

MINTZ LEVIN

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T.R.A. DOCKET ROOM
October 29, 2009

701 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
202-434-7300
202-434-7400 fax
www.mintz.com

Chairman Sara Kyle
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

09-00176

**Re: Application of iBasis Retail, Inc. to Provide Resold Interexchange
Telecommunications Services**

Dear Chairman Kyle:

iBasis Retail, Inc., through its counsel, respectfully submits an original and one copy of its reseller application seeking authority to provide resold interexchange telecommunications services in the State of Tennessee. Also enclosed is the \$50 filing fee.

Please contact the undersigned with any questions concerning this filing. Kindly date stamp the extra copy of the application and return it to us in the enclosed Federal Express envelope.

Respectfully submitted,



Stefanie Z. Desai
Counsel to iBasis Retail, Inc.

Enclosures

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

BOSTON | WASHINGTON | NEW YORK | STAMFORD | LOS ANGELES | PALO ALTO | SAN DIEGO | LONDON

4752198v.1

**APPLICATION FOR CERTIFICATE
TO PROVIDE OPERATOR SERVICES AND/OR
RESELL
TELECOMMUNICATION SERVICES IN TENNESSEE
SECTION A**

Application is hereby made for a certificate of authority pursuant to TRA Rule 1220-4-2-.57 to provide telecommunications services in the State of Tennessee.

Part I : General Information

A. Name of Applicant iBasis Retail, Inc.

Full exact name of person, corporation, partnership, sole proprietorship, or other entity, for which application is made.

Legal name of applicant, if different from above.

20 Second Avenue, Burlington, MA 01803

Address City State Zip

Tenn. Secretary of State Certificate of Authority ID 0579946

Federal Taxpayer ID Number 26-0522833

Any trade name(s), assumed name(s) or fictitious name(s) used by applicant:

iBasis

If applicant has affiliate(s) engaged in providing telecommunications services, provide the above requested information for each affiliate(s), as well as for the applicant.

Address See note below. City _____

State _____ Zip Code _____ Phone No. (____) ____ - _____

(Use additional pages if necessary)

*****IMPORTANT INFORMATION*****

Note: Applicant's parent company is an international provider of telecommunications services and Applicant is a newly-formed subsidiary that will provide domestic prepaid services. No other affiliate will provide services.

If applicant has affiliate(s) or parent company, or constituency corporations, engaged in providing telecommunications services, or operating under any trade name, assumed name or fictitious name used by the above, provide the above requested information on all parts of this application as well as for the applicant. Provide this information on a separate attachment, if necessary.

THIS SECTION FOR TRA USE ONLY

Docket Number: _____

Company ID Number _____

Date Approved _____

Evaluator _____

B. Describe other businesses or business transactions, if any, at the same location as the principal business address: _____
iBasis Retail, Inc.'s parent company, iBasis, Inc., is also located at the same
_____ address.

C. Provide the name, business address and a chronological summary of the employment history and business experience over the preceding eight years of:

- (a) The proprietor, if the applicant is an individual;
- (b) Every member, if the applicant is a partnership;
- (c) Each Executive Officer, Director and each Key Stockholder if the applicant is a joint stock association or a corporation. (Note: If the applicant is a publicly traded corporation or a subsidiary of such a corporation it does not need to provide this information.)
- (d) Any person in a position to exercise control over or direction of, the business of the applicant, regardless of the form of organization of the applicant. See Exhibit A.

Information to be included:

NAME TITLE

BUSINESS ADDRESS

PHONE NO.

EMPLOYMENT HISTORY (with details of duties/responsibilities for each position held)

Provide the above requested information on separate attachments.

D. Has the applicant or any of its parent companies, subsidiaries, affiliates, owners, partners, LLC members, directors, officers, five percent (5%) more shareholders or beneficiaries (of a trust) been associated with a business whose authority to transact business was denied, revoked or suspended by a state or federal regulatory or law enforcement entity?

☐ Yes ☒ No If yes, please explain fully.

E. Has the Tennessee Regulatory Authority, or any other agency of the State of Tennessee, any federal agency or any agency of any other state ever initiated a regulatory action or order against the applicant or any of its parent companies, subsidiaries, affiliates, owners, partners, LLC members, directors, officers, five percent (5%) more shareholders or beneficiaries (of a trust)?

☒ Yes ☐ No If yes, please explain fully.

See page 21 of iBasis, Inc. 10Q attached at Exhibit D.

(1) Has the applicant or any of its parent companies, subsidiaries, affiliates, owners, partners, LLC members, directors, officers, five percent (5%) more shareholders or beneficiaries (of a trust), been enjoined or restrained by order by any court or state or federal regulatory or law enforcement entity from engaging in any conduct or practice related to the telecommunications business?

☐ Yes ☒ No If yes, please explain fully.

F. Has the applicant or any of its parent companies, subsidiaries, affiliates, owners, partners, LLC members, directors, officers, five percent (5%) more shareholders or beneficiaries (of a trust) been associated with a business who has ceased providing telecommunications services in any state?

☐ Yes ☒ No If yes, please explain fully and describe the circumstances. (Use additional pages if necessary)

**TENNESSEE REGULATORY AUTHORITY
TELECOMMUNICATIONS DIVISION**

RESELLER APPLICATION REQUIREMENTS

I. Reseller Requirements

- A. Completed Reseller Application (All blanks must be completed)
- B. Copy of License transact business in the State of Tennessee See Exhibit E.
- C. Copy of Articles of Incorporation, partnership agreement or by-Laws of the service provider See Exhibit C.
- D. Sample Bill Copy (if directly billing customers) Not applicable.
- E. Tariff (inclusive of rates and services) See Exhibit I.
- F. IntraLATA Toll Dialing Parity Plan Not applicable.
- G. Most recent Financial Information
 - 1. Income Statement and Balance Sheet, or See Exhibit D.
 - 2. Income Tax Return
- H. Surety Bond or Letter of Credit

TCA § 65-4-125 amendment states that by September 1, 2000, all telecommunications service providers subject to the control and jurisdiction of the authority, except those owners or operators of public telephone service who pay annual inspection and supervision fees pursuant to Tennessee Code Annotated, § 65-4-301(b), or any telecommunications service provider that owns and operates equipment facilities in Tennessee with a value of more than five million (\$5,000,000), shall file with the authority a corporate surety bond or irrevocable letter of credit in the amount of twenty thousand dollars (\$20,000) to secure the payment of any monetary sanction imposed in any enforcement proceeding, brought under this title or the Consumer Telemarketing Protection Act of 1990, by or on behalf of the authority.

Will your company's equipment or facilities in Tennessee be in excess of \$5,000,000? If not, please provide a corporate surety bond or irrevocable letter of credit in the amount of twenty thousand dollars (\$20,000). See Exhibit G.
- I. Small and Minority Owned Telecommunications Business Participation Plan Pursuant to Tennessee Code Annotated § 65-5-212 See Exhibit F.

II. Other Filing Information

- A. Sample Forms of Bond and Letter of Credit
- B. IntraLATA Toll Dialing Parity Plan Checklist
- C. Sample Small & Minority Owned Telecommunications Business Participation Plan (Company name and personally identifiable information have been redacted)

- G. Has the applicant or any of its parent companies, subsidiaries, affiliates, owners, partners, L.L.C. members, directors, officers, five percent (5%) or more shareholders or beneficiaries (of a trust) been convicted of any crime or crimes, or charged in court with any fraudulent or dishonest acts in any transaction of any kind, or confined in any penal institution? If so, list such persons, give details, state results and final outcome. **(Use additional pages if necessary)** No.

(1) Has the applicant or any of its parent companies, subsidiaries, affiliates, owners, partners, L.L.C. members, directors, officers, five percent (5%) or more shareholders or beneficiaries (of a trust) been indicted, convicted, pled guilty or pled nolo contendere to a felony in Tennessee or elsewhere?

☐ YES ☒ NO If yes, please explain fully.

- H. Name and telephone number of contact person authorized to respond to Authority inquiries regarding company operations Monday through Friday.

Ellen Schmidt (781) 5057956 (781) 505-7304
Name Phone No. Fax No.

(800) _____ e-mail Address eschmidt@ibasis.net

- (1) Name and telephone number of contact person authorized to respond to Authority inquiries regarding this filing Monday through Friday.

Kemal Hawa (202) 434 7363 (202) 4347400
Name Phone No. Fax No.

(800) _____ e-mail Address khawa@mintz.com

- I. List a toll-free telephone number and mailing address that consumers can call or write to report service problems and/or request refunds or adjustments.

877-291-9783

PHONE NUMBER	ALTERNATE PHONE NUMBER
<u>20 Second Avenue, Burlington, MA 01803</u>	
ADDRESS	CITY ST ZIPCODE

- (J) Provide the name and address of the registered agent for service of process:

CT Corp.

800 S. Gay Street, Suite 2021, Knoxville, TN 37929

- (K) Identify all authorized agents in the state, if any by name, address, business and home phone numbers and any other businesses conducted by the agent at the same location: (use additional sheets if necessary)

Part II:

- A. Check the type of telecommunication services you plan to provide in Tennessee.

☒ Resell Interexchange long distance services
☐ Operator Services
☐ Resell local services
☒ Other (describe) Prepaid calling card services.

- B. If providing operator services, list company name, address and contact person for all reseller carriers you serve in Tennessee. **Provide the above information on Appendix I.**

- C. List the state(s) where the applicant, its parent company, and all affiliates is authorized to operate in at this time. For each such state, describe applicant's current activities along with a history of operations there. (Use additional pages if necessary.)
See Exhibit B.

For the above states, list the number and types of complaint(s) filed against applicant, and the complaint(s)' current status. Provide this information on a separate attachment, if necessary. No complaints have been filed.

If applicant has affiliate(s) or parent company, or constituency corporations, engaged in providing telecommunications services, or operating under any trade name, assumed name or fictitious name used by the above, provide the above requested information for all as well as for the applicant. Provide this information on a separate attachment, if necessary.

- D. List any states that the applicant or any affiliate, parent company, or constituency corporation operating under any trade name, assumed name, or fictitious name, has been denied authority to provide service. (Use additional pages if necessary)

None

- E. Areas in Tennessee to be served.
Applicant intends to provide service throughout Tennessee.

- F. What type of customers will the applicant serve?

a. Business ☐

b. Residential ☐

c. Aggregators ☐

(e.g. Hotels, Payphones)

d. Other (specify) Any person or business purchasing a prepaid calling card.

- G. Does the applicant allow a property imposed fee (PIF) to be added to the price of intrastate telephone calls over its network? If yes, specify amount. N/A

- H. Are your prices for intrastate services plus any PIF equal to or less than the dominant carriers' price for similar services? Yes ☐ No ☐ Not Applicable

- I. Describe the type of services and price that the applicant will be offering in Tennessee on the Informational Tariff Form found in Appendix II¹.

- J. What is the applicant's 10XXX or 800 access code, if applicable? N/A

- K. Does the applicant now have or plan to have any telecommunication's facilities (e.g. switches, fiber lines) in Tennessee?

No.

¹Applicant is required to fill out an Informational Tariff form. Failure to fill out this form will cause the applicant's request to be rejected.

- L. Whose facility-based network(s) will the applicant be reselling?

Certified providers such as Global Crossing and Verizon.

- M. Will the applicant be utilizing the local telephone company's billing system or billing customers directly¹? No, iBasis Retail will be providing prepaid calling cards only.

- N. Describe briefly how the applicant plans to market their services in Tennessee?
Applicant will market services via posters and other advertising materials provided at the point of purchase for the cards. Applicant will not engage in telemarketing.

- O. If independent telemarketers are to be used, list the name, contact person, address phone number and federal taxpayer ID for each company.

Not applicable.

COMPANY NAME	CONTACT	ADDRESS	CITY	ST	ZIP	PHONE
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COMPANY NAME	CONTACT	ADDRESS	CITY	ST	ZIP	PHONE
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COMPANY NAME	CONTACT	ADDRESS	CITY	ST	ZIP	PHONE
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- P. Describe the methods and procedures by which the applicant will use to switch a consumer's preferred interexchange service, and to prevent unauthorized switching of a consumer's interexchange service. Use additional pages if necessary. If you have written procedures or company guidelines, attach copies.

Not applicable. Applicant will not switch consumer's preferred interexchange carrier service. Applicant will only offer service via prepaid calling cards.

- Q. Applicant has the ability and agrees to honor the form of call blocking that the consumer has subscribed to with their local telephone company. Yes ☐ No ☐ **Not applicable.**

- R. Applicant gives permission to the local telephone company to provide the Authority a periodic sample of the reseller's intrastate toll calls. The purpose of this analysis is to audit the reseller's rates to assure they are at or below the dominant carrier's tariffed rates. Yes ☐ No ☐ **Not Applicable.**

- S. Is the Applicant aware of the requirement to insure that any telephone call made between two points in the same county in Tennessee shall be classified as toll-free and not billed to any customer pursuant to Tennessee Code Annotated § 65-21-114? Yes ☒ No ☐

- T. Is the Applicant aware of the TAR Code data base maintained by BellSouth, its use to insure compliance with T.C.A. § 65-21-114 and the procedures used to enter telephone numbers in that data base? Yes ☒ No ☐

- U. How does the Applicant intend to comply with T.C.A. § 65-21-114? In your response, please explain technically, what procedures the Applicant will use to insure it will not bill for any county wide calls in Tennessee. **Use additional pages if necessary.**

Applicant is providing resold telecommunications services for prepaid calling cards only. Applicant will rely on local carriers that serve end users to comply with TCA 65-21-114.

¹A copy of a bill is required if the applicant is going to bill the customer directly.

Part III: Organization Structure

A. Applicant's organizational structure

☒ Corporation

☐ Publicly Traded Corporation

☒ Subsidiary of a Publicly Traded Corporation

☐ Limited Liability Corporation **Attach a copy of the articles of organization and operating agreement along with amendments.**

☐ Other Form of Corporation

List type C Corporation (Example S Corporation)

Attach a copy of the charter, bylaws and/or certificate of incorporation. See Exhibit C.

☐ Association **Attach a copy of the charter, bylaws and/or certificate of incorporation and Letter of Authorization from Tennessee Secretary of State**

☐ Joint Stock Association **Attach a copy of the charter, bylaws and/or certificate of incorporation and Letter of Authorization from Tennessee Secretary of State.**

☐ Trust **Attach a copy of the trust agreement and Letter of Authorization from Tennessee Secretary of State.**

☐ Individual **Attach a copy of the Letter of Authorization from Tennessee Secretary of State**

SECTION (a)-(g) is to be completed if applicant is a Corporation Association or Trust

(a) The date and state of formation/incorporation: June 29, 2007

(1) Parent Company, if applicable iBasis, Inc.

(b) Attach a certificate of good standing from the state in which the applicant was incorporated/formed.

(1) Attach a copy of Certification of Authority issued by Tennessee Secretary of State showing corporation's authority to engage in business in Tennessee. **See Exhibit E.**

(d) Describe the corporate structure of the applicant, including the identity of any parent or subsidiary of the applicant. Disclose whether any parent or subsidiary is publicly traded on any stock exchange. **See organization chart attached at Exhibit H.**

(e) Provide the history of material litigation and criminal convictions of every current director, executive officer, or key shareholder of the applicant for the ten-year period prior to the date of this application. **N/A**

(f) If applicable, attach a copy of the instrument creating the trust and all amendments thereto: **N/A**

B. ☐ Proprietorship

☐ Partnership

- ☐ General Attach a copy of the partnership agreement along with any amendments.
- ☐ Limited Attach a copy of the certificate of limited partnership and the partnership agreement along with any amendments.
- ☐ Other (Explain on separate sheet)

All of the above will be required to submit a valid business license.

- (a) Identify the place and date of the applicant's qualifications to provide telecommunications services in this state.
- (b) List the full name, social security number and address of the owners, if a sole proprietorship, or all partners identifying the percentage of ownership:

ATTACH ADDITIONAL PAGES AS NECESSARY

iBasis Retail, Inc. is a wholly-owned subsidiary of iBasis, Inc. iBasis, Inc.

- C. Number of employees: has 353 employees plus 10 temporary/contract employees.

Employer Identification Number (E.I.N.) 26-0522833

Part IV: Financial Information

- A. Address where business records are kept: 20 Second Avenue
street
Burlington, MA 01803 781-505-7500
CITY STATE ZIP CODE PHONE NUMBER

- B. Attach a copy of the applicant's most recent unconsolidated and consolidated audited financial statements for the immediately preceding three-year period. Provide in detail the applicant's financial condition, including balance sheet and income statement, or a copy of IRS form 1120 or 1065 filed by your business for the previous year. Attach, if available, a copy of your company's 10K and/or stockholder reports.

* Note: Attaching financials of parent company
 See Exhibit D.

- (1) Fiscal year end: Month December Day 2008
- (2) Date of most recent audited, unconsolidated financial statement of Applicant:
10Q for period ending June 2009
- (3) If applicable, name and address of independent certified public accountant:

- (4) Period covered by financial statement attached: 2008 and April-June 2009

- C. Does the applicant currently have an internal auditor and/or internal audit program? N/A

If so, Name of internal auditor _____.

- D. If applicable, provide a history of applicant's material litigation and criminal convictions for the ten-year period prior to the date this application is made. Material litigation is defined as any litigation that, according to generally accepted accounting principles, is deemed significant to a person's financial health and would be required to be referenced in annual audited financial statements, reports to shareholders or similar documents. None.

Part VI: Rule Compliance Agreement

- A. Attach a copy of a Small and Minority-Owned Telecommunications Business Participation Plan Pursuant to Tennessee Code Annotated § 65-5-212. See Exhibit F.
- B. Have you read and understand the Tennessee Regulatory Authority's (TRA) Rules and Regulations for Resellers, 1220-4-2 located at the TRA's website <http://www.state.tn.us/tra> *electronic fileroom* in its entirety?
☒ Yes ☐ No
- C. Do you understand the penalties for non-compliance, and all associated fees to provide such service? ☒ Yes ☐ No

Mail the completed application and a check for \$50.00 to: Tennessee Regulatory Authority, P.O. Box 198907, Nashville, TN 37219-8907. Should you have any questions, call (615) 741-7489, ext. 163.

The Reseller or Operator Service Provider applicant, hereby, affirms the following:

Will comply with the TRA Reseller Rules and all other applicable Authority Rules and state laws, including T.C.A. Section 65-5-206 located at the TRA's website <http://www.state.tn.us/tra> *electronic fileroom* under the External Site of Lexis Law Publishing.

Having been duly sworn, and under the penalties of perjury, I hereby certify that the representations in this RESELLER APPLICATION and all attachments and appendices are true and correct to the best of my knowledge and belief. I further understand that omissions or inaccuracies may result in denial of the APPLICATION and grounds for revocation of Certificate of Authority.

~~For Individuals and Partners:~~

Signature

PRINTED NAME

Signature

PRINTED NAME

Mark S. Flynn
Signature

Mark S. Flynn
PRINTED NAME

Signature

PRINTED NAME

For Corporations
and Other Organizations

BY:

iBasis Retail, Inc.
(NAME OF CORPORATION)

(see above)
SIGNATURE

Mark S. Flynn
PRINTED NAME

Vice President and Secretary
Title

ATTEST:

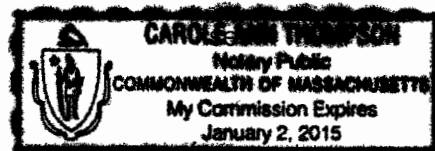
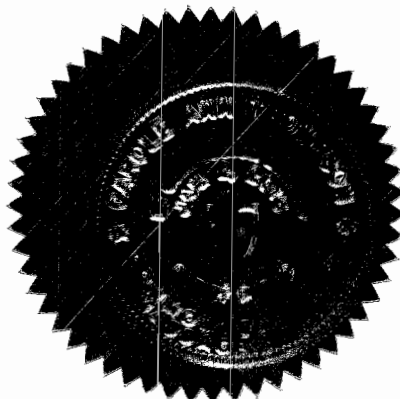
Title

On this the 22nd day of October 2009 before me, a Notary Public

Mark S. Flynn

known to me to be the person(s) named in, and who executed the foregoing application, being duly sworn according to law, deposes and says that the statements and representations set forth in the above application are true and correct to the best of his/~~her~~ knowledge and belief.

Carol Ann Thompson
Notary Public



Appendix I

Reseller Name	Address	Contact Person	Phone Number
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Not Applicable.

Appendix II
Informational Tariff Sheet

<u>Description of Service</u>	<u>Applicant proposed Price change to consumer</u>	<u>Dominant Carriers³ Price for similar service</u>
1. Prepaid Calling Card Services	Up to 99 cents per minute.	N/A
2.		
3.		

³Dominant Carrier (South Central Bell or AT&T, whichever is appropriate). A copy of these companies' rates are found on Appendix V.

List of Exhibits

Exhibit A	Biographies of Key Personnel
Exhibit B	Authority in Other States
Exhibit C	Certificate of Incorporation
Exhibit D	Financial Documentation
Exhibit E	Tennessee Secretary of State Certification of Authority
Exhibit F	Small and Minority-Owned Telecommunications Business Participation Plan
Exhibit G	Surety Bond
Exhibit H	Organizational Chart
Exhibit I	Proposed Tariff

Exhibit A

Biographies of Key Personnel

Ofer Gneezy, Chief Executive Officer
20 Second Avenue, Burlington, MA 01803
781-575-7500

Ofer Gneezy is President and Chief Executive Officer of iBasis Retail, Inc. He is also the President, Chief Executive Officer and Chairman of the Board of iBasis, Inc., a leader in international long distance VoIP services. Mr. Gneezy was a recipient of Pulver.com's Industry Pioneer Award and was named Best Business Leader for 2007 in the annual Capacity Magazine awards. Mr. Gneezy built iBasis, Inc. as the first provider of toll-quality VoIP service. Prior to starting iBasis, Inc., Mr. Gneezy was president of Acuity Imaging, Inc., a multinational leader in industrial automation technology. Mr. Gneezy led Acuity to achieve significant increases in earnings, revenues and stockholder equity before successfully orchestrating the company's acquisition by RVSI, the second-largest company in the industry. The acquisition provided Acuity with strong financial backing and access to the semiconductor industry while delivering liquidity to Acuity investors. Previously, as president and CEO of Automatix, Inc., Mr. Gneezy led the turnaround of the company to growth and sustained quarterly profitability and managed its merger with Itran, Inc. to form Acuity. Mr. Gneezy is a graduate of the Advanced Management Program at Harvard University's Graduate School of Business Administration and has an M.S. in engineering from M.I.T.

Mark S. Flynn, Chief Legal Officer and Secretary
20 Second Avenue, Burlington, MA 01803
781-575-7500

Mark S. Flynn is Chief Legal Officer and Secretary for iBasis Retail, Inc. He also serves in these positions at iBasis, Inc. Mr. Flynn manages the legal affairs of the company and provides counsel on a range of related issues including corporate governance and regulatory compliance. Mr. Flynn has substantial experience in corporate legal affairs including corporate governance and Sarbanes-Oxley compliance, acquisitions and divestitures, and corporate finance. Prior to joining iBasis, Mr. Flynn was Vice-President, General Counsel and Secretary for Imagistics International Inc., a NYSE-traded company engaged in the marketing, sales and service of document imaging equipment with revenues exceeding \$600 million and 3,500 employees in the U.S., Canada, and the U.K. He has also served in senior legal counsel positions at public and private companies in the chemicals and health care industries, including Senior Deputy General Counsel of Olin Corporation, a diversified chemicals and materials company.

Richard Tennant, Chief Financial Officer
20 Second Avenue, Burlington, MA 01803
781-575-7500

Richard Tennant oversees the financial management of the company. Mr. Tennant has more than 20 years of experience in corporate finance and administration. Prior to joining iBasis Retail, Inc. and iBasis, Inc., he was Vice-President, CFO and Treasurer for ScoreBoard, a software start-up company targeting the wireless carrier market. Previously, Mr. Tennant served as CFO of several private and public companies, including LTX Corporation, a semiconductor testing solutions vendor with annual revenues of more than \$200 million. Mr. Tennant also served as CFO for Netrix Corporation, a telecom equipment and software manufacturer.

Ajay T. Joseph, Chief Technology Officer, iBasis, Inc.
20 Second Avenue, Burlington, MA 01803
781-575-7500

As Chief Technology Officer, Ajay Joseph is responsible for the technical strategy, innovation, and engineering of the iBasis Internet Telephony infrastructure. Since 1999, Mr. Joseph has led the network architecture, systems development and migration of the global iBasis network to an all IP, switch-less architecture. Prior to joining iBasis, Mr. Joseph was manager and architect of the IP Telecom division at GTE Internetworking responsible for new VoIP-based services. He also held senior level engineering and design positions at DeskNet Systems and NYNEX Science & Technology.

Paul H. Floyd, Senior Vice President, Research and Development, iBasis, Inc.
20 Second Avenue, Burlington, MA 01803
781-575-7500

Paul Floyd has more than 20 years of experience in managing highly innovative and productive engineering organizations. Mr. Floyd most recently served as the Senior Vice President for the DSL business of AT&T spinout, Paradyne Networks, where he was responsible for engineering, product management, strategy, and planning. Mr. Floyd also held the position of Vice President of Research and Development at Paradyne, responsible for leading all of the product and technology development efforts within Paradyne. He also led the pioneering efforts around the development of ReachDSL technology and products, the industry's longest loop reach DSL technology. Mr. Floyd spent the previous 13 years in various key senior-level engineering and design roles in both AT&T's Paradyne division and AT&T Bell Labs.

