

STATE OF MICHIGAN
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of Complaint by Neutral Tandem, Inc. for Interconnection with Level 3 Communications))	Case No. U-15230
))	
))	

**NEUTRAL TANDEM’S PETITION FOR REHEARING REGARDING THE
FORM AND ADEQUATE AMOUNT OF SECURITY TO BE
PROVIDED PENDING RESOLUTION OF ITS COMPLAINT**

Pursuant to Rule 403 of the Commission’s Rules of Practice and Procedure, R 460.17403, Neutral Tandem, Inc. and its subsidiaries (collectively “Neutral Tandem”), by and through undersigned counsel, respectfully requests that the Michigan Public Service Commission (the “Commission”) rehear in part its March 21, 2007 Order Denying Emergency Relief (“Order”). As set forth in more detail below, the Commission made clear that its denial Neutral Tandem’s prior request for emergency relief under MCL 484.2203(3) was *without prejudice*, and the Order specifically noted that Neutral Tandem could ask the Commission to establish the proper form and adequate amount of security to be provided under MCL 484.2203(13). Neutral Tandem now respectfully requests that the Commission establish the proper form and amount of security to be provided in this case. In further support of this Petition, Neutral Tandem states as follows:

I. Background.

1. On March 1, 2007, Neutral Tandem filed with the Commission its Complaint and Application for Emergency Relief against Level 3 Communications, LLC. (“Level 3”).¹ Neutral

¹ Both Neutral Tandem and Level 3 are licensed basic local exchange service providers in the State of Michigan.

Tandem sought emergency relief because, at that time, Level 3 had threatened to disconnect the parties' existing interconnections as of March 23, 2007. (Compl. ¶ 29.)

2. Level 3 responded to Neutral Tandem's request for emergency relief on March 7, 2007, by unilaterally moving the date on which it planned to disconnect the parties' existing interconnections to June 25, 2007. (Resp., p.3.) Level 3's response made clear, however, that it plans to terminate the parties' existing interconnection, and cease accepting traffic delivered directly from Neutral Tandem, on June 25. (*Id.* at 2-4.)²

3. On March 21, 2007, the Commission issued its Order. The Order found, based in large part on Level 3's unilateral extension of the parties' existing interconnections, that "[i]t appears that there are no exigent circumstances at this time" justifying emergency relief under MCL 484.2203. (Order, at 3.) The Commission therefore denied Neutral Tandem's request for emergency relief under MCL 484.2203(3) without prejudice, and directed the parties to commence alternative dispute resolution pursuant to MCL 484.2203(14). (*Id.*)

4. Although the Commission denied without prejudice Neutral Tandem's request for emergency relief under MCL 484.2203(3), the Commission specifically noted that "MCL 484.2203(13) prohibits a provider from discontinuing service while a complaint is pending before the Commission, if the complainant has provided adequate security in an amount determined by the Commission. Should the parties be unable to resolve this complaint before the deadline established by Level 3's commitment, Neutral Tandem may seek protection under this section." (*Id.*)

² Similarly, during a hearing recently held in Neutral Tandem's proceeding in California, Level 3's Director of State Regulatory Affairs stated unequivocally that "on June 25th we do intend to terminate the connection that Level 3 has had with Neutral Tandem." See Case No. C.07-03-008, *In re Complaint by Neutral Tandem Cal., LLC for Interconnection with Level 3 Commc'ns*, Tr. of 4/06/07 Prehearing conference, at 21.

5. On April 11, 2007, ALJ Rigas appointed Mr. Thomas Saghy to mediate this dispute, and established May 21, 2007 as the date for Mr. Saghy to file a recommended settlement. (4/11/07 Memorandum.) ALJ Rigas ordered that, should either party reject Mr. Saghy's recommended settlement, ALJ Sharon L. Feldman will hold a prehearing conference in this matter on June 6, 2007. (*Id.*)

6. On April 13, 2007, Mr. Saghy established a procedural schedule, under which both parties were to submit opening mediation statements no later than April 20, 2007, with responses due by April 27, 2007. (4/13/07 Memorandum.) Neutral Tandem has submitted its opening mediation statement to Mr. Saghy.

7. On April 19, 2007, Neutral Tandem filed with ALJ Feldman its motion, pursuant to MCL 484.2203(13), seeking determination of the form and adequate amount of security to be provided pending the resolution of its complaint (attached hereto as Exhibit 1). While this case has been assigned ALJ Feldman, MCL 484.2203 provides that the Commission shall have the authority to determine the adequate amount and form of security under that statute, and Neutral Tandem does not know whether ALJ Feldman will be willing to establish the form and amount of security without explicit direction from the Commission.

