services to such party unless such acts or omissions are the product of a force majeure event, or unless such delay or failure and the consequences thereof are beyond the reasonable control and without the fault or negligence of the party claiming excusable delay or failure to perform.
- (C) Vendor Capacity - The Telephone Company will continuously seek to improve vendor performance for all central office work, including collocation. Since the vendors require notice in order to meet increases in demand, the Telephone Company will share Customer actual and forecasted demand with appropriate vendors, as required, subject to the appropriate confidentiality safeguards.

Customers may also contract with Telephone Company approved vendors directly for a variety of the functions required. Customers can contract directly for cage construction, electrical outlets, lighting, ground bar and point-of-termination bay (POT Bay) bay installation in their cages.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.4 Collocation, (Cont'd.)

3.4.5 Implementation of Collocation Charges

(A) The Telephone Company shall provide the Customer with a notice (“Scheduled Completion Notice”) indicating the scheduled completion date (“Scheduled Completion Date”) for the collocation arrangement. The Telephone Company shall also provide a notice that will remind the Customer of the Scheduled Completion Date and request the Customer to schedule and attend a “Collocation Acceptance Meeting” (“CAM”). Collocation charges will be implemented in accordance with this section regardless of the readiness of the Customer to utilize the completed collocation arrangement.

(1) Collection of Non-Recurring Charges - The Customer shall have ten business days from the receipt of a Telephone Company provided collocation schedule to pay 50% of the Nonrecurring Charges (NRCs) associated with the ordered collocation service. The balance of the NRCs (“NRC Balance”) will be billed to the Customer upon Customer acceptance of the collocation arrangement or thirty (30) calendar days after the collocation arrangement is completed, whichever comes first.

(2) Commencement of Recurring Charges - Monthly recurring charges will commence upon Customer acceptance of the collocation arrangement or thirty (30) calendar days after the collocation arrangement is completed, whichever comes first (“Commencement Date”), and shall continue until terminated pursuant to Section 3.4.3.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.4 Collocation, (Cont'd.)

3.4.5 Implementation of Collocation Charges, (Cont'd.)

(A) (Cont'd.)

(3) Extension Request - A Customer may request to extend or delay the Scheduled Completion Date of a collocation arrangement for up to six (6) months. A Customer electing to extend the Scheduled Completion Date of a collocation arrangement must notify the Telephone Company in writing ("Extension Notice") within thirty (30) calendar days after receiving the Scheduled Completion Notice. In order for the Telephone Company to delay billing of monthly recurring charges for the applicable collocation arrangement, the Customer must remit to the Telephone Company the NRC Balance for the collocation arrangement with the Extension Notice. Monthly recurring charges will not be billed by the Telephone Company until the space for the collocation arrangement is accepted by the Customer or the six (6) month extension period has expired, whichever comes first. At any time during or after the extension period, if the Customer terminates its collocation arrangement, the termination shall be governed by Section 3.4.3.

(B) If the Telephone Company believes the space for the collocation arrangement is needed to satisfy another's Customer's collocation request prior to the end of the six (6) month extension period, the Telephone Company will notify the original Customer that its collocation space has been requested by another Customer. The original Customer will have up to five (5) business days after receipt of the notification to retain the collocation space by notifying the Telephone Company in writing that it desires to keep the space ("Retention Notice"). If the original Customer retains the collocation space, monthly recurring charges shall commence for the original Customer thirty (30) calendar days after the original Customer sends the Retention Notice or when the original Customer accepts the space, whichever comes first.

SECTION 3 – SERVICE DESCRIPTIONS, (CONT'D.)

3.4 Collocation, (Cont'd.)

3.4.6 Closure, Decommissioning or Sale of Premises

- (A) Collocation arrangements will automatically terminate if the premises in which the collocation space is located is closed, decommissioned or sold and no longer houses the Telephone Company's network facilities. At least one hundred eighty (180) days written notice will be given to the Customer of events which may lead to the automatic termination of any such arrangement pursuant to this tariff, except when extraordinary circumstances require a shorter interval. In such cases, the Telephone Company will provide notice to the Customer as soon as practicable. The Telephone Company will work with the Customer to identify alternate collocation arrangements. The Telephone Company will work cooperatively with the Customer to minimize any potential for service interruption resulting from such actions.