Alan R. Bugos, Vice President, Advanced Technology & Engineering, iBasis, Inc.
20 Second Avenue, Burlington, MA 01803
781-575-7500

Alan Bugos has more than 17 years of hands-on experience in telecommunications, optical networking, data networking, and communications systems integration. Formerly, he was a Department Manager at GTE Internetworking's IP Telecom Group working on the development and deployment of VoIP and IP Telephony services for GTE's (now Genuity) GNI IP backbone. Prior to GTE Internetworking, Mr. Bugos was a Principal Member of Technical Staff at GTE Laboratories, focusing on high-speed multi-gigabit optical network design, "real-time" IP multimedia networking, data networking techniques, and DSL and xDSL for Internet services, and advanced voice/video technologies.

Anthony S. Bloom, Vice President, Retail Services, iBasis, Inc.
20 Second Avenue, Burlington, MA 01803
781-575-7500

Tony Bloom's 24-year career in telecommunications has included executive management and strategic development experience with many publicly traded telecommunications conglomerates in the United States. Mr. Bloom is currently the Vice President for iBasis Retail prepaid products organization where he directs the sales, marketing and production business units. Tony Bloom most recently served as the executive director for Verizon's Business Solution Group channel program where he was responsible for the MCI channel partner sales for the U.S. Mr. Bloom also held the position of director in various key senior-level enterprise management roles in both MCI's Commercial Accounts and MCI-Worldcom's Major Accounts divisions. He also held various senior-level positions at CTC Communications and Cable & Wireless.

Exhibit B

Authority in Other States

iBasis Retail provides its prepaid calling card services in the following states:

State	Date of Grant of Authority
California	Dec. 19, 2007
Colorado	March 27, 2008
Connecticut	Nov. 26, 2008
Delaware	Aug. 5, 2008
Florida	March 7, 2008
Georgia	March 17, 2009
Idaho	July 24, 2008
Illinois	July 30, 2008
Indiana	February 18, 2009
Maryland	Dec. 31, 2008
Massachusetts	March 17, 2008
Michigan	Sept. 29, 2008
Minnesota	February 27, 2009
New York	June 12, 2008
North Carolina	Aug. 27, 2008
Oregon	Sept. 2, 2008
Pennsylvania	February 26, 2009
South Carolina	Sept. 24, 2009
Texas	March 11, 2008
Utah	March 17, 2008
Washington	Apr. 13, 2008
West Virginia	July 27, 2008
Wisconsin	Sept. 18, 2008

Exhibit C

Certificate of Incorporation

Delaware

PAGE 1

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF INCORPORATION OF "IBASIS RETAIL, INC.", FILED IN THIS OFFICE ON THE TWENTY-NINTH DAY OF JUNE, A.D. 2007, AT 5:12 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

4381514 8100

070770371



Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

AUTHENTICATION: 5808023

DATE: 06-30-07

CERTIFICATE OF INCORPORATION

OF

IBASIS RETAIL, INC.

ARTICLE I.

The name of this corporation is iBasis Retail, Inc. (the "Corporation").

ARTICLE II.

The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, County of New Castle. The name of the registered agent at that address is Corporation Service Company.

ARTICLE III.

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV.

The name of the Corporation's incorporator is Anthony Abbenate and the incorporator's mailing address is 701 Pennsylvania Avenue, N.W., Washington, D.C. 20004.

ARTICLE V.

This Corporation is authorized to issue one class of stock to be designated "Common Stock". The total number of shares that the Corporation is authorized to issue is Three Thousand (3,000) shares, par value \$0.001.

ARTICLE VI.

A director of the Corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived any improper personal benefit. If the General Corporation Law of the State of Delaware is amended after approval by the stockholders of this Article to authorize corporate action further eliminating or limiting the personal liability of directors then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware as so amended.

Any repeal or modification of the foregoing provisions of this Article VI by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

ARTICLE VII.

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred on stockholders herein are granted subject to this reservation.

ARTICLE VIII.

Election of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

ARTICLE IX.

The number of directors which shall constitute the whole Board of Directors of the Corporation shall be fixed from time to time by, or in the manner provided in, the Bylaws of the Corporation or in an amendment thereof duly adopted by the Board of Directors of the Corporation or by the stockholders of the Corporation.

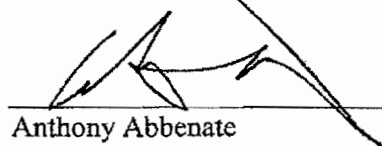
ARTICLE X.

Meetings of stockholders of the Corporation may be held within or without the State of Delaware, as the Bylaws of the Corporation may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors of the Corporation or in the Bylaws of the Corporation.

ARTICLE XI.

Except as otherwise provided in this Certificate of Incorporation, in furtherance and not in limitation of the powers conferred by statute, the Board of Directors of the Corporation is expressly authorized to make, repeal, alter, amend and rescind any or all of the Bylaws of the Corporation.

IN WITNESS WHEREOF, the undersigned has signed this Certificate of Incorporation this 29th day of June, 2007.



Anthony Abbenate
Incorporator

Exhibit D

Financial Documentation

10-K 1 a2183684z10-k.htm 10-KL

Use these links to rapidly review the document

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[Item 8. Financial Statements and Supplementary Data](#)

[PART III](#)

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

or

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

For the transition period from _____ to _____

Commission file number: 000-27127

iBasis, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

04-3332534
(I.R.S. Employer
Identification No.)

20 Second Avenue, Burlington, MA 01803
(Address of principal executive offices, including zip code)

(781) 505-7500
(Registrant's telephone number, including area code)

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

Title of Class	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	The Nasdaq Stock Market LLC

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

None

(Title of Class)

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

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The aggregate market value of the registrant's common stock, \$0.001 par value per share, held by non-affiliates of the registrant as of June 30, 2007 was approximately \$317,296,000 based on 31,571,791 shares held by such non-affiliates at the closing price of a share of common stock of \$10.05 as reported on The Nasdaq Global Market on such date. Affiliates of the Company (defined as officers, directors and owners of 10% or more of the outstanding share of common stock) owned 2,372,335 shares of common stock outstanding on such date.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock, par value \$0.001 per share, as of March 7, 2008 74,997,167

DOCUMENTS INCORPORATED BY REFERENCE

The following documents (or parts thereof) are incorporated by reference into the following parts of this Form 10-K: Certain information required in Part III of this Annual Report on Form 10-K is incorporated from the Registrant's Proxy Statement for the Annual Meeting of Stockholders.

None

iBASIS, INC.

ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2007

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PART I

Item 1. Business

iBasis is a leading wholesale carrier of international long distance telephone calls and a provider of retail prepaid calling services and enhanced services for mobile operators.

Transaction with KPN B.V., a subsidiary of Royal KPN N.V.

On October 1, 2007, iBasis, Inc. ("iBasis," the "Company," "we" or "our") and KPN B.V. ("KPN"), a subsidiary of Royal KPN N.V. ("Royal KPN"), completed transactions ("KPN Transaction") pursuant to which iBasis issued 40,121,074 shares of its common stock to KPN and acquired the outstanding shares of two subsidiaries of KPN ("KPN GCS"), which encompassed KPN's international wholesale voice business. The Company also received \$55 million in cash from KPN, subject to post-closing adjustments based on the working capital and debt of iBasis and KPN GCS. Immediately after issuance on October 1, 2007, the shares of iBasis common stock issued to KPN represented 51% of the issued and outstanding shares of iBasis common stock on a fully-diluted basis (which includes all of the issued and outstanding common stock and the common stock underlying outstanding "in-the-money" stock options, as adjusted, and warrants to purchase common stock).

On October 8, 2007, iBasis paid a dividend in the amount of \$113 million at a rate of \$3.28 per share to each of its shareholders on the record date of September 28, 2007, the trading date immediately prior to the closing date of the KPN Transaction. In addition, holders of outstanding warrants to purchase our common stock will be entitled to receive a cash payment upon the future exercise of these warrants in an amount equal to the dividend amount that would have been payable if the warrants had been exercised immediately prior to the dividend record date. As of December 31, 2007, iBasis had warrants outstanding to purchase 531,000 shares of its common stock. In connection with the payment of the dividend to shareholders, we also increased the number of shares subject to unexercised stock options and decreased the exercise price of these stock option grants to preserve their value.

The officers of iBasis immediately prior to the closing of the KPN Transaction have continued to serve as the officers of the combined company and one executive of KPN GCS, Mr. Edwin Van Ierland, was appointed as the Company's Senior Vice President Worldwide Sales. Upon closing of the KPN Transaction, Messrs. Charles Skibo and David Lee, two independent members of iBasis's board of directors, resigned as members of the board of directors and the board of directors of iBasis appointed Messrs. Eelco Blok and Joost Farwerck, two executives of Royal KPN N.V., as directors to fill the vacancies created by the resignations of Messrs. Skibo and Lee.

Although iBasis acquired all of the outstanding capital stock of KPN GCS, after the closing of the transaction, KPN holds a majority of the outstanding common stock of iBasis and KPN's designees are expected to represent, at a future date, a majority of the Company's board of directors. Accordingly, for accounting and financial statement purposes, the KPN Transaction has been treated as a reverse acquisition of iBasis by KPN GCS under the purchase method of accounting and the financial results of KPN GCS have become the historical financial results of the combined company and replace the historical financial results of iBasis as a stand-alone company. Thus, the financial results reported for the full year 2007 include the results of KPN GCS stand-alone for the first nine months of 2007 and the financial results of the combined company for the fourth quarter of 2007 only.

The presentation of the Statement of Stockholders' Equity reflects the historical stockholders' equity of KPN GCS through September 30, 2007. The effect of the issuance of shares of iBasis common stock to KPN and the inclusion of iBasis's stockholders' equity as a result of the closing of the KPN Transaction on October 1, 2007 is reflected in the year ended December 31, 2007.

Prior to October 1, 2007, KPN GCS operated as an integrated part of KPN since inception and the historical financial statements of KPN GCS have been derived from the accounting records of KPN using the historical bases of assets and liabilities. Because KPN GCS did not operate as a stand-alone business the historical financial statements may not necessarily be representative of amounts that would have been reflected in the financial statements presented had KPN GCS operated independently of KPN.

KPN GCS benefited from certain related party revenue and purchase agreements with KPN that included sales prices per minute and costs per minute. KPN GCS also relied on KPN for a substantial part of its operational and administrative support, for which it was allocated costs primarily consisting of selling, general and administrative expenses, such as costs for centralized research, legal, human resources, payroll, accounting, employee benefits, real estate, insurance, information technology, telecommunications, treasury and other corporate and infrastructure costs. In anticipation of the closing of the transaction with iBasis, KPN GCS entered into a Framework Services Agreement with KPN in 2006, which replaced the related party revenue and purchase agreements and operational and administrative support arrangements described above.

Company Overview

Our operations consist of our wholesale trading business ("Trading"), in which we connect buyers and sellers of international telecommunications services, and our retail services business ("Retail"). In the Trading business we receive voice traffic from buyers—originating telecommunications carriers who are interconnected to our network via Voice over Internet Protocol ("VoIP") or traditional time division multiplexing ("TDM") connections, and we route that traffic over our network to sellers—local service providers and telecommunications carriers in the destination countries with whom we have established agreements to manage the completion or termination of calls. As a result of the combination with KPN GCS in October 2007, approximately half of iBasis traffic utilizes TDM connections, while the balance is carried over the iBasis global VoIP infrastructure. The migration of the TDM traffic to our lower cost IP infrastructure is expected to be a significant source of synergies from the KPN transaction over the next several years.

We use proprietary, patent-pending technology to automate the selection of routes and termination partners based on a variety of performance, quality, and business metrics. We offer this Trading service on a wholesale basis to carriers, mobile operators, consumer VoIP companies, telephony resellers and other service providers worldwide. We have call termination agreements with local service providers in more than 100 countries in North America, Europe, Asia, the Middle East, Latin America, Africa and Australia.

We continue to expand our market share in our Trading business by expanding our customer base and by introducing cost-effective international voice solutions for our customers, including complete outsourcing of international voice traffic.

Our Trading products comprise a comprehensive voice product portfolio. We have retained the leading product from both iBasis and KPN GCS—iBasis' Directs™, which is designed for carriers with sophisticated least-cost-routing capabilities and features our most competitive rates and utilizes direct routes to more than 100 countries; and KPN GCS's International Premium Service (IPS), with its high quality and advanced feature-set for mobile and fixed retail operators. We are combining iBasis' PremiumCertified and KPN GCS's International Wholesale Service (IWS) to complete our voice product portfolio. This mid-range product is designed to take advantage of third-party or off-net routes to provide thorough worldwide coverage for customers, and enhances our ability to compete for retail international traffic. Our product portfolio gives us strengths in the fastest-growing segments of international telecommunications—mobile and VoIP.

In the mobile market, in addition to meeting mobile operators' needs for advanced voice features, iBasis offers a portfolio of mobile data services, called Mobile Matrix, which includes mobile messaging and roaming to enhance mobile operators' average revenue per user and customer loyalty.

In targeting the emerging consumer VoIP providers, we have expanded our DirectVoIP™ IP interconnection offering with DirectSIP™, which addresses a range of requirements that are specific to the growing consumer VoIP market, including support for Session Initiation Protocol interconnection, which is becoming the standard for voice over broadband services. DirectSIP also includes our media normalization, or transcoding, solution, which enables us to provide greater interoperability among devices and voice applications, as well as deliver high quality service even over sub-optimal network connections. We have approximately 70 customers in the consumer VoIP market, including leaders among the emerging independent providers and cable operators, and we believe this market offers significant growth potential for us.

Launched in late 2003, our Retail business consists of retail prepaid calling cards, which are marketed through distributors primarily to ethnic communities within major metropolitan markets in the United States, and Pingo®, a prepaid calling service that we offer and sell directly to consumers via an eCommerce model. Both can be private-labeled for other service providers. The prepaid calling card business and Pingo leverage our existing international network and have the potential to deliver higher margins than are typically achieved in the Trading business. In addition, the retail prepaid calling card business typically has a faster cash collection cycle than the Trading business. In 2007, we launched PingoBusiness, enhancements that enable businesses to manage multiple Pingo accounts through a single administrative account. To date, revenues from our Pingo services have not been material.

We were incorporated as a Delaware corporation in 1996. Our principal executive offices are located at 20 Second Avenue, Burlington, Massachusetts and our telephone number is (781) 505-7500. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, are available free of charge through the Securities and Exchange Commission's ("SEC") website at www.sec.gov or on our investor relations section of our website at <http://investor.ibasis.com> as soon as reasonably practicable after such materials have been electronically filed with, or furnished to, the SEC.

Industry Overview

Market Overview. Based on the most current information available, the international voice market was estimated by TeleGeography, a market research firm, to be approximately \$73 billion in 2006 and international voice minutes grew approximately 10% over 2005. International wholesale voice traffic represented approximately \$10 billion in 2006 and minutes of traffic grew 19% over 2005 as more traffic is originated by carriers such as mobile operators, that lack international networks. We believe that international traffic will continue to grow as underlying trends in migration and economic integration drive fundamental demand, and that wholesale traffic will continue to grow faster than the overall international voice market due to important trends. These trends involve the migration of voice traffic:

- from traditional vertically-integrated international carriers to more specialized local service providers;
- from traditional fixed line offerings to mobile; and
- from the TDM network to VoIP.

Moreover, direct connections between incumbents from different countries are only cost-effective for very large traffic flows. Wholesale carriers offer call termination to many destinations through a single connection and enable carriers to retain revenue while reducing cost of operations.

Global deregulation combined with rapid technological advances has enabled the emergence of many new communications service providers in dozens of local markets. In their efforts to remain competitive, national carriers are focusing their capital spending on "last-mile" retail services and technology initiatives such as fixed-to-mobile convergence, wireless, and cable, which deliver or promise to deliver margins that are several times greater than that of international voice service. Consequently, communications service providers are looking for ways to expand their ability to serve all of their customers' telecommunication needs, while simultaneously reducing the cost of providing international services. As the international voice business becomes increasingly commoditized, the critical success factor is the efficiency of scale. For the vast majority of carriers, international traffic represents a very small portion of their overall business. Therefore, many of the world's carriers are seeking to leverage efficient wholesale networks, such as The iBasis Network™, with lower infrastructure and transport costs that can help improve a carrier's competitiveness and bottom line, without compromising service quality. Some carrier customers turn to us for their biggest routes, some for their smallest routes, and others for all routes, effectively outsourcing their international voice traffic to iBasis.

The Mainstreaming of VoIP. Although the consumer adoption of VoIP services is a recent development, we have been transmitting VoIP calls for many of the world's largest carriers for several years. Managing quality of service at the core of the network, which we pioneered and mastered, has allowed phone-to-phone calls to be transmitted over the Internet with quality nearly indistinguishable from that of traditional voice networks. Enabled by the quality of VoIP service from providers like us, international VoIP traffic has grown rapidly and continues to grow at five times the rate of international TDM traffic. According to industry analyst, TeleGeography, international VoIP traffic grew 36% to 32 billion minutes in 2004, 42% to 45 billion minutes in 2005, 31% to 60 billion minutes in 2006, and is expected to have reached nearly 80 billion minutes in 2007, which is approximately 24% of projected international traffic worldwide.

Unlike fixed-line telecommunication networks and managed internet protocol ("IP") networks, the Internet has many potential points of congestion where information, in the form of data packets, can be delayed or dropped. For non-real-time communications, such as email, a slight delay in the receipt of a message is not significant. However, for real-time communications, such as telephone calls, the result of a delay in transmitting the call, or losing the call altogether, is significant. To minimize the risk of delays or losing calls over the Internet, we utilize complex and proprietary performance monitoring and call routing technology to ensure consistently high call completion and voice quality. We have developed patent-pending quality management technology that enables us to deliver call completion rates and average call durations (the standard metrics that carriers use for measuring quality) that we believe are consistently equal to or better than those achieved by traditional fixed-line carriers.

VoIP's principal benefits are:

- *Cost Advantage from Internet Transport.* Traditional voice networks use circuit-switching technology, which establishes dedicated channels between an originating and terminating point for the duration of a call. Physical facilities (typically fiber and associated equipment) are dedicated to voice traffic between switching nodes, regardless of changes in demand. In contrast, VoIP is based on packet-switching technology. This technology completes a call by digitizing and dividing a speaker's voice into small packets that travel to their destination along lines carrying packets of other Internet traffic, in much the same way as email travels. Using a network of service facilities connected to the public Internet for transport is less costly than building a dedicated network as our calls share the Internet with other traffic.
- *Cost Advantage from IP Technology.* VoIP gateway equipment which is used to convert and route phone calls over the Internet is less expensive and requires less physical space in telecommunication facilities than traditional telecommunications equipment.

- *Cost Advantage from Bypass of International Settlement Rates.* Traditional international long distance calls are completed through international toll switches that provide access to the terminating network. These networks are often owned by government bodies or telecommunications carriers who charge settlement rates well in excess of costs. Although these fees are being reduced in many countries as industry deregulation continues, these charges remain significant. Calls routed over the Internet bypass the toll switches, avoiding a significant portion of these fees, which further lowers the cost of completing such calls.
- *Positioning for New Services.* In contrast to the closed, proprietary structure inherent in a traditional circuit-switched voice network, VoIP embraces an open architecture and open standards, which facilitates innovation at a lower cost. Traditional voice networks have been designed specifically to provide one basic service, making it difficult and costly to introduce new services over those networks and their proprietary platforms. As data networks convert all services into standard data packets, new services are delivered from industry standard servers, integrating the Internet with the revolution in commodity computing. As a result, new services can be developed and brought to market much faster and more cost-efficiently.

Outsourcing International Voice. Given the advantages of VoIP, many carriers have announced plans to migrate to IP and have begun to carry some portion of their voice traffic over IP networks. However, most such projects are focused on domestic infrastructure only, where the investment may not only reduce cost of voice services but will also enable the development of innovative high margin services. Most carriers' international voice business has not achieved sufficient scale to justify the capital investment required to deploy a new international IP network for voice. Lacking necessary scale to achieve the required efficiency and unable to justify an investment in new lower cost infrastructure, carriers are exploring the outsourcing of international traffic to providers such as iBasis. The reasons these carriers prefer to outsource international traffic include:

- the relatively low percentage of revenue and gross profit that international service represents for many large carriers;
- the disproportionate cost and complexity of deploying and supporting international service infrastructure in contrast with domestic investment opportunities;
- a hesitation to build new networks and cannibalize traffic from their traditional voice networks;
- concerns over sufficient in-house VoIP expertise to ensure that voice quality and network reliability are comparable to that of the public-switched telephone network, especially when routing traffic over the Internet versus private networks; and
- generally reduced capital budgets for network investments of any kind.

Wholesale Trading Business

Our wholesale Trading business enables carriers and other communications service providers to outsource international voice and fax traffic, substantially lowering their transport and service support costs, without compromising quality. Our carrier customers access The iBasis Network by establishing an interconnection through one of our "Internet central offices" or "ICOs" strategically located in major telecommunications hubs in the U.S., Asia, and Europe. Calls are transported over the Internet or over TDM connections and terminated by our terminating partners—fixed and mobile operators—in more than 100 countries. In this way, our originating customers receive a single point of interconnection to a global network of termination points without the burden of managing the international network logistics and interconnection agreements on the far end. Likewise, our partners, who sell us termination capacity in their countries, receive a substantial source of traffic revenue

without having to negotiate individual agreements and interconnections with originating carriers. Our services provide the following key benefits to our customers:

High Quality Call Completion. Our network, monitoring and management technologies enable us to complete international voice and fax calls with quality comparable to that of traditional circuit-switched voice networks. This high quality is reflected in the fact that carriers choose to provide our VoIP services to their retail customers undifferentiated from their traditional services. We achieve high quality over the Internet through a variety of controls and technologies. At our 24x7, expert-staffed global Network Operations Centers ("NOCs") in Burlington, Massachusetts, Amsterdam, and Hong Kong, we are able to monitor our carrier customers' voice traffic. Using our patent-pending Assured Quality Routing® and PathEngine™ technologies to select optimal routing choices according to real time performance data, we dynamically route customers' traffic over multiple Internet routes, completing calls on our partners' phone networks in destination countries.

Cost Effective Services. We are able to maintain one of the lowest cost structures in the international voice industry because of our very large scale, which provides efficiencies and leverage when negotiating termination rates. Also, our call transport costs are lower because packet switching is more efficient than traditional circuit-switching. Because we use the Internet, rather than a private IP network, to deliver much of our international voice traffic, we have greater infrastructure flexibility and lower capital costs than service providers that employ dedicated point-to-point connections. VoIP equipment is less costly and incurs lower facilities costs (due to its smaller physical footprint) than equivalent capacity circuit-switched equipment. We offer an open, scalable architecture that enables carriers and communications service providers to connect quickly and without investment or technical expertise. We are also able to bypass many of the international settlement rates associated with some international traffic carried over circuit-switched voice networks, which produces additional cost savings.

Outsourced from KPN Business

Our Outsourced from KPN business consists of traffic we terminate for Royal KPN and its affiliates for international voice services and international direct dialing for calls originating in The Netherlands. We are a preferred supplier of mobile services for Royal KPN and its affiliates (KPN Mobile, Telfort, E-Plus and Base) and we are the exclusive provider for international direct dialing, ISDN and Inmarsat services for all international telephone and fax traffic originating from or carried over the Royal KPN fixed network.

Retail Business

Our Retail business consists primarily of our prepaid calling card services and Pingo, our prepaid calling service sold directly to consumers through an Internet website. Our prepaid calling card business leverages our global VoIP network and back-office systems, including a sophisticated prepaid rating and billing platform. We sell more than 300 brands of retail prepaid calling cards through established distributors to retail outlets in major metropolitan markets across the U.S. Many of the calling card brands are owned (trademarked) by us and feature our component branding, "Quality Calls from iBasis", on the cards. We also enable established carriers to leverage the strength of their brands by taking advantage of our prepaid calling card platform, production and distribution. The Oi brand calling card from Brazilian carrier Telemar is one example. We have established a dedicated operation to sell and service our prepaid retail calling card services. Typically, our Retail business delivers higher gross margins and has a faster cash collection cycle than our Trading business.

In September 2004, we launched Pingo®, our retail calling service offered directly to consumers and businesses through our eCommerce web interface. Pingo customers in the United States and 35 additional countries use credit cards or alternative web-based payment methods, such as PayPal® to purchase calling time over The iBasis Network. Customers are provided with toll-free or local access numbers, a unique account number and a personal identification number to access the service. Pingo's enhanced convenience features include access to on-line call and billing history, automatic recharging to maintain a balance in the customer's Pingo account, and PINpass™ PIN-less dialing, which enables a customer to avoid keying in their account number and PIN when calling from any fixed or mobile phone they have registered on the Pingo site. These features are designed to increase the customer's convenience and loyalty to the service.

Our Retail services build upon the underlying iBasis network and systems and give us opportunities to capture retail traffic directly from consumers, which may provide higher margins than traffic received through other carriers. In offering these services, we can, as described in the next section, take advantage of our high quality call completion and cost effective services.

The iBasis Network

Overview

On a pro forma basis, combining KPN GCS and iBasis, we transported 23.8 billion minutes of traffic over the iBasis Network in 2007, a volume of traffic that positions us among the three largest carriers of international traffic in the world, based on global traffic statistics contained in the industry analyst publication TeleGeography 2008.

The iBasis network is comprised of a global VoIP infrastructure, which is the legacy iBasis network, and an international TDM infrastructure, which is the legacy KPN GCS network.