8. Thus, to ensure that Neutral Tandem is able to obtain a ruling that will result in the adequate form and amount of security being determined prior to Level 3's self-imposed disconnection deadline of June 25, 2007, as contemplated by MCL 484.2203(13), Neutral Tandem respectfully files this petition for rehearing with the Commission.

II. The Standard For Rehearing Is Met Here.

9. Rule 403 of the Commission's Rules of Practice and Procedure provides that a party may petition for rehearing of a Commission order within 30 days of its issuance. Rule 403

explains that a petition for rehearing may rely on, *inter alia*, “facts or circumstances arising subsequent to the close of the record, or on unintended consequences resulting from compliance with the decision or order.” R 460.17403. Where a Commission Order has unintended consequences that could unfairly prejudice one of the parties, it is appropriate for the Commission to rehear that Order. *See In re Application of MCIMetro Access Transmission Servs. LLC, MCI Telecomms. Corp., and Brooks Fiber Commc’ns of Mich*, Case Nos. U-13944; U-14013, (April 20, 2004 Order at 3).

10. MCL 484.2203(13) plainly states that Level 3 may not disconnect its existing interconnections with Neutral Tandem while this Complaint is pending, including during the alternative dispute process, once the Commission has established the amount and form of adequate security. Section 203(13) clearly contemplates that the security can be established during the alternative dispute resolution process as well:

If a complaint is filed under this section by a provider against another provider, the provider of service **shall not discontinue service** during the period of the contested case, **including the alternative dispute process**, if the provider receiving the service has posted a surety bond, provided an irrevocable letter of credit, or provided **other adequate security in an amount and on a form as determined by the commission**.

11. Almost a full month has passed since the Commission denied, without prejudice, Neutral Tandem’s application for emergency relief under MCL 484.2203(3), and noted that Neutral Tandem could later seek protection under MCL 484.2203(13). While Neutral Tandem is engaging in the Commission-ordered mediation in good faith, Neutral Tandem does not believe the alternative dispute resolution will result in a recommended settlement that is agreeable to both parties.

12. As noted above, Mr. Saghy's recommended settlement is not due until May 21, 2007, and the June 6, 2007 prehearing date with ALJ Feldman is less than three weeks before Level 3's self-imposed June 25, 2007 deadline for disconnecting its existing interconnections with Neutral Tandem. The Commission is scheduled to meet only one time, on June 12, 2007, between June 6 and June 25.

13. As a result of the schedules for the mediation and the prehearing conference, each of which arose subsequent to the Commission's March 21, 2007 Order, Neutral Tandem's risk of facing unilateral disconnection by Level 3 on June 25, 2007 has increased dramatically. The schedule established for the Commission-ordered mediation, combined with the Commission's meeting schedule for May and June 2007, presents a substantial risk that, unless the Commission acts promptly, the June 25 disconnection date could pass before the Commission has been able to establish the form and amount of adequate security.

14. Given the clear statutory requirement that service between Neutral Tandem and Level 3 not be disconnected while Neutral Tandem's complaint is pending, as well as the Commission's clear recognition in its Order that Neutral Tandem could avail itself of the protection of MCL 484.2203(13), allowing such disconnection to occur plainly would be an "unintended consequence" of the Commission's prior Order.

15. Given the recent developments described more fully above, Neutral Tandem respectfully requests that the Commission rehear its Order in part, for the purpose of determining the form and adequate amount of security to be provided under MCL 484.2203(13).

16. With respect to the form and adequate amount of security that Neutral Tandem should provide under MCL 484.2203(13), Neutral Tandem respectfully refers the Commission to "Neutral Tandem's Motion, Pursuant to MCL 484.2203(13), Requesting the Determination of the

Form and Adequate Amount of Security to be Provided Pending the Resolution of its Complaint" filed yesterday with ALJ Feldman, which Neutral Tandem attaches and expressly incorporates herein by reference.

III. Conclusion

WHEREFORE, for the foregoing reasons, Neutral Tandem respectfully requests that the Commission grant this petition for rehearing, enter an order establishing the form and adequate amount of security pursuant to MCL 484.2203(13), and requiring Level 3 to maintain its interconnection with Neutral Tandem while Neutral Tandem's Complaint is pending.

