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Table of Contents

As filed with the Securities and Exchange Commission on January 22, 2007.

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

NEUTRAL TANDEM, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**4813**	**31-1786871**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

OFFICIAL FILE
ICC

One South Wacker Drive
Suite 200
Chicago, Illinois 60606
(312) 384-8000
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

EVIDENCE
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MAY 22, 2007
Serial 32 ph 15

Rian J. Wren
President and Chief Executive Officer
Neutral Tandem, Inc.
One South Wacker Drive
Suite 200
Chicago, IL 60606
(312) 384-8000
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

With copies to:

Gerald T. Nowak
Andrew J. Terry
Kirkland & Ellis LLP
200 E. Randolph Drive
Chicago, Illinois 60601
(312) 861-2000

Richard A. Drucker
Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017
(212) 450-4000

Approximate date of commencement of proposed sale to the public:
As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(1) (2)	Amount of Registration Fee
Common Stock, $0.01 par value	$ 75,000,000	$ 8,025

(1) Includes shares of common stock that the underwriters have the option to purchase from Neutral Tandem to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission acting pursuant to said Section 8(a) may determine.

Table of Contents

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. The prospectus is not an offer to sell these securities nor a solicitation of an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.

PRELIMINARY PROSPECTUS (Subject to Completion)
ISSUED JANUARY 22, 2007

Shares

NEUTRAL TANDEM™

COMMON STOCK

This is Neutral Tandem, Inc.'s initial public offering of shares of common stock and no public market exists for our shares. Neutral Tandem is offering shares of common stock, and the selling shareholders named in this prospectus are offering shares of our common stock. We will not receive any proceeds from the sale of our common stock by the selling shareholders.

We anticipate that the initial public offering price will be between $ and $ per share. We intend to apply to list our common stock on the NASDAQ Global Market under the symbol "TNDM."

Investing in our common stock involves risks. See "Risk Factors" beginning on page 8.

PRICE $ A SHARE

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Neutral Tandem	Proceeds to Selling Shareholders
Per share	$	$	$	$
Total	$	$	$	$

The underwriters may also purchase up to an additional shares of common stock from the selling shareholders, at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover any over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on , 2007.

Sole Book Runner
MORGAN STANLEY *CIBC WORLD MARKETS*

, 2007

Table of Contents

TABLE OF CONTENTS

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations and prospectus may have changed since that date. In this prospectus, "Neutral Tandem," "the Company," "we," "us" and "our" refer to Neutral Tandem, Inc. and its subsidiaries.

In this prospectus we sometimes refer to various industry and other terms and abbreviations, which we have defined under "Glossary" in this prospectus.

We have not taken any action to permit a public offering of the shares of common stock outside the United States or to permit the possession or distribution of this prospectus outside the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to the offering of the shares of common stock and the distribution of this prospectus outside of the United States.

Until , 2007, 25 days after the commencement of this offering, all dealers that buy, sell, or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the dealers' obligations to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

MARKET AND INDUSTRY DATA AND FORECASTS

Market data and certain industry data and forecasts used throughout this prospectus were obtained from internal company surveys, market research, consultant surveys, publicly available information, reports of governmental agencies and industry publications and surveys. Industry surveys, publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying economic assumptions relied upon therein. Similarly, internal surveys, industry forecasts and market research, which we believe to be reliable based upon our management's knowledge of the industry, have not been independently verified. While we are not aware of any material misstatements regarding our industry data presented herein, our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Risk Factors" in this prospectus.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary may not contain all the information that you should consider before investing in our common stock. You should carefully read the entire prospectus, including "Risk Factors" and our consolidated financial statements and related notes included elsewhere in this prospectus, before making an investment decision.

Our Company

We are a leading provider of tandem interconnection services to competitive carriers, including wireless, wireline, cable telephony and Voice over Internet Protocol, or VoIP, companies. Competitive carriers use tandem switches to interconnect and exchange traffic between their networks without the need to establish direct switch-to-switch connections. Prior to the introduction of our service, the principal method for competitive carriers to exchange traffic was through the use of the incumbent local exchange carriers', or ILECs, tandem switches. Under interpretations of the Telecommunications Act of 1996, ILECs are required to provide tandem switching to competitive carriers pursuant to prescribed rates established by regulatory authorities. Our solution enables competitive carriers to exchange traffic between their networks without using an ILEC tandem.

The proliferation of competitive carriers over the past decade and their capture of an increasing share of subscribers has shifted a greater amount of intercarrier traffic to ILEC tandem switches and amplified the complexity of carrier interconnections. This has resulted in additional traffic loading of ILEC tandems, lower service quality and substantial costs incurred by competitive carriers for interconnection. A loss of ILEC market share to competitive carriers has escalated competitive tensions and resulted in an increased demand for tandem switching.

We founded our company to solve these interconnection problems and better facilitate the exchange of traffic among competitive carriers. By utilizing our managed tandem solution, our customers benefit from a simplified interconnection network solution which reduces costs, increases network reliability, decreases competitive tension and adds network diversity and redundancy. Since the launch of our service in 2004, we believe we have established the largest network of tandem switches serving as neutral interconnection points for voice traffic between competitive carriers in the United States.

We have 56 signed agreements with major competitive carriers and operate in 33 markets. Currently, we provide service to leading competitive carriers in the United States, including wireless carriers such as Sprint Nextel Corp., T-Mobile USA, Inc., MetroPCS Wireless Inc., U.S. Cellular Corporation and Cingular Wireless LLC; cable companies such as Cablevision Systems Corporation, Comcast Cable Communications, Inc., RCN Corporation and Cox Communications Inc.; wireline carriers such as AT&T Inc., McLeod USA Inc., MCI/Verizon Business, Level 3 Communications Inc. and XO Communications Inc.; and VoIP providers such as Vonage Holdings Corp., Broadvox Carrier Services, LLC, Voex Inc. and Reynwood Communications Inc. Our network currently carries approximately 2.5 billion minutes of traffic per month and is capable of terminating calls to over 151 million assigned telephone numbers. As the telecommunications market share continues to shift from traditional ILEC access lines to competitive carriers, we believe we will have access to an expanding market. We believe that our neutral tandem network and its size and scale will provide us with opportunities to enter new markets, increase market share with current customers and attract new customers.

Since commencing service in February 2004, we have grown rapidly, generating revenue of approximately $28.0 million in fiscal 2005. During the nine months ended September 30, 2006, we increased revenue to $37.9 million, an increase of 108% compared to the nine months ended September 30, 2005, and net income was approximately $6.2 million.

Table of Contents

Our Industry

In recent years, a wide array of new services and technologies has emerged as competitive alternatives to ILEC services for consumer and enterprise telephony. The increasingly diverse market now includes wireless, cable telephony, wireline and VoIP companies. As these competitive carriers have expanded their customer bases, the amount of traffic exchanged between them has also increased and is expected to grow in the future.

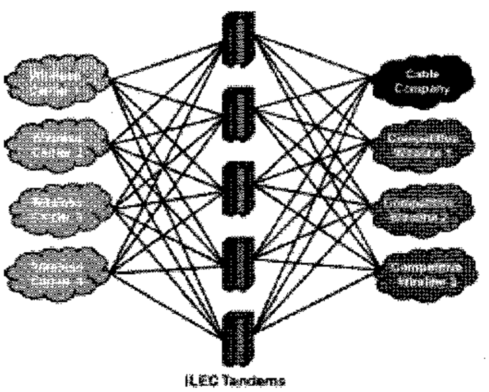
According to the Local Exchange Routing Guide, or LERG, an industry standard guide used by carriers, there are approximately 1.4 billion telephone numbers assigned to carriers in North America. Our services are principally targeted to address the estimated 722 million, or 52% of the total 1.4 billion, telephone numbers assigned to competitive carriers.

Prior to the introduction of our services, competitive carriers had two alternatives for exchanging traffic between their networks. The two alternatives were interconnecting to the ILEC tandems or directly connecting individual switches, commonly referred to as "direct connects." Given the cost and complexity of establishing direct connects, competitive carriers resorted to utilizing the ILEC tandem as the primary method of exchanging traffic. The ILECs often required competitive carriers to interconnect to multiple ILEC tandems with each tandem serving a restricted geographic area. In addition, as the competitive telecommunications market grew, the process of establishing interconnections at multiple ILEC tandems became increasingly difficult to manage and maintain, causing delays and inhibiting competitive carrier growth and the purchase of ILEC tandem services became an increasingly significant component of a competitive carrier's costs.

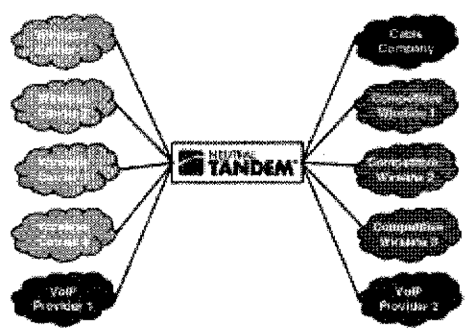
Growth in intercarrier traffic switched through ILEC tandems has created switch capacity shortages known in the industry as ILEC "tandem exhaust," where overloaded ILEC tandems become a bottleneck for competitive carriers. This has increased call blocking and given rise to service quality issues for competitive carriers. With the introduction of our services, we believe we became the first carrier to provide alternative tandem services capable of alleviating the ILEC tandem exhaust problem.

The following diagrams illustrate interconnecting via the ILEC tandem networks and an example of interconnecting via our managed tandem network.