Our VoIP infrastructure includes eight Internet Central Offices ("ICO") located in the major telecommunications markets around the world—New York, Los Angeles, London, Frankfurt, Paris, Hong Kong, Tokyo, and Sydney—and more than 1,000 Internet Branch Offices ("IBO") located in the facilities of termination partners in more than 100 countries. Each ICO includes high capacity gateways, routers, session border controllers, and multiple IP backbone connections. Carrier customers send traffic to us by interconnecting via TDM or IP to one or more of the ICOs. Their calls are then sent as VoIP from the iBasis ICO to a termination partner's IBO over the Internet. Some traffic is sent to third-party providers whom we use to supplement our direct routes.

Our TDM infrastructure uses ICOs containing TDM switches in Amsterdam, Rotterdam, Frankfurt and New York connected to a network of termination partners via the Public Switched Telephone Network ("PSTN"). Customers can connect directly to the TDM ICOs or through our Transmission Points of Presence ("PoP") in Miami, Hong Kong and Singapore, or through many more Euro-Ring PoPs owned by KPN. Traffic is transported from Transmission PoPs to ICOs via the PSTN.

Today, these networks are combined through a high capacity connection that enables traffic originating on either side to terminate with a supplier connected to the other side if that supplier offers us lower costs and acceptable quality. As a result, an interconnection to one network gives iBasis customers access to both. For example, calls that come in to the TDM infrastructure can be terminated over the VoIP infrastructure. While the VoIP network is primarily managed through our NOCs in Burlington, Massachusetts and Hong Kong, and the TDM network is managed through our NOC in Amsterdam, all NOCs can view both networks and have access to the management systems for both.

Over the next two to three years we intend to convert the TDM infrastructure to IP to make the iBasis network an all-IP network at the core. This will enable us to take full advantage of the superior cost efficiencies of VoIP and is a major source of synergies projected to result from the transaction with KPN.

iBasis VoIP Leadership

The iBasis VoIP network is based on a technologically-advanced switchless architecture, leveraging proven hardware from industry leaders such as Cisco Systems and NextPoint (formerly NexTone), as well as patent-pending iBasis software for quality management and advanced routing. Our Assured Quality Routing and PathEngine technology enables ongoing monitoring of network performance and automatic selection of best quality routes based on near real-time performance data. The switchless architecture provides us with significant savings in operational costs and capital expense by eliminating the need for costly telecommunications switches and other equipment and connectivity in central offices. It also has enabled us to simplify provisioning, real-time route monitoring, and network

management by decreasing the number of network components involved in carrying a call. The result for our customers is higher voice quality, call completion and call duration.

We have deployed specialized transcoding equipment that enables our network to accept traffic in a wider variety of formats associated with codecs—compression/decompression algorithms used by consumer VoIP providers to support different devices, applications and networks. As part of our DirectVoIP™ Broadband offering, the transcoding solution gives iBasis an advantage in meeting the interoperability requirements of emerging service providers.

The iBasis Network consists of four principal elements:

- Internet Central Offices and Internet Branch Offices that convert circuit-switched voice traffic into data for transmission and reception over the Internet or vice versa;
- the transmission medium, which is principally the public Internet;
- Assured Quality Routing and PathEngine technology, our proprietary traffic monitoring and routing management software; and
- our Network Operations Centers, from which we oversee and coordinate the operation of the ICOs and IBOs.

Internet Central Offices and Internet Branch Offices. Our customers interconnect with our network, at their cost, by connecting dedicated voice circuits from their facilities to one of our ICOs, which are strategically located in Frankfurt, Hong Kong, London, Los Angeles, New York, Paris, Sydney and Tokyo. Alternatively, our customers may elect to install an iBasis IBO at their facilities. ICOs and IBOs receive calls directly from a local carrier's switched network. VoIP gateways in each ICO or IBO digitize, compress and packetize voice and fax calls and then transmit them over the Internet. At the destination, another ICO or IBO reverses the process and the call is switched back from the Internet to a local carrier's circuit-switched network in the destination country. Increasingly, customers are investing in VoIP equipment and connecting to us using an IP signal. As this trend progresses, our already asset-effective business model gains further strength. We no longer bear all the cost of converting calls between traditional voice network and the Internet, and dedicated physical circuit-switched interconnects are eliminated altogether.

The Internet. We use the Internet to transmit the majority of our voice and fax traffic because of its global coverage, low cost and flexible connectivity. As a result, we have avoided the expense and delay of deploying and maintaining a private, dedicated network of fiber and cable connections. In addition, because we do not have fixed, point-to-point connections, we can adapt to changes in international traffic flows rapidly and at minimal cost. We effectively address the challenges of using the Internet for high quality, real-time voice communications by:

- selecting only high quality, service-oriented Internet service providers as our vendors;
- purchasing multiple, high-speed connections into the Internet backbone; and
- continuously monitoring performance across our entire network.

Assured Quality Routing. We have deployed a proprietary patent-pending system of tools—collectively known as Assured Quality Routing to maintain high quality service over the Internet. AQR optimizes the quality of calls placed over The iBasis Network by integrating quality parameters into routing decisions. These parameters include measures of quality that are of direct importance to carriers including call duration, call completion and post-dial delay as well as underlying determinants of successful data transmission, namely packet loss, jitter and latency. Utilizing data collected in near real-time by our PathEngine performance reporting technology, AQR automatically re-routes traffic in anticipation of quality dropping below specific thresholds, sending subsequent calls through another

Internet path, to an alternative terminating IP partner or to a circuit-switched backup vendor if necessary.

Global Network Operations Centers. We manage our network and implement AQR through our network operations centers ("NOCs"). Our NOCs use leading network management tools from Hewlett-Packard and a number of other vendors, which are integrated with our AQR systems to enable us to monitor, test and diagnose all components of The iBasis Network. NOCs in Burlington, Massachusetts, Amsterdam and Hong Kong are staffed by network and traffic engineers to provide expert coverage 7 days a week, 24 hours a day, 365 days a year, and are equipped with:

- tools that support the monitoring and analysis of various components of The iBasis Network to identify and address potential network problems before they affect our customers;
- system redundancy, including power back-up; and
- a help desk that allows us to respond quickly to our customers' needs and concerns.

Engineering and Network Operations

Our engineering and network operations activities are primarily focused on developing, improving and expanding The iBasis Network and increasing the efficiency of our interconnections with buyers and sellers of telecommunications services. These activities include the development of specific tools for our networks, such as our patent-pending Assured Quality Routing and PathEngine technologies, as well as specialized interconnection technologies like our DirectVoIP Broadband service, which is designed to meet the needs of providers of consumer VoIP services. In addition, our engineering personnel contribute to the support and operation of our global network operations centers, which oversee and coordinate the operation of our ICOs and IBOs. Engineering and network operations activities for the expansion and support of the network of KPN GCS has to-date been provided by KPN under a service level agreement between KPN GCS and KPN.

Markets and Customers

According to TeleGeography, the global market for international phone service was estimated to be approximately a \$73 billion market in 2006 and international voice minutes grew 11% from 2005 to 2006. As a subset, international VoIP traffic grew 31% in that same period to approximately 60 billion minutes. The portion of international traffic carried by wholesalers like us grew 19% over the same period as more carriers turned to wholesalers to handle their international business. In all but two of the 15 years from 1992 to 2006 the rate of increase in traffic volume has outstripped the rate of decline in pricing, providing the opportunity for continued revenue growth. With the increasing migration of international traffic to VoIP and the growth in calls that are originating as IP through incumbent and emerging providers, including cable operators, growth of international VoIP traffic is likely to continue and even to accelerate. This reinforces the growth opportunities for us, as it is natural for providers who are originating their traffic on IP to turn to VoIP carriers, like us, to avoid unnecessary conversions to TDM to complete their international calls.

As of December 31, 2007, we provided services to approximately 800 carriers worldwide. Other than revenue from Royal KPN, no one carrier accounted for 10% or more of revenue in 2007, 2006 or 2005. For further discussion of geographic revenues, refer to Note 5 in our Notes to Consolidated Financial Statements.

In countries where we terminate our traffic, we have established relationships with large national carriers ("PTTs") and other local service providers that have strong local market expertise and relationships.

Increasingly, traffic flows are becoming reciprocal—formerly distinct customers and suppliers are becoming "trading-partners"—as deregulation and competition erode the distinction between the business models of our customers and suppliers. We expect continued growth in both size and profitability as this trend progresses and we further consolidate our position as a leading carrier that interconnects the world's local service providers.

Deregulation and increased competition in the telecommunications industry has caused prices for long distance telephone services to steadily decline, particularly in the U.S. and Western Europe. Regulatory pressure on mobile operators, particularly in the European Union, are lowering mobile termination rates. As a wholesale provider of long distance telephone services, our margins in this business reflect the effect of these lower prices. We attempt to offset the effect of these lower prices by negotiating lower costs from our call termination partners and by increasing the cost efficiency and utilization of our network. We have implemented a strategy to leverage retail traffic originating from both our Trading customers and our own Retail services to drive higher margins than we might typically realize from our Trading services. With our prepaid calling cards and Pingo, we are able to charge per-minute rates that can exceed our wholesale long distance rates, as well as generate revenue from fees typically associated with the use of prepaid services.

Sales and Marketing

Sales Strategy. Our sales efforts for the wholesale Trading business target leading fixed line and wireless telecommunications carriers globally as both buyers of international minutes and sellers of termination capacity, as well as emerging providers of consumer VoIP services over broadband connections. Our sales force is comprised of experienced personnel with well-established relationships in the telecommunications industry, based in key markets worldwide and typically responsible for business development in a small number of countries regionally. Our sales process often involves a test of our services by potential originating customers in which they route traffic over our network to a particular country. Our experience to date has been that once a carrier has begun to use our network for a single country and finds our quality to be acceptable, the sales process for increasing the volume of traffic they send to us and increasing the number of destinations for which they use our network becomes incrementally easier. We also seek to cultivate relationships with service providers that can terminate the local leg of international calls. Our country managers actively pursue connections with capable termination partners in their regions. Our ability to deliver a high volume of traffic, due to our interconnections with more than 550 carriers with international minutes, makes us an attractive potential partner for local service providers.

Since the closing of the KPN Transaction, we have been training our sales people on the Company's total product portfolio to enable our sales people to be able to sell all of our products.

As deregulation and competition push all local service providers to both originate and terminate as much traffic as possible on their local networks, we believe we will increasingly enjoy "reciprocal" relationships with the providers with which we do business, further improving sales productivity.

We have offices providing sales coverage in Europe, Africa, the Middle East, Latin America, the Asia-Pacific region, and North America.

Marketing Strategy. In our wholesale Trading business, we seek to attract termination partners as well as customers and therefore address our marketing efforts to both. A very large portion of retail origination continues to be controlled by large incumbent retail carriers. We believe that we have largely achieved our primary marketing objectives of awareness and acceptance among incumbent retail carriers, as evidenced by our penetration of these carriers in the major developed regions of the world. We continue to reinforce our brand presence with incumbent retail carriers to help increase our share of international traffic. We also concentrate on state-owned carriers, known as PTTs, in Asia and in developing economies generally, who we view as natural customers. In addition, we have focused

marketing efforts on raising awareness of our business among emerging consumer VoIP companies, cable operators, prepaid calling card providers, and mobile operators, which represent significant growth opportunities for us.

While we increasingly expect our customers to also be our termination partners, local circumstances in many countries still are such that we also look to partner with ISPs, new Competitive Local Exchange Carriers ("CLECs") and specialist termination providers, many of which are start-ups formed specifically to terminate international traffic. Connecting with multiple terminating providers in a given destination provides us with greater capacity and leverage in negotiations to reduce costs.

Our marketing activities include sponsoring, exhibiting and presenting at industry trade shows and conferences, media and industry analyst relations, a comprehensive website, and regular communications with our existing customer base.

Our sales and marketing strategy for our Retail services business differs for the disposable prepaid calling card business and the Pingo eCommerce business. For the calling card business, we are focused on the following areas:

- expanding the portfolio of iBasis-branded calling cards;
- increasing our share of existing distributors' business and cultivating new distributors;
- expanding gross margins; and
- enhancing quality.

In developing our own calling card brands, in addition to supporting established brands of our distributors, we are building the presence of select brands in multiple markets across multiple distributors. These brands leverage a common rate and fee structure and are able to leverage common design and advertising, which enhances both administrative and marketing efficiency while building distributor and customer loyalty.

In late 2007, we launched the iBasis TruePrompts™ campaign, which we believe will enhance consumers' trust in our prepaid calling cards by guaranteeing delivery of the minutes advertised or prompted on each call. In the short term, TruePrompts may temporarily slow growth in Retail until competitors throughout the segment implement similar measures, as it may appear to less sophisticated consumers that iBasis provides fewer minutes on its calling cards compared to a competitor's card. In the longer term, we believe that clear disclosure and greater transparency in pricing are good developments for the prepaid calling card industry overall and in particular for us as they will enhance the competitive advantage of our lower cost structure.

To broaden our calling card distribution we identify the leading established distributors in major urban markets in the U.S. and work to establish mutually beneficial relationships. These distributors possess the local market knowledge and relationships with retail outlets required to effectively build market presence for our calling cards. Some of our distributors operate as master distributors supporting smaller sub-distributors that help to broaden and reinforce their market share within various territories or types of outlets. We expand distribution into new ethnic and geographic markets by leveraging existing relationships and by pursuing new distributors as necessary. Expanding gross margins in the prepaid calling card business is a function of managing card lifecycles. Typically, new cards are introduced with very aggressive promotional pricing to build distributor and retailer enthusiasm and consumer interest. Once the card has proven its quality and reliability we move beyond the promotional stage into production, enabling us to realize higher margins. As we establish our presence in the calling card market, the overall age of our product portfolio will increase, essentially resulting in more product having graduated from the promotional phase into producing higher margins.

The sales and marketing strategy for our Pingo service leverages the cost-efficiency and tracking capabilities of on-line paid placement advertising on major search engines, such as Google and Yahoo, as well as opportunistic online banner advertising and editorial placement, particularly on ethnic and travel-oriented websites, and occasional print advertising in well-targeted publications. We also drive business through a web-based affiliate sales program, and promotion of free trial cards at events and through distribution partners. In addition, we leverage search engine optimization techniques on the Pingo.com website to maximize natural search results. We have retained a search engine marketing firm and an online creative firm with specific expertise and proprietary technology designed to optimize our online advertising investments. When prospects visit the Pingo website, we utilize special bonus awards and promotions to encourage initial purchase. We also maintain communication with our existing Pingo customers through frequent email announcements to encourage use of the service, recharges, and referrals, as well as provide rewards for their loyalty.

Strategic Technology Relationships

Strategic technology relationships are important because they give us early access to new technologies, a voice in vendors' development direction and because strategic partners engage with us in support of our sales and marketing programs.

The iBasis Network is a Cisco Powered™ network and we have continued to maintain a strong technology and business relationship with Cisco Systems. This designation means that The iBasis Network is built predominantly with Cisco products and technologies and meets a high standard of reliability and performance. As a Cisco Powered™ network, we have enhanced access to Cisco technical resources and are able to more quickly deliver new capabilities and service features. We also have formed relationships with NextPoint (formerly NexTone), a leading provider of session border controllers, which are deployed in our ICOs and provide interoperability and protocol conversion capabilities, and with Digium, the supplier of our transcoding platform, which is deployed as part of our DirectVoIP Broadband offering.

Competition

We compete in two markets: international voice termination services, which we sell on a wholesale basis to other carriers, and retail prepaid calling services which we sell to consumers directly and through distributors. As described more completely in Item 1A "Risk Factors," the market for voice services is highly competitive. We compete with other wholesale trading carriers worldwide. Many of these carriers have more resources, longer operating histories and more established positions in the communications marketplace, and, in some cases, have begun to develop VoIP capabilities. We also compete with smaller companies, including those that may be specialists in just one or two routes. We compete with our own customers who have or may develop the ability to carry traffic themselves, including retail carriers who develop their own international networks or interconnect with one another and exchange international traffic by "meeting" in a major telecom hub. At present, we do not compete with cable operators, or local exchange carriers, such as the former U.S. Regional Bell Operating Companies ("RBOCs"). Also, at present, we do not compete with emerging retail VoIP carriers as most have not developed international networks. We compete principally on quality of service and price. In the overall international long distance market, which was approximately 298 billion minutes of phone calls in 2006, based on current information, we are among the three largest carriers with approximately 7% market share.

In the retail prepaid calling card business, we compete with major telecommunications carriers and many smaller telecommunications providers. Many of our competitors have a longer operating history and a more established market presence in the retail prepaid calling card business than we do. Also, many of these competitors have greater resources. Our Pingo business competes with other on-line sellers of prepaid calling cards and services. Many of these operate on-line catalogs, selling the same

cards that are available in physical form in retail stores. Because we terminate our retail traffic on our own VoIP network, we believe we enjoy a competitive advantage over the majority of competing calling card companies and online retailers.

Although the market for wholesale international traffic and retail prepaid calling services is highly competitive and will almost certainly remain so, we believe that our scale, comprehensive voice product portfolio, global footprint, sophisticated and automated back-office systems, and our patent-pending ability to manage traffic across the low-cost Internet while maintaining required quality, collectively represent a competitive advantage that will allow us to continue expanding both volume and margins.

Government Regulation

As more fully described in Item 1A "Risk Factors," our business is subject to U.S. and foreign laws, which may include those relating to telecommunications.

We hold a license to provide interstate and international telecommunications services from the Federal Communications Commission ("FCC") and we have obtained or are in the process of obtaining appropriate regulatory authority, and filing appropriate tariffs, regarding the Retail business in certain states. Additional aspects of our operations may currently be, or become, subject to state or federal regulations governing licensing, universal service funding, advertising, disclosure of confidential communications or other information, excise taxes, U.S. embargos and other reporting or compliance requirements.

While the FCC has maintained that information service providers, including VoIP providers, are not telecommunications carriers for regulatory purposes, various entities have challenged this premise, both before the FCC and at various state government agencies. The FCC has ruled that certain communications carried in part utilizing the IP format, including prepaid calling card services such as those we provide, are regulated telecommunications services for which certain regulatory obligations, such as federal USF payments and access charge payments, apply. The FCC is presiding over several proceedings related to VoIP services and the extent that IP capabilities insulate such offerings from traditional regulation such as access charges, universal service, and interconnection rights for VoIP providers. Adverse rulings or rulemakings could subject us to licensing and reporting requirements and additional fees and charges.

The regulatory treatment of VoIP and other iBasis services varies widely among other countries and is subject to constant change. Until recently, most countries did not have regulations addressing VoIP or other VoIP services such as calling cards, in some cases classifying these services as unregulated services. As the VoIP market has grown and matured, increasing numbers of regulators have begun to reconsider whether to regulate VoIP and other VoIP services. Some countries currently impose little or no regulation on VoIP or VoIP services. Conversely, other countries that prohibit or limit competition for traditional voice telephony services generally do not permit Internet telephony or VoIP services or strictly limit the terms under which such services may be provided, even imposing criminal penalties for individuals associated with such offerings. Still other countries regulate VoIP and VoIP services like traditional voice telephony services, requiring VoIP companies to obtain licenses, incorporate local subsidiaries, make universal service contributions and pay other taxes.

We have advocated and supported deregulation for free and open market competition in a variety of countries.

Intellectual Property

We regard our copyrights, service marks, trademarks, trade dress, trade secrets, patents, patent applications and similar intellectual property as critical to our success and we rely on trademark and copyright law, trade secret protection and confidentiality and/or license agreements with our employees,

customers, partners, and others to protect our proprietary rights. Our policy is to seek patent protection of the technology, inventions and improvements that we consider important to the development of our business. As of December 31, 2007 we had several pending U.S. patent applications for The iBasis Network and other inventions related to our business and, in March 2008, we were granted our first patent for our methods of monitoring the quality of various routes to send calls through the Internet. We have also entered into a licensing arrangement with Royal KPN granting us rights to Royal KPN's portfolio of patents, and Royal KPN has been granted a cross-license to our patent portfolio. We pursue the registration of our trademarks and service marks in the United States and overseas. We have been granted trademark registration for various marks related to our business, including *iBasis*, *Pingo*, *Assured Quality Routing*, *PremiumCertified*, *The last calling card you'll ever need!*, and several marks related to our prepaid calling card products in the United States, and the European community. In addition, we have pending registration applications for other service marks. We also rely on trade secrets, technical know-how and continuing innovation to develop and maintain our competitive position. We have granted licenses in the ordinary course of business for occasional use of our name, logo, trademarks and/or servicemarks to certain marketing partners pursuant to joint marketing and/or other agreements. Likewise, we have been granted certain licenses for use in the ordinary course of business.

Employees

As of December 31, 2007, we employed 390 people. Our employees are not represented by a labor union, except that approximately 70 employees of KPN GCS are subject to the Royal KPN Collective Labor Agreement.

Geographic Areas

For financial information about geographic areas, see Note 5, "Business Segment and Geographic Information" to our Consolidated Financial Statements.

Item 1A. Risk Factors

Any investment in our common stock involves a high degree of risk. You should carefully consider the risks described below together with the information contained elsewhere in this report, before you make a decision to invest in our company.

Factors That May Affect Future Results and Financial Condition***Risk Related to our Historical Stock Option Granting Practices***

We cannot predict the outcome of the SEC's formal investigation of our past stock option granting practices. The investigation has required, and may continue to require, significant management time and attention, as well as additional accounting and legal expense, and could result in civil and/or criminal actions seeking, among other things, injunctive and monetary relief from us.

The SEC's formal investigation of our past stock option practices is ongoing. We continue to fully cooperate with the SEC and have provided the staff with extensive documentation relating to the Special Committee's investigation and our internal review of our historical financial statements. The SEC investigation and requests for information have required significant management attention and resources. The period of time necessary to resolve the SEC investigation is uncertain, and these matters could require significant additional attention and resources which could otherwise be devoted to the operation of our business. We have incurred substantial expenses with third parties for legal, accounting, tax and other professional services in connection with these matters and expect to continue to incur significant expenses in the future, which may adversely affect our results of operations and cash flows. While we will continue to cooperate with the SEC regarding this matter, there can be no assurance that our efforts to resolve the SEC's investigation will be successful and we cannot predict whether we will be able to reach any type of resolution with the SEC.

Further, there is no assurance that other regulatory inquiries will not be commenced by other U.S. federal, state or foreign regulatory agencies and as a result, we are subject to the risk of additional litigation and regulatory proceedings or actions in connection with the Special Committee investigation and the related restatement, which would also lead to substantial expenses that may adversely affect our financial condition, results of operations or cash flows.

Following the Special Committee investigation, two derivative civil action lawsuits were brought, purportedly on our behalf, which have required and may continue to require significant management time and attention and result in significant legal expenses and may result in an unfavorable outcome against our management, which could require us to pay substantial judgments or settlements pursuant to any indemnification obligations that we may have with them, and which could have a material adverse effect on our business, financial condition and results of operations.

Following the Special Committee investigation, two derivative civil claims were filed, purportedly on our behalf, against certain of our current and former officers and directors. See Item 3 (Legal Proceedings), "Actions Pursuant to Options Investigation" below. The suits were consolidated into a single suit on June 15, 2007, alleging violations of Section 14(a) of the Securities Exchange Act of 1934 and Section 304 of the Sarbanes Oxley Act of 2002 (SOX) and raising state law claims including unjust enrichment, breaches of fiduciary trust and waste of corporate assets. The court dismissed the case in December 2007, holding that the plaintiffs failed to assert viable federal claims under either Section 14(a) or SOX Section 304. The court also dismissed the remaining state law claims on jurisdictional grounds. Plaintiffs filed a motion for reconsideration in late December 2007 and we filed an opposition to this motion in January 2008 and we are currently awaiting the court's decision. If the motion for reconsideration is denied, plaintiffs could still re-file the state law claims in state court or in federal court asserting diversity jurisdiction.

The amount of time to resolve these lawsuits is unpredictable, and in defending themselves, our management's attention may be diverted from the day-to-day operations of our business, which could adversely affect our business, financial condition and results of operations. In addition, an unfavorable outcome of such litigation could require us to incur significant legal expenses and substantial judgments or settlements pursuant to any indemnification obligations that we may have with our officers and directors, which could also have a material adverse effect on our business, financial position, results of operations or cash flows.

Our insurance coverage may not be sufficient to cover our total liabilities in either of these actions if we are obligated to indemnify (and advance legal expenses to) former or current directors or officers in accordance with the terms of our certificate of incorporation, bylaws, other applicable agreements, and Delaware law. We currently hold insurance policies for the benefit of our directors and officers, although our insurance coverage may not be sufficient in either of these matters. Furthermore, the underwriters of our directors and officers insurance policy may seek to rescind or otherwise deny coverage in some or all of these matters, in which case we may have to self-fund the indemnification amounts owed to such directors and officers.

We have incurred and our option holders have incurred tax liabilities which has caused us to, and may continue to cause us to, pay taxes, penalties and interest for the late payment of our withholding tax obligations and payments to our affected option holders to offset against their additional tax liabilities.

As a result of determining revised measurement dates for certain of our stock options, we have recorded payroll withholding tax related adjustments for certain options previously classified as ISO grants under the Internal Revenue Code. Such stock options were determined to have been granted with an exercise price below the fair market value of our common stock on the revised measurement date. As a result, such stock options do not qualify for ISO tax treatment. The disqualification of ISO classification and the resulting conversion to non-qualified stock option status results in withholding taxes on the exercise of such stock options. We may have to pay taxes, penalties and interest for the late payment of withholding tax obligations on past exercises of these non-qualified stock options and make payments to our affected employees to offset their additional tax liabilities.

Risks Related to Our Business

Our results of operations may fluctuate and the market price of our common stock may fall.