Dated: April 20, 2007

Respectfully submitted,

NEUTRAL TANDEM, INC.

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EXHIBIT 1

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of Complaint by Neutral)
Tandem, Inc. for Interconnection with) Case No. U-15230
Level 3 Communications)
)

**NEUTRAL TANDEM’S MOTION, PURSUANT TO MCL § 484.2203(13),
REQUESTING THE DETERMINATION OF THE FORM AND
ADEQUATE AMOUNT OF SECURITY TO BE PROVIDED
PENDING THE RESOLUTION OF ITS COMPLAINT**

Neutral Tandem, Inc. and its subsidiaries (collectively “Neutral Tandem”), by and through its undersigned counsel, respectfully requests that, pursuant to MCL § 484.2203(13), the Michigan Public Service Commission (the “Commission”) determine the adequate amount and form of security to be provided by Neutral Tandem pending the resolution of its Complaint. In support of its motion, Neutral Tandem states as follows:

I. Background

1. On March 1, 2007, Neutral Tandem filed with the Commission its Complaint and Application for Emergency Relief concerning interconnection issues with Level 3 Communications, LLC (“Level 3”).¹ Neutral Tandem requests the Commission to find that Neutral Tandem has a right to interconnect directly with Level 3 for the sole purpose of delivering traffic from carriers that have chosen Neutral Tandem to deliver their originating traffic to Level 3. Neutral Tandem further seeks a Commission order requiring the parties to agree on nondiscriminatory terms and conditions for Neutral Tandem’s direct interconnection

¹ Both Neutral Tandem and Level 3 are licensed basic local exchange service providers in the State of Michigan.

with Level 3, and an order directing Level 3 to continue to accept traffic terminating from Neutral Tandem over the parties' existing interconnection until a final order is issued in this case.

2. On March 7, 2007, Level 3 responded to Neutral Tandem's request for emergency relief by unilaterally extending its self-imposed deadline for disconnection until June 25, 2007. Level 3's response made clear, however, that on June 25, 2007, Level 3 plans to terminate the parties' existing interconnection and cease accepting Neutral Tandem's delivered traffic to Level 3. (Level 3 Communication's Response to Neutral Tandem's Requests for Emergency Relief, at 2.)

3. On March 21, 2007, the Commission issued an Order denying Neutral Tandem's request for emergency relief without prejudice, based in part on Level 3's commitment to continue providing service to Neutral Tandem until at least June 25, 2007. In denying Neutral Tandem's request for emergency relief, the Commission stated that "MCL 484.2203(13) prohibits a provider from discontinuing service while a complaint is pending before the Commission, if the complainant has provided adequate security in an amount determined by the Commission. Should the parties be unable to resolve this complaint before the deadline established by Level 3's commitment, Neutral Tandem may seek protection under this section." (3/21/07 Order at 3).

4. On April 11, 2007, Administrative Law Judge Rigas ordered the parties to mediate this dispute before Tom Saghy and set May 21, 2007 as the date for Mr. Saghy to file a sealed recommended settlement. (4/11/07 Memorandum.) Administrative Law Judge Rigas also ordered that, should either party reject Mr. Saghy's recommended settlement, Administrative Law Judge Sharon L. Feldman will hold a prehearing conference in this matter on June 6, 2007. (*Id.*)

5. While Neutral Tandem will engage in mediation in good faith, Neutral Tandem is not optimistic that the mediation will result in a recommended settlement that is agreeable to both parties.

6. Moreover, the June 6, 2007 prehearing date is less than three weeks before Level 3's self-imposed June 25, 2007 deadline for disconnecting Neutral Tandem, and the Commission is scheduled to meet only one time -- June 12, 2007 -- between June 6 and June 25. Given these developments, Neutral Tandem respectfully suggests that it is appropriate at this time to determine the amount and form of the security pursuant to MCL § 484.2203(13) to ensure that the protections of that statute are afforded to Neutral Tandem while the Commission considers its Complaint.

II. Form And Amount Of Security Under MCL § 484.2203(13)

7. Neutral Tandem requests that the Commission determine the form and adequate amount of security that Neutral Tandem should provide under MCL § 484.2203(13) to prohibit Level 3 from discontinuing connectivity with Neutral Tandem pending the resolution of Neutral Tandem's Complaint.