SECTION 4 – RATES AND CHARGES

4.1	Transit Service Charges		
			<u>Usage Charge</u>
4.1.1	Tandem Switching Per minute of use		\$.001382
4.1.2	Database Charge LNP Query - per query		\$0.002002
4.1.3	Blocked Call Charge Per Blocked Call		\$0.001880
			<u>Monthly Recurring Charge</u>
4.1.4	Transit Dedicated Transport Facility Per DS1 - First 5 miles Per DS1 - Each additional mile		\$210.00 \$ 15.00
4.1.5	Trunk Group Charge First trunk group Each additional trunk group		\$ 00.00 \$ 50.00
4.1.6	Billing Records Charge Per Market		\$250.00
			<u>Nonrecurring Charge</u>
4.1.7	Transit Service Non-Recurring Charges		
	Per Market - Billing Records Charge	\$500.00	
	Per Service Order Fee:	\$ 50.00	
	Per Reconfiguration:	\$150.00	
	Install (per DS1)	\$885.00	

SECTION 4 – RATES AND CHARGES, (CONT'D.)

4.2	Access Service Charges	<u>Nonrecurring Charge</u>	<u>Monthly Recurring Charge</u>
4.2.1	Entrance Facility		
	Entrance Facility - (DS3)		
	Qwest Areas	-----	\$1,282.00
	Other ILEC Areas	-----	TBD
	Entrance Facility - (DS1)		
	Qwest Areas	-----	\$150.00
	Other ILEC Areas	-----	TBD
4.2.2	Direct-Trunked Transport – Fixed, Per Termination		
	Direct-Trunked Transport – Fixed per DS3		
	Qwest Areas	-----	\$593.75
	Other ILEC Areas	-----	TBD
	Direct-Trunked Transport – Fixed per DS1		
	Qwest Areas	-----	\$200.00
	Other ILEC Areas	-----	TBD

SECTION 4 – RATES AND CHARGES, (CONT'D.)

4.2	Access Service Charges, (Cont'd.)	
		<u>Monthly Recurring Charge</u>
4.2.3	Direct-Trunked Transport – Per Mile	
	Direct-Trunked Transport – Per Mile (DS3)	
	Qwest Areas	\$51.15
	Other ILEC Areas	TBD
	Direct-Trunked Transport – Per Mile (DS1)	
	Qwest Areas	\$15.00
	Other ILEC Areas	TBD
4.2.4	Dedicated Multiplexing	
	Qwest Areas	\$357.20
	Other ILEC Areas	TBD
4.2.5	Dedicated Trunk Port, per DS1	
	Qwest Areas	\$0.00
	Other ILEC Areas	TBD
4.2.6	Dedicated Tandem Trunk Port, per DS1	
	Qwest Areas	\$0.00
	Other ILEC Areas	TBD
		<u>Usage Charge</u>
4.2.7	Tandem Switching, per minute of use	
	Qwest Areas	\$0.0077000
	Other ILEC Areas	TBD

SECTION 4 – RATES AND CHARGES, (CONT'D.)

4.2	Access Service Charges, (Cont'd.)	
		<u>Usage Charge</u>
4.2.8	Tandem Switched Transport - Termination, per minute of use	
	Qwest Areas	\$0.0002730
	Other ILEC Areas – per termination	TBD
4.2.9	Tandem Switched Transport – Facility, per minute of use per mile	
	Qwest Areas	\$0.0000180
	Other ILEC Areas	TBD
4.2.10	Common Transport Multiplexing (DS3/DS1), per minute of use	
	Qwest Areas	\$0.0000000
	Other ILEC Areas	TBD
4.2.11	Common Trunk Port, per minute of use	
	Qwest Areas	\$0.0000000
	Other ILEC Areas	TBD
4.2.12	Local Switching, per minute of use	
	Qwest Areas	\$0.0086100
	Other ILEC Areas	TBD
4.2.13	Carrier Common Line	
	Qwest Areas	
	Per originating minute of use	\$0. 0384200
	Per terminating minute of use	\$0. 0384200
	Other ILEC Areas	
	Per originating minute of use	TBD
	Per terminating minute of use	TBD

SECTION 4 – RATES AND CHARGES, (CONT'D.)

4.2 Access Service Charges, (Cont'd.)

	<u>Usage Charge</u>
4.2.14 Interconnection Charge	
Per minute of use	\$0.0046810
4.2.15 Database Charges	
LNP Query - per query	\$0.0020020
Qwest Areas - 800 Query	
Basic, per query	\$0.0033120
POTS translation, per query	\$0.0036650
Other ILEC Areas - 800 Query	
Basic, per query	TBD
POTS translation, per query	TBD
4.2.16 Blocked Call Charge	
Per Blocked Call	\$0.001880
4.2.17 Access Service Installation Charges	
	<u>Nonrecurring Charge</u>
Per Service Order Fee:	\$50.00
Per Reconfiguration:	\$150.00
Install (per DS1)	\$885.00

SECTION 4 – RATES AND CHARGES, (CONT'D.)