Our revenue and results of operations have fluctuated and will continue to fluctuate significantly from quarter to quarter in the future due to a number of factors, some of which are not in our control, including, among others:

- the amount of traffic we are able to sell to our customers, and their decisions on whether to route traffic over our network;
- increased competitive pricing pressure in the international long distance market from emerging and established integrated carriers some of which are much larger and have greater financial resources than we do;
- the percentage of traffic that we are able to carry over the Internet rather than over the more costly traditional public-switched telephone network;
- the loss of arbitrage opportunities resulting from declines in international settlement rates or tariffs;
- our ability to negotiate lower termination fees charged by our local providers;
- our continuing ability to negotiate competitive costs to connect our network with those of other carriers and Internet backbone providers;

- fraudulently sent or received traffic which is unbillable, for which we may be liable;
- credit card fraud in connection with our web-based prepaid offering;
- capital expenditures required to expand or upgrade our network;
- changes in call volume among the countries to which we complete calls;
- the portion of our total traffic that we carry over more lucrative routes could decline, independent of route-specific price, cost or volume changes;
- technical difficulties or failures of our network systems or third party delays in expansion or provisioning system components;
- our ability to manage distribution arrangements and provision of retail offerings, including card printing, marketing, usage tracking, web-based offerings and customer service requirements, and resolution of associated disputes;
- our ability to manage our traffic on a constant basis so that routes are profitable;
- our ability to collect from our customers; and
- currency fluctuations and restrictions in countries where we operate.

Because of these factors and others, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance. It is possible that, in future periods, our results of operations will be significantly lower than the estimates of public market analysts, investors or our own estimates. Such a discrepancy could cause the price of our common stock to decline significantly and adversely affect our profitability.

We may not be able to generate sufficient revenue and gross profit to achieve our revenue and profitability goals in the long term if telecommunications carriers and other communications service providers are reluctant to use our services in sufficient volume.

If the market for international wholesale VoIP telephony and new services does not develop as we expect, or develops more slowly than expected, our business, financial condition and results of operations will be materially and adversely affected.

Our customers may be reluctant to use our VoIP services for a number of reasons, including:

- perceptions that the quality of voice transmitted over the Internet is low;
- perceptions that VoIP is unreliable;
- our inability to deliver traffic over the Internet with significant cost advantages;
- development of their own capacity on routes served by us;
- an increase in termination costs of international calls;
- uncertainty regarding the regulatory status of VoIP services; and
- uncertainty regarding potential patent infringement related to certain VoIP services.

The growth of our core wholesale Trading business depends on carriers and other communications service providers generating an increased volume of international voice and fax traffic and selecting our network to carry at least some of this

traffic. Similarly, the growth of Retail services we offer depends on these factors as well as acceptance in the market of the brands that we service, including their respective rates, terms and conditions.

We may not be able to collect amounts due to us from our customers and we may have to disgorge amounts already paid.

Some of our customers have closed their businesses or filed for bankruptcy while owing us significant amounts for services we have provided to them in the past. Despite our efforts to collect these overdue funds, we may never be paid. The bankruptcy court may require us to continue to provide services to these companies during their reorganizations. Other customers may discontinue their use of our services at any time and without notice, or delay payments that are owed to us. Additionally, we may have difficulty in collecting amounts from them. Although we have internal credit risk policies to identify companies with poor credit histories, we may not effectively manage these policies and may provide services to companies that refuse to pay. The risk is even greater in foreign countries, where the legal and collection systems available may not be adequate or impartial for us to enforce the payment provisions of our contracts. Our cash reserves will be reduced and our results of operations will be materially adversely affected if we are unable to collect amounts from our customers.

We have received claims including lawsuits from estates of bankrupt companies alleging that we received preferential payments prior to such companies' bankruptcy filing. We may be required to return amounts received from entities that subsequently become bankrupt. We intend to employ all available defenses in contesting such claims or, in the alternative settle such claims. The results of any suit or settlement may have a material adverse affect on results of operations.

We may increase costs and risks in our business to the extent we rely on third parties.

Vendors. We rely upon third-party vendors to provide us with the equipment, software, circuits, and other facilities that we use to provide our services. For example, we purchase a substantial portion of our VoIP equipment from Cisco Systems. We may be forced to try to renegotiate terms with vendors for products or services that have become obsolete. Some vendors may be unwilling to renegotiate such contracts, which could affect our ability to continue to provide services and consequently render us unable to generate sufficient revenues for our business.

Parties that Maintain Phone and Data Lines and Other Telecommunications Services. Our business model depends on the availability of the public Internet and traditional telephone networks to transmit voice and fax calls. Third parties maintain and own these networks, other components that comprise the public Internet, and business relationships that allow telephone calls to be terminated over the public switched telephone network. Some of these third parties are telephone companies. They may increase their charges for using these lines at any time and thereby increase our expenses. They may also fail to maintain their lines properly, fail to maintain the ability to terminate calls, or otherwise disrupt our ability to provide service to our customers. Any such failure that leads to a material disruption of our ability to complete calls or provide other services could discourage our customers from using our network, which could adversely effect our results of operations.

Local Communications Service Providers. We maintain relationships with local communications service providers in many countries, some of whom own the equipment that translates calls from traditional voice networks to the Internet, and vice versa. We rely upon these third parties both to provide lines over which we complete calls and to increase their capacity when necessary as the volume of our traffic increases. There is a risk that these third parties may be slow, or may fail, to provide lines, which would affect our ability to complete calls to certain destinations. We may not be able to continue our relationships with these local service providers on acceptable terms, if at all. Because we rely upon entering into relationships with local service providers to expand into additional countries, we may not be able to increase the number of countries to which we provide service. Finally, any technical difficulties that these providers suffer, or difficulties in their relationships with companies that manage the public switched telephone network, could affect our ability to transmit calls to the countries that those providers help serve.

Strategic Relationships. We depend in part on our strategic relationships to expand our distribution channels and develop and market our services. Strategic relationship partners may choose not to renew existing arrangements on commercially acceptable terms, if at all. In general, if we lose these key strategic relationships, or if we fail to maintain or develop new relationships in the future, our ability to expand the scope and capacity of our network and services provided, and to maintain state-of-the-art technology, would be materially adversely affected.

Distributors of prepaid calling cards to retail outlets. We make arrangements with distributors to market and sell prepaid calling cards to retail outlets. In some cases, we rely on these distributors to print cards, prepare marketing material, activate accounts, track usage and other data, and remit payments collected from retailers. There is a risk that distributors will not properly perform these responsibilities, comply with legal requirements, or pay us monies when due. We may not have adequate contractual or credit protections against these risks. There is also a risk that we will be ineffective in our efforts to implement new systems, policies covering customer care, disclosure, privacy, and certain technical and business processes. The result of any attendant difficulties may have a material impact on our business.

We may not be able to succeed in the intensely competitive market for our wholesale Trading services or for prepaid calling services.

We compete in our wholesale Trading business principally on quality of service and price. In recent years, prices for international long distance telephone services have been declining as a result of deregulation and increased competition. We face competition from the wholesale service operations of major telecommunications carriers, including AT&T, British Telecom, Deutsche Telekom, Verizon/MCI and Qwest, as well as new emerging carriers. We also compete with Internet protocol and other VoIP service providers who route traffic to destinations worldwide. VoIP service providers that presently focus on retail customers may in the future enter the wholesale market and compete with us. If we can not offer competitive prices and quality of service our business could be materially adversely affected.

The market for prepaid calling services is extremely competitive. Hundreds of providers offer calling card products and services. We have relatively recently begun offering prepaid calling card and related web-based services and have little prior experience in these businesses. Advertising and pricing practices by some providers in the prepaid calling card industry are aggressive and can be misleading which may put us at a competitive disadvantage. Many of our prepaid calling services are marketed primarily to immigrant communities. If changes in immigration policy or other factors, including general economic conditions cause a reduction in the foreign born population living in the U.S. our business may suffer. If we do not successfully maintain and expand our distribution channel and enter geographic markets in which our rates, fees, surcharges, country services, and our other products and service characteristics can successfully compete, our business could be materially adversely affected.

We are subject to downward pricing pressures and a continuing need to renegotiate overseas rates.

As a result of numerous factors, including increased competition and global deregulation of telecommunications services, prices for international long distance calls have been decreasing. This downward trend of prices to end-users has caused us to lower the prices we charge communications service providers and calling card distributors for call completion on our network. If this downward pricing pressure continues, we may not be able to offer our VoIP services at costs lower than, or competitive with, the traditional voice network and VoIP services with which we compete. Moreover, in order for us to lower our prices, we have to renegotiate rates with our overseas local service providers who complete calls for us. We may not be able to renegotiate these terms favorably enough, or fast enough, to allow us to continue to offer services in a particular country on a cost-effective basis. The continued downward pressure on prices and our failure to renegotiate favorable terms in a particular

country could have a material adverse effect on our ability to operate our network and business profitably.

A variety of risks associated with our international operations could materially adversely affect our business.

Because we provide many of our services internationally, we are subject to additional risks related to operating in foreign countries. In particular, in order to provide services and operate facilities in some countries, we have established subsidiaries or other legal entities or may have forged relationships with service partners or entities set up by our employees. We also rely on our own employees to maintain certain functions of our Internet central offices and, in some cases, to deploy and operate our smaller points of presence installations. Associated risks include:

- uncertainty regarding or unexpected changes in tariffs, trade barriers and regulatory requirements relating to Internet access or VoIP;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- difficulty in collecting accounts receivable;
- compliance with varying tax, consumer protection, telecommunications, and other laws;
- compliance with tax, employment, securities, immigration, labor and other laws for employees living and traveling, or conducting business, abroad, which may subject them or us to criminal or civil penalties;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenues;
- unreliable government power to protect our rights and those of our employees;
- exposure to liability under the Foreign Corrupt Practices Act or similar laws in foreign countries;
- other obligations or restrictions, including, but not limited to, criminal penalties against us or our employees incident to doing business or operating a subsidiary or other entity in another country;
- individual criminal exposure of our employees, some of whom have been sought by law enforcement agencies abroad to answer for the activities of the Company;
- the personal safety of our employees and their families who at times have received threats of, or who may in any case be subject to, violence, and who may not be adequately protected by legal authorities or other means; and
- inadequate insurance coverage to address these risks.

These and other risks associated with our international operations may materially adversely affect our ability to maintain profitable operations.

We may undertake strategic acquisitions or dispositions, or may be the target of similar strategic initiatives, that could be difficult to integrate or could damage our business.

In addition to the KPN Transaction and the proposed transaction with TDC, the leading telecommunications company in Denmark, that we announced on January 14, 2008, we may acquire businesses and technologies that complement or augment our existing businesses, services and technologies. We may also be subject to, or participate in, strategic activities by others that result in a transfer of control of our assets or control of our outstanding shares of stock. We may need to raise

additional funds through public or private debt, equity financing or issue more shares to affect such activities, which may result in dilution for shareholders and the incurrence of indebtedness. We may have difficulty integrating any additional businesses into our existing business and the process of any acquisitions or subsequent integration could divert management's attention and expend our resources. We may not be able to operate acquired businesses profitably or otherwise implement our growth strategy successfully.

If we are unable to effectively integrate any new business into our overall business operations, our costs may increase and our business results may suffer significantly.

We may need to sell existing assets or businesses in the future to generate cash or focus our efforts on making our core Wholesale Trading business profitable. As with many companies in our sector that have experienced rapid growth in recent years, we may need to reach profitability in one market before entering another. In the future, we may need to sell assets to cut costs or generate liquidity.

If we are not able to keep up with rapid technological change in a cost-effective way, the relative quality of our services could suffer.

The technology upon which our services depend is changing rapidly. Significant technological changes could render the hardware and software that we use obsolete, and competitors may begin to offer new services that we are unable to offer. If we are unable to respond successfully to these developments or do not respond in a cost-effective way, we may not be able to offer competitive services and our business results may suffer.

We may not be able to expand and upgrade our network adequately and cost-effectively to accommodate any future growth.

Our business requires that we handle a large number of international calls simultaneously. As we expand our operations, we expect to handle significantly more calls. If we do not expand and upgrade our hardware and software quickly enough, we would not have sufficient capacity to handle the increased traffic and growth in our operating performance would suffer as a result. Even with such expansion, we may be unable to manage new deployments or utilize them in a cost-effective manner. In addition to lost growth opportunities, any such failure could adversely affect customer confidence in The iBasis Network and could result in us losing business.

We may not be able to maintain our routing, reporting, and billing systems and related databases adequately and cost-effectively to accommodate our continuing needs.

Our business requires that we track enormous volumes of data so that we can manage traffic, margin, revenue, and customer accounts. We constantly measure and upgrade our technical capabilities, and develop new tools to address our needs. If we do not maintain these systems or modify them in an appropriate manner, or bill our customers properly, our business will be negatively affected.

Single points of failure on our network may make our business vulnerable.

We operate three Network Operations Centers as well as numerous Internet central offices and other points of presence throughout the world. In some cases, we have designed redundant systems, provided for excess capacity, and taken other precautions against platform and network failures as well as facility failures relating to power, air conditioning, destruction, or theft. Nonetheless, some of our infrastructure and functionality, including those associated with certain components of our Retail business, operate as a single point of failure, meaning, failures of the type described may prohibit us from offering services at all at any given time. The potential of such a failure may discourage others from using our network, which may adversely impact our business.

We depend on our current personnel and may have difficulty attracting and retaining the skilled employees we need to execute our business plan.

Our future success will depend, in large part, on the continued service of our key management and technical personnel. If any of these individuals or others we employ are unable or unwilling to continue in their present positions, our business, financial position, results of operations or cash flows could suffer. We do not carry key person life insurance on our personnel.

We will need to retain skilled personnel to execute our plans.

Our future success will also depend on our ability to attract, retain and motivate highly skilled employees, particularly engineering and technical personnel. Past reductions in our workforce or restrictions on salary increases or payment of bonuses may make it difficult to motivate and retain employees and contractors, which could affect our ability to deliver our services in a timely fashion and otherwise negatively affect our business.

We can not ensure that our existing capital will be sufficient to meet our requirements for the future and a failure to obtain necessary additional capital could jeopardize our operations.

We may need additional capital in the future to fund our operations, finance investments in equipment and corporate infrastructure, expand our network, increase the range of services we offer and respond to competitive pressures and perceived opportunities. We may not be able to obtain additional financing on terms acceptable to us, if at all. If we raise additional funds by selling equity securities, the relative equity ownership of our existing investors could be diluted or the new investors could obtain terms more favorable than previous investors. A failure to obtain additional funding could prevent us from making expenditures that are needed to allow us to grow or maintain our operations.

Risks Related to Regulatory Matters

The telecommunications industry is subject to domestic governmental regulation and legal uncertainties and other laws that could materially increase our costs and prevent us from executing our business plan.

Under FCC rules, services classified as telecommunications services have been subject to regulation, whereas services classified as information or enhanced services have been largely exempt from regulation, including the requirement to pay access charges. We have taken the position that our wholesale Trading services are enhanced services that are exempt from traditional regulation that applies to telecommunications services. While the FCC has traditionally maintained that information service providers, including VoIP providers, do not provide telecommunications services for regulatory purposes, various entities have challenged this policy at the state and federal levels and the FCC has begun to regulate certain aspects of various types of VoIP services. For example, in 2004, the FCC concluded that long distance calls that begin and end as regular calls but use IP to transport some portion of the call are telecommunications services. As indicated above, the FCC also concluded that prepaid calling cards that utilize IP-transport are telecommunications services, not information services. Additionally, the FCC has issued a variety of orders that have imposed additional regulatory obligations on certain VoIP providers. For example, the FCC found that certain VoIP services that interconnect with the traditional public telephone network ("Interconnected VoIP Services") must begin making Universal Service Fund, or USF, contributions, provide 911 and Telecommunications Relay Services, comply with certain law enforcement intercept obligations, and also comply with other regulatory reporting requirements. To date, however, the agency has declined to determine whether Interconnected VoIP Service is a telecommunications service or an information service.

As a result of these and other rulings, aspects of our operations may currently be, or may become, subject to state or federal regulations governing licensing, USF funding, interstate or intrastate access

charges, advertising, disclosure of confidential communications or other information, excise and other fees, taxes and surcharges, U.S. embargos and other reporting or compliance requirements.

We hold a license to provide interstate and international telecommunications services from the Federal Communications Commission ("FCC") and we have obtained or are in the process of obtaining appropriate regulatory authority, and filing appropriate tariffs, regarding the Retail business in certain states. Additional aspects of our operations may currently be, or become, subject to state or federal regulations governing licensing, universal service funding, advertising, disclosure of confidential communications or other information, excise taxes, U.S. embargos and other reporting or compliance requirements.

In the event of an audit from the federal Universal Service Administrator or complaint from a local access provider, we could be subject to arrearages for USF contributions or access charges.

Although we believe that our interstate wholesale Trading products qualify as information services that are exempt from federal USF contributions, we have, as of January 1, 2005, reported our Wholesale Trading revenues to the FCC as telecommunications revenues, while reserving our rights.

We have offered our prepaid international calling card services on a wholesale basis to international carrier customers, and others, some of which provide these services to end-user customers, enabling them to call internationally over The iBasis Network. We participate in selling and marketing of calling cards through a network of distributors on a retail basis. We also offer a web-based retail prepaid calling card offering. Although the calling cards are primarily used for international calling, we have not blocked the ability of users to place interstate and intrastate calls and we have not in every instance required our wholesale customers or distributors to provide evidence of their compliance with U.S. and state regulations.

The Federal Telecommunications Act of 1996 requires that payphone service providers be compensated for all completed calls originating from payphones in the United States. The FCC's rules require the last switched-based carrier to compensate payphone providers, and further require that all carriers in the call chain implement a call-tracking system, utilize it to identify such calls, provide an independent audit of the adequacy of such system, and provide a report on these matters to the FCC and others in the call chain, unless alternative contractual arrangements have been made. We have indirectly paid, and intend to continue paying, payphone service providers as part of our prepaid calling card business. We have contracted with a clearinghouse to remit funds directly to payphone service providers for calls originating from payphones utilizing our prepaid calling cards. For all other types of traffic related to our wholesale Trading business, we believe that we are not responsible for payphone compensation, but rather that the carrier that precedes us bears that responsibility. In accordance therewith, for traffic related to our wholesale Trading business, we have in most cases sought to apportion such responsibility by contract.

We have also been questioned by regulators about our offerings. Under current standards and recent FCC decisions, the FCC and state regulatory authorities may not agree with our positions. If they do not, we could be penalized, become subject to regulation at the federal and state level for both our wholesale Trading business, in addition to our Retail business, and could become subject to licensing and bonding requirements, federal and state fees and taxes, and other laws, all of which could materially affect our business.

We are also subject to federal and state laws and regulations regarding consumer protection, advertising, and disclosure regulations. These rules could substantially increase the cost of doing business domestically and in any particular state. Law enforcement authorities may utilize their powers under consumer protection laws against us in the event we do not meet legal requirements in a given jurisdiction which could either increase costs or prevent us from doing business there.

We are subject to other laws related to our business dealings that are not specifically related to telecommunications regulation. As an example, the Office of Foreign Asset Control of the U.S. Department of the Treasury, or OFAC, administers the United States' sanctions against certain countries. OFAC rules restrict many business transactions with such countries and, in some cases, require that licenses be obtained for such transactions. We may currently, or in the future, transmit telephone calls between the U.S. and countries subject to U.S. sanctions regulations and undertake other transactions related to those services. We have undertaken such activities via our network or through various reciprocal traffic exchange agreements to which we are a party. We have received licenses from OFAC to send traffic to some countries and, if necessary, will remain in contact with OFAC with regard to other transactions. Failure to obtain proper authority could expose us to legal and criminal liability.

Foreign government telecommunications regulation could also affect our costs.

Our Retail and wholesale Trading services are offered in foreign jurisdictions. The regulation of VoIP differs from jurisdiction to jurisdiction. We cannot be certain that we or our partners and distributors are in compliance with all of the relevant regulations and laws in each of the foreign jurisdictions in which we operate at any given point in time. As a result, changes in regulation in foreign jurisdictions or failure to comply with applicable foreign laws and regulations can subject us to enforcement action and penalties that could negatively affect our business and ability to continue to provide services in these foreign jurisdictions. In addition, in numerous countries where we operate or plan to operate, we may be subject to many local laws and regulations that, among other things, may restrict or limit the ability of telecommunications companies to provide telecommunications services in competition with state-owned or state-sanctioned dominant carriers.

Other international governmental regulation and legal uncertainties and other laws could limit our ability to provide our services, make them more expensive, or subject us or our employees to legal or criminal liability.

Many countries currently prohibit or limit competition in the provision of traditional voice telephony services. In some of those countries, licensed telephony carriers as well as government regulators and law enforcement authorities have questioned our legal authority and/or the legal authority of our service partners or affiliated entities and employees to offer our services. We may face similar questions in additional countries. Our failure to qualify as a properly licensed service provider, or to comply with other foreign laws and regulations, could materially adversely affect our business, financial condition and results of operations, including subjecting us or our employees to taxes and criminal or other penalties and/or by precluding us from, or limiting us in, enforcing contracts in such jurisdictions.

It is also possible that countries may apply to our activities laws relating to services provided over the Internet, including laws governing:

- sales and other taxes, including payroll-withholding applications;
- user privacy;
- pricing controls and termination costs;
- characteristics and quality of products and services;
- qualification to do business;
- consumer protection;
- cross-border commerce, including laws that would impose tariffs, duties and other import restrictions;

- copyright, trademark and patent infringement; and
- claims based on the nature and content of Internet materials, including defamation, negligence and the failure to meet necessary obligations.

If foreign governments or other bodies begin to impose related restrictions on our services or otherwise enforce criminal or other laws against us, our affiliates or our employees, such actions could have a material adverse effect on our operations.

The termination cost for the termination of calls to mobile networks in Germany are subject to regulatory control. A decision by the German regulatory authority to reduce the mobile termination rates, or MTRs, effective in November 2006 has been challenged by the affected mobile network operators, or MNOs, in the German courts. Although we are not a party to these proceedings, under our contracts with these MNOs, a decision by the German court to repeal the reduction of the MTR on a retroactive basis would permit the MNOs to retroactively increase the MTR charged to us for the termination of calls to their networks. Although we have taken steps to allow us to pass these potential cost increase on to our customers, there can be no assurance that we will be successful in doing so in all cases. We can not at this time assess the likelihood that German court will retroactively repeal the reduction in the MTRs or the amount of any potential loss that we might suffer as a result.

Risks Related to Our Intellectual Property

If we are unable to protect our intellectual property, our competitive position would be adversely affected.

We rely on patent, trademark and copyright law, trade secret protection and confidentiality and/or license agreements with our employees, customers, partners and others to protect our intellectual property. Unauthorized third parties may copy our services or reverse engineer or obtain and use information that we regard as proprietary. End-user license provisions protecting against unauthorized use, copying, transfer and disclosure of any licensed program may be unenforceable under the laws of certain jurisdictions and foreign countries. We may seek to patent certain processes or equipment in the future. We do not know if any of our pending patent applications will be issued with the scope of the claims we seek, if at all. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of the United States. Our means of protecting our proprietary rights in the United States or abroad may not be adequate and third parties may infringe or misappropriate our copyrights, trademarks and similar proprietary rights. If we fail to protect our intellectual property and proprietary rights, our business, financial condition and results of operations would suffer.

Our services might be found to infringe the intellectual property rights of others.

We believe that we do not infringe upon the valid proprietary rights of any third party. Nonetheless, we have received claims that our products or brands, or those of our retail prepaid calling card distributors, infringe valid patents or trademarks. Such claims, even if resolved in our favor, could be substantial, and the litigation could divert management efforts. It is also possible that such claims might be asserted successfully against us in the future. Our ability to provide services depends on our freedom to operate. That is, we must ensure that we do not infringe upon the proprietary rights of others or have licensed all such rights. A party making an infringement claim could secure a substantial monetary award or obtain injunctive relief that could effectively block our ability to provide services in the United States or abroad. In addition, the assertion of infringement claims by others against our customers, including those providing consumer VoIP services, could adversely affect our business.

We rely on a variety of technologies, primarily software, which is licensed from third parties or is freely available.

Continued use of certain technology by us requires that we purchase new or additional licenses from third parties or, in some cases, avail ourselves of "shareware" or otherwise available open source code. We may not be able to obtain those third-party licenses needed for our business or the technology and software that we do have may not continue to be available to us on commercially reasonable terms or at all. The loss or inability to maintain or obtain upgrades to any such technology or software could result in delays or breakdowns in our ability to continue developing and providing our services or to enhance and upgrade our services.

Risks Related to the Internet and Internet Telephony Industry

If the public Internet infrastructure is not adequately maintained, we may be unable to maintain the quality of our services and provide them in a timely and consistent manner.

Our future success will depend upon the maintenance of the public Internet infrastructure, including a reliable network backbone with the necessary speed, data capacity and security for providing reliability and timely Internet access and services. To the extent that the Internet continues to experience increased numbers of users, frequency of use or bandwidth requirements, the Internet may become congested and be unable to support the demands placed on it and its performance or reliability may decline thereby impairing our ability to complete calls and provide other services using the Internet at consistently high quality. The Internet has experienced a variety of outages and other delays as a result of failures of portions of its infrastructure or otherwise. Future outages or delays could adversely affect our ability to complete calls and provide other services. Moreover, critical issues concerning the commercial use of the Internet, including security, cost, ease of use and access, intellectual property ownership and other legal liability issues, remain unresolved and could materially and adversely affect both the growth of Internet usage generally and our business in particular. Finally, important opportunities to increase traffic on The iBasis Network will not be realized if the underlying infrastructure of the Internet does not continue to be expanded to more locations worldwide.

Network security breaches could adversely affect our operations.