8. MCL § 484.2203(13) plainly states that Level 3 may not discontinue service to Neutral Tandem while this Complaint is pending, including during the alternative dispute process, upon the establishment of security in an amount and on a form as determined by the Commission. Section 203(13) of the Michigan Telecommunications Act states:

If a complaint is filed under this section by a provider against another provider, the provider of service **shall not discontinue service** during the period of the contested case, **including the alternative dispute process**, if the provider receiving the service has posted a surety bond, provided an irrevocable letter of credit, or provided **other adequate security in an amount and on a form as determined by the commission.**

MCL § 484.2203(13) (emphasis added.) Thus, the Michigan Legislature mandated that service not be discontinued if the Commission had determined the amount and form of adequate security. Further, the Michigan Legislature envisioned that the determination as to the amount and form of security was to occur before mediation was completed.

9. In seeking a determination of the amount and form of security, Neutral Tandem reiterates the commitment it previously made in its Reply in Support of its Application for Emergency Relief. Neutral Tandem is willing to apply the terms and conditions of the Commission's decision on Neutral Tandem's Complaint on a retroactive basis to March 23, 2007. (Neutral Tandem's Reply in Support of its Application for Emergency Relief, at 3-4).

10. As previously found by the Commission, the form and amount of security to be provided under MCL § 484.2203(13) need only be sufficient to pay amounts in dispute between the parties. *See In re Complaint of JAS Networks, Inc., Against Mich. Bell Tel. Co., for violations of the Mich. Telecomms. Act*, Case No. U-14282, (Oct. 14, 2004 Order at p. 2) (finding that "JAS may post a bond or provide a letter of credit or other guarantee that funds will be available to pay the disputed amount in this case to trigger the protections in Section 203(13) of the MTA.").

11. As noted above, Level 3 is seeking to terminate its existing interconnections with Neutral Tandem and require the transition of Neutral Tandem's delivered traffic to alternative arrangements, namely, the incumbent LEC tandems. Thus, any bond to be posted by Neutral Tandem would need only be sufficient to cover losses Level 3 allegedly is suffering, if any, as a result of Level 3 not transitioning Neutral Tandem's delivered traffic to the incumbent LEC tandem while this matter is pending. *See In re Complaint of JAS Networks*, (Oct. 14, 2004 Order at p. 2).

12. But as Neutral Tandem's Complaint in this matter demonstrates, Level 3 receives no compensation from incumbent LECs, such as AT&T, when the incumbent LEC acts as a transitioning carrier and delivers third party carriers' traffic to Level 3's network. (*See* Neutral Tandem's Formal Complaint and Application for Emergency Relief, ¶ 46.) To the contrary, Level 3's interconnection agreements with AT&T, as well as most other incumbent LECs, expressly provide that Level 3 "shall not bill [AT&T] for any Transit Service traffic." (*Id.*) Thus, Level 3 is foregoing no compensation, and is suffering no losses, as a result of its continued interconnection with Neutral Tandem during the pendency of this matter.

13. For this reason, Neutral Tandem respectfully suggests that its commitment to apply the terms and conditions of the Commission's decision on a retroactive basis to March 23, 2007 is adequate security and no additional form of security is necessary to allow Neutral Tandem to obtain the protections of MCL § 484.2203(13) while its Complaint is pending.

14. Should the Commission determine that additional security is necessary under MCL § 484.2203(13), Neutral Tandem is a financially strong, multi-million dollar company with no solvency concerns or history of credit problems. (Affidavit of Robert Junkroski, attached hereto, at ¶ 4.) According to the Form S-1 that Neutral Tandem filed with the United States Securities and Exchange Commission on January 22, 2007, for the nine months ended September 30, 2006, Neutral Tandem earned almost \$38 million in revenue. (*Id.*) Neutral Tandem's Form S-1 also showed that as of September 2006, Neutral Tandem's balance sheet listed almost \$21 million in cash and cash equivalents. (*Id.*)

15. Neutral Tandem is willing to provide whatever adequate security the Commission deems necessary and appropriate to obtain the protections of MCL § 484.2203(13). But given Neutral Tandem's strong financial condition, its excellent credit rating, and its previous business

relationship with Level 3, Neutral Tandem respectfully suggests that its posting of a letter of credit or similar guarantee that funds will be available to pay amounts in dispute with Level 3, if any, is sufficient security to obtain the protections of MCL § 484.2203(13). *See In re Complaint of JAS Networks, Inc.*, (Oct. 14, 2004 Order at p. 2) (finding that posting a letter of credit or other guarantee that funds will be available to pay the disputed amount can be sufficient to trigger the protections of MCL § 484.2203(13)).