Interconnecting via the ILEC Tandem Network within a Market



Interconnecting via Neutral Tandem Network within a Market



The second alternative for exchanging traffic, prior to us, was directly connecting competitive carrier switches to each other. Implementing direct switch-to-switch network connections between all competitive switches in a market is very challenging. For example, in order to completely bypass the ILEC tandem network, a market with 100 competitive switches would require 9,900 direct one-way switch-to-switch connections. The capital and operating expense requirements, complexity and management challenges of establishing and maintaining direct connections generally makes them uneconomical for all but the highest traffic switch combinations and an impractical network-wide solution.

Table of Contents

Our Services

Our services allow competitive carriers to exchange traffic between their networks without using an ILEC tandem or establishing direct connections. Each competitive carrier that connects to our network generally gains access to all other competitive carriers' switches connected to our network.

Once connected to our network, carriers can route their traffic to other destinations (telephone numbers) that are addressable by our network. We charge on a per-minute basis for traffic switched by our network. We have an established system for monitoring and tracking customer traffic volumes, and have historically been able to predict these volumes with relative accuracy. Our customers typically use our services for all, or the majority of, their tandem switching needs if our network connects to the desired final destination. In addition, our customers provide us with forecasts of future traffic levels. Together, this system of predicting traffic volumes for both existing and new customers allows us to reasonably estimate future revenue streams.

As a core component of our service offering, we actively manage network capacity between our tandem switches and customers' switches, which results in improved network quality and reduced call blocking. By constantly monitoring traffic levels and projecting anticipated growth in traffic, we are generally able to provide on a timely basis additional circuits between customer switches and our network to meet increased demand.

Our managed tandem network includes technologically advanced Internet Protocol, or IP, and Time Division Multiplexing, or TDM, switching platforms linked together by an IP backbone. Our network is capable of automatically switching IP-originated or conventional TDM traffic to terminating carriers using either protocol. We support IP-to-IP, IP-to-TDM, TDM-to-IP and TDM-to-TDM traffic with appropriate protocol conversion and gateway functionality.

Our network currently connects 580 unique competitive carrier switches, creating up to 335,820 unique switch-to-switch routes serving 151 million telephone numbers assigned to these carriers. In the quarter ended September 30, 2006, our network carried approximately 2.5 billion minutes of traffic per month.

Our Strengths

We believe the following strengths differentiate us and position us for continued growth.

- *Market Leading Position.* We believe we have built the largest neutral tandem network in the United States. By being "first-to-market" in the metropolitan areas we serve, we have built significant scale for carrier interconnections and access to terminating telephone numbers.
- *Strong "Network Effect."* The value of our service offering increases with the number of carriers connected to our network. The addition of each new customer to our network allows the new customer to route traffic to all of our existing customers and allows all of our existing customers to route traffic to the new customer. The "network effect" of adding an additional customer to our platform creates a significant opportunity for existing customers to realize incremental savings by increasing the volume of traffic switched by our tandem network.
- *Network-Neutral Position.* Unlike the ILECs, we are positioned as a neutral, third party tandem service provider and generally do not directly compete with our customers. Therefore, we do not have the competitive tensions and conflicts of interest of an ILEC in providing tandem interconnection services.
- *Large and Growing Market.* The continuing shift of telecommunications traffic away from conventional ILEC phone lines to the wireless, VoIP, cable telephony and other wireline segments, provides opportunities for us to continue to expand our business. Our tandem network was designed to serve the interconnection needs of these rapidly growing segments of the communications market, and since the initiation of our service in 2004, we feel we have built strong relationships with a

Table of Contents

majority of the leading carriers in these segments, which we believe provides opportunities for us to grow with our customers.

- *Adaptable Technology and Proprietary Software Tools.* Our switching architecture utilizes platforms manufactured by Sonus Networks, Inc. and Nortel Networks Corp. We have deployed a full suite of Sonus Networks' IMS (IP Multimedia Subsystem)-ready solutions which enables us to interconnect to customers on either a TDM or IP interface. In addition, we support both conventional Signaling System 7, or SS7, and Session Initiation Protocol, or SIP, call routing.

  We believe the adaptability and flexibility of our technology enables us to provide more robust service offerings to interconnect a wider range of traffic types and to adapt our service offerings more efficiently than the ILECs, which predominantly employ legacy Class 4 TDM-only circuit switching technology for tandem switching.

- *Experienced Management Team.* We have an experienced management team committed to expanding our position as a leading provider of neutral tandem services.

Our Strategy

Our strategy is focused on expanding our business by increasing the share of telecommunications traffic that our tandem network can serve. Expanding our share of telecommunications traffic increases the value of our network to our customers and enables us to capture a larger share of total telecommunications revenue. Key elements of our expansion strategy include:

- *Broaden our geographic presence.* Our managed tandem services are currently available in 33 markets, serving 151 million assigned telephone numbers out of a potential addressable market of 322 million telephone numbers assigned to competitive carriers in these 33 markets. We plan to broaden our geographic presence in 2007 to include an additional 18 markets. After completing the planned expansion, we estimate that, based upon information published in the LERG, our potential addressable market opportunity will include over 400 million telephone numbers assigned to competitive carriers in those markets. Many of our existing customers provide service in one or more of these new markets. We intend to market our services to our customers in these new markets.
- *Expand our customer base.* As our network expands, our market opportunity will include additional competitive carriers (particularly regional wireless carriers and cable companies) that are not in the markets we currently serve. Many of these potential customers are among the fastest growing carriers in their service areas.
- *Grow customer traffic.* Three factors principally drive traffic growth from customers: routing opportunities to new customers, routing opportunities in new markets and growth in our customers' traffic volumes. As we add new customers to our network, we receive incremental revenue from the new customer and from all existing customers terminating traffic to the new customer. This "network effect," our expansion strategy and focus on serving the fastest growing segments of the competitive telephony industry positions us well to grow customer traffic.
- *Increase the types of traffic we exchange.* Our business originally connected only local traffic among carriers within a single metropolitan market. In 2006, we installed a national IP backbone network connecting our major local markets. As a result, our service offerings now include the capability of switching and carrying traffic between multiple markets.

Company Information

We were incorporated in Delaware on April 19, 2001. We commenced operations in November 2003 and began generating revenue with the launch of our service in February 2004. Our principal executive offices are located at One South Wacker Drive, Suite 200, Chicago, Illinois 60606. Our telephone number is (312) 384-8000. Our Web site address is http://www.neutraltandem.com. The information contained on our Web site is not to be considered a part of this prospectus.

Table of Contents

THE OFFERING

Common stock offered:	
By Neutral Tandem, Inc.	shares
By the selling shareholders	shares
Total	shares
Common stock to be outstanding immediately after this offering	shares
Use of proceeds	We estimate that we will receive net proceeds from our sale of shares of common stock in this offering of $, assuming an initial public offering price of $ per share (the mid-point of the range set forth on the cover of this prospectus), after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use the net proceeds to fund the continued expansion of our business. Pending such use, the net proceeds will be used for working capital, capital expenditures and general corporate purposes. We currently cannot estimate the portion of the net proceeds which will be used for any specific purpose. We will not receive any of the proceeds from the sale of shares by the selling shareholders. See "Use of Proceeds."
Risk Factors	See "Risk Factors" and the other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
Proposed NASDAQ symbol	"TNDM"

Unless the context requires otherwise, the number of shares of our common stock to be outstanding after this offering is based on the number of shares outstanding as of December 31, 2006. The number of shares of our common stock to be outstanding after this offering gives effect to this issuance prior to completion of this offering of shares of common stock upon the exercise of outstanding warrants by certain selling shareholders but does not take into account:

- shares of common stock issuable upon the exercise of outstanding stock options as of December 31, 2006 at a weighted average exercise price of $ per share;
- an aggregate of shares of common stock that will be reserved for future issuances under our 2007 Long-Term Incentive Plan as of the closing of this offering; and
- shares of our common stock issuable upon the exercise of outstanding warrants as of December 31, 2006 which shall be exercisable for an aggregate of shares of common stock upon completion of the offering with a weighted average exercise price of $ per share.

Unless otherwise noted, the information in this prospectus assumes that the underwriters do not exercise their over-allotment option granted by the selling shareholders, and has been adjusted to reflect the -for- reverse stock split of our common stock that was effected prior to the completion of this offering, the automatic conversion of our outstanding shares of Series A preferred stock, Series B-1 preferred stock, Series B-2 preferred stock and Series C preferred stock into an aggregate of shares of common stock upon the completion of this offering, the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated by-laws upon the completion of this offering.