We currently have practices, policies and procedures in place to ensure the integrity and security of our network. Nevertheless, from time to time we have experienced fraudulent activities whereby perpetrators have disguised themselves as our customers and transmitted traffic to us, or have disguised themselves as us and transmitted traffic to our communications service providers and other service providers for termination. While we have undertaken steps to thwart such fraud, including revamping our securities procedures and capabilities and alerting other members of the industry as well as law enforcement personnel, such actions may not be sufficient and financial exposure and reputational damage from fraudulent activities could materially adversely affect us.

Undetected defects in our technology could adversely affect our operations.

Our technology is complex and is susceptible to errors, defects or performance problems, commonly called "bugs". Although we regularly test our software and systems extensively, we can not ensure that our testing will detect every potential bug. Any such bug could materially adversely affect our business.

Our ability to provide our services using the Internet may be adversely affected by computer vandalism.

If the overall performance of the Internet is seriously downgraded by website attacks, failure of service attacks, or other acts of computer vandalism or virus infection, our ability to deliver our

communication services over the Internet could be adversely impacted, which could cause us to have to increase the amount of traffic we have to carry over alternative networks, including the more costly public switched telephone network. In addition, traditional business interruption insurance may not cover losses we could incur because of any such disruption of the Internet. While some insurers are beginning to offer products purporting to cover these losses, we do not have any of this insurance at this time.

Risks Related to the KPN Transaction

We may not be able to timely and successfully integrate KPN's international wholesale voice business with our operations, and thus we may fail to realize all of the anticipated benefits of the KPN Transaction.

Integration of KPN's international wholesale voice business into our business is a complex, time consuming and costly process. Difficulties we may encounter include:

- operational interruptions or the loss of key employees, customers or suppliers;
- the risks related to operating a significantly larger company with operations in geographic areas in which we have not previously operated; and
- risks related to consolidating our corporate and administrative functions.

We are also exposed to other risks that are commonly associated with similar transactions, such as unanticipated liabilities and costs, some of which may be material, and diversion of management's attention. As a result, the anticipated benefits of the KPN Transaction, including anticipated synergies, may not be fully realized and our business may be materially and adversely affected.

KPN owns a majority of the shares of our common stock, and we are a controlled company within the meaning of Nasdaq Marketplace Rules.

Because KPN is deemed to beneficially own, in the aggregate, more than 50% of our common stock, we are a "controlled company" within the meaning of Nasdaq Marketplace Rule 4350(c)(5). As a result, the Company is exempt from Nasdaq rules that require listed companies to have (i) a majority of independent directors on the Board of Directors, (ii) the compensation of executive officers determined by a majority of independent directors or a compensation committee composed solely of independent directors, and (iii) a majority of the independent directors or a nominating committee composed solely of independent directors elect or recommend director nominees for selection by the Board of Directors. Furthermore, as part of the transaction, our by-laws were amended to provide KPN certain board representation rights and certain veto rights. As a result of these changes, and KPN's majority holdings, KPN has the ability to control the outcome of all matters submitted to our stockholders for approval. We cannot make assurances that the interests of KPN will be consistent with the interests of other holders of our common stock, or that KPN will vote its shares of common stock, or exercise its veto rights, in a manner that benefits other holders of our common stock.

Finally, KPN's ownership of 51% of the shares of our common stock could discourage the acquisition of our common stock by potential investors and could have an anti-takeover effect, possibly depressing the trading price of our common stock.

KPN may sell all or a substantial portion of its shares at any time in the future, which could cause the market price of our common stock to decline.

We have not entered into any lock-up agreement with KPN. As a result, the sale, or the possibility of a sale, by KPN of all or a substantial number of its shares in the public market could cause the market price of our common stock to decline. The sale of a substantial number of shares or the

possibility of such a sale also could make it more difficult for us to sell our common stock or other equity securities in the future at a time and at a price that we deem appropriate.

Provisions of our governing documents and Delaware law could also discourage acquisition proposals or delay a change in control.

Our certificate of incorporation and our by-laws contain anti-takeover provisions, including those listed below, that could make it difficult for a third party to acquire control of our company, even if that change in control would be beneficial to stockholders:

- our Board of Directors has the authority to issue common stock and preferred stock, and to determine the price, rights and preferences of any new series of preferred stock, without stockholder approval;
- our Board of Directors is divided into three classes, each serving three-year terms;
- a supermajority of votes of our stockholders is required to amend key provisions of our certificate of incorporation and by-laws;
- our by-laws contain provisions limiting who can call special meetings of stockholders;
- our stockholders may not take action by written consent; and
- our stockholders must provide specified advance notice to nominate Directors or submit stockholder proposals.

In addition, provisions of Delaware law and our stock incentive plans may discourage, delay or prevent a change of control of our company or an unsolicited acquisition proposal.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and, in particular, the description of our Business set forth in Item 1, the Risk Factors set forth in this Item 1A and our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 contain or incorporate a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding:

- expectations regarding our ability to expand our market share in our wholesale Trading business;
- our expectations regarding the number of customers that will use our wholesale Trading and Retail services;
- our expectations regarding the future market demand for our wholesale Trading and Retail services;
- the size of our market;
- our business strategy;
- the focus of our marketing efforts;
- the establishment, development and maintenance of relationships with strategic partners;
- our estimates regarding obligations associated with our leased facilities;
- our expectations regarding the outcome of the legal proceedings that we are currently a party to, including our defense strategies, the results of negotiations and settlements in such legal proceedings and our estimates regarding the amount of fees and losses to be paid in connection with such legal proceedings;
- our expectations that the VoIP market offers significant growth potential for us;
- our plan to absorb or pass along future regulatory fees;
- our estimates regarding the retroactive Universal Service Fund and other fees we will be charged; and
- our liquidity.

Any or all of our forward-looking statements in this Annual Report on Form 10-K may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this Annual Report on Form 10-K will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

We also provide a cautionary discussion of risks and uncertainties under "Risk Factors" in Item 1A. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed there could also adversely affect us.

Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. There are a number of factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements, many of which are beyond our control, including the Risk Factors set forth under Item 1A. In addition, the forward-looking statements contained herein represent our estimate only as of the date of this filing and should not be relied upon as representing our estimate as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we

specifically disclaim any obligation to do so to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Item 1B. *Unresolved Staff Comments*

None

Item 2. *Properties*

The following is a summary of our primary facilities:

Location	Square Footage	Expiration of Lease	Facility Use
Burlington, MA	44,265	April 2010	Headquarters and global network operations center
The Hague, The Netherlands	16,250	Rented from KPN	Office
New York, NY	4,372	Various, 2009-2018	Internet central office
Los Angeles, CA	3,156	April 2008	Internet central office

Our office space in The Hague is rented from KPN under a service level agreement. In addition to the facilities listed above, we lease office space, or space to house network equipment, in various locations around the world, including London, Paris, Frankfurt, Sydney, Buenos Aires, Hong Kong, Beijing and Tokyo. We believe that our existing facilities are adequate for our current needs and that suitable additional or alternative space will be available in the future on commercially reasonable terms.

Item 3. *Legal Proceedings*

In addition to litigation that we have initiated or responded to in the ordinary course of business, we are currently party to the following potentially material legal proceedings:

Class Action Pursuant to 1999 Initial Public Offering

In 2001, we were served with several class action complaints that were filed in the United States District Court for the Southern District of New York against us and several of our officers, directors, and former officers and directors, as well as against the investment banking firms that underwrote our November 10, 1999 initial public offering of common stock and our March 9, 2000 secondary offering of common stock. The complaints were filed on behalf of a class of persons who purchased our common stock between November 10, 1999 and December 6, 2000.

The complaints are similar to each other and to hundreds of other complaints filed against other issuers and their underwriters, and allege violations of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, primarily based on the assertion that there was undisclosed compensation received by our underwriters in connection with our public offerings and that there were understandings with customers to make purchases in the aftermarket. In September, 2001, the complaints were consolidated and allege that our prospectuses failed to disclose these arrangements. The consolidated complaint seeks an unspecified amount of monetary damages and other relief. In October 2002, the individual defendants were dismissed from the litigation by stipulation and without prejudice and subject to an agreement to toll the running of time-based defenses. In February 2003, the district court denied our motion to dismiss.

In June 2004, we and the individual defendants, as well as many other issuers named as defendants in the class action proceeding, entered into an agreement-in-principle to settle this matter, and this settlement was presented to the court. The district court granted a preliminary approval of the settlement in February 2005, subject to certain modifications to the proposed bar order, to which plaintiffs and issuers agreed. In August 2005, the district court issued a preliminary order further

approving the modifications to the settlement, certifying the settlement classes and scheduled a fairness hearing, after notice to the class. The fairness hearing was held on April 24, 2006 and the motion for approval of the settlement is pending. Plaintiffs have continued to pursue their claims against the underwriters. The district court established a procedure whereby six "focus" cases are being pursued initially and has certified a class of purchasers in those cases. The underwriters appealed the certification order in each of the six cases and in December 2006, the United States Court of Appeals for the Second Circuit reversed the certification orders. Since the pending settlement with the issuers involves parallel classes to those in the six focus cases, it is not expected that the district court will act favorably on the issuer settlement in its current form.

We anticipate additional settlement negotiations will occur, but there can be no assurance that those negotiations will result in a revised settlement. We believe that if this matter is not settled, we have meritorious defenses which we intend to vigorously assert.

We cannot estimate potential losses, if any, from these matters or whether, in light of our insurance coverage, any loss would be material to our financial condition, results of operations or cash flows. As such, no amounts have been accrued as of December 31, 2007.

Actions Pursuant to Option Investigation

On December 21, 2006, two derivative actions naming us as a nominal defendant were filed in the United States District Court for the District of Massachusetts: *David Shutvet, Derivatively on Behalf of iBasis, Inc., v. Ofer Gneezy et al.*, U.S.D.C. Civil Action No. 06-12276-DPW; and *Victor Malozi, Derivatively on Behalf of iBasis, Inc., v. Ofer Gneezy et al.*, U.S.D.C. Civil Action No. 06-12277-DPW. The complaints in these two actions each name the same defendants: Ofer Gneezy, our President, Chief Executive Officer, and Director; Gordon J. VanderBrug, our Executive Vice President and Director; Richard G. Tennant, our Senior Vice President of Finance and Administration and Chief Financial Officer; Paul H. Floyd, our Senior Vice President of R&D, Engineering and Operations; Charles Corfield, Charles M. Skibo, W. Frank King, David Lee, and Robert H. Brumley, our Directors; Daniel Price, former Senior Vice President of Speech Solutions and our former Director; John G. Henson, Jr., our former Vice President, Engineering and Operations; Michael J. Hughes, our former Chief Financial Officer and former Vice President of Finance and Administration; Charles Giambalvo, our former Senior Vice President of Worldwide Sales; Jonathan D. Draluck, our former Vice President, Business Affairs, General Counsel and Secretary; and John Jarve, Charles Houser, and Carl Redfield, our former Directors. The complaints allege that the defendants caused or allowed our "insiders" to backdate their stock option grants, and caused or allowed us (i) to file materially false and misleading financial statements that materially understated our compensation expenses and materially overstated our quarterly and annual net income and earnings per share, and (ii) to make disclosures in our periodic filings and proxy statements that falsely portrayed our options as having been granted at exercise prices equal to the fair market value of our common stock on the date of the grant. The complaints also allege that certain defendants engaged in illegal insider selling of our common stock while in possession of undisclosed material adverse information. Based on these and other allegations, the complaints assert claims for: violation of Section 14(a) of the Exchange Act; disgorgement under the Sarbanes-Oxley Act of 2002; unjust enrichment; breach of fiduciary duty for approving improperly dated stock option grants to our executive officers; breach of fiduciary duties for insider selling and misappropriation of information; abuse of control; gross mismanagement; waste of corporate assets; rescission of certain stock option contracts; and constructive trust. The complaints seek the following relief: damages in favor of us for the individual defendants' alleged wrongdoing; disgorgement of all bonuses or other incentive-based or equity-based compensation received by Mr. Gneezy and Mr. Tennant during any period for which we restated our financial results; a declaration that the Director defendants caused us to violate Section 14 (a) of the Exchange Act; certain corporate governance reforms; an accounting of all undisclosed backdated stock option grants, cancellation of all

unexercised grants, and revision of our financial statements; disgorgement of all profits obtained by the defendants from the allegedly backdated stock option grants and related equitable relief; and an award to the plaintiffs of their costs and disbursements for the action, including reasonable attorney's fees and accountants' and experts' fees, costs and expenses.

On May 10, 2007, the United States District Court for the District of Massachusetts entered orders consolidating the above derivative actions under Civil Action No. 06-12276-DPW. On June 15, 2007, the Plaintiffs filed a consolidated complaint. On August 24, 2007, we filed a motion to dismiss all of the claims asserted in the consolidated complaint. After hearing oral argument on our motion to dismiss on November 28, 2007, the Court issued a Memorandum and Order on December 4, 2007, in which the Court concluded that there was no basis for federal court jurisdiction over the case. Specifically, the Court ruled that the plaintiffs had failed to state a claim under federal law because: (1) the plaintiffs' claims under Section 14 of the Securities Exchange Act were barred by the statute of repose and inadequately pled loss causation; and (2) there is no private right of action under Section 304 of the Sarbanes-Oxley Act. Since these federal claims were the sole grounds for plaintiffs' claim to federal court jurisdiction in their Consolidated Complaint, and the case was at an early stage in the litigation process, the Court also declined to exercise supplemental jurisdiction over the plaintiffs' remaining state law claims. Accordingly, the Court issued a formal order dismissing the entire action on December 5, 2007.

On December 19, 2007, the plaintiffs filed a motion asking the Court to reconsider and amend its prior judgment, in which plaintiffs sought to premise their claim to federal jurisdiction alternatively on diversity of citizenship between the plaintiffs and defendants in the consolidated action. On January 11, 2008, we filed an opposition to that motion. On January 31, 2008, the plaintiffs filed a reply brief after having received the Court's leave to do so. The Court has not yet ruled on the plaintiffs' motion for reconsideration.

We announced on October 20, 2006 that we were contacted by the SEC as part of an informal inquiry and we further disclosed on March 29, 2007, on our Current Report on Form 8-K, that the SEC had notified us that we would be receiving a formal order of investigation relating to our stock option practices. On April 13, 2007, we received the formal order of investigation. The SEC investigation seeks documents and information from us relating to the grant of our options from 1999 through 2007. The SEC has taken testimony from individuals including certain of our current and former officers and directors and we expect that the SEC may seek the testimony of additional individuals during the first half of 2008. We are cooperating fully with the SEC investigation that is ongoing. There is no assurance that other regulatory inquiries will not be commenced by other U.S. federal, state or other regulatory agencies.

We cannot estimate the amount of losses, if any, from these matters, or whether any loss would be material to our financial condition, results of operations or cash flows. As such, no amounts have been accrued as of December 31, 2007.

Regulatory Proceedings

On June 30, 2006, the Federal Communications Commission ("FCC") issued an order requiring providers of prepaid calling cards that utilize Internet Protocol to contribute to the Universal Service Fund ("USF") and pay access charges and other regulatory fees both in the future and for some prior period of time. In connection with our Retail business, we plan to absorb or pass along such future fees, to the extent permitted by law. We filed an appeal of the retroactive aspect of the FCC Order with the United States Court of Appeals in Washington, D.C. Following oral arguments before the United States Court of Appeals in early October 2007, the Court issued a decision in early December 2007 denying our appeal of the retroactive aspect of the FCC Order. As a result of this decision, as of December 31, 2007, we estimate that the maximum potential retroactive USF charge relating to our

Retail business prior to the effective date of the FCC Order of October 31, 2006 would be approximately \$3.2 million, of which we previously accrued \$0.6 million for the period of July 1, 2006 to October 31, 2006. As such, we have recorded an additional charge in the amount of \$2.6 million in the fourth quarter of 2007 and will have to fund these retroactive fees in the future.

Sub-Distributor Action

On September 20, 2007, J & J Communications ("J&J"), a sub-distributor of calling cards distributed through iBasis distributor Abdul Communications ("Abdul"), amended a complaint filed in the United States District Court for the District of Maryland against Abdul, to add iBasis and PCI ("PCI"), a wholesale calling-card provider, as defendants in the matter. The complaint asserts that J&J has lost and continues to lose money because iBasis and PCI deactivated calling cards for which J & J allegedly paid. J & J is seeking in excess of one million dollars, plus punitive damages, attorneys fees and litigation costs based on a variety of claims against Abdul, iBasis, and PCI, predicated on contractual theories, various torts, and an alleged violation of § 201 of the Communications Act. With respect to iBasis, J&J alleges both direct liability and vicarious liability, for its alleged status as principal in an alleged agency relationship with Abdul. iBasis responded to the amended complaint through an answer and motion to dismiss on February 8, 2008.

We cannot estimate the amount of losses, if any, from this matter, or whether any loss would be material to our financial condition, results of operations or cash flows. As such, no amount has been accrued as of December 31, 2007.

Other Matters

We are also party to suits for collection, related commercial disputes, claims by former employees, claims related to certain taxes, claims from carriers and foreign service partners over reconciliation of payments for circuits, Internet bandwidth and/or access to the public switched telephone network, and claims from estates of bankrupt companies alleging that we received preferential payments from such companies prior to their bankruptcy filings. Our employees have also been named in proceedings arising out of business activities in foreign countries. We intend to prosecute vigorously claims that we have brought and employ all available defenses in contesting claims against us, or our employees. Nevertheless, in deciding whether to pursue settlement, we will consider, among other factors, the substantial costs and the diversion of management's attention and resources that would be required in litigation. In light of such costs, we have settled various and in some cases similar matters on what we believe have been favorable terms which did not have a material impact on our financial position, results of operations, or cash flows. The results or failure of any suit may have a material adverse affect on our business. We cannot estimate the amount of losses, if any, from these matters, or whether any loss would be material to our financial condition, results of operations or cash flows. As such, no amounts have been accrued as of December 31, 2007.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2007.

PART II

Item 5. *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

Our common stock was relisted and began trading on The Nasdaq Global Market on June 21, 2006 under the symbol "IBAS." The following table sets forth, (i) the high and low sales prices of our common stock, as reported by The Nasdaq Global Market for the periods indicated since June 21, 2006, and (ii) the high and low bid prices of our common stock as reported by the Over-the-Counter Bulletin Board, for the periods indicated prior to June 21, 2006. Over-the-Counter Bulletin Board bid quotations reflect interdealer prices, without retail mark-up, mark-down or commission and may not necessarily reflect actual transactions.

	High	Low
Fiscal 2007:		
Fourth Quarter	\$ 10.65	\$ 4.90
Third Quarter	\$ 10.75	\$ 8.67
Second Quarter	\$ 10.99	\$ 9.88
First Quarter	\$ 10.99	\$ 8.54
Fiscal 2006:		
Fourth Quarter	\$ 8.62	\$ 7.78
Third Quarter	8.90	7.74
Second Quarter	8.80	6.66
First Quarter	6.84	5.34

Stockholders

As of February 29, 2008, we had 193 stockholders of record. This does not reflect persons or entities that hold their shares of common stock in nominee or "street" name through various brokerage firms.

Dividends

Following the closing of the KPN Transaction, we paid to our shareholders of record as of September 28, 2007, the business day immediately preceding the closing, a dividend in an aggregate amount of \$113 million, or \$3.28 per share of common stock. The funds used to pay the dividend came from cash on hand, proceeds of \$55 million received from KPN in conjunction with the transaction, and bank borrowings. Also, under the terms of outstanding warrants for our common stock, upon exercise of such warrants after the closing of the KPN Transaction, the holders of the warrants shall be entitled to receive payment of an amount in cash equal to the amount such holder would have received in connection with the dividend payment if such warrants had been exercised immediately prior to the closing of the KPN Transaction, in addition to the number of shares of common stock issuable upon such exercise.

We have no current intention of declaring or paying cash dividends on our common stock in the future.

Item 6. *Selected Financial Data*

The following selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this Annual Report on

Form 10-K. On October 1, 2007, KPN GCS acquired iBasis. As a result, revenue and operating expenses for the year ended December 31, 2007 increased substantially, as more fully discussed in Item 7. The consolidated statement of operations data for the year ended December 31, 2007, reflects the results of KPN GCS only for the first nine months of 2007 and the results of the combined company, following the closing of the KPN Transaction on October 1, 2007, for the fourth quarter of 2007. This selected financial data has been derived from our audited consolidated financial statements. The consolidated statement of operations data for each of the three years ended December 31, 2006, 2005, and 2004 and the balance sheet data at December 31, 2006 and 2005 are derived from the audited consolidated financial statements of KPN GCS. The balance sheet data at December 31, 2004 and December 31, 2003, and the consolidated statement of operations data for the year ended December 31, 2003 has been derived from KPN GCS' unaudited consolidated financial statements.

From inception until October 1, 2007, KPN GCS operated as integrated part of KPN and within the Royal KPN infrastructure. As a consequence, KPN GCS has not operated as a stand-alone business. The KPN GCS combined financial statements were derived from the accounting records of KPN using the historical bases of assets and liabilities. However, these historical financial statements may not necessarily be representative of amounts that would have been reflected in such combined financial statements had KPN GCS operated independently of KPN. For example, KPN GCS benefited from certain related party revenue and purchase agreements with KPN that included sale prices per minute and costs per minute that were not necessarily representative of the amounts that would have been reflected in the financial statements had KPN GCS operated independently of KPN.

Year Ended December 31,

	2007	2006	2005	2004	2003
	(In thousands)				
Net revenue from external parties	\$ 741,293	\$ 605,031	\$ 540,574	\$ 498,357	\$ 430,016
Net revenue from related parties	197,265	209,158	249,502	216,559	224,605
Total revenue	938,558	814,189	790,076	714,916	654,621
Costs and operating expenses:					
Data communications and telecommunications costs—external parties	733,160	573,966	533,055	475,814	459,276
Data communications and telecommunications costs—related parties	114,242	134,347	138,584	161,347	99,844
Engineering and network operations	13,222	8,895	11,438	—	—
Selling, general and administrative	38,368	29,812	34,468	18,569	15,484
Merger related expenses	2,019	—	—	—	—
Depreciation and amortization	12,743	5,693	11,415	13,665	13,190
Total costs and operating expenses	913,754	752,713	728,960	669,395	587,794
Income from operations	24,804	61,476	61,116	45,521	66,827
Interest income (expense), net	949	237	(107)	(101)	(38)
Foreign exchange loss	(1,101)	(1,339)	(1,545)	(4,291)	(943)
Income before income taxes	24,652	60,374	59,464	41,129	65,846
Income tax expense	8,529	17,884	18,848	13,546	22,861
Net income	\$ 16,123	\$ 42,490	\$ 40,616	\$ 27,583	\$ 42,985
Basic and diluted net income per share	\$ 0.33	\$ 1.06	\$ 1.01	\$ 0.69	\$ 1.07
Weighted average shares:					
Basic	48,778	40,121	40,121	40,121	40,121
Diluted	49,186	40,121	40,121	40,121	40,121

December 31,

	2007	2006	2005	2004	2003
	(In thousands)				
Cash, cash equivalents and short-term marketable securities	\$ 65,735	\$ 22,411	\$ 20,630	\$ 29,903	\$ 28,843
Working capital	(20,756)	12,967	(3,633)	3,860	28,120
Total assets	659,873	233,269	223,999	285,256	292,413
Long-term debt, net of current portion	25,000	—	—	1,087	1,165
Stockholders' equity	334,490	23,978	7,709	20,626	55,274

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Transaction with KPN B.V.

On October 1, 2007, iBasis, Inc. and KPN completed transactions ("KPN Transaction") pursuant to which iBasis issued 40,121,074 shares of its common stock to KPN and acquired the outstanding shares of two subsidiaries of KPN, which encompassed KPN's international wholesale voice business. The Company also received \$55 million in cash from KPN, subject to post-closing adjustments based on the working capital and debt of iBasis and KPN GCS. Immediately after issuance on October 1, 2007, the shares of iBasis common stock issued to KPN represented 51% of the issued and outstanding shares of iBasis common stock on a fully-diluted basis (which includes all of the issued and outstanding common stock and the common stock underlying outstanding "in-the-money" stock options, as adjusted, and warrants to purchase common stock).

On October 8, 2007, iBasis paid a dividend in the amount of \$113 million at a rate of \$3.28 per share to each of its shareholders on the record date of September 28, 2007, the trading date immediately prior to the closing date of the KPN Transaction. In addition, holders of outstanding warrants to purchase our common stock will be entitled to receive a cash payment upon the future exercise of these warrants in an amount equal to the dividend amount that would have been payable if the warrants had been exercised immediately prior to the record date of the dividend. As of December 31, 2007, iBasis had warrants outstanding to purchase 531,000 shares of its common stock. In connection with the payment of the dividend to shareholders, we also increased the number of shares subject to unexercised stock options and decreased the exercise price of these stock option grants to preserve their value.

The officers of iBasis immediately prior to the closing of the KPN Transaction have continued to serve as the officers of the combined company and one executive of KPN GCS, Mr. Edwin Van Ierland, was appointed as the Company's Senior Vice President Worldwide Sales. Upon closing of the KPN Transaction, Messrs. Charles Skibo and David Lee, two independent members of iBasis' board of directors, resigned as members of the board of directors and the board of directors of iBasis appointed Messrs. Eelco Blok and Joost Farwerck, two executives of Royal KPN N.V., as directors to fill the vacancies created by the resignations of Messrs. Skibo and Lee.

Although iBasis acquired all of the outstanding capital stock of KPN GCS, after the closing of the transaction, KPN holds a majority of the outstanding common stock of iBasis and KPN's designees are expected to represent, at a future date, a majority of the Company's board of directors. Accordingly, for accounting and financial statement purposes, the KPN Transaction has been treated as a reverse acquisition of iBasis by KPN GCS under the purchase method of accounting and the financial results of KPN GCS have become the historical financial results of the combined company and replace the historical financial results of iBasis as a stand-alone company. Thus, the financial results reported for the full year 2007 include the results of KPN GCS alone for the first nine months of 2007 and the financial results of the combined company for the fourth quarter of 2007 only.