For the foregoing reasons, Neutral Tandem respectfully requests that the Commission determine the form and amount of adequate security it believes Neutral Tandem should provide in order to invoke the protections of MCL § 484.2203(13) is Neutral Tandem's existing commitment to apply the terms and conditions of the Commission's decision on a retroactive basis to March 23, 2007, and that no additional form of security is necessary to allow Neutral Tandem to obtain MCL § 484.2203(13)'s protections while its Complaint is pending. Should the Commission determine that additional security is necessary under MCL § 484.2203(13), Neutral Tandem respectfully suggests that its posting of a letter of credit or similar guarantee that funds will be available to pay amounts in dispute with Level 3, if any, is sufficient security to obtain the protections of MCL § 484.2203(13).

Dated: April 19, 2007

Respectfully submitted,

NEUTRAL TANDEM, INC.

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STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of Complaint by Neutral)
Tandem, Inc. for Interconnection with) Case No. U-15230
Level 3 Communications)
)

**AFFIDAVIT OF ROBERT JUNKROSKI IN SUPPORT OF NEUTRAL TANDEM'S
MOTION, PURSUANT TO MCLS § 484.2203(13), REQUESTING THE
DETERMINATION OF THE FORM AND ADEQUATE AMOUNT OF SECURITY TO
BE PROVIDED PENDING THE RESOLUTION OF ITS COMPLAINT**

1. My name is Robert Junkroski. I am of full age of majority and am otherwise competent to make this Affidavit. I make this Affidavit on personal knowledge and, if called as a witness, could testify competently under oath about the matters stated herein.

2. I currently am employed by Neutral Tandem, Inc. ("Neutral Tandem") as Chief Financial Officer. I submit this Affidavit in support of Neutral Tandem's Motion, Pursuant To MCL § 484.2203(13), Requesting The Determination of The Form and Adequate Amount of Security To Be Provided Pending The Resolution Of Its Complaint.

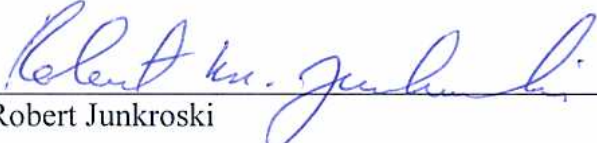
3. I have nineteen years of financial and accounting experience, including nine years in the telecommunications industry. During these nine years, in addition to my work at Neutral Tandem, I have worked in the following positions, among others: Vice President of Finance with Focal Communications Corporation; and Treasurer and Controller of Focal Communications Corporation. Prior to Focal Communications Corporation, I served, respectively, as the Controller of Brambles Equipment Services, Inc. and Focus Leasing Corporation. I hold a B.B.A. degree in Accounting and Economics from the University of

Dubuque, an M.B.A. degree from Roosevelt University, and a CPA certificate from the State of Illinois.

4. Neutral Tandem is a financially strong, multi-million dollar company with no solvency concerns or history of credit problems. According to the Form S-1 that Neutral Tandem filed with the United States Securities and Exchange Commission on January 22, 2007, for the nine months ended September 30, 2006, Neutral Tandem earned almost \$38 million in revenue. Neutral Tandem's Form S-1 also showed that as of September 2006, Neutral Tandem's balance sheet listed almost \$21 million in cash and cash equivalents. Relevant pages of Neutral Tandem's Form S-1 are attached hereto as Exhibit 1.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

Date: April 18, 2007
Chicago, Illinois


Robert Junkroski

Subscribed and sworn to before me
This 18th day of April, 2007



Notary Public



Exhibit 1

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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
(State or Other Jurisdiction of
Incorporation or Organization)

4813
(Primary Standard Industrial
Classification Code Number)

31-1786871
(I.R.S. Employer
Identification Number)

**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)

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:

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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
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- (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.

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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



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

	<u>Price to Public</u>	<u>Underwriting Discounts and Commissions</u>	<u>Proceeds to Neutral Tandem</u>	<u>Proceeds to Selling Shareholders</u>
<i>Per share</i>	\$ _____	\$ _____	\$ _____	\$ _____
<i>Total</i>	\$ _____	\$ _____	\$ _____	\$ _____

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

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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.

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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

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	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	<u>\$(4,377)</u>	<u>\$4,022</u>	<u>\$1,490</u>	<u>\$11,159</u>