4.3 Collocation Charges

	<u>Nonrecurring Charge</u>	<u>Monthly Recurring Charge</u>	
4.3.1	Application Fees		
	Initial	\$5,000.00	
	Subsequent	\$5,000.00	
	Augment	\$2,500.00	
4.3.2	Engineering and Implementation		
	Initial Arrangements	\$3,436.00	
	Subsequent Arrangements	\$1,898.00	
	Cage Expansion and Additional Cable	\$3,542.00	
	Additional Cabling	\$1,334.00	
	Power Augment Only	\$1,334.00	
	Cabling Plus Equipment – Cage less	\$9,505.79	
	Cabling Only – Cage less	\$7,320.29	
4.3.3	Site Survey/Report		
	Per request	\$1,557.45	
4.3.4	SAC Cable and Frame Termination		
	DS1 - Per 28 – DCS	\$2,103.03	
	DS1 - Per 28 – DCS		\$ 400.47
	Per DS3/STS-1 – DSX	\$ 521.29	
	Per DS3/STS-1 – DSX		\$ 20.24
4.3.5	Land and Building		
	25 Square Feet		\$ 465.40
	100 Square Feet		\$ 984.50
	300 Square Feet		\$2,416.50
	Additional 20 Square Feet		\$ 143.20

SECTION 4 – RATES AND CHARGES, (CONT'D.)

4.3	Collocation Charges, (Cont'd.)		<u>Nonrecurring Charge</u>	<u>Monthly Recurring Charge</u>	
4.3.6	Heating, Ventilation and Air Conditioning Per 10 load amps			\$ 7.03	
4.3.7	Escorting Per technician, per 1/4 hour or fraction		\$ 15.09		
4.3.8	DC Power Cabling and Fusing Charge Installation of 60 Amp Ampacity DC Power Feed -Customer Selected Fuse Size: Up to 60 Amps – Per Feed		\$ 960.00		
4.3.9	DC Power Per number of load amps requested			\$19.64	
4.3.10	DC Power Feed Augment Load Amp Augment Per Collocation Arrangement Over Current Protector Augment Per Feed		\$ 200.00 \$ 425.00		
4.3.11	Shelf, Bay Installation - Per shelf Per quarter equipment bay or fraction thereof		\$1,287.36	\$12.44	
4.3.12	Additional Labor Charges				
	<u>Labor Rates</u>	<u>Time</u>	<u>Minimums</u>	<u>Billing Increments</u>	<u>Rate</u>
	Standard Business Hours	8am - 5pm (Local Time)	1 hour	Hour	\$100 per hour
	After Hours	5pm - 8am (Local Time)	1 hour	Hour	\$200 per hour
	Saturday, Sunday and Holidays	-----	2 hour	Hour	\$250 per hour

SECTION 5 - SPECIAL ARRANGEMENTS**5.1 Special Construction****5.1.1 Basis for Charges**

Where the Company furnishes a facility or service for which a rate or charge is not specified in the Company's tariffs, charges will be based on the costs incurred by the Company and may include:

- (A) nonrecurring type charges;
- (B) recurring type charges;
- (C) termination liabilities; or
- (D) combinations thereof.

5.1.2 Basis for Cost Computation

The costs referred to in 5.1.1 preceding may include one or more of the following items to the extent they are applicable:

- (A) cost installed of the facilities to be provided including estimated costs for the rearrangements of existing facilities. Cost installed includes the cost of:
 - (1) equipment and materials provided or used,
 - (2) engineering, labor and supervision,
 - (3) transportation, and
 - (4) rights of way;

SECTION 5 - SPECIAL ARRANGEMENTS, (CONT'D.)

5.1 Special Construction, (Cont'd.)

5.1.2 Basis for Cost Computation, (Cont'd.)

- (B) cost of maintenance;
- (C) depreciation on the estimated cost installed of any facilities provided, based on the anticipated useful service life of the facilities with an appropriate allowance for the estimated net salvage;
- (D) administration, taxes and uncollectible revenue on the basis of reasonable average costs for these items;
- (E) license preparation, processing and related fees;
- (F) tariff preparation, processing and related fees;
- (G) any other identifiable costs related to the facilities provided; or
- (H) an amount for return and contingencies.

5.1.3 Termination Liability

To the extent that there is no other requirement for use by the Company, a termination liability may apply for facilities specially constructed at the request of the customer.

- (A) The termination liability period is the estimated service life of the facilities provided.

SECTION 5 - SPECIAL ARRANGEMENTS, (CONT'D.)