The presentation of the Statement of Stockholders' Equity reflects the historical stockholders' equity of KPN GCS through September 30, 2007. The effect of the issuance of shares of iBasis common stock to KPN and the inclusion of iBasis's stockholders' equity as a result of the closing of the KPN Transaction on October 1, 2007 are reflected in the year ended December 31, 2007.

Prior to October 1, 2007, KPN GCS operated as an integrated part of KPN since inception and the historical financial statements of KPN GCS have been derived from the accounting records of KPN using the historical bases of assets and liabilities. Because KPN GCS did not operate as a stand-alone business the historical financial statements may not necessarily be representative of amounts that would have been reflected in the financial statements presented had KPN GCS operated independently of KPN.

KPN GCS benefited from certain related party revenue and purchase agreements with KPN that included sales prices per minute and costs per minute. KPN GCS also relied on KPN for a substantial part of its operational and administrative support, for which it was allocated costs primarily consisting of selling, general and administrative expenses, such as costs for centralized research, legal, human resources, payroll, accounting, employee benefits, real estate, insurance, information technology, telecommunications, treasury and other corporate and infrastructure costs. In anticipation of the closing of the transaction with iBasis, KPN GCS entered into a Framework Services Agreement with KPN in 2006, which replaced the related party revenue and purchase agreements and operational and administrative support arrangements described above.

Purchase Accounting

KPN GCS has been designated as the accounting acquirer because immediately following the completion of the transaction, the former shareholder of KPN GCS, KPN, held 51% of the common stock of the combined company on a fully-diluted basis and KPN's designees are expected to represent, at a future date, a majority of the combined company's board of directors. As a result, the transaction has been accounted for as a reverse acquisition under the purchase method of accounting. Under this accounting, KPN GCS is considered the acquiring entity and iBasis is considered the acquired entity for financial reporting purposes.

Under the purchase method of accounting, the purchase price was allocated to the tangible and identifiable intangible assets and liabilities of iBasis on the basis of their fair values on October 1, 2007, the closing date of the transaction. As KPN GCS was not a publicly traded entity, the purchase price for this transaction was based, in part, on the fair market value of iBasis' common stock. The market price used to value iBasis' shares of \$10.75 was the closing price of the stock on September 28, 2007, the business day immediately prior to the closing of the KPN Transaction.

The total purchase price for this transaction consisted of the following:

	(In thousands)
iBasis outstanding shares on October 1, 2007 of 34,451 at \$10.75 per share	\$ 370,353
Fair value of outstanding vested and unvested stock options, less unearned compensation	13,425
Fair value of outstanding warrants to purchase common shares	4,624
Direct acquisition costs	2,453
Dividend to iBasis shareholders paid from existing iBasis cash and short-term marketable securities	(58,000)
Accrued dividend payable for outstanding warrants to purchase common shares	(2,468)
Amount payable to KPN for iBasis working capital adjustment	(11,577)
Accrued severance	(135)
Total purchase price	\$ 318,675

In determining the fair value of iBasis' identifiable assets and liabilities as of October 1, 2007, we recorded \$97.7 million of amortizing intangible assets, including trade names and trademarks, customer relationships, termination partner relationships, and technology. The estimated useful life of trade name and trademarks is 15 years and is being amortized on a straight-line basis. The estimated useful life of customer relationships is 10 years for wholesale customers and 5 years for retail distributor relationships and these intangible assets are being amortized using an economic consumption method to reflect diminishing cash flows from these relationships in the future. The estimated useful life of termination partner relationships is 5 years and is being amortized using an economic consumption method. The estimated useful life of technology is 5 years and is being amortized on a straight-line basis.

The allocation of the purchase to the fair values of iBasis's assets and liabilities on October 1, 2007, which resulted in the recording of \$248.8 million in goodwill, is as follows:

	(In thousands)
Current assets	\$ 128,875
Property and equipment	23,258
Other assets	520
Trade names and trademarks	21,800
Customer relationships	34,200
Termination partner relationships	8,400
Technology	33,300
Total assets	250,353
Deferred revenue	11,331
Dividend payable	60,468
Other current liabilities	103,469
Deferred tax liabilities, long term	3,556
Other non-current liabilities	1,649
Total liabilities	180,473
Net assets	69,880
Goodwill	248,795
Total purchase price	\$ 318,675

The total \$248.8 million of goodwill has been assigned to the Company's wholesale Trading reporting unit. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," this goodwill will not be amortized.

Working Capital and Debt Adjustments

In accordance with the Share Purchase Agreement for the KPN Transaction, a post-closing adjustment was required if (i) iBasis' working capital was lower than or exceeded \$37,100,000; (ii) iBasis' debt exceeded or was lower than \$2,900,000; (iii) the combined working capital of KPN GCS was lower than or exceeded (\$6,100,000); and/or (iv) the combined debt of KPN GCS exceeded \$0, as of the date of the closing of the KPN Transaction. Based on iBasis's balance sheet position on the date of the closing of the KPN Transaction, working capital was \$13,353,000 less than the specified level of \$37,100,000, and debt was \$1,776,000 less than the specified level of \$2,900,000. As a result, a payment of \$11,577,000 is due to KPN from iBasis. Based on KPN GCS's balance sheet position on the date of the closing of the KPN Transaction, working capital exceeded the specified level of (\$6,100,000) by \$3,945,000 and debt was at the specified level of \$0. As a result, payment of \$3,945,000 is due to KPN from iBasis. The total post-closing adjustment of \$15,522,000 due to KPN will be paid by iBasis in three successive quarterly installments beginning in the first quarter of 2008.

Company Overview

We are a leading wholesale carrier of international long distance telephone calls and a provider of retail prepaid calling services and enhanced services for mobile operators.

Our operations consist of our wholesale Trading business ("Trading"), revenue from traffic we terminate for KPN and its affiliates ("Outsourced from KPN"), and our retail services business ("Retail"). In the wholesale Trading business we receive voice traffic from buyers—originating carriers who are interconnected to our network via Voice over Internet Protocol ("VoIP") or traditional time division multiplexing ("TDM") connections, and we route that traffic over our network to sellers—local service providers and carriers in the destination countries with whom we have established agreements to manage the completion or termination of calls. Following the closing of the KPN Transaction, approximately half of our traffic utilizes TDM connections, while the balance of traffic is carried over our global VoIP network.

We use proprietary, patent-pending technology in our global VoIP network to automate the selection of routes and termination partners based on a variety of performance, quality, and business metrics. We offer our wholesale Trading service on a wholesale basis to carriers, mobile operators, consumer VoIP companies, telephony resellers and other service providers worldwide. We have call termination agreements with local service providers in more than 100 countries in North America, Europe, Asia, the Middle East, Latin America, Africa and Australia. We seek to expand our market share in our wholesale Trading business by expanding our customer base and by introducing cost-effective international voice solutions for our customers, including complete outsourcing of international operations.

Our Outsourced from KPN business consists of traffic we terminate for KPN and its affiliates for international wholesale voice services and international direct dialing for calls originating or terminating in The Netherlands.

Our Retail business consists of retail prepaid calling cards, which are marketed through distributors primarily to ethnic communities within major metropolitan markets in the United States, and Pingo®, a prepaid calling service that we offer and sell directly to consumers via an eCommerce model. Both can be private-labeled for other service providers. The prepaid calling card business and Pingo leverage our existing international network and have the potential to deliver higher margins than are typically achieved in the wholesale Trading business. In addition, the retail prepaid calling card

business typically has a faster cash collection cycle than the wholesale Trading business. In 2007 we launched PingoBusiness, enhancements that enable businesses to manage multiple Pingo accounts through a single administrative account.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements. The preparation of these financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires us to (i) make judgments, assumptions and estimates that affect the reported amounts of assets, liabilities, revenue and expenses; and (ii) disclose contingent assets and liabilities. A critical accounting estimate is an assumption that could have a material effect on our consolidated financial statements if another, also reasonable, amount were used or a change in the estimates is reasonably likely from period to period. We base our accounting estimates on historical experience and other factors that we consider reasonable under the circumstances. However, actual results may differ from these estimates. To the extent there are material differences between our estimates and the actual results, our future financial condition and results of operations will be affected. The following is a summary of our critical accounting policies and estimates.

Revenue Recognition. For our wholesale Trading business and our Outsourced from KPN business, revenue is derived from the sale of minutes of calling time. We recognize revenue in the period the service is provided, net of estimates for incentive rebates and other allowances. These estimates are based upon contracted terms, historical experience and information currently available to management with respect to business and economic trends. Revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known. In cases where we have to estimate the monthly revenues related to traffic terminated in that month, we record a receivable that is based upon internal traffic reporting which will then be billed and collected in the subsequent months. For our Retail business, revenue is deferred upon activation of the cards, or purchase of our web-based calling services, and is only recognized as the prepaid balances are reduced based upon minute usage and service charges.

Allowance for Doubtful Accounts. We perform ongoing credit evaluations of our customers and adjust credit limits based upon their payment history and current credit worthiness, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers and record a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. We believe that the allowance for doubtful accounts is adequate to cover estimated losses in customer accounts receivable balances under current conditions. However, changes in the allowance for doubtful accounts may be necessary in the event that the financial condition of our customers improves or deteriorates. In addition, changes may be necessary if we adjust credit limits for new customers or change our collection practices. Either of these situations may result in write-off patterns that differ from our experience. We have been able to mitigate our credit risk, in part, by using reciprocal arrangements with customers, who are also our suppliers, to offset our outstanding receivables.

Intangible Assets. Our intangible assets consist of goodwill, which has an indefinite life and is not being amortized, and identifiable intangible assets, consisting of trade name and trade marks, customer relationships, termination partner relationships and technology. The estimated useful life of trade name and trademarks is 15 years and is being amortized on a straight-line basis. The estimated useful life of customer relationships is 10 years for wholesale customers and 5 years for retail distributor relationships, and these intangible assets are being amortized using an economic consumption method to reflect diminishing cash flows from these relationships in the future. The estimated useful life of termination partner relationships is 5 years and is being amortized using an economic consumption

method. The estimated useful life of technology is 5 years and is being amortized on a straight-line basis.

Valuation of Long-lived Assets. Valuation of certain long-lived assets including property and equipment, intangible assets, and goodwill requires significant judgment. Assumptions and estimates are used in determining the fair value of assets acquired and liabilities assumed in a business combination. A significant portion of the purchase price in the KPN Transaction was assigned to intangible assets and goodwill. Assigning value to intangible assets requires that we use significant judgment in determining (i) the fair value; and (ii) whether such intangibles are amortizable or non-amortizable and, if the former, the period and the method by which the intangible assets will be amortized. We utilize commonly accepted valuation techniques, such as the income approach and the cost approach, as appropriate, in establishing the fair value of long-lived assets. Typically, key assumptions include projected revenue and expense levels used in establishing the fair value of business acquisitions as well as discount rates based on an analysis of our weighted average cost of capital, adjusted for specific risks associated with the assets. Changes in the initial assumptions could lead to changes in amortization expense recorded in our future financial statements.

For intangible assets and property and equipment, we assess the carrying value of these assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include but are not limited to the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant negative industry or economic trends; or
- significant changes or developments in strategy or operations which affect our intellectual or tangible properties.

Should we determine that the carrying value of long-lived assets and intangible assets may not be recoverable, we will measure any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in our current business model. Significant judgments are required to estimate future cash flows, including the selection of appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for these assets.

We perform annual reviews for impairment of goodwill or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill may be considered to be impaired if we determine that the carrying value of the reporting unit, including goodwill, exceeds the reporting unit's fair value. Assessing the impairment of goodwill requires us to make assumptions and judgments regarding the fair value of the net assets of our reporting units. We estimate the fair value of our reporting units using a combination of valuation techniques, including discounted cash flows and cash earnings multiples, and compare the values to our estimated overall market capitalization.

Income Taxes. We utilize the liability method of accounting for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("SFAS 109"), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities.

We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we consider all positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial performance. Forming a conclusion that a valuation allowance is not required is difficult when there is negative evidence such as cumulative losses

in recent years. As a result of our cumulative losses in the U.S. and the full utilization of our loss carryback opportunities, we have concluded that a full valuation allowance against our net deferred tax assets is appropriate in such jurisdictions. In addition, we have a valuation allowance related to tax benefits from stock option exercises which will increase equity when recognized, and loss carry forwards acquired in the acquisition of KPN GCS (a reverse acquisition), the recognition of which will reduce goodwill.

In certain other foreign jurisdictions where we do not have cumulative losses, we may record valuation allowances to reduce our net deferred tax assets to the amount we believe is more likely than not to be realized. In the future, if we realize a deferred tax asset that currently carries a valuation allowance, we may record a reduction to income tax expense in the period of such realization.

In July 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109*", ("FIN 48"), which requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. Under FIN 48, tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Prior to 2007 we recorded estimated income tax liabilities to the extent they were probable and could be reasonably estimated.

Judgment is required in determining our income tax provision. In the ordinary course of conducting a global business enterprise, there are many transactions and calculations undertaken whose ultimate tax outcome cannot be certain. Some of these uncertainties arise as a consequence of transactions and arrangements made among related parties, transfer pricing for transactions with our subsidiaries, and potential challenges to nexus and credit estimates. As a multinational corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. Although we believe our judgments are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from what is reflected in our historical income tax provisions, returns and accruals. Such differences, or changes in estimates relating to potential differences, could have a material impact, unfavorable or favorable, on our income tax provision and operating results in the period in which such a determination is made. If we ultimately determine that the payment of a liability will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that an assessment is greater than the recorded liability.

Results of Operations

The following table sets forth for the periods indicated the principal items included in the Consolidated Statements of Operations as percentages of net revenue.

	Year Ended December 31,		
	2007	2006	2005
Net revenue from external parties	79.0%	74.3%	68.4%
Net revenue from related parties	21.0	25.7	31.6
Total net revenue	100.0	100.0	100.0
Costs and operating expenses:			
Data communications and telecommunications costs—external parties	78.1	70.5	67.5
Data communications and telecommunications costs—related parties	12.2	16.5	17.5
Engineering and network operations expenses	1.4	1.1	1.5
Selling, general and administrative expenses	4.1	3.6	4.4
Merger related expenses	0.2	—	—
Depreciation and amortization	1.4	0.7	1.4
Total costs and operating expenses	97.4	92.4	92.3
Income from operations	2.6	7.6	7.7
Interest income	0.2	0.0	0.0
Interest expense	(0.1)	0.0	0.0
Foreign exchange loss	(0.1)	(0.2)	(0.2)
Income before income taxes	2.6	7.4	7.5
Income tax expense	0.9	2.2	2.4
Net income	1.7%	5.2%	5.1%

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Results of operations for the year ended December 31, 2007 includes the results of operations of KPN GCS only for the first nine months of 2007 and the results of the combined company following the closing of KPN Transaction on October 1, 2007, for the fourth quarter of 2007. Results of operations for the year ended December 31, 2006 are the results of operations of KPN GCS only. As a result, revenue and operating expenses for the year ended December 31, 2007 increased substantially.

Net revenue. Our primary source of revenue from external parties are the fees that we charge customers for completing voice and fax calls over our network. We charge our customers fees, per minute of traffic, that are dependent on the length and destination of the call and recognize this revenue in the period in which the call is completed. Revenue from related parties consists of fees that we charge KPN and its affiliates for the traffic they send to us to complete over our network. The fees that we charge KPN and its affiliates are based on the pricing in established service level agreements. Our average revenue per minute ("ARPM") is based upon our total net revenue divided by the number of minutes of traffic over our network for the applicable period. ARPM is a key telecommunications industry financial measurement. We believe this measurement is useful in understanding our financial performance, as well as industry trends. Although the long distance telecommunications industry has been experiencing declining prices in recent years due to the effects of deregulation and increased competition, our average revenue per minute can fluctuate from period to period as a result of shifts in traffic over our network to higher priced, or lower priced, destinations.

Total revenue was \$938.6 million for 2007 compared to \$814.2 million for 2006. Revenue from external parties was \$741.3 million in 2007 compared to \$605.0 million in 2006. The increase in revenue

from external parties reflects a combination of the strengthening of the euro against the US dollar and the inclusion of iBasis revenue of \$143.9 million for the fourth quarter of 2007. As the revenue of KPN GCS is primarily denominated in euros, the stronger euro in 2007 resulted in an increase in revenue from external parties of approximately 8% in U.S. dollars in 2007. Excluding the effect of the stronger euro in 2007 and the inclusion of iBasis revenue for the fourth quarter of 2007, revenue from external parties declined approximately 9% from 2006. The decrease was primarily due to the focus on maximizing margins in 2007, which resulted in a decrease in revenue and minutes from lower margin traffic.

Revenue from related parties in 2007 was \$197.3 million, compared to \$209.2 million in 2006. The lower revenue primarily reflects the pricing in service level agreements established between KPN GCS and KPN in mid 2006, in anticipation of the completion of the KPN Transaction. Prior to these new service level agreements, KPN GCS had more favorable pricing arrangements with KPN.

Minutes of traffic in 2007 were 13.1 billion minutes compared to 9.0 billion minutes for 2006. Excluding the effect of the inclusion of iBasis traffic for the fourth quarter of 2007, minutes of traffic increased by 0.5 billion minutes, or 5%, in 2007 over 2006. Average revenue per minute was 7.18 cents per minute in 2007 compared to 9.02 cents per minute in 2006.

Data communications and telecommunications costs. Data communications and telecommunications costs are composed primarily of termination and circuit costs. Termination costs are paid to local service providers, or to KPN and its affiliates, to terminate voice and fax calls received from our network. Termination costs are negotiated with the local service providers and termination costs for traffic we send to KPN and its affiliates are based primarily on pricing in service level agreements. Circuit costs primarily include fees for connections between our network and our customers and/or service provider partners and charges for Internet access at our Internet Central Offices.

Total data communications and telecommunications costs were \$847.4 million in 2007, compared to \$708.3 million in 2006. Data communications and telecommunications costs from external parties were \$733.2 million in 2007, compared to \$574.0 million in 2006. This increase was primarily due to the effect of the stronger euro, compared to the U.S. dollar, in 2007 on KPN GCS's euro-denominated costs and the inclusion of iBasis costs of \$126.4 million for the fourth quarter of 2007. Data communications and telecommunications costs from related parties were \$114.2 million in 2007, compared to \$134.3 million in 2006. The lower costs from related parties were primarily due to the closing of an interconnection with a KPN affiliate and lower pricing associated with the service level agreements established with KPN for 2007. As a percentage of total net revenue, total data communications and telecommunications costs were 90.3% in 2007 compared to 87.0% in 2006.

Engineering and network operations expenses. Engineering and network operations expenses include the expenses associated with developing, operating and supporting our network and expenses for operating our network operations centers. Also included in this category are engineering expenses incurred in developing, enhancing and supporting our network and our proprietary software applications. Engineering and network operations support of the KPN GCS network are provided by KPN and charged to KPN GCS under a service level agreement.

Engineering and network operations expenses were \$13.2 million for 2007 compared to \$8.9 million for 2006. The higher expenses in 2007 relate to the costs of iBasis' engineering and network operations expenses of \$4.8 million for the fourth quarter of 2007, partially offset by lower charges under the service level agreement between KPN and KGCS in 2007, compared to 2006.

Selling, general and administrative expenses. Selling, general and administrative expenses include salaries, payroll tax and benefit expenses, and other costs for sales and marketing functions and general corporate functions, including executive management, finance, legal, facilities, information technology

and human resources. KPN has historically provided certain corporate functions, including finance, information technology and human resources, and charged KPN GCS for this support under a service level agreement.

Selling, general and administrative expenses were \$38.4 million in 2007, compared to \$29.8 million in 2006. The increase in 2007 primarily reflects the inclusion of the selling, general and administrative costs of iBasis of \$16.9 million for the fourth quarter of 2007. In addition, the stronger euro compared to the U.S. dollar resulted in an increase in the euro-denominated expenses of KPN GCS. These increases were partially offset by lower costs in the 2007 service level agreement for support from KPN. In addition, in the fourth quarter of 2007, we took a charge of \$2.6 million related to retroactive Universal Service fund and other regulatory fees, relating to our prepaid calling service revenue prior to July 2006. This charge resulted from a decision by the U.S. Court of Appeals, in early December 2007, which denied our appeal of the retroactive aspect of a Federal Communications Commission order issued in June 2006.

Merger related expenses. Merger related expenses of \$2.0 million in 2007 primarily relate to costs incurred for the preparation and review of the historical financial statements of KPN GCS in anticipation of the merger with iBasis. These costs have been paid by KPN but are reflected in our results of operations for 2007.

Depreciation and amortization expenses. Depreciation and amortization expenses were \$12.7 million in 2007, compared to \$5.7 million in 2006. Amortization expense in 2007 includes \$3.9 million in amortization of identified intangible assets. These identified intangible assets resulted from the allocation of the purchase price of iBasis to the fair value of iBasis' net assets as of October 1, 2007. Depreciation and amortization expense in 2007 also included a \$1.8 million charge in the fourth quarter of 2007 for the write-off of certain costs previously capitalized by KPN GCS.

Interest income. Interest income was \$1.7 million for 2007, compared to \$0.3 million in 2006. The increase in interest income primarily relates higher average cash balances in 2007.

Interest expense. Interest expense was \$0.7 million in 2007, compared to \$32,000 in 2006. Interest expense in 2007 includes interest of \$0.5 million on bank borrowings of \$25.0 million early in the fourth quarter of 2007 under the our line of credit with Silicon Valley Bank.

Foreign exchange loss, net. Foreign exchange loss, net was \$1.1 million in 2007, compared to \$1.3 million in 2006. These foreign exchange losses are primarily a result of the change in exchange rates between the euro and U.S. dollar on foreign currency contracts.

Income taxes. The income tax provision of \$8.5 million in 2007 and \$17.9 million in 2006 primarily relates to income taxes on the taxable income of The Netherlands operations of KPN GCS. The effective tax rate in 2007 and 2006 was 34.6% and 29.6%, respectively. The higher effective tax rate in 2007 is due to U.S. operating losses for which there is no current tax benefit. The effective tax rate in 2006 approximates the statutory rate in The Netherlands.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Total revenue. Total revenue increased by \$24.1 million, or 3.1%, from \$790.1 million in 2005 to \$814.2 million in 2006. Traffic carried over the KPN GCS network increased by 13.8% from approximately 7.9 billion minutes in 2005 to approximately 9.0 billion minutes in 2006 as a result of continued worldwide growth of KPN GCS' market share in the international voice market. The increase in traffic was offset by a decrease in average revenue per minute of 9.4% from 9.96 cents in 2005 to 9.02 cents in 2006. The decrease was mainly the result of a decrease in mobile termination rates imposed by local regulators in many countries, partially offset by a proportionately higher mix of higher

priced mobile terminating minutes compared to lower priced fixed terminating minutes, and also the termination of minutes in exotic destinations where regulated tariffs are not yet effective.

In 2005, KPN GCS implemented a twofold strategy to increase its market share in the international voice market. In conjunction with this strategy, KPN GCS opened new sales offices in emerging markets such as Africa, Asia and the Middle East and was therefore able to obtain new wholesale customers and suppliers. This strategy was called the "Regional Approach". In addition KPN GCS developed a new product portfolio for the mobile market, called the "Mobile Matrix", which consisted of a comprehensive set of value added services such as SMS-interworking, MMS-interworking and 3G Video gateway.

Net revenue-external parties increased by 11.9% from \$540.6 million in 2005 to \$605.0 million in 2006. In 2006, KPN GCS continued the Regional Approach strategy it implemented in 2005, and also established additional direct interconnection with mobile networks in Europe which created a competitive advantage as it eliminated its use of third party operators for call termination. In addition, KPN GCS also expanded its sales force to increase the focus on its main markets in the United States and Western Europe. As a result of these efforts, KPN GCS terminated more minutes at mobile networks during 2006, which is higher priced traffic, and less at fixed networks. The increase of mobile volume more than offset the decrease in mobile termination rates imposed by local regulators in many countries. Due to this strategy, KPN GCS was able to maintain its top line revenue growth from external parties.

Net revenue-related parties decreased by 16.2% from \$249.5 million in 2005 to \$209.2 million in 2006. The decrease of net revenue-related parties in 2006 compared to 2005 was caused by a change in the service level agreement with KPN (regarding the KPN fixed retail traffic) partly offset by substantial growth of mobile traffic coming from internal mobile operators. In 2005, the market share of traffic coming from the KPN Mobile Group (KPN Mobile, E-Plus and BASE) increased significantly due to the internal decision of routing nearly all international calls through KPN GCS.

Data communications and telecommunications costs. The total increase in data communications and telecommunications costs was primarily driven by the growth in external revenue. Total costs increased by 5.0% from \$671.6 million in 2005 to \$708.3 million in 2006. The main driver of the increase in total costs was the increase in mobile volume due to KPN GCS' increased market share in premium mobile minutes and overall mobile market growth, partially offset by lower mobile termination rates imposed by local regulators in many countries.

Data communications and telecommunication costs -external parties increased by 7.7% from \$533.1 million in 2005 to \$574.0 million in 2006, primarily due to a 15.5% increase in volume (both fixed and mobile) from external parties and the termination of relatively more mobile minutes which have higher associated costs.

Data communications and telecommunication costs-related parties decreased by 3.0% from \$138.6 million in 2005 to \$134.3 million in 2006. The decrease in these costs was mainly caused by lower mobile termination rates imposed by local regulators in The Netherlands and Germany as well as a service level agreement adjustment in 2006 between KPN GCS and KPN which lowered prices for National and International transmission.

Engineering and network operations expenses. Engineering and network operations expenses were \$8.9 million for 2006 compared to \$11.4 million for 2005. The decrease was primarily due to lower costs associated with the new service level agreements between KPN GCS and KPN becoming effective from June 19, 2006.

Selling, general and administrative expenses. Selling, general and administrative expenses decreased by 13.5% from \$34.5 million in 2005 to \$29.8 million in 2006. The decrease was primarily due to lower

costs associated with the new service level agreements between KPN GCS and KPN becoming effective from June 19, 2006.

Depreciation and amortization. Depreciation and amortization decreased from \$11.4 million in 2005 to \$5.7 million in 2006 as a result of a lower asset base due to retirements that occurred during 2006.

Interest income. Interest income in 2006 was \$269,000 compared to \$94,000 in 2005. The increase is due to the fact that from April 1, 2006, KPN GCS entered into a financial current account with Royal KPN, which was utilized as a clearing account to settle inter company balances and bore interest at a rate of 2%.

Interest expense. Interest expense decreased from \$201,000 in 2005 to \$32,000 in 2006. The decrease relates to the payment of the last installment of a note payable to an affiliate in early 2006 which yielded interest at LIBOR plus 5%.

Foreign exchange loss. Foreign exchange loss on foreign currency contracts decreased from \$1.5 million in 2005 to \$1.3 million in 2006. The loss was primarily due to the changes in exchange rates (US dollar versus euro) during these periods.

Income tax expense. The 2006 income tax expense was \$17.9 million compared to \$18.8 million in 2005, with the effective tax rate being 29.6% in 2006 compared to 31.6% in 2005, which does not materially differ from the Dutch statutory tax rate for such years.

Liquidity and Capital Resources

Prior to October 1, 2007, KPN GCS operated from inception as an integrated part of KPN and within the KPN infrastructure. KPN uses a centralized approach to cash management and financing of its operations. Historically, cash was remitted to KPN on a regular basis and cash disbursements were funded from KPN cash accounts on behalf of KPN GCS. Cash remittances to KPN, net of disbursements by KPN on behalf of KPN GCS, are reflected as net distributions to related parties in the Consolidated Statements of Stockholders' Equity.

Cash flows from operating activities of \$58.1 million in 2007 was primarily the result of net income of \$16.1 million, non-cash charges of \$13.2 million, primarily depreciation and amortization, and changes in other assets and liabilities of \$28.8 million. Changes in other assets and liabilities included a decline in accounts receivable—external parties of \$22.7 million and in accounts receivable—related parties of \$33.8 million, partially offset by a decline in accounts payable of \$32.2 million.

Cash flows from operating activities in 2006 of \$32.5 million was the result of net income of \$42.5 million, non-cash charges of \$5.7 million for depreciation and amortization, and changes in other assets and liabilities of \$(15.7) million. Changes in other assets and liabilities in 2006 included an increase in accounts receivable—related parties of \$25.1 million and a decrease in accounts payable of \$43.6 million, partially offset by a decrease in accounts receivable—external parties of \$37.0 million.

Cash flows from operating activities in 2005 of \$53.1 million was the result of net income of \$40.6 million, non-cash charges of \$11.4 million for depreciation and amortization, and changes in other assets and liabilities of \$1.0 million. Changes in other assets and liabilities include a decrease in accounts receivable—external parties of \$11.4 million and a decrease in accounts receivable—related parties of \$3.5 million, partially offset by a decrease in accounts payable of \$7.3 million and a decrease in accrued expenses of \$6.0 million.

Cash flows from investing activities in 2007 of \$42.1 million included the acquisition of \$54.7 million of existing cash and cash equivalents of iBasis on the date of the closing of the KPN Transaction. Additions to property and equipment were \$9.6 million in 2007 and an increase of \$5.0 million in other assets relates to other investing activities. Cash used in investing activities in 2006 of \$3.9 million and in 2005 of \$4.8 million relate to additions to property and equipment.

Cash used in financing activities in 2007 was \$61.1 million and included \$55.0 million paid by KPN as partial consideration for the acquisition of 51% of the outstanding shares of iBasis on October 1, 2007. In early October, following the completion of the KPN Transaction, we paid a \$113.0 million dividend to iBasis shareholders of record immediately preceding the closing of the KPN Transaction. In addition, we paid \$0.5 million in dividends to warrant holders who exercised their warrants during the fourth quarter of 2007. Net distributions to KPN in 2007 were \$27.8 million. In the fourth quarter of 2007, we borrowed \$25.0 million under our second amended and restated loan and security agreement with Silicon Valley Bank. Proceeds from exercises of stock options and warrants were \$0.5 million in 2007 and payments of capital lease obligations were \$0.4 million.

Cash used in financing activities in 2006 was \$28.8 million and consisted of net distributions to KPN of \$27.8 million and payment of a note payable to a KPN affiliate of \$1.0 million. Cash used in financing activities in 2005 was \$54.7 million and consisted of net distributions to KPN of \$53.1 million and payment of a note payable to a KPN affiliate of \$1.6 million.

In accordance with the Share Purchase Agreement for the KPN Transaction, a post-closing adjustment was required if (i) iBasis' working capital was lower than or exceeded \$37,100,000; (ii) iBasis' debt exceeded or was lower than \$2,900,000; (iii) the combined working capital of KPN GCS was lower than or exceeded (\$6,100,000); and/or (iv) the combined debt of KPN GCS exceeded \$0, as of the date of the closing of the KPN Transaction. Based on iBasis's balance sheet position on the date of the closing of the KPN Transaction, working capital was \$13,353,000 less than the specified level of \$37,100,000, and debt was \$1,776,000 less than the specified level of \$2,900,000. As a result, a payment of \$11,577,000 is due to KPN from iBasis. Based on KPN GCS's balance sheet position on the date of the closing of the KPN Transaction, working capital exceeded the specified level of (\$6,100,000) by \$3,945,000 and debt was at the specified level of \$0. As a result, a payment of \$3,945,000 is due to KPN from iBasis. The total post-closing adjustment of \$15,522,000 due to KPN will be paid by iBasis in three successive quarterly installments beginning in the first quarter of 2008 and is included in accounts payable—related parties as of December 31, 2007.

On October 2, 2007, we entered into a Second Amended and Restated Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank, which amended and restated a certain Amended and Restated Loan and Security Agreement dated as of December 29, 2003. We entered into the Loan Agreement to obtain funding for working capital purposes and in support of the KPN Transaction. Pursuant to the Loan Agreement, we may borrow up to \$35.0 million from time to time under a secured revolving credit facility for a two-year period. Borrowings under the line of credit will be on a formula basis, based on eligible domestic and foreign accounts receivable. The line of credit contains quarterly financial covenants, consisting primarily of minimum profitability and minimum liquidity requirements. Interest on borrowings under the line of credit will be based, in part, on our quarterly profitability, with the maximum interest rate being the bank's prime rate, plus 0.5%, or LIBOR, plus 2.75%. The line of credit has a quarterly commitment fee of 0.63% on any unused portion of the line of credit and an up-front, one-time facility fee of 0.75%, or \$263,000. The revolving credit facility is also guaranteed by all our domestic wholly-owned subsidiaries. The revolving credit facility is collateralized by a first priority lien and security interest on the assets of iBasis and such guarantors. In addition, iBasis has pledged 66.2% of all its ownership in KPN Global Carrier Services B.V., a wholly-owned subsidiary based in The Netherlands, as collateral for the revolving credit facility. Pursuant to the terms of the Loan Agreement, we may use the proceeds solely as (i) working

capital, (ii) to fund its general business requirements, and (iii) to fund the dividend paid by us in connection with the KPN Transaction.

Subsequent to December 31, 2007, we signed a non-binding term sheet with Silicon Valley Bank to initiate the process of amending the Loan Agreement to expand our borrowing capability from \$35.0 million to \$50.0 million.

At December 31, 2007, we had \$25.0 million in borrowings outstanding and had issued outstanding standby letters of credit of \$2.9 million under the Loan Agreement.

We anticipate that the December 31, 2007 balance of \$65.7 million in cash, cash equivalents and short-term investments, together with expected net cash flow generated from operations and bank borrowing availability, will be sufficient to fund our operations and capital asset expenditures for the next twelve months. We expect capital asset expenditures to be between \$30 million and \$35 million in 2008.

Off-Balance Sheet Arrangements

Under accounting principles generally accepted in the U.S., certain obligations and commitments are not required to be included in the consolidated balance sheets and statements of operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on liquidity. We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Contractual Obligations

The following table summarizes our future contractual obligations as of December 31, 2007:

	Payment Due Dates					
	Total	Less than 1 Year	1 to 2 Years	2 to 3 Years	3 to 5 Years	After 5 Years
	(In thousands)					
Bank borrowings	\$ 25,000	\$ —	\$ 25,000	\$ —	\$ —	\$ —
Interest on bank borrowings(1)	3,279	1,874	1,405	—	—	—
Capital lease obligations	795	795	—	—	—	—
Operating leases	8,166	2,898	1,916	867	675	1,810
Purchase commitments for termination of minutes	17,569	17,569	—	—	—	—
Total	\$ 54,809	\$ 23,136	\$ 28,321	\$ 867	\$ 675	\$ 1,810

- (1) Interest payment amounts on bank borrowings are projected using market rates as of December 31, 2007. Future interest payments may differ from these projections based on changes in market interest rates.

We adopted FIN 48 as of January 1, 2007. As of December 31, 2007, the total amount of net unrecognized tax benefits for uncertain tax positions and the accrual for the related interest was \$0.5 million. We are unable to make a reasonably reliable estimate of when cash settlement, if any, will occur with a tax authority as the timing of examinations and ultimate resolution of those examinations is uncertain.

As of December 31, 2007, we did not have any material purchase obligations, or other material long-term commitments reflected on our consolidated balance sheet.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "*Fair Value Measurements*", (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. However, in January 2008, the FASB issued FASB Staff Position FAS 157-b, "*Effective Date of FASB Statement No. 157*" (FSP FAS 157-b). This FSP permits entities to elect to defer the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We have elected to defer the adoption of SFAS No. 157 for those assets and liabilities included in FSP FAS 157-b. We do not expect the adoption of SFAS No. 157 to have a material impact on our financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*", (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS No. 159 will have a material impact on our financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS 141R"), "*Business Combinations*" and SFAS No. 160 ("SFAS 160"), "*Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51*." SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interest and classified as a component of equity. SFAS 141R and SFAS 160 are effective beginning the first fiscal quarter of 2009. Early adoption is not permitted. We are still evaluating what impact the adoption of either SFAS 141R or SFAS 160 will have on our statements of financial position, results of operations and cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is related to interest rates and foreign currency exchange rates. We are exposed to foreign currency risk which can create volatility in earnings and cash flows from period to period. Historically, KPN GCS sought to economically hedge a portion of its foreign currency risk arising from foreign exchange receivables and foreign currency-denominated forecasted transactions. Foreign exchange contracts were used to fix or protect the exchange rate to be used for foreign currency-denominated transactions. Hedge accounting was not applied in the historical financial statements of KPN GCS. We do not currently engage in trading market risk sensitive instruments or purchasing hedging instruments, whether interest rate, foreign currency exchange, commodity price or equity price risk and have not purchased options or entered into swaps or forward or futures contracts.

Our revenues are primarily denominated in U.S. dollars or euros. Thus, we are exposed to foreign currency exchange rate fluctuations as the financial results and balances of our foreign entities are translated into U.S. dollars. As exchange rates vary, these results, when translated, may vary from expectations and may adversely impact our results of operations and financial condition. For example, if the dollar weakens relative to the euro, our euro denominated revenues and expenses would increase

when stated in U.S. dollars. Conversely, if the U.S. dollar strengthens relative to the euro, our euro denominated revenues and expenses would decrease.

Our short-term marketable securities are subject to interest rate risk, but due to the short-term nature of these investments, interest rates would not have a material impact on their value at December 31, 2007. Our primary interest rate risk is the risk on borrowings under our bank line of credit, which is subject to interest rates based on the bank's prime rate or LIBOR, plus margin. We had \$25.0 million in borrowings under our bank line of credit at December 31, 2007. A change in the applicable interest rates would also affect the rate at which we could borrow funds or finance equipment purchases. Our capital lease obligations are fixed rate debt.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of iBasis, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of iBasis, Inc. and its subsidiaries at December 31, 2007 and the results of their operations and their cash flows for the year in the period ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express an opinion on these consolidated financial statements, and on the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Notes 1 and 15 to the consolidated financial statements, the Company has entered into significant transactions with Royal KPN N.V. (parent company), a related party.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded KPN GCS from its assessment of internal control over financial reporting as of December 31, 2007 because it was acquired in a purchase business combination that was accounted for as a reverse acquisition of the Company during 2007. We have also excluded the operations of KPN

GCS from our audit of internal control over financial reporting. KPN GCS' total assets and total revenues represent 30% and 85%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2007.

/s/ PricewaterhouseCoopers LLP
Boston, Massachusetts
March 14, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of iBasis, Inc.

In our opinion, the accompanying combined balance sheet and the related combined statements of operations, of stockholders equity and of cash flows present fairly, in all material respects, the financial position of KPN GCS (predecessor to iBasis, Inc.) and its subsidiaries, at December 31, 2006, and the results of their operations and their cash flows for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 1 and 15 to the consolidated financial statements, the Company has entered into significant transactions with Royal KPN N.V. (the parent company), a related party.

June 19, 2007, except for Note 2 "Net income per share" and Note 18 "Foreign currency translation", as to which the date is March 14, 2008.

PricewaterhouseCoopers Accountants N.V.

/s/ H.C. WÜST RA

H.C. Wüst RA

iBasis, Inc.
Consolidated Balance Sheets

December 31,

2007

2006

(In thousands, except per share data)

Assets

Current assets:

Cash and cash equivalents	\$ 63,735	\$ 22,411
Short-term marketable securities	1,999	—
Accounts receivable and unbilled revenue—external parties, net of allowance for doubtful accounts of \$12,924 and \$12,862, respectively	204,883	162,411
Accounts receivable—related parties	—	33,807
Prepaid expenses and other current assets	4,687	2,668
Total current assets	275,304	221,297

Property and equipment, net

Property and equipment, net	34,966	10,946
Other assets	7,008	1,026
Intangible assets, net	93,800	—
Goodwill	248,795	—

Total assets	\$ 659,873	\$ 233,269
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Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable—external parties	\$ 135,060	\$ 119,348
Accounts payable—related parties	11,839	—
Accrued expenses	136,903	88,982
Deferred revenue	11,503	—
Current portion of long-term debt	755	—
Total current liabilities	296,060	208,330

Long-term debt, net of current portion

Long-term debt, net of current portion	25,000	—
Deferred income taxes	2,942	—
Other long-term liabilities	1,381	961

Commitments and contingencies (Note 14)

Stockholders' equity

Preferred stock, \$0.001 par value, authorized—15,000 shares; issued and outstanding; none	—	—
Common stock, \$0.001 par value, authorized—170,000 shares; issued—75,912 shares and 0 shares, respectively; outstanding—74,843 shares and 0 shares, respectively	76	—
Treasury stock, 1,069 and 0 shares, respectively, at cost	—	—
Additional paid-in capital	333,278	—
Accumulated other comprehensive income	3,155	899
Contributed capital/retained earnings (accumulated deficit)	(2,019)	23,079
Total stockholders' equity	334,490	23,978

Total liabilities and stockholders' equity	\$	659,873	\$	233,269
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The accompanying notes are an integral part of these consolidated financial statements.

iBasis, Inc.

Consolidated Statements of Operations

Years Ended December 31,

	2007	2006	2005
Net revenue from external parties	\$ 741,293	\$ 605,031	\$ 540,574
Net revenue from related parties	197,265	209,158	249,502
Total net revenue	938,558	814,189	790,076
Costs and operating expenses:			
Data communications and telecommunications costs—external parties (excluding depreciation and amortization)	733,160	573,966	533,055
Data communications and telecommunications costs—related parties (excluding depreciation and amortization)	114,242	134,347	138,584
Engineering and network operations expenses	13,222	8,895	11,438
Selling, general and administrative expenses	38,368	29,812	34,468
Merger related expenses	2,019	—	—
Depreciation and amortization	12,743	5,693	11,415
Total costs and operating expenses	913,754	752,713	728,960
Income from operations	24,804	61,476	61,116
Interest income	1,680	269	94
Interest expense	(731)	(32)	(201)
Foreign exchange loss	(1,101)	(1,339)	(1,545)
Income before income taxes	24,652	60,374	59,464
Income tax expense	8,529	17,884	18,848
Net income	\$ 16,123	\$ 42,490	\$ 40,616
Net income per share:			
Basic	\$ 0.33	\$ 1.06	\$ 1.01
Diluted	\$ 0.33	\$ 1.06	\$ 1.01
Weighted average common shares outstanding			
Basic	48,778	40,121	40,121
Diluted	49,186	40,121	40,121

(In thousands, except per share data)

The accompanying notes are an integral part of these consolidated financial statements.

iBasis, Inc.

Consolidated Statements of Stockholders' Equity

	Common Stock		Treasury Stock					
	Number of Shares	\$0.001 Par Value	Number of Shares	Amount	Additional Paid-In Capital	Contributed Capital/Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
						</		

2007					(2,019)		(2,019)
Foreign currency translation adjustments						2,250	2,250
Unrealized gain on short-term marketable securities						6	6
Comprehensive income							237
Balance, December 31, 2007	75,912	\$ 76	(1,069)	\$ —	333,278	\$ (2,019)	3,155 \$ 334,490

The accompanying notes are an integral part of these consolidated financial statements.

iBasis, Inc.

Consolidated Statements of Cash Flows

	Years ended December 31,		
	2007	2006	2005
	(In thousands)		
Cash flows from operating activities:	\$ 16,123	\$ 42,490	\$ 40,615
Net income			
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,743	5,693	11,415
Stock-based compensation	501	65	43
Changes in assets and liabilities, excluding the effect of acquisitions:			
Accounts receivable and unbilled revenue—external parties	22,736	36,962	11,353
Accounts receivable—related parties	33,807	(25,058)	3,513
Prepaid expenses and other current assets	2,944	1,343	(591)
Other assets	(462)	—	—
Accounts payable—external parties	(32,206)	(43,627)	(7,276)
Accounts payable—related parties	(926)	—	—
Deferred revenue	172	—	—
Accrued expenses	3,475	14,682	(5,954)
Deferred income taxes	(614)	—	—
Other long-term liabilities	(207)	—	—
Net cash provided by operating activities	58,086	32,550	53,118
Cash flows from investing activities:			
Cash and cash equivalents of iBasis on October 1, 2007 acquired in KPN Transaction	54,711	—	—
Purchases of property and equipment	(9,605)	(3,854)	(4,753)
Maturities of available-for-sale short-term marketable investments	1,994	—	—
Increase in other long-term assets	(5,000)	—	—
Net cash provided by (used in) investing activities	42,100	(3,854)	(4,753)
Cash flows from financing activities:			
Payment from KPN related to KPN Transaction	55,000	—	—
Dividend payment to iBasis shareholders	(113,000)	—	—
Dividend payment related to warrant exercises	(468)	—	—
Bank borrowings	25,000	—	—
Payments of principal on capital lease obligations	(369)	—	—
Net distributions to related party	(27,799)	(27,893)	(53,178)
Payments on note payable to affiliate	—	(1,016)	(1,585)
Proceeds from exercise of warrants	195	—	—
Proceeds from exercise of common stock options	323	—	—
Net cash used in financing activities	(61,118)	(28,909)	(54,763)
Effect of changes in exchange rates on cash and cash equivalents	2,256	1,994	(2,875)
Net increase (decrease) in cash and cash equivalents	41,324	1,781	(9,273)
Cash and cash equivalents, beginning of year	22,411	20,630	29,903
Cash and cash equivalents, end of year	\$ 63,735	\$ 22,411	\$ 20,630

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	\$	731	\$	32	\$	201
Cash paid during the year for income taxes	\$	14,608	\$	281	\$	611
Shares issued in KPN Transaction	\$	376,675	\$	—	\$	—
Exercise of warrants on a net basis	\$	760	\$	—	\$	—

The accompanying notes are an integral part of these consolidated financial statements.

iBasis, Inc.

Notes to Consolidated Financial Statements

(1) Business

Transaction with KPN B.V., a subsidiary of Royal KPN N.V.

On October 1, 2007, iBasis, Inc. ("iBasis," the "Company," "we" and "our") and KPN B.V. ("KPN"), a subsidiary of Royal KPN N.V. ("Royal KPN"), completed transactions ("KPN Transaction") pursuant to which iBasis issued 40,121,074 shares of its common stock to KPN and acquired the outstanding shares of two subsidiaries of KPN ("KPN GCS"), which encompassed KPN's international wholesale voice business. The Company also received \$55 million in cash from KPN, subject to post-closing adjustments based on the working capital and debt of iBasis and KPN GCS. Immediately after issuance on October 1, 2007, the shares of iBasis common stock issued to KPN represented 51% of the issued and outstanding shares of iBasis common stock on a fully-diluted basis (which included all of the issued and outstanding common stock and the common stock underlying outstanding "in-the-money" stock options, as adjusted, and warrants to purchase common stock).

On October 8, 2007, iBasis paid a dividend in the amount of \$113 million at a rate of \$3.28 per share to each of its shareholders on the record date of September 28, 2007, the trading date immediately prior to the closing date of the KPN Transaction. In addition, holders of outstanding warrants to purchase our common stock will be entitled to receive a cash payment upon the future exercise of these warrants equal to the dividend amount that would have been payable if the warrants had been exercised immediately prior to the record date of the dividend. As of December 31, 2007, iBasis had warrants outstanding to purchase 531,000 shares of its common stock. In connection with the payment of the dividend to shareholders, we also increased the number of shares subject to unexercised stock options and decreased the exercise price of these stock option grants to preserve their value. (See Note 4 to the Notes to Consolidated Financial Statements for further information regarding the adjustment to outstanding stock options.)

The officers of iBasis immediately prior to the closing of the KPN Transaction have continued to serve as the officers of the combined company and one executive of KPN GCS, Mr. Edwin Van Ierland, was appointed as the Company's Senior Vice President Worldwide Sales. Upon closing of the KPN Transaction, Messrs. Charles Skibo and David Lee, two independent members of iBasis's board of directors, resigned as members of the board of directors and the board of directors of iBasis appointed Messrs. Eelco Blok and Joost Farwerck, two executives of Royal KPN N.V., as directors to fill the vacancies created by the resignations of Messrs. Skibo and Lee.

Although iBasis acquired all of the outstanding capital stock of KPN GCS, after the closing of the transaction, KPN holds a majority of the outstanding common stock of iBasis and KPN's designees are expected to represent, at a future date, a majority of the Company's board of directors. Accordingly, for accounting and financial statement purposes, the KPN Transaction has been treated as a reverse acquisition of iBasis by KPN GCS under the purchase method of accounting and the financial results of KPN GCS have become the historical financial results of the combined company and replace the historical financial results of iBasis as a stand-alone company. Thus, the financial results reported for the full year 2007 include the results of KPN GCS alone for the first nine months of 2007 and the financial results of the combined company for the fourth quarter of 2007 only.

The presentation of the Statement of Stockholders' Equity reflects the historical stockholders' equity of KPN GCS through September 30, 2007. The effect of the issuance of shares of iBasis common stock to KPN and the inclusion of iBasis's stockholders' equity as a result of the closing of the KPN Transaction on October 1, 2007 is reflected in the year ended December 31, 2007.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(1) Business (Continued)

Prior to October 1, 2007, KPN GCS operated as an integrated part of KPN since inception and the historical financial statements of KPN GCS have been derived from the accounting records of KPN using the historical basis of assets and liabilities. As a result, KPN GCS did not operate as a stand-alone business and the historical combined financial statements may not necessarily be representative of amounts that would have been reflected in the financial statements presented had KPN GCS operated independently of KPN.

KPN GCS benefited from certain related party revenue and purchase agreements with KPN that included sales prices per minute and costs per minute. KPN GCS also relied on KPN for a substantial part of its operational and administrative support, for which it was allocated costs primarily consisting of selling, general and administrative expenses, such as costs for centralized research, legal, human resources, payroll, accounting, employee benefits, real estate, insurance, information technology, telecommunications, treasury and other corporate and infrastructure costs. In anticipation of the closing of the transaction with iBasis, KPN GCS entered into a Framework Services Agreement with KPN in 2006, which replaced the revenue and purchase agreements and operational and administrative support arrangements described above.

Business

We are a leading wholesale carrier of international long distance telephone calls and a provider of retail prepaid calling services and enhanced services for mobile operators.

Our operations consist of our wholesale Trading business ("Trading"), revenue from traffic we terminate for KPN and its affiliates ("Outsourced from KPN"), and our retail services business ("Retail"). In the Wholesale Trading business we receive voice and fax traffic from buyers—originating carriers who are interconnected to either the iBasis VoIP network or the KPN GCS' fixed line network, and we route that traffic to sellers—local carriers in the destination countries with whom we have established agreements to manage the completion or termination of the call. For customers interconnected to our VoIP network, we route these calls over the Internet to local carriers in the destination countries. Our VoIP network uses proprietary, patent-pending technology to automate the selection of routes and termination partners based on a variety of performance, quality, and business metrics. We have call termination agreements with local service providers in North America, Europe, Asia, the Middle East, Latin America, Africa and Australia. Our Outsourced from KPN business consists of traffic we terminate for KPN and its affiliates for international wholesale voice services and international direct dialing for calls originating or terminating in The Netherlands. Our Retail business consists of retail prepaid calling cards which are marketed through distributors primarily to ethnic communities within major metropolitan markets in the U.S., and our prepaid calling service, Pingo^R, offered directly to consumers and businesses through an Internet website on a prepaid basis.

(2) Summary of Significant Accounting Policies

Principles of Consolidation—The accompanying consolidated financial statements as of and for the year ended December 31, 2007 include the accounts of KPN GCS for the full year and the accounts of iBasis, Inc. since October 1, 2007. All intercompany balances and transactions between KPN GCS and iBasis since October 1, 2007 have been eliminated in consolidation.

The consolidated financial statements as of December 31, 2006 and for the years ended December 31, 2006 and 2005 are the combined accounts of KPN GCS, which include KPN Global

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

Carrier Services B.V., a Netherlands company, and KPN INS, Inc., a Delaware corporation, both of which were wholly-owned by KPN prior to October 1, 2007. All significant intercompany balances and transactions within these combined entities have been eliminated.

Intercompany balances and transactions with KPN and its other subsidiaries ("related parties" or "affiliates") have not been eliminated, but are presented herein as balances and transactions with related parties or affiliates.

Use of Estimates—The preparation of these financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires us to (i) make judgments, assumptions and estimates that affect the reported amounts of assets, liabilities, revenue and expenses; and (ii) disclose contingent assets and liabilities. A critical accounting estimate is an assumption that could have a material effect on our consolidated financial statements if another, also reasonable, amount were used or a change in the estimates is reasonably likely from period to period. We base our accounting estimates on historical experience and other factors that we consider reasonable under the circumstances. However, actual results may differ from these estimates. To the extent there are material differences between our estimates and the actual results, our future financial condition and results of operations will be affected.

Foreign Currency Translation and Transactions—The functional currency of KPN GCS is the euro. For the purposes of presenting the consolidated financial statements, the functional currency of KPN GCS has been converted into U.S. dollars for balance sheet accounts using the exchange rate in effect on the balance sheet date. Revenue and expenses are translated into U.S. dollars at the weighted average exchange rates in effect during the period. The effect of these translation adjustments are reported within Accumulated Other Comprehensive Income, a component of stockholders' equity. Transactions in foreign currency are recorded at the original rates of exchange in force at the time the transactions are effected. Exchange differences arising on (i) settlement of transactions and (ii) translation of such transactions, given that no settlement has occurred, are recognized in results of operations.

We have, in the past, entered into foreign currency forward contracts to manage foreign currency exposures related to sales to foreign customers. We do not have designated hedges in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", and accordingly, any unrealized gains and losses are recorded in the Consolidated Statements of Operations and in the Consolidated Balance Sheets within Prepaid expenses and other current assets or Accrued expenses and other current liabilities.

Other Comprehensive Income (Loss)—Other comprehensive income (loss) primarily relates to foreign currency translation adjustments from entities with functional currencies other than the U.S. dollar. Components of other comprehensive income (loss) are included within the Consolidated Statements of Stockholders' Equity

Cash and Cash Equivalents—Cash and cash equivalents consist of all highly liquid investments that are readily convertible into cash and have original maturities of three months or less. Cash equivalents include money market accounts and commercial paper.

Short-term Marketable Securities—Short-term marketable securities at December 31, 2007 are classified as available-for-sale and carried at fair value and consist of corporate bonds, with original

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

maturities at the date of acquisition ranging from 90 days to one year. As of December 31, 2007, the unrealized gain of \$6,000 on our short-term marketable securities is a component of other comprehensive income (loss).

Accounts Receivable and Unbilled Revenue—Accounts receivable and unbilled revenue are stated at face value, less an allowance for doubtful accounts. Collectibility of accounts receivable is reviewed regularly and is based upon our knowledge of customers and compliance with credit terms. The allowance for doubtful accounts is adjusted based on such evaluation, with a corresponding charge included in selling, general and administrative expense. Accounts receivable and their related allowance balances are written-off when we deem them uncollectible.

Property and Equipment—Property and equipment are stated at cost less accumulated depreciation and any recognized impairment loss. Additions and improvements that extend the useful life of an asset are capitalized; maintenance and repairs are expensed as incurred. When assets are retired or disposed of, the assets and related accumulated depreciation are removed from the balance sheet and the resulting gain or loss, if any, is reflected in the Consolidated Statements of Operations. In accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1), costs associated with the internally developed software are capitalized when both the preliminary project stage is completed and management has authorized further funding for the project which it deems probable of being completed. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended use.

The cost of property and equipment is depreciated using the straight-line method over the following estimated useful lives of the respective assets:

Asset Classification	Estimated Useful Life
Network equipment	3—7 years
Software	3 years
Leasehold improvements	Lesser of Useful Life or Lease Term
Other tangible fixed assets	3—7 years

Goodwill and Other Intangible Assets—Intangible assets consist of goodwill, which has an indefinite life and is not being amortized, and identifiable intangible assets, consisting of tradename and trade marks, customer relationships, termination partner relationships and technology.

Identifiable intangible assets are being amortized using either the straight-line method or economic consumption method over the following estimated useful lives:

Intangible Asset	Amortization Method	Estimated Useful Life
Trade name and trademarks	Straight-line	15 years
Customer relationships	Economic consumption	5—10 years
Termination partner relationships	Economic consumption	5 years
Technology	Straight-line	5 years

Impairment of Property and Equipment and Intangible Assets—In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", we review the value of our property and equipment and intangible assets for impairment whenever events or changes in circumstances

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

indicate that the carrying amount of the assets may not be fully recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to the future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Revenue Recognition—In accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 104, "Revenue Recognition" (SAB 104), we recognize revenue when it is realized or realizable and earned. We consider revenue realized or realizable and earned when there is persuasive evidence of an arrangement, delivery has occurred or the service has been provided, the sales price is fixed or determinable and collectibility is reasonably assured.

For our wholesale Trading business and Outsourced from KPN business, traffic fees are charged at an agreed price for a fixed duration of time or capacity and are recognized as revenue based upon usage of our network and facilities. Estimates for incentive rebates and other allowances are recorded as a reduction of revenues in the period the related revenues are recorded. These estimates are based upon contracted terms, historical experience and information currently available to management with respect to business and economic trends. Revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

For our Retail business, revenue is deferred upon activation of the prepaid calling cards, or purchase of our web-based calling services, and is recognized as the prepaid balances are reduced based upon minute usage and service charges.

Concentration of Credit Risk and Significant Customers—Financial instruments that potentially subject us to significant concentrations of credit risk are primarily cash equivalents, short-term marketable securities and accounts receivable. No external customers represented 10% or more of our total accounts receivable or net revenues for the periods presented. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising our customer base and their dispersion across different industries and geographies.

Fair Value of Financial Instruments—Financial instruments consist principally of cash and cash equivalents, short-term marketable securities, accounts receivable, accounts payable, accrued expenses and long-term debt. The estimated fair value of these instruments approximates their carrying value.

Stock-based Compensation—We account for equity awards to our employees under the provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment," which requires us to record compensation expense related to the fair value of our stock-based compensation awards.

Income Taxes—We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." This statement requires an asset and liability approach to accounting for income taxes based upon the future expected values of the related assets and liabilities. Deferred income taxes are provided for tax and financial reporting basis differences between assets and liabilities at tax rates expected to be in effect when the basis differences reverse. Valuation allowances are provided in situations where recoverability of deferred tax assets is not considered more likely than not.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

Net Income Per Share—Basic and diluted net income per common share is determined by dividing net income by the weighted average common shares and common equivalent shares outstanding during the period. For 2007, as KPN GCS was wholly-owned by KPN prior to October 1, 2007, basic weighted average shares outstanding was based on the 40.1 million shares issued by iBasis to KPN on the closing of the KPN Transaction for the first nine months of 2007, and the total weighted average shares outstanding of the Company of 74.7 million shares for the fourth quarter of 2007. Diluted weighted average shares for 2007 includes the dilutive effect of iBasis outstanding stock options and warrants for the fourth quarter of 2007 only. For 2006 and 2005, basic and diluted weighted average shares represent the 40.1 million shares issued by iBasis to KPN.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. However, in January 2008, the FASB issued FASB Staff Position FAS 157-b, *Effective Date of FASB Statement No. 157* (FSP FAS 157-b). This FSP permits entities to elect to defer the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We have elected to defer the adoption of SFAS No. 157 for those assets and liabilities included in FSP FAS 157-b. We do not expect the adoption of SFAS No. 157 to have a material impact on our financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS No. 159 will have a material impact on our financial position, results of operations and cash flows.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS 141R"), *Business Combinations* and SFAS No. 160 ("SFAS 160"), *Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51*. SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interest and classified as a component of equity. SFAS 141R and SFAS 160 are effective beginning the first fiscal quarter of 2009. Early adoption is not permitted. We are still evaluating what impact the adoption of either SFAS 141R or SFAS 160 will have on our statements of financial position, results of operations and cash flows.

(3) Purchase Accounting for KPN Transaction

Under the purchase method of accounting, the purchase price for the KPN Transaction was allocated to the tangible and identifiable intangible assets and liabilities of iBasis on the basis of their

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(3) Purchase Accounting for KPN Transaction (Continued)

fair values on October 1, 2007, the closing date of the transaction. As KPN GCS was not a publicly traded entity, the purchase price for this transaction was based, in part, on the fair market value of iBasis's common stock. The market price used to value iBasis's shares of \$10.75 was the closing price of the stock on September 28, 2007, the business day immediately prior to the closing of the KPN Transaction.

The total purchase price for this transaction consisted of the following:

	(In thousands)
iBasis outstanding shares on October 1, 2007 of 34,451 at \$10.75 per share	\$ 370,353
Fair value of outstanding vested and unvested stock options, less unearned compensation	13,425
Fair value of outstanding warrants to purchase common shares	4,624
Direct acquisition costs	2,453
Dividend to iBasis shareholders paid from existing iBasis cash and short-term marketable securities	(58,000)
Accrued dividend payable for outstanding warrants to purchase common shares	(2,468)
Amount payable to KPN for iBasis working capital adjustment	(11,577)
Accrued severance	(135)
Total purchase price	\$ 318,675

In determining the fair value of iBasis's identifiable assets and liabilities as of October 1, 2007, we recorded \$97.7 million of amortizing intangible assets, including trade names and trademarks, customer relationships, termination partner relationships, and technology. The estimated useful life of trade names and trademarks is 15 years and is being amortized on a straight-line basis. The estimated useful life of customer relationships is 10 years for wholesale customers and 5 years for retail distributor relationships and these intangible assets are being amortized using an economic consumption method to reflect diminishing cash flows from these relationships in the future. The estimated useful life of termination partner relationships is 5 years and is being amortized using an economic consumption method. The estimated useful life of technology is 5 years and is being amortized on a straight-line basis. (See Note 8).

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(3) Purchase Accounting for KPN Transaction (Continued)

The allocation of the purchase price to the fair values of iBasis's assets and liabilities on October 1, 2007, which resulted in the recording of \$248.8 million in goodwill, is as follows:

	(In thousands)
Current assets	\$ 128,875
Property and equipment	23,258
Other assets	520
Trade names and trademarks	21,800
Customer relationships	34,200
Termination partner relationships	8,400
Technology	33,300
Total assets	250,353
Deferred revenue	11,331
Dividend payable	60,468
Other current liabilities	103,469
Deferred tax liabilities, long term	3,556
Other non-current liabilities	1,649
Total liabilities	180,473
Net assets	69,880
Goodwill	248,795
Total purchase price	\$ 318,675

The total \$248.8 million of goodwill has been assigned to the Company's Wholesale Trading reporting unit. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," this goodwill will not be amortized.

Working Capital and Debt Adjustments

In accordance with the Share Purchase Agreement for the KPN Transaction, a post-closing adjustment was required if (i) iBasis' working capital was lower than or exceeded \$37,100,000; (ii) iBasis' debt exceeded or was lower than \$2,900,000; (iii) the combined working capital deficit of KPN GCS was lower than or exceeded (\$6,100,000); and/or (iv) the combined debt of KPN GCS exceeded \$0, as of the date of the closing of the KPN Transaction. Based on iBasis's balance sheet position on the date of the closing of the KPN Transaction, working capital was \$13,353,000 less than the specified level of \$37,100,000, and debt was \$1,776,000 less than the specified level of \$2,900,000. As a result, a payment of \$11,577,000 is due to KPN from iBasis. Based on KPN GCS's balance sheet position on the date of the closing of the KPN Transaction, working capital deficit was less than the specified level of (\$6,100,000) by \$3,945,000 and debt was at the specified level of \$0. As a result, payment of \$3,945,000 is due to KPN from iBasis. The total post-closing adjustment of \$15,522,000 due to KPN will be paid by iBasis in three successive quarterly installments beginning in the first quarter of 2008.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(3) Purchase Accounting for KPN Transaction (Continued)

Pro Forma Disclosures (Unaudited)

The following unaudited pro forma consolidated results of operations for the years ended December 31, 2007 and 2006 and assumes that the KPN Transaction occurred as of the beginning of each year.

	Year Ended December 31, 2007	Year Ended December 31, 2006
(In thousands, except per share data)		
Total net revenue	\$ 1,390,580	\$ 1,296,651
Total costs and expenses	1,379,654	1,271,625
Income from operations	10,926	25,026
Net income	\$ 3,854	\$ 14,331
Basic net income per share	\$ 0.05	\$ 0.20
Diluted net income per share	\$ 0.05	\$ 0.19

These pro forma amounts do not purport to be indicative of the results that would have actually been obtained if the transaction had occurred as of the beginning of that period presented or that may be obtained in the future.

(4) Stock Based Compensation

We issue stock options as an equity incentive to employees and outside directors under our 2007 Stock Plan (the "2007 Plan"). The stock options we issue under our 2007 Plan are for a fixed number of shares with an exercise price equal to the fair market value of our stock on the date of grant. The employee stock option grants under the 2007 Plan typically vest quarterly in equal installments over four years, provided that no options shall vest during the employees' first year of employment, and have a term of ten years.

The 2007 Stock Plan replaced the 1997 Stock Incentive Plan, which expired on August 11, 2007. All outstanding stock options under this plan will remain in effect until they expire by their terms.

As of the date of the closing of the KPN Transaction, we had 2.4 million shares of vested and unvested outstanding stock options, almost all of which had been granted under a prior stock option plan, and these outstanding stock options were fair valued as of that date. The aggregate fair value of \$4.0 million relating to 0.6 million shares of unvested stock options as of that date is being charged to results of operations on a straight-line basis over the remaining vesting period for these stock options. Stock-based compensation expense charged to engineering and network operations expenses and selling, general and administrative expenses in the fourth quarter of 2007 related to these stock options was \$0.1 million and \$0.3 million, respectively. The fair value of these outstanding unvested stock options was estimated using the Black-Scholes model and the following assumptions:

Stock price on September 28, 2007	\$10.75
Risk free interest rate	4.88%
Dividend yield	0.0%
Expected volatility	60% to 100%
Expected remaining life	2.38 to 6.12 years

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(4) Stock Based Compensation (Continued)

Dividend-Related Adjustment to Stock Options

Upon closing of the KPN Transaction, and in conjunction with the \$113 million dividend we paid to iBasis shareholders on October 8, 2007, we increased the number of shares subject to unexercised stock option grants and reduced the exercise price of these stock option grants to preserve their value, as required by the anti-dilution provision of our stock option plan. The adjustment to the number of shares and exercise price was based on the closing price of \$10.75 per share of iBasis common stock on September 28, 2007, the trading date immediately preceding the closing of the merger, reduced by the dividend per share amount of \$3.28 per share. Shares underlying outstanding stock options were increased by a factor of 1.4391, which reflected the ratio of \$10.75 per share divided by \$7.47 per share (\$10.75 per share less the dividend of \$3.28 per share) and the per share exercise price of outstanding stock options was reduced by dividing the exercise price by this same factor. As a result, the number of shares underlying outstanding stock options, as of the date of this adjustment, increased from 2.4 million shares to 3.5 million shares and the average exercise price of outstanding stock options was reduced from \$6.07 per share to \$4.22 per share.

Stock Option Activity

The following table presents the stock option activity for the period of October 1, 2007 through December 31, 2007:

	Shares	Weighted Average Exercise Price	
	(In thousands)		
Outstanding at October 1, 2007	3,502	\$	4.22
Granted	64		6.47
Exercised	(123)		2.62
Cancelled	(17)		7.54
Outstanding at December 31, 2007	3,426	\$	4.30
Vested and unvested expected to vest at December 31, 2007	3,278	\$	4.23
Exercisable at December 31, 2007	2,557	\$	3.83
Available for future grants at December 31, 2007	3,437		

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(4) Stock Based Compensation (Continued)

The following table presents weighted average price and contract life information about significant option groups outstanding and exercisable as of December 31, 2007:

Range of Exercise Prices	Outstanding			Exercisable		
	Outstanding Options	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Options Outstanding	Weighted Average Exercise Price	
	(In thousands)			(In thousands)		
\$ 0.52—\$ 1.50	340	3.94	\$ 1.43	340	\$ 1.43	
1.83— 2.29	515	4.99	2.05	515	2.05	
2.44— 3.98	798	5.72	2.89	765	2.85	
4.25— 4.54	750	7.76	4.51	462	4.50	
4.71— 5.87	337	7.70	5.10	260	5.04	
6.02— 6.88	554	9.02	6.59	83	6.67	
7.73— 10.42	90	1.99	9.70	90	9.70	
\$22.93—\$59.93	42	2.39	30.09	42	30.09	
	3,426	6.47	\$ 4.30	2,557	\$ 3.83	

The aggregate intrinsic value of exercisable options outstanding as of December 31, 2007 was \$5.1 million, which represents the amount option holders would have received had they exercised their options as of that date. The intrinsic value is the difference between our closing stock price on the last trading day of the year ended December 31, 2007 and the stock option exercise price, multiplied by the number of stock option shares.

The following table presents the non-vested shares for the period of October 1, 2007 to December 31, 2007.

Non-vested Stock Options	Shares	Weighted-Average Fair Value
	(in thousands)	
Non-vested at October 1, 2007	926	\$ 5.80
Granted	64	5.30
Vested	(111)	5.56
Forfeited	(11)	5.71
Non-vested at December 31, 2007	868	5.79

As of December 31, 2007, unrecognized compensation expense related to the unvested portion of our stock options was \$3.8 million and is expected to be recognized over a weighted-average period of approximately 2.5 years.

Stock Options Grants Under KPN Option Plans

Previously, certain employees of KPN GCS were provided with stock options for KPN stock under the terms of KPN's stock option plans. These stock options provided for a fixed number of shares with an exercise price equal to the fair value of

KPN's stock on the date of grant, unless otherwise stated,

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(4) Stock Based Compensation (Continued)

and vest three years from the date of grant. There were no grants made to employees of KPN GCS under KPN's stock option plans in 2007 or 2006.

Effective January 1, 2006, KPN GCS adopted SFAS No. 123(R), *"Share-Based-Payment"* (SFAS 123(R)) using the modified prospective method. As KPN GCS had previously applied the fair value recognition provisions of SFAS 123, the adoption of SFAS 123(R) did not have a material impact on its financial position or results of operations. KPN GCS elected to use the modified prospective transition method as permitted under SFAS 123R and, therefore, did not restate its financial results for the prior periods to reflect the fair value of stock-based compensation awards in such periods. Under this transition method, stock-based compensation expense for the year ended December 31, 2006 included compensation expense for all stock option awards granted prior to, but not yet vested, as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123.

Total share based compensation with respect to these stock option awards amounted to \$36,000, \$47,000 and \$43,000 for the years ended December 31, 2007, 2006 and 2005, respectively and was charged to selling, general and administrative expenses. Such amounts are based on the fair values for options granted to our employees.

All options granted are equity settled options and are forfeited when employees leave for reasons other than retirement, disability or death (except for some personnel plans). All options were granted with exercise prices equal to market value unless otherwise noted below. The profits for options exercisable immediately from any exercise prior to the end of the 3-year vesting period are held in escrow until the shares are vested. The profit will be released to the relevant individuals, provided that the individuals remain employed by us.

For stock options granted in 2005, the following assumptions were used to determine the fair value of these stock option grants: risk free interest rate of 2.80%; dividend yield of 3.00%; expected life of 4.3 years and expected volatility of 51%.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(4) Stock Based Compensation (Continued)

The following table summarizes stock option activity of our employees under the KPN stock option plans during 2007, 2006 and 2005.

	Shares under option	Weighted average per share exercise price
Outstanding at December 31, 2004	76,455	\$ 10.65
Options granted	33,200	8.35
Options exercised	(7,600)	7.93
Transfer to and from other KPN entities	6,070	6.99
Options forfeited	(1,450)	80.85
Outstanding at December 31, 2005	106,675	7.95
Options exercised	(23,810)	7.58
Options forfeited	(5,200)	18.62
Transfer to and from other KPN entities	(22,315)	7.90
Outstanding at December 31, 2006	55,350	8.53
Options exercised	(12,250)	8.51
Transfer to and from other KPN entities	(5,850)	8.96
Outstanding at December 31, 2007	37,250	\$ 9.62

The following is a summary of outstanding and exercisable stock options of our employees under the KPN stock option plans as of December 31, 2007:

Range of exercise prices	Options outstanding			Options exercisable		
	Number of options	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of options	Weighted average remaining contractual life (in years)	Weighted average exercise price
5.50—6.00	5,800	0.3	\$ 8.74	5,800	0.3	\$ 8.74
6.00—6.50	9,600	2.2	9.50	9,600	2.2	9.50
6.50—7.00	21,850	3.6	9.91	—	—	—
Total	37,250	2.7	\$ 9.62	15,400	1.5	\$ 9.21

The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2007, was \$0.3 million and \$0.1 million, respectively, which represents the amount option holders would have received had they exercised their options as of that date. The intrinsic value is the difference between KPN's closing stock price on the last trading day of 2007 and the stock option exercise price, multiplied by the number of stock option shares. The intrinsic value of options exercised in 2007, 2006 and 2005 was \$98,000, \$144,000 and \$20,000, respectively. Total compensation cost related to non-vested stock options not yet recognized as of December 31, 2007 amounted to \$9,000 and is expected to be recognized over a weighted-average period of approximately 0.3 years. The amount of cash KPN received as a result of options exercised by KPN GCS employees in 2007, 2006 and 2005 was \$104,000, \$180,000 and \$60,000.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(4) Stock Based Compensation (Continued)

In April 2006, KPN GCS granted 5,100 restricted KPN shares to its management which vest over a three-year period depending on KPN's total shareholder return position ranking relative to a peer group. Once vested the restricted shares have a lock-up period of two years and therefore are not available to be traded from April 2009 through April 2011. The total compensation expense associated with these awards for 2007 and 2006 was \$27,000 and \$18,000, respectively and was charged to selling, general and administrative expenses.

(5) Business Segment and Geographic Information

During the year ended December 31, 2007, we operated in two business segments, wholesale Trading and Retail. Our wholesale Trading business segment includes our wholesale Trading business and our Outsourced from KPN business. Our Retail business consists primarily of our prepaid calling card services and Pingo, our prepaid calling service sold directly to consumers through an Internet website. For the years ended December 31, 2006 and 2005, we operated in only one business segment, wholesale Trading.

We use net revenue and gross profit, which is net revenue less data communications and telecommunications costs, as the basis for measuring profit or loss and making decisions on our Trading and Retail businesses. We do not allocate our engineering and network operations expenses, selling, general and administrative expenses, and depreciation and amortization between Trading and Retail.

Operating results, excluding interest income and expense, foreign exchange gains or losses, and income tax expense for our two business segments are as follows:

	Year Ended December 31, 2007		
	Trading	Retail	Total
	(In thousands)		
Net revenue from external parties	\$ 716,088	\$ 25,205	\$ 741,293
Net revenue from related parties	197,265	—	197,265
Total net revenue	913,353	25,205	938,558
Data communications and telecommunication costs—external parties	711,575	21,585	733,160
Data communications and telecommunication costs—related parties	114,242	—	114,242
Total data communications and telecommunications costs	825,817	21,585	847,402
Gross profit	\$ 87,536	\$ 3,620	91,156
Engineering and network operations expenses			13,222
Selling, general and administrative expenses			38,368
Merger related expenses			2,019
Depreciation and amortization			12,743
Income from operations			\$ 24,804

Other than revenue from Royal KPN and its affiliates, no one carrier accounted for 10% or more of total net revenue in

the years ended December 31, 2007, 2006 or 2005.

Assets relating to our Trading and Retail businesses consist of accounts receivable, net of allowance for doubtful accounts, intangible assets related to customer relationships and goodwill. We do

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(5) Business Segment and Geographic Information (Continued)

not allocate cash and cash equivalents, short-term marketable investments, prepaid expenses and other current assets, property and equipment, net, other intangible assets and other assets between Trading and Retail.

As of December 31, 2007

	Trading	Retail	Total
	(In thousands)		
Segment assets:			
Accounts receivable—external parties	\$ 197,512	\$ 7,371	\$ 204,883
Intangible assets—customer relationships	20,037	12,879	32,916
Goodwill	248,795	—	248,795
	\$ 466,344	\$ 20,250	486,594
Non-segment assets			173,279
Total assets			\$ 659,873

A breakdown of total net revenue and long-lived assets by geographic region for the years ended December 31, 2007, 2006 and 2005 is not shown as it was impractical to obtain this information.

(6) Accounts Receivable and Unbilled Revenue—External Parties

Accounts receivable—external parties, net consists of the following at December 31:

	2007	2006
	(In thousands)	
Accounts receivable	\$ 168,498	\$ 123,283
Unbilled revenue	49,309	51,990
	217,807	175,273
Allowance for doubtful accounts	(12,924)	(12,862)
Total accounts receivable—external parties	\