Table of Contents

Summary Consolidated Financial and Other Data

The following tables summarize our historical consolidated financial information and other data for the periods presented. The consolidated financial information presented as of and for the fiscal years ended December 31, 2004 and December 31, 2005, was derived from our consolidated financial statements, which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, and are included elsewhere in this prospectus. The consolidated financial information presented as of and for the nine months ended September 30, 2005 and September 30, 2006, was derived from our unaudited consolidated financial statements, and are included elsewhere in this prospectus. The pro forma as adjusted balance sheet data as of September 30, 2006 give effect to this offering of common stock at a price of $ per share (the mid-point of the range set forth on the cover of this prospectus), the conversion of all of our preferred stock into an aggregate of shares of common stock upon the closing of this offering and the application of the net proceeds therefrom as described under "Use of Proceeds." The unaudited consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which we consider necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2006. This data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,		Nine Months Ended September 30,	
	2004	2005	2005	2006
	(In thousands, except share data)			
Statements of Operations				
Revenue	$ 3,439	$27,962	$18,177	$37,864
Operating Expense:				
Costs of revenue (excluding depreciation and amortization shown separately below)	2,027	11,349	7,467	14,621
Operations	2,704	8,189	5,868	8,150
Depreciation and amortization	655	3,141	2,011	4,464
Sales and marketing	775	1,360	991	1,149
General and administrative	2,310	3,053	2,361	2,785
Total operating expense	8,471	27,092	18,698	31,169
Income (Loss) From Operations	(5,032)	870	(521)	6,695
Other (Income) Expense:				
Interest expense	276	843	594	849
Interest income	(69)	(170)	(140)	(556)
Other income	—	(11)	—	—
Total other expense	207	662	454	293
Income (Loss) Before Income Taxes	(5,239)	208	(975)	6,402
Provision (Benefit) For Income Taxes	—	—	—	157
Net Income (Loss)	$(5,239)	$ 208	$ (975)	$ 6,245
Earnings (loss) per common share—basic[1]	$ (1.02)	$ 0.04	$ (0.17)	$ 1.18
Earnings (loss) per common share—diluted [1]	$ (1.02)	$ 0.01	$ (0.17)	$ 0.26
Weighted average common shares—outstanding-basic	5,117	5,628	5,632	5,300
Weighted average common shares—outstanding-diluted	5,117	21,403	5,632	23,979

Table of Contents

	Year Ended December 31,		Nine Months Ended September 30,	
	2004	2005	2005	2006
	(Dollars in thousands)			
Other Data:				
Capital expenditures	$ 8,144	$13,977	$12,466	$10,744
EBITDA(2)	$(4,377)	$ 4,022	$ 1,490	$11,159
Minutes of Use Billed (in millions)	1,022	10,428	6,427	17,388

	As of September 30, 2006	
	Actual	Pro Forma As Adjusted
	(In thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$20,903	$
Total current assets	30,640	
Total assets	62,234	
Total current liabilities	15,951	
Total liabilities	23,302	
Total preferred stock	38,000	
Total shareholders' equity	932	

(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 stock options and warrants represents the only difference between the weighted average shares used for the basic earnings (loss) per share computation compared to the diluted earnings (loss) per share computation.

(2) EBITDA is defined as net income before (i) depreciation and amortization, (ii) interest income and expense and (iii) income taxes. Management believes that the presentation of EBITDA included in this prospectus provides useful information to investors regarding our results of operations because it assists in analyzing and benchmarking the performance and value of our business. Although we use EBITDA as a financial measure to assess the performance of our business, the use of EBITDA is limited because it does not include certain material costs, such as depreciation, amortization and interest, necessary to operate our business. EBITDA included in this prospectus should be considered in addition to and not as a substitute for, net income as calculated in accordance with generally accepted accounting principles as a measure of performance.

The following is a reconciliation of net income (loss) to EBITDA:

	Year Ended December 31,		Nine Months Ended September 30,	
	2004	2005	2005	2006
	(In thousands)			
Net income (loss)	$(5,239)	$ 208	$ (975)	$ 6,245
Interest expense-net	207	673	454	293
Income tax expense	—	—	—	157
Depreciation and amortization	655	3,141	2,011	4,464
EBITDA	$(4,377)	$4,022	$1,490	$11,159

Table of Contents

RISK FACTORS

This offering involves a high degree of risk. You should consider carefully the risks and uncertainties described below and the other information in this prospectus, including the consolidated financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in shares of our common stock. If any of the following risks or uncertainties actually occur, our business, prospects, financial condition and operating results would likely suffer, possibly materially. In that event, the market price of our common stock could decline and you could lose all or part of your investment. Additional risks and uncertainties not currently known to us or those we currently deem to be immaterial may also materially and adversely affect our business, financial condition or results of operations.

Risk Factors Related To Our Business

Failures or interruptions of our tandem network or the loss of, or damage to, a tandem network switch site could materially harm our revenues and impair our ability to conduct our operations.

We provide telecommunications services that are critical to the operations of our customers. Notably, our tandem network service is essential to the orderly operation of our customers' telecommunications system because it enables competitive carriers to ensure that telephone calls are routed to the appropriate destinations. Our tandem network architecture is integral to our ability to process a high volume of transactions in a timely and effective manner. We could experience failures or interruptions of our tandem network and services, or other problems in connection with our operations, as a result of:

- damage to, or failure of, our tandem network software or hardware or our connections and outsourced service arrangements with third parties;
- errors in the processing of data by our systems;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism, natural disasters and similar events;
- increased capacity demands or changes in systems requirements of our customers; or
- errors by our employees or third-party service providers.

If we cannot adequately protect the ability of our tandem network to perform consistently at a high level or otherwise fail to meet our customers' expectations:

- we may be unable to provide and bill for services;
- we may experience damage to our reputation, which may adversely affect our ability to attract or retain customers for our existing services, and may also make it more difficult for us to market our services;
- we may be subject to significant damages claims, under our contracts or otherwise;
- our operating expenses or capital expenditures may increase as a result of corrective efforts that we must perform;
- our customers may postpone or cancel subsequently scheduled work or reduce their use of our services; or
- one or more of our significant contracts may be terminated early, or may not be renewed.

Any of these consequences would adversely affect our revenues and performance.

We may not have sufficient redundant systems or back up facilities to allow us to receive and process calls in the event of a loss of, or damage to, a tandem network switch site. We could lose, or suffer damage to, a site in the event of power loss, natural disasters such as fires, earthquakes, floods and tornadoes, telecommunications failures, such as transmission cable cuts, or other similar events that could adversely affect our customers' ability to access our tandem network services. Any such loss or damage could interrupt our operations, materially harm our revenues and growth and require significant cash expenditures to correct the failures caused by such loss or damage.

Table of Contents

Regulatory developments could negatively impact our business.

The communications services industry is highly regulated by the federal government and the individual states. While the pricing of our services is generally not heavily regulated by the Federal Communications Commission, or FCC, and state utility agencies, these agencies have greater regulatory authority over the pricing of incumbent local exchange carriers, or ILECs, transit services, which generally sets the benchmark for the prices of competitive services that we offer. To the extent that the ILEC transit rates are reduced, it could have an adverse impact on us.

For example, in Michigan, in 2005, the Michigan Public Service Commission revised the maximum allowable rate that AT&T Inc., or AT&T, could charge for transit service based on AT&T's total element long run incremental cost, or TELRIC, which was significantly below the rate previously charged by AT&T (previously SBC Communications). This decision had a significant impact on the profitability of our service in Michigan.

The FCC currently does not actively regulate the services we offer. If, however, the FCC determined, on its own motion or in response to a third party's filing, that it should more actively regulate our services, the FCC could limit the rates we charge or require us to change other terms or conditions of our service offerings. For example, in 2001 the FCC initiated a proceeding to address intercarrier compensation issues, such as rules that require one carrier to make payments to another carrier for access to the other's network. As part of that docket, on July 24, 2006, a group of large and rural local exchange carriers, or LECs, filed a proposal for intercarrier compensation reform at the FCC called the Missoula Plan, which includes provisions regarding tandem transit services. Under the Missoula Plan, tandem transit service would be provided at a rate not to exceed $0.0025 per minute of use for the first four years of the plan, and then increase with inflation. This rate is lower than the rates charged by the ILECs or by us in several of the markets in which we currently operate. The FCC currently is considering public comments on the Missoula Plan. Independent of or in combination with the Missoula Plan, the FCC could make significant changes in the pricing of transit traffic, including lowering the rate, freezing the rate or establishing uniform rates. In addition, from time to time, carriers that we connect with have requested that we pay them to terminate traffic, and this proceeding will likely address those rights or obligations.

As communications technologies and the communications industry continue to evolve, the statutes governing the communications industry or the regulatory policies of the FCC may change. If this were to occur, the demand and pricing for our tandem network services could change in ways that we cannot easily predict and our revenues could decline. These risks include the ability of the federal government, including Congress or the FCC, or state legislatures or agencies, to:

- increase regulatory oversight over the services we provide;
- adopt or modify statutes, regulations, policies, procedures or programs that are disadvantageous to the services we provide, or that are inconsistent with our current or future plans, or that require modification of the terms of our existing contracts, including reducing the rates for tandem services; or
- adopt or modify statutes, regulations, policies, procedures or programs in a way that could cause changes to our operations or costs or the operations of our customers, including the pricing of our services to our customers.

We cannot predict when, or upon what terms and conditions, further regulation or deregulation might occur or the effect future regulation or deregulation may have on our business. Any of these government actions could have a material adverse effect on our business.

Table of Contents

Consolidation in the industry, such as AT&T-BellSouth-Cingular, Verizon-MCI and SBC-AT&T, reduces the need for intercarrier transit service and may limit our growth opportunities.

Consolidation in the industry reduces the need for intercarrier transit services by reducing the number of carriers. As carriers merge, (i) the risks to our business of direct connections increases, see "—The market for our services is competitive and increased adoption of IP switching technologies could increase the competition we face from direct connections" below, (ii) traffic that was carrier-to-carrier becomes intra-carrier traffic not normally addressable by us and (iii) in the case of consolidations involving an ILEC, such as AT&T or Verizon Communications Inc., or Verizon, previous transit traffic between competitive carriers and the carrier acquired by the ILEC now potentially becomes ILEC reciprocal compensation traffic and not transit traffic, and thus potentially not addressable by us. We have experienced growth notwithstanding this consolidation, but our ability to grow in the future could be adversely affected by greater consolidation.

Additionally, in connection with the merger of BellSouth Corp., or BellSouth, and AT&T, AT&T agreed not to seek an increase in its current transit rates for existing transit customers for 42 months in the AT&T and BellSouth LEC service territories. While having no direct regulatory impact on us, this rate freeze potentially limits our ability to enter certain new markets in states where the current transit rates charged by AT&T are so low that our entry would not be economically attractive. Further consolidation in the industry could lead to similar agreements which would limit our ability to grow revenues and may materially affect our results of operations.

Our top five customers represent in the aggregate a substantial portion of our revenue.

Our top five customers in the aggregate represented approximately 61% of our expected total revenues in 2006 and our largest customer accounted for approximately one-quarter of our expected total revenues in 2006. These customers could, at any time, solicit or receive proposals from other providers to provide services that are the same as or similar to ours. In addition, our contracts with these customers are non-exclusive, there are no volume or exclusivity commitments by customers under these contracts and any customer is able to discontinue the use of our services at any time.

We may lose business with any of these customers if we fail to meet our customers' expectations, including for performance and other reasons, or if another provider offers to provide the same or similar services at a lower cost. In addition, competitive forces resulting from the possible entrance of a competitive provider could create significant pricing pressure, which could then cause us to reduce the selling price of our services in a manner that could have a material adverse effect on our business, prospects, financial condition and results of operations.

The market for our services is competitive and increased adoption of IP switching technologies could increase the competition we face from direct connections.

The most natural form of competition we face is direct connection between our customers. When there is a significant amount of traffic between two switches, there is an economic incentive to directly connect and remove intermediate switching. As our customers grow, the amount of traffic exchanged between them grows, thus leading to the increased risk that they will direct connect switch paths that exchange significant traffic and remove that traffic from our tandems. The risk of direct connections is increased as more carriers move to an IP-based interface, because direct connecting between two Internet Protocol, or IP, based carriers is less complex than establishing multiple direct connections between carriers' switch pairs, thus enabling more direct connections. In addition, consolidation among telecommunications carriers can stimulate the risk of direct connections by increasing both the incentive and feasibility of executing direct connections. For example, we have noticed that certain competitive carriers established direct connections following completion of a business combination.

In addition to direct connections, our services most frequently compete against the legacy ILEC services. As such, we face competition from large, well-funded ILECs that also provide transit services and for whom transit services are a relatively small percentage of total revenues. Additionally, other companies may be focusing resources on developing and marketing services that will compete with us.

Table of Contents

We expect competition to intensify in the future, especially due to the adoption of IP-based switching by telecommunications carriers, which is likely to increase competition from direct connections. Some of our current and potential competitors have significantly more employees and greater financial, technical, marketing, research and development, intellectual property development and protection and other resources than us. Also, many of our current and potential competitors have greater name recognition that they can use to their advantage. Our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements than we can. In addition, ILECs could lower their rates or bundle other services with their transit services to compete with us. Furthermore, changes in switching technology have lowered the cost of entry into our business which could promote additional competition. Increased competition could result in fewer customer orders, reduced revenues, reduced gross margins and loss of market share, any of which could harm our business.

Our failure to achieve or sustain market acceptance at desired pricing levels could impact our ability to maintain profitability or positive cash flow.

Our competitors and customers may cause us to reduce the prices we charge for services. The primary sources of pricing pressure include:

- competitors offering our customers services at reduced prices, or bundling and pricing services in a manner that makes it difficult for us to compete. For example, a competing provider of transit services might offer its services at lower rates than we do, or bundle it with other services, such as inexpensive long distance services;
- customers with a significant volume of transactions have in the past and may in the future use their enhanced leverage in pricing negotiations with us. For example, from time to time, carriers that we connect with have requested that we pay them to terminate traffic. In the future, such carriers may increase the amount that they request we pay them or other customers may request that we pay them to terminate traffic; and
- if our prices are too high, potential customers may find it economically advantageous to handle certain functions internally using direct connections instead of using us.

We may not be able to offset the effects of any price reductions by increasing the number of transactions we handle or the number of customers we serve, by generating higher revenues from new or enhanced services or by reducing our costs.

We have a limited operating history as a company and as a tandem network for communications services providers. If we are unable to overcome the difficulties frequently encountered by early stage companies, our business could be materially harmed.

We began our commercial operations in November 2003. We have experienced, and expect to continue to experience, risks and difficulties frequently encountered by companies in an early stage of commercial development in new and rapidly evolving markets. In order to overcome these risks and difficulties, we must, among other things:

- generate sufficient usage of our tandem network by our carrier customers;
- maintain and attract a sufficient number of customers to our tandem network to achieve and sustain profitability;
- execute our business strategy successfully, including successful execution of our new Voice over Internet Protocol, or VoIP, services;
- manage our expanding operations; and
- upgrade our technology, systems and network infrastructure to accommodate increased traffic and transaction volume and to implement new features and functions.

Our failure to overcome these risks and difficulties and the risks and difficulties frequently encountered by early stage companies could adversely affect our results of operations which could impair our ability to raise capital, expand our business or continue our operations.

Table of Contents

If we are unable to manage our growth or establish new tandem network switch sites, or do not adequately control expenses associated with the establishment of new sites, our results of operations could be adversely affected.

Sustaining our growth has placed significant demands on our management as well as on our administrative, operational and financial resources. For us to continue to manage our growth, we must continue to improve our operational, financial and management information systems and expand, motivate and manage our workforce. As part of our growth strategy, we intend to establish new tandem network switch sites, particularly in new geographic markets. We will face various risks associated with identifying, obtaining and integrating attractive tandem network switch sites, cost estimation errors or overruns, interconnection delays, material delays or shortages, our inability to obtain necessary permits on a timely basis, if at all, and other factors, such as regulatory developments, many of which are beyond our control and all of which could delay the establishment of any new sites. We may not be able to establish and operate new tandem network switch sites on a timely or profitable basis. Establishment of new sites will increase our operating expenses, including expenses associated with hiring, training, retaining and managing new employees, purchasing new equipment, implementing new systems and incurring additional depreciation expense. If we are unable to successfully manage our growth without compromising our quality of service and our profit margins, or if new systems that we implement to assist in managing our growth do not produce the expected benefits, or to control our costs as we establish additional tandem network switch sites and expand in geographically dispersed locations, our business, prospects, financial condition or results of operations could be adversely affected.

Our petition for interconnection with Verizon Wireless Inc. could be decided adversely by the FCC and consequently we may not be able to interconnect with Verizon Wireless Inc.

By operating as a common carrier, we benefit from certain legal rights established by federal legislation, especially the Telecommunications Act of 1996, or the Telecommunications Act, which gives us and other competitive entrants the right to interconnect to the networks of incumbent telephone companies and access to elements of their networks on an unbundled basis. We have used these rights to gain interconnection with the incumbent telephone companies and to purchase selected services at wholesale prices that extend our ability to terminate traffic. We have also used these rights to request interconnection with competitive carriers for the termination of transit traffic to carriers that decide for whatever reason not to utilize our transit service. While our experience has been that competitive carriers usually accommodate such requests, and often become users of our transit service as well, we are pursuing a petition to the FCC against Verizon Wireless Inc., or Verizon Wireless, related to its refusal of such a request. Our August 2006 petition argues that direct connection with Verizon Wireless is in the public interest because it furthers competitive choices and strengthens the public switched telephone network, or PSTN. There can be no assurance regarding how, whether, or when this matter will be resolved. If the FCC denies our petition we will, absent Verizon Wireless' consent, be unable to terminate transit traffic to Verizon Wireless. While we currently terminate transit traffic to Verizon Wireless in only three markets, such a result could materially and adversely affect the future growth of our business and the attractiveness of our service offerings.

Our ability to sell our services depends in part on the quality of our support and service offerings, and our failure to offer high quality support and services would have a material adverse effect on our sales and operating results.

Once our services are deployed, our customers depend on our support organization to resolve any issues. A high level of support is critical for the successful marketing and sale of our services. If we do not effectively assist carriers in deploying our services, succeed in helping carriers quickly resolve post-deployment issues and provide effective ongoing support, it will adversely affect our ability to sell our services. As a result, our failure to maintain high quality support and services would have a material adverse effect on our business and operating results.

Table of Contents

Security breaches could also adversely affect our business and our customers' confidential information, which could result in us being subject to legal liability and our reputation could be harmed.

Our tandem network may be vulnerable to physical break-ins, computer viruses, attacks by computer hackers or similar disruptive problems. If unauthorized users gain access to our switch sites or our databases, a security or privacy breach could result in an interruption of service or reduced quality of service, which could cause harm to our business and reputation and could result in a loss of customers. Any breach of security relating to our customers' confidential information could result in legal liability to us and a reduction in use of our services or cancellation of our services, either of which could materially harm our business. Our personnel often receive highly confidential information from our customers that is stored in our files and on our systems. Similarly, we receive sensitive pricing information that has historically been maintained as a matter of confidence with our customers.

We currently have practices, policies and procedures in place to ensure the confidentiality of our customers' information. However, our practices, policies and procedures to protect against the risk of inadvertent disclosure or unintentional breaches of security might fail to adequately protect information that we are obligated to keep confidential. We may not be successful in adopting more effective systems for maintaining confidential information, so our exposure to the risk of disclosure of the confidential information of our customers may grow as we expand our business and increase the amount of information that we possess. If we fail to adequately maintain our customers' confidential information, some of our customers could end their business relationships with us and we could be subject to legal liability.

The failure of the third-party software and equipment we use in our tandem network could cause interruptions or failures of our systems.

We incorporate hardware, software and equipment and license technologies developed by third-parties in our tandem network. Our third-party vendors include, among others, Nortel Networks Corp. and Sonus Networks, Inc., our switch vendors, Cisco Systems, Inc. and MetaSolv Software, for database systems and software, and various network services suppliers, such as AT&T, Verizon, Qwest Corp., or Qwest, and Verisign Inc. and various competitive access providers for transport and Signaling System 7, or SS7, services. As a result, our ability to provide tandem network services depends in part on the continued performance and support of the third-party products on which we rely. In addition, we have only recently begun to use Sonus to supply switches and, therefore, our relationship and operating history with Sonus is limited. If these products experience failures or have defects and the third parties that supply the products fail to provide adequate support, this could result in or exacerbate an interruption or failure of our systems or services.

Our business could be harmed by prolonged electrical power outages or shortages, increased costs of energy or general availability of electrical resources.

Our tandem network switch sites are susceptible to regional costs of power, electrical power shortages, planned or unplanned power outages caused by these shortages, such as those that occurred in the northeast region of the United States in 2003 and in the southeast region of the United States in 2005, and limitations of adequate power resources. We may not be able to pass on to our customers significant increases in the cost of power and power outages could disrupt the services we provide and reduce our revenues. Power outages, which last beyond our backup and alternative power arrangements, could harm our business and expose us to claims by customers.

A decline in the volume of traffic or transactions we handle could have a material adverse effect on our business, prospects, financial condition and results of operations.

We earn revenues for the vast majority of the services that we provide on a per minute or per transaction basis. There are no minimum revenue requirements in our contracts, which means that there is no limit to the potential adverse effect on our revenues from a decrease in our transaction volumes. As a result, if industry participants reduce their usage of our services from their current levels, our revenues and results of operations will immediately suffer because there is no contractual requirement for the purchase of our services. For example, if competitive carriers develop internal systems to address their transit traffic needs, including direct connections, or if the cost of such transactions makes it impractical for a given carrier to use our services for these purposes, we may experience a reduction in transaction volumes. Finally, the trends that we believe will drive the future demand for our tandem network services, such as the growth of wireless services, and pressure on carriers to reduce costs, may not actually result in increased demand for our services, which would harm our future revenues and growth prospects.

We may be unable to complete suitable acquisitions, or we may undertake acquisitions that could increase our costs or liabilities or be disruptive to our business.

In the future, we may selectively pursue acquisitions to grow our business. We do not currently have any commitments, contracts or understandings to acquire any specific businesses or other material operations. We may not be able to locate suitable acquisition candidates at prices that we consider appropriate or to finance acquisitions on terms that are satisfactory to us. If we do identify an appropriate acquisition candidate, we may not be able to successfully negotiate the terms of an acquisition, finance the acquisition or, if the acquisition occurs, integrate the acquired business into our existing business. Acquisitions of businesses or other material operations may require additional debt or equity financing, resulting in additional leverage or dilution of ownership. Integration of acquired business operations could disrupt our business by diverting management away from day-to-day operations. The difficulties of integration may be increased by the necessity of coordinating geographically dispersed organizations, integrating personnel with disparate business backgrounds and combining different corporate cultures. We also may not realize cost efficiencies or synergies or other benefits that we anticipated when selecting our acquisition candidates. In addition, we may need to record write downs from future impairments of intangible assets, which could reduce our future reported earnings. At times, acquisition candidates may have liabilities, neutrality-related risks or adverse operating issues that we fail to discover through due diligence prior to the acquisition. The failure to discover such issues prior to such acquisition could have a material adverse effect on our business and results of operations.

Failure to comply with neutrality positioning could result in loss of significant business.

We have positioned ourselves against ILECs as a neutral, third-party provider of tandem network services. Our failure to continue to adhere to this neutrality positioning (for example, by competing with any of our customers in any of their core businesses) may result in lost sales or non-renewal of contracts, any one of which could have a material adverse effect on our business, prospects, financial condition and results of operations. For example, we have begun providing national transit services which can be viewed by some of our customers as being competitive with their wholesale transport services.

Our senior management is important to our customer relationships, and the loss of one or more of our senior managers could have a negative impact on our business.

We believe that our success depends in part on the continued contributions of our senior management. We rely on our executive officers and senior management to generate business and execute programs successfully. In addition, the relationships and reputation that members of our management team have established and maintain with our customers and our regulators contribute to our ability to maintain good customer relations. The loss of key members of senior management could impair our ability to identify and secure new contracts and otherwise to manage our business.

We must recruit and retain skilled employees to succeed in our business.

We believe that an integral part of our success is our ability to recruit and retain employees who have advanced skills in the tandem network services that we provide and who work well with our customers in the regulated environment in which we operate. In particular, we must hire and retain employees with the technical expertise and industry knowledge necessary to maintain and continue to develop our operations and must

Table of Contents

effectively manage our growing sales and marketing organization to ensure the growth of our operations. Our future success depends on the ability of our sales and marketing organization to establish direct sales and to develop multiple services. The employees with the skills we require are in great demand and are likely to remain a limited resource in the foreseeable future. If we are unable to recruit and retain a sufficient number of these employees at all levels, our ability to maintain and grow our business could be negatively impacted.

We may need additional capital in the future and it may not be available on acceptable terms.

We have historically relied on outside financing and cash flow from operations to fund our operations, capital expenditures and expansion. However, we may require additional capital in the future to fund our operations, make an acquisition, finance investments in equipment or infrastructure, or respond to competitive pressures or strategic opportunities. We cannot assure you that additional financing will be available on terms favorable to us, or at all. In addition, the terms of available financing may place limits on our financial and operating flexibility. If we are unable to obtain sufficient capital in the future, we may face the following risks:

- we may not be able to continue to meet customer demand for service quality, availability and competitive pricing;
- we may be forced to reduce our operations;
- we may not be able to expand or acquire complementary businesses;
- we may not be able to develop new services or otherwise respond to changing business conditions or competitive pressures; and
- we may not be able to adequately maintain or upgrade our systems and technology.

We have depended on equity financings and credit facilities to meet our cash requirements, which may not be available to us in the future on favorable terms, if at all. We may require substantial additional funds to execute our business plan and, if additional capital is not available, we may need to limit, scale-back or cease our operations.

We have depended upon equity financings, as well as borrowings under our credit facilities, to meet our cash requirements in each quarterly and annual period since we began our operations in November 2003. We expect to meet our cash requirements for the next 12 months through a combination of cash flow from operations, existing cash, cash equivalents and short-term investments, borrowings under our credit facilities and net proceeds from this offering. If our cash requirements vary materially from those currently planned, or if we fail to generate sufficient cash flow from our business, we may require additional financing sooner than anticipated.

Our current credit facility with an affiliate of Western Technologies Inc. matures in several installments beginning in May 2007 and ending in March 2010. We may default under this facility or may not be able to renew this credit facility upon expiration or on acceptable terms. In addition, we may seek additional funding in the future and intend to do so through public or private equity and debt financings. Additional funds may not be available to us on acceptable terms or at all. If we are unable to obtain funding on a timely basis, we may not be able to execute our business plan. As a result, our business, results of operations and financial condition could be adversely affected and we may be required to significantly curtail or cease our operations.

If we do not maintain or generate significant revenues, we may not remain profitable.

Although we achieved net income of approximately $6.2 million in the nine months ended September 30, 2006, we expect to incur significant future expenses, particularly with respect to the development of new services, deployment of additional infrastructure and expansion in strategic markets. To remain profitable, we must continue to increase the usage of our tandem network by our customers and attract new customers. We must also deliver superior service to our customers, mitigate the effects of consolidation and develop and commercialize new products and services. We may not succeed in these activities and may never generate revenues that are significant or large enough to sustain profitability on a quarterly or annual basis. A substantial portion of our revenues are derived from fees that we charge our customers on a per-minute basis. Therefore, a general market decline in the price for tandem network services may adversely affect the fees we charge our customers and could materially impact our future revenues and profits.

If we do not adapt to rapid technological change in the communications industry, we could lose customers or market share.

Our industry is characterized by rapid technological change and frequent new service offerings. Significant technological changes could make our technology and services obsolete or inefficient on a relative basis. We must adapt to our rapidly changing market by continually improving the features, functionality, reliability and responsiveness of our addressing, interoperability and infrastructure services, and by developing new features, services and applications to meet changing customer needs. We cannot ensure that we will be able to adapt to these challenges or respond successfully or in a cost-effective way. Our failure to do so would adversely affect our ability to compete and retain customers or market share. Although we currently provide our services primarily to traditional telecommunications companies, many existing and emerging companies are providing, or propose to provide, voice services using new technologies. Our future revenues and profits will depend, in part, on our ability to provide new technologies to competitive carriers. We will need to spend significant amounts of capital to enhance and expand our services and continue to improve operating efficiencies. Failure to do so may materially harm our business.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

In order to protect our proprietary technology, processes and methods, we rely in part on confidentiality agreements with our corporate partners, employees, consultants, advisors and others. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such party. Costly and time consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

If we are not able to obtain and enforce patent protection for our methods and technologies, competitors may be more easily able to compete with us, our ability to successfully operate our network may be disrupted and our ability to operate our business profitably may be harmed.

Our success depends, in part, on our ability to protect proprietary methods and technologies that we develop under the patent and other intellectual property laws of the United States, so that we can prevent others from using our inventions and proprietary information. However, we may not hold proprietary rights to some of our current or future methods and technologies. Because patent applications in the United States are typically not published until 18 months after filing, or in some cases not at all, and because publications of discoveries in industry-related literature lag behind actual discoveries, we cannot be certain that we were the first to make the inventions claimed in issued patents or pending patent applications, or that we were the first to file for protection of the inventions set forth in our patent applications. As a result, we may not be able to obtain adequate patent protection and competitors would be more easily able to compete with us. Moreover, we may even be required to obtain licenses under third-party patents. If licenses are not available to us on acceptable terms, or at all, we will not be able to operate our network and competitors would be more easily able to compete with us.

The process of obtaining patent protection is expensive and time consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. Despite our efforts to protect our proprietary rights, unauthorized parties may be able to obtain and use information that we regard as proprietary. The issuance of a patent does not guarantee that it is valid or enforceable, so even if we obtain patents, they may not be valid or enforceable against third parties. In addition, the issuance of a patent

Table of Contents

does not guarantee that we have the right to practice the patented invention. Third parties may have blocking patents that could be used to prevent us from marketing our own patented product and practicing our own patented technology.

Our pending patent applications may not result in issued patents. The patent position of technology-oriented companies, including ours, is generally uncertain and involves complex legal and factual considerations. The standards which the United States Patent and Trademark Office use to grant patents are not always applied predictably or uniformly and can change. Accordingly, we do not know the degree of future protection for our proprietary rights or the breadth of claims allowed in any patents issued to us or to others. The allowance of broader claims may increase the incidence and cost of patent interference proceedings and/or opposition proceedings and the risk of such claims being invalidated by infringement litigation. On the other hand, the allowance of narrower claims may limit the value of our proprietary rights. Our issued patents may not contain claims sufficiently broad to protect us against third parties with similar technologies or products, or provide us with any competitive advantage. Moreover, once they have been issued, our patents and any patent for which we have licensed or may license rights may be challenged, narrowed, invalidated or circumvented. If our patents are invalidated or otherwise limited, other companies will be better able to develop products that compete with ours, which could adversely affect our competitive business position, business prospects and financial condition.

We also rely on trade secrets, know-how and technology, which are not protected by patents, to maintain our competitive position. If any trade secret, know-how or other technology not protected by a patent were to be disclosed to or independently developed by a competitor, our business and financial condition could be materially and adversely affected.

Others may allege that we are infringing their intellectual property, forcing us to expend substantial resources in resulting litigation, the outcome of which would be uncertain. Any unfavorable outcome of such litigation could have a material adverse effect on our business, financial position and results of operations.

If any parties successfully claim that our creation, offer for sale, sale, import or use of technologies infringes upon their intellectual property rights, we might be forced to incur expenses to litigate the claims, pay damages, potentially including treble damages, if we are found to have willfully infringed such parties' patents or copyrights. In addition, if we are unsuccessful in litigation, a court could issue a permanent injunction preventing us from operating our network or commercializing our product and service candidates for the life of the patent that we have been deemed to have infringed. Litigation concerning patents and other forms of intellectual property and proprietary technologies, is becoming more widespread and can be protracted and expensive, and can distract management and other key personnel from performing their duties for us.

Any legal action against us claiming damages and seeking to enjoin commercial activities relating to the affected methods, processes, products and services could, in addition to subjecting us to potential liability for damages, require us to obtain a license in order to continue to operate our network or market the affected product and service candidates. Any license required under any patent may not be made available on commercially acceptable terms, if at all. In addition, some licenses may be nonexclusive, and therefore, our competitors may have access to the same technology licensed to us. If we fail to obtain a required license or are unable to design around a patent, we may be unable to effectively operate our network or market some of our technology and products, which could limit our ability to generate revenues or achieve profitability and possibly prevent us from generating revenue sufficient to sustain our operations.

From time to time we have received and we may in the future receive notices or inquiries from other companies regarding our services or the manner in which we operate our network suggesting that we may be infringing a pre-existing patent or we need to license use of their patents to avoid infringement. Such notices may, among other things, threaten litigation against us. As we have in the past, we will actively review the request and determine whether there is any validity to the request and seek to resolve the matter. Litigation over patent rights and other intellectual property rights is not uncommon with respect to network technologies, and sometimes involves patent holding companies or other adverse patent owners who have no relevant product

Table of Contents

revenues and against whom our own patents may therefore provide little or no deterrence. There can be no assurance that holders of patents will not pursue any claim against us in the future if they believe their patents are being infringed by our network or service offerings.

Risk Factors Related To This Offering

Our stock price is likely to be volatile, and the market price of our common stock after this offering may drop below the price you pay.

Prior to this offering, there has been no public market for our common stock. Although we have applied to have our common stock approved for quotation on the NASDAQ Global Market, an active trading market for our shares may never develop or be sustained following this offering. The initial public offering price for our common stock will be determined through negotiations with the underwriters. This initial public offering price may vary from the market price of our common stock after the offering. You may not be able to sell any shares of common stock that you purchase at or above the initial public offering price.

The market prices for securities of telecommunications companies have historically been volatile. Some of the factors that may cause the market price of our common stock to fluctuate include:

- failure of our offerings to achieve commercial success;
- passage of various laws and governmental regulations governing Internet-related services and communications-related services;
- failure of or disruption to our physical infrastructure or services;
- conditions or trends in the Internet, technology and communications industries;
- the addition or departure of any key employees;
- changes in estimates of our financial results or recommendations by securities analysts;
- litigation involving ourselves or our general industry or both;
- investors' general perception of us, our services, the economy and general market conditions;
- developments or disputes concerning our patents or other proprietary rights; and
- significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors.

If any of these factors causes an adverse effect on our business, results of operations or financial condition, the price of our common stock could fall.

If you purchase our common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.

The assumed initial public offering price is substantially higher than the net tangible book value per share of our common stock. Investors purchasing common stock in this offering will pay a price per share that substantially exceeds the book value of our tangible assets after subtracting our liabilities. As a result, investors purchasing common stock in this offering will incur immediate dilution of $ per share, based on the initial public offering price of $ per share (the mid-point of the range set forth on the cover of this prospectus). Further, investors purchasing common stock in this offering will contribute approximately % of the total amount invested by stockholders since our inception, but will own only approximately % of the shares of common stock outstanding.

This dilution primarily is due to our investors who purchased shares prior to this offering having paid at the time of their purchase substantially less than the price offered to the public in this offering. In addition, as of September 30, 2006, options to purchase shares of common stock at a weighted average exercise price per share of $ were outstanding and warrants to purchase shares of our capital stock which

Table of Contents

shall be exercisable for an aggregate of shares of our common stock upon completion of the offering, with a weighted average exercise price per share of $ were outstanding. The exercise of any of these options or warrants would result in additional dilution. As a result of this dilution, investors purchasing stock in this offering may receive significantly less for their shares than the purchase price paid in this offering in the event of a liquidation.

Two of our stockholders are expected to hold a significant block of shares in us after completion of this offering and, as a result, will continue to have significant influence over us.

Upon completion of this offering, representatives of New Enterprise Associates, or NEA, and DCM, significant shareholders of us, will serve on our board of directors and we anticipate that representatives of NEA and DCM will continue to serve on our board of directors in the future. See "Certain Relationships and Related Transactions—Board of Directors, Management Rights Agreements and Observation Rights Agreements." As a result of their substantial ownership interest, NEA and DCM may have the ability to significantly influence the outcome of a vote by our stockholders in respect of these matters and their interests could conflict with your interests.

If there are substantial sales of our common stock, our stock price could decline.

If our stockholders sell large numbers of shares of our common stock or the public market perceives that stockholders might sell shares of common stock, the market price of our common stock could decline significantly. All of the shares being sold in this offering will be freely tradable without restriction or further registration under the U.S. federal securities laws, unless purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the Securities Act.

After this offering, we will have outstanding shares of common stock, based on the number of shares outstanding as of September 30, 2006. This includes an aggregate of shares that we and the selling shareholders are selling in this offering, which may be resold in the public market immediately, and excludes any issuances of common stock after September 30, 2006. The remaining shares, or % of our outstanding shares after this offering, are currently restricted as a result of the application of securities laws or by virtue of lock-up agreements entered into with the underwriters in connection with this offering, but will be able to be sold in the near future as set forth below.

Following this offering, changes in our capital structure and level of indebtedness and the terms of such indebtedness could adversely affect our business and liquidity position.

As of September 30, 2006, our outstanding indebtedness was approximately $11.6 million. Following this offering, our level of indebtedness, including borrowings under our credit agreement, may increase from time to time for various reasons, including fluctuations in operating results, capital expenditures and possible acquisitions. Future consolidated indebtedness levels could materially affect our business because:

- a substantial portion of our cash flow from operations would be dedicated to interest payments on such indebtedness and not available for other purposes, which amount would increase if prevailing interest rates rise;
- it may materially limit or impair our ability to obtain further financing;
- it may reduce our flexibility to respond to changing business and economic conditions or to take advantage of business opportunities that may arise; and
- it may limit our ability to pay dividends.

In addition, our credit agreement limits our ability to enter into various transactions and may further limit entering into various transactions following this offering. If we were to default on any of our indebtedness, or if we were unable to obtain necessary liquidity, our indebtedness would become due and payable immediately and our business could be adversely affected.

Table of Contents

We have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

We cannot specify with certainty all of the particular uses of the net proceeds that we will receive from this offering. Our management will have broad discretion in the application of the net proceeds, including for any of the purposes described in the "Use of Proceeds" section of this prospectus. Our stockholders may not agree with the manner in which our management chooses to allocate and spend the net proceeds. The failure by our management to apply these funds effectively could have a material adverse effect on our business. Pending their use, we may invest the net proceeds from this offering in a manner that does not produce income or that loses value.

Delaware law could make a merger, tender offer or proxy contest difficult.

We are a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our certificate of incorporation and bylaws may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. Our certificate of incorporation and bylaws:

- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares to thwart a takeover attempt;
- prohibit cumulative voting in the election of directors, which would otherwise allow holders of less than a majority of the stock to elect some directors;
- establish a classified board of directors, as a result of which the successors to the directors whose terms have expired will be elected to serve from the time of election and qualification until the third annual meeting following election;
- require that directors only be removed from office for cause;
- require that vacancies on the board of directors, including newly-created directorships, be filled only by a majority vote of directors then in office;
- limit who may call special meetings of stockholders;
- prohibit stockholder action by written consent, requiring all actions to be taken at a meeting of the stockholders; and
- establish advance notice requirements for nominating candidates for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law may inhibit potential acquisition bids for us. Upon completion of this offering, we will be subject to Section 203, which regulates corporate acquisitions and limits the ability of a holder of 15% or more of our stock from acquiring the rest of our stock. Under Delaware law a corporation may opt out of the anti-takeover provisions, but we do not intend to do so.

We would incur increased costs if we become a public company as a result of recently enacted and proposed changes in laws and regulations.

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules of the Securities and Exchange Commission, or SEC, and the NASDAQ Global Market, would result in increased costs to us if we become a public company, including those related to corporate governance and the costs to operate as a public company. Section 404 of the Sarbanes-Oxley Act requires companies to perform a comprehensive and costly evaluation and audit of their internal controls. The new rules could also make it more difficult or more costly for us to obtain certain types of insurance, including directors' and officers' liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical fact, included in this prospectus regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "expects," "estimates," "projects," "plans," "intends," "may," "will," "would," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements included in this prospectus, particularly in the "Risk Factors" section, that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we make. We do not assume any obligation to update any forward-looking statements.

Table of Contents

USE OF PROCEEDS

We estimate that our net proceeds from the sale of shares of common stock in this offering will be approximately $, based on the initial public offering price of $ per share (the mid-point of the range set forth on the cover of this prospectus) of common stock and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use the net proceeds to fund the continued expansion of our business. Pending such use, the net proceeds will be used for working capital, capital expenditures and general corporate purposes. We currently cannot estimate the portion of the net proceeds that will be used for any specific purpose.

In addition, we may also use a portion of the proceeds for the acquisition of, or investment in, companies, technologies, products or assets that complement our business. However, we have no present understandings, commitments or agreements to enter into any potential acquisitions or investments.

We will not receive any of the proceeds from the sale of shares of common stock by the selling shareholders. If the underwriters exercise their over-allotment option, we will not receive any additional proceeds.

DIVIDEND POLICY

We have never paid a cash dividend on our common stock. We currently are prohibited from paying dividends under our existing bank credit agreement. The payment of future dividends will depend on our earnings, cash needs, terms of debt agreements, and other factors that our board of directors deems relevant from time to time.

Table of Contents

CAPITALIZATION

The following table sets forth our consolidated capitalization as of September 30, 2006:

- on an actual basis; and
- on a pro forma as adjusted basis to reflect the issuance and sale of shares of common stock pursuant to this offering, assuming an offering price of $ per share (the mid-point of the range set forth on the cover page of this prospectus), the application of the proceeds therefrom as described in "Use of Proceeds" and the conversion of all of our preferred stock into an aggregate of shares of common stock upon the closing of this offering.

You should read this table in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of September 30, 2006	
	Actual	As Adjusted
	(In thousands)	
Debt:		
Term credit agreement[1]	$11,550	$
Capital leases	—	
Total long-term debt and capitalized leases	$11,550	$
Series A convertible preferred stock; $0.01 par value; 9,200,00 shares authorized; 9,000,000 shares issued and outstanding, actual; and no shares issued and outstanding, as adjusted	9,000	
Series B-1 convertible preferred stock; $0.01 par value; 5,830,228 shares authorized; 5,737,416 shares issued and outstanding, actual; and no shares issued and outstanding, as adjusted	8,500	
Series B-2 convertible preferred stock; $0.01 par value; 1,374,752 shares authorized; 1,352,867 shares issued and outstanding, actual; and no shares issued and outstanding, as adjusted	8,500	
Series C convertible preferred stock; $0.01 par value; 2,009,947 shares authorized; 1,909,947 shares issued and outstanding, actual; and no shares issued and outstanding, as adjusted	12,000	
Shareholders' equity:		
Preferred Stock, $0.01 par value, no shares authorized, no shares issued and outstanding, actual; shares authorized, no shares issued and outstanding, as adjusted	—	
Common stock, $0.01 par value; 28,500,000 shares authorized; 5,249,434 shares issued and outstanding, actual; shares authorized, as adjusted and shares issued and outstanding, as adjusted	5	
Additional paid-in capital	843	
Accumulated other comprehensive loss, net of tax	—	
Retained earnings	84	
Total shareholders' equity	932	
Total capitalization	$50,482	$

(1) Our existing term credit agreement provides for credit borrowings of up to $19.5 million. As of September 30, 2006, we had approximately $2.5 million available for borrowing under our term credit agreement.

Table of Contents

DILUTION

Dilution is the amount by which the offering price paid by the purchasers of the common stock offered hereby will exceed the net tangible book value per share of common stock after the offering. Net tangible book value per share is determined at any date by subtracting our total liabilities from the total book value of our tangible assets and dividing the difference by the number of shares of common stock deemed to be outstanding at that date. Assuming conversion of our shares of preferred stock, our net tangible book value as of September 30, 2006 was $, or $ per share of our common stock. This represents an immediate dilution of $ per share to new investors (based on an assumed initial public offering price of $ per share (the mid-point of the range set forth on the cover of this prospectus)). The following table illustrates this per share dilution in pro forma net tangible books value to new investors:

Initial public offering price per share		$
Net tangible book value (deficit) per share as of September 30, 2006	$	
Increase in net tangible book value per share attributable to new investors		
Pro forma net tangible book value (deficit) per share after this offering		
Dilution per share to new investors		$

The following table summarizes, on an as adjusted basis as of September 30, 2006, the total number of shares of our common stock, the total consideration paid to and the average price per share paid by existing shareholders and new investors, calculated before deducting the underwriting discounts and commissions and estimated offering expenses based on an assumed initial public offering price of $ per share (the mid-point of the range set forth on the cover of this prospectus).

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
		(In thousands, except share data)			
Existing shareholders		%	$	%	$
New investors					
Total		100%	$	100%	$

If the underwriters exercise their over-allotment option in full, the following will occur:

- the number of shares of our common stock held by existing shareholders will decrease to approximately % of the total number of shares of our common stock outstanding after this offering; and
- the number of shares of our common stock held by new investors will increase to , or approximately % of the total number of shares of our common stock outstanding after this offering.

The foregoing discussion and tables are based upon the number of shares of our common stock issued and outstanding on September 30, 2006 and exclude shares of our common stock issuable upon exercise of options and warrants outstanding on September 30, 2006. As of that date, there were shares of our common stock issuable upon exercise of outstanding options at a weighted average exercise price of $ per share and shares of our preferred stock issuable upon the exercise of warrants at a weighted average exercise price of $ per share. In addition, as of September 30, 2006, there were shares of common stock issuable upon conversion of our preferred stock. To the extent the options or warrants are exercised or shares of our preferred stock are converted, additional shares of our common stock will be issued, and there will be further dilution to new investors. See "Risk Factors," "Capitalization," "Management," "Description of Capital Stock" and the notes to our consolidated financial statements included elsewhere in this prospectus.

Table of Contents

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth our selected historical consolidated financial information and other data for the periods presented. The consolidated financial information presented as of December 31, 2003 was derived from our consolidated financial statements, which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, which are not included in this prospectus. The consolidated financial information presented as of December 31, 2004 and 2005 and for the fiscal years ended December 31, 2003, December 31, 2004 and December 31, 2005, was derived from our consolidated financial statements, which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, and are included elsewhere in this prospectus. The consolidated financial information presented as of and for the nine months ended September 30, 2005 and September 30, 2006, was derived from our unaudited consolidated financial statements, and are included elsewhere in this prospectus. The unaudited consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which we consider necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2006. This data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited and unaudited consolidated financial statements and related notes included elsewhere in this prospectus.

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
	(In thousands, except share data)				
Statements of Operations					
Revenue	$ —	$ 3,439	$27,962	$18,177	$37,864
Operating Expense:					
Costs of revenue (excluding depreciation and amortization shown separately below)	13	2,027	11,349	7,467	14,621
Operations	155	2,704	8,189	5,868	8,150
Depreciation and amortization	2	655	3,141	2,011	4,464
Sales and marketing	69	775	1,360	991	1,149
General and administrative	449	2,310	3,053	2,361	2,785
Total operating expense	688	8,471	27,092	18,698	31,169
Income (Loss) From Operations	(688)	(5,032)	870	(521)	6,695
Other (Income) Expense:					
Interest expense	8	276	843	594	849
Interest income	(6)	(69)	(170)	(140)	(556)
Other income	—	—	(11)	—	—
Total other expense	2	207	662	454	293
Income (Loss) Before Income Taxes	(690)	(5,239)	208	(975)	6,402
Provision (Benefit) For Income Taxes	—	—	—	—	157
Net Income (Loss)	$ (690)	$(5,239)	$ 208	$ (975)	$ 6,245
Earnings (loss) per common share—basic[1]	$ (0.14)	$ (1.02)	$ 0.04	$ (0.17)	$ 1.18
Earnings (loss) per common share—diluted[1]	$ (0.14)	$ (1.02)	$ 0.01	$ (0.17)	$ 0.26
Weighted average common shares outstanding—basic	4,918	5,117	5,628	5,632	5,300
Weighted average common shares outstanding—diluted	4,918	5,117	21,403	5,632	23,979

	As of December 31,			As of September 30,	
	2003	2004	2005	2005	2006
			(In thousands)		
Balance Sheet Data:					
Cash and cash equivalents	$ 82	$ 199	$ 1,291	$ 556	$20,903
Total current assets	6,710	9,715	10,566	10,221	30,640
Total assets	8,024	19,330	31,224	30,848	62,234
Total current liabilities	123	3,579	6,895	7,117	15,951
Total liabilities	123	7,769	10,953	11,770	23,302
Total preferred stock	8,723	17,500	26,000	26,000	38,000
Total shareholders' equity (deficit)	(822)	(5,939)	(5,729)	(6,922)	932

(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 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.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition, results of operations, liquidity and capital resources should be read in conjunction with our audited and unaudited consolidated financial statements, including the notes thereto, and the other financial information appearing elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties, including information with respect to our plans, intentions and strategies for our business. See "Cautionary Note Regarding Forward-Looking Statements." For additional information regarding some of the risks and uncertainties that affect our business and the industries in which we operate and that apply to an investment in our common stock, please read "Risk Factors." Our actual results may differ materially from those estimated or projected in any of these forward-looking statements.

Overview

We are a leading provider of tandem interconnection services to competitive carriers, including wireless, wireline, cable telephony and VoIP companies. Competitive carriers use tandem switches to interconnect and exchange traffic between their networks without the need to establish direct switch-to-switch connections. Prior to the introduction of our service, the principal method for competitive carriers to exchange traffic was through the use of the incumbent local exchange carriers', or ILECs, tandem switches. Under interpretations of the Telecommunications Act, ILECs are required to provide tandem switching to competitive carriers pursuant to prescribed rates established by regulatory authorities. Our solution enables competitive carriers to exchange traffic between their networks without using an ILEC tandem.

The proliferation of competitive carriers over the past decade and their capture of an increasing share of subscribers has shifted a greater amount of intercarrier traffic to ILEC tandem switches and amplified the complexity of carrier interconnections. This has resulted in additional traffic loading of ILEC tandems, lower service quality and substantial costs incurred by competitive carriers for interconnection. A loss of ILEC market share to competitive carriers has escalated competitive tensions and resulted in an increased demand for tandem switching.

We founded our company to solve these interconnection problems and better facilitate the exchange of traffic among competitive carriers. By utilizing our managed tandem solution, our customers benefit from a simplified interconnection network solution which reduces costs, increases network reliability, decreases competitive tension and adds network diversity and redundancy. Since the launch of our service in 2004, we believe we have established the largest network of tandem switches serving as neutral interconnection points for voice traffic between competitive carriers in the United States.

We have 56 signed agreements with major competitive carriers and operate in 33 markets. Currently, we provide service to leading competitive carriers in the United States, including wireless carriers such as Sprint Nextel Corp., T-Mobile USA, Inc., MetroPCS Wireless Inc., U.S. Cellular Corporation and Cingular Wireless LLC; cable companies such as Cablevision Systems Corporation, Comcast Cable Communications, Inc., RCN Corporation and Cox Communications Inc.; wireline carriers such as AT&T, McLeod USA Inc., MCI/Verizon Business, Level 3 Communications Inc. and XO Communications Inc.; and VoIP providers such as Vonage Holdings Corp., Broadvox Carrier Services, LLC, Voex Inc. and Reynwood Communications Inc. Our network currently carries approximately 2.5 billion minutes of traffic per month and is capable of terminating calls to over 151 million assigned telephone numbers. As the telecommunications market share continues to shift from traditional ILEC access lines to competitive carriers, we believe we will have access to an expanding market. We believe that our neutral tandem network and its size and scale will provide us with opportunities to enter new markets, increase market share with current customers and attract new customers.

Since commencing service in February 2004, we have grown rapidly, generating revenue of approximately $28.0 million in fiscal 2005. During the nine months ended September 30, 2006, we increased revenue to $37.9 million, an increase of 108% compared to the nine months ended September 30, 2005, and net income was approximately $6.2 million.

Table of Contents

Financial Operation Overview

Revenue

We generate revenue from the sale of our neutral tandem interconnection services. Revenue is recorded each month on an accrual basis based upon minutes of traffic switched by our network by each customer, which we refer to as minutes of use. The rates charged per minute are determined by contract between us and our customers. The following table sets forth our revenue, minutes of use and the average rate we charged per minute for the years ended December 31, 2003, 2004 and 2005 and for the nine months ended September 30, 2005 and 2006:

	Years Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
Revenue (In thousands)	$ —	$ 3,439	$27,962	$18,177	$37,864
Minutes of Use Billed (In millions)	—	1,022	10,428	6,427	17,385
Average fee per billed minute	$ —	$0.0034	$0.0027	$0.0028	$0.0022

Minutes of use increase as we increase our number of customers, enter new markets and increase the penetration of existing markets, either with new customers or with existing customers. The minutes of use decrease due to direct connection between existing customers and consolidation between customers.

The average fee per minute varies depending on market forces and type of service. The market rate in each market is based upon competitive conditions along with the local transit rates offered by the ILECs. Depending on the markets we enter, we may enter into contracts with our customers with either a higher or lower fee per minute than our current average. For example, although we regard the ten new switch locations that we added in 2005 and the two additional switch locations we added in 2006 as financially attractive, the rates we charge in those markets are generally lower than the rates we charge in the markets we initially opened in 2004.

Our service solution incorporates other components beyond switching. In addition to switching, we provision trunk circuits between our customers' switches and our network locations at our own expense and at no direct cost to our customers. We also provide quality of service monitoring, call records and traffic reporting and other services to our customers as part of our service solution. Our per minute fees are intended to incorporate all of these services.

Operating Expense

Operating expenses consists of costs of revenue, operations expenses, sales and marketing expenses, general and administrative expenses and depreciation and amortization expense. Personnel-related costs are the most significant component as we grew from 58 employees at December 31, 2004 to 106 employees at September 30, 2006.

Costs of Revenue. Our costs of revenue include transport and signaling network costs, facility rents and utilities, together with other costs that directly support the switch location. We do not defer any costs associated with the start-up of new switch locations and we do not capitalize any costs.

Network transport costs typically occur on a repeating monthly basis, which we refer to as recurring costs, or on a one-time basis, which we refer to as non-recurring costs. Recurring costs primarily include monthly usage charges from telecommunication carriers, related to the circuits utilized by us to interconnect our customers. As our traffic increases, we 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 2016. Additionally, we pay the cost of all the utilities for all of our switch locations.

The largest component of our other costs relates to charges we pay to utilize the ILEC services. We incur some monthly charges from the ILECs as we diversify our network and provide alternative routes to complete

Table of Contents

our customers' traffic. In some cases, we may not have sufficient capacity of network transport lines installed in our own network to handle the volume of traffic destined for a particular customer. In this case, we will incur these charges, generally temporarily, in order to maintain a high quality of service. We attempt to minimize these charges by managing our network, recognizing when additional capacity is required and working with our customers to augment the transport capacity required between our network and theirs.

Operations Expenses. Operations expenses include payroll and benefits for both our switch location personnel as well as individuals located at our corporate office who are directly responsible for maintaining and expanding our switch network. Other primary components of operations expenses include switch repair and maintenance, property taxes, property insurance and supplies. We expect in the future to hire a significant number of new employees to support our growth.

Sales and Marketing Expense. Sales and marketing expenses represent the smallest component of our operating expenses and primarily include personnel costs, sales bonuses, marketing programs and other costs related to travel and customer meetings.

General and Administrative Expense. General and administrative expenses consist primarily of compensation and related costs for personnel and facilities associated with our executive, finance, human resource and legal departments and fees for professional services. Professional services principally consist of outside legal, audit and other accounting costs. The other accounting costs relate to work surrounding preparation for compliance with Sarbanes-Oxley in connection with becoming a public company. We expect that after this offering we will incur significant additional legal and accounting costs related to compliance with securities and other regulations, as well as additional insurance, investor relations and other costs associated with being a public company.

Depreciation and Amortization Expense. Depreciation and amortization expense is applied using the straight-line method over the estimated useful lives of the assets after they are placed in service, which are five years for switch equipment and test equipment, three years for computer equipment, computer software and furniture and fixtures. Leasehold improvements are amortized on a straight-line basis over an estimated useful life of five years or the life of the respective leases, whichever is shorter.

Other Income (Expense). Interest expense consists of interest paid each month related to our outstanding equipment loans associated with our security agreement with an affiliate of Western Technology Investment. See "Debt and Credit Facilities" below. We record accrued interest each month associated with a final payment for each loan equal to a range of 8.1% to 9.6% of the original principal loan amount. Interest expense also includes an amount related to the amortization of the value of debt discount associated with warrants issued to an affiliate of Western Technology Investment in accordance with the terms of our agreement. Interest income is earned primarily on our cash, cash equivalents and short-term investments.

Income Taxes. Provisions for income taxes is based on the effective income tax rate for the year to date.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States of America. The preparation of these financial statements in accordance with GAAP requires us to utilize accounting policies and make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies as of the date of the financial statements and the reported amounts of revenue and expense during a fiscal period. The SEC considers