5.1 Special Construction, (Cont'd.)

5.1.3 Termination Liability, (Cont'd.)

- (B) The amount of the maximum termination liability is equal to the estimated amounts for:
- (1) Cost installed of the facilities provided including estimated costs for rearrangements of existing facilities and/or construction of new facilities as appropriate, less net salvage. Cost installed includes the cost of:
 - (a) equipment and materials provided or used,
 - (b) engineering, labor and supervision,
 - (c) transportation, and
 - (d) rights of way;
 - (2) license preparation, processing, and related fees;
 - (3) tariff preparation, processing, and related fees;
 - (4) cost of removal and restoration, where appropriate; and
 - (5) any other identifiable costs related to the specially constructed or rearranged facilities.
- (C) The applicable termination liability method for calculating the unpaid balance of a term obligation is: (a) the sum of the amounts determined as set forth in Section 5.1.3(B) preceding, multiplied by (b) a factor related to the unexpired period of liability, multiplied by (c) the discount rate for return and contingencies. The amount determined in section 5.1.3(B) preceding shall be adjusted to reflect the predetermined estimate net salvage, including any reuse of the facilities provided. This product is adjusted to reflect applicable taxes.

SECTION 5 - SPECIAL ARRANGEMENTS, (CONT'D.)**5.2 Individual Case Basis (ICB) Arrangements**

Arrangements will be developed on a case-by-case basis in response to a bona fide request from a Customer or prospective Customer to develop a competitive bid for a service offered under this tariff. Rates quoted in response to such competitive requests may be different than those specified for such services in this tariff. ICB rates will be offered to the Customer in writing and on a non-discriminatory basis.

If the Company and a Customer enter into an ICB arrangement, the ICB arrangement may provide the Customer or the Company with certain rights to terminate the arrangement. If the Customer or the Company exercises such a termination right, then upon the effective date of termination, the ICB rates will no longer apply. Customer may choose to transit traffic through the Company at tariff rates, subject to meeting any credit requirements of the Company in this tariff. Regardless, in an effort to preserve uninterrupted termination of traffic and to avoid unnecessary disruptions in PSTN calling, Customer will maintain the existing interconnections for the purpose of receiving traffic from the Company while the Company and Customer negotiate a termination agreement governing the interconnection. The terms of the ICB arrangement applicable to the Customer's acceptance of traffic from the Company will continue to apply until such time as a successor termination agreement becomes effective. The Customer and the Company will use their best endeavors to resolve in good faith all outstanding issues in the renegotiation of a successor agreement and will escalate any disputes to members of senior management. However, if the Customer and the Company are unable to come to a resolution of certain issues during the renegotiation process, either the Customer or the Company may at any time request arbitration, mediation or assistance from the Commission or, if applicable, the Federal Communications Commission, to resolve the remaining issues, in accordance with the applicable commission's procedures.

5.3 Temporary Promotional Programs

The Company may establish temporary promotional programs wherein it may waive or reduce non-recurring or recurring charges, to introduce present or potential Customers to a service not previously received by the Customers.

EXHIBIT H

Request for Interconnection

Dave Tatak

From: Donahue, Nancy [Nancy.Donahue@qwest.com]
Sent: Tuesday, December 23, 2008 8:27 PM
To: Dave Tatak
Subject: Neutral Tandem RE: Request for an Interconnection agreement for South Dakota

Dave:

We can negotiate the terms and conditions for new ICAs in multiple states, at the same time, using the Multi-State Negotiation Interconnection Agreement (ICA). The Multi-State Negotiation ICA has been updated since I provided it to you for the state of Wyoming; however, the most current version can be retrieved from the Qwest website: <http://www.qwest.com/wholesale/clecs/sgatswireline.html>.

As you know, for purposes of negotiations, please e-mail suggested revisions in a red-lined form directly to me at Nancy.Donahue@Qwest.com.

Best wishes for a safe and wonderful holiday season,

Nancy

Nancy J. Donahue
Staff Advocate Policy & Law
1801 California
Suite 2410
Denver, CO 80202-1984
(303) 965-3887

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From: Dave Tatak [mailto:dtatak@neutraltandem.com]
Sent: Tuesday, December 23, 2008 2:14 PM
To: Donahue, Nancy
Subject: Request for an Interconnection agreement for South Dakota

Nancy,

Neutral Tandem-South Dakota, LLC is in the process of being certified in South Dakota and needs an ICA with Qwest to conduct business in the state. Please send your current template for review. Will this be the same template I am reviewing for Wyoming?

Thank you,
Dave Tatak
312-384-8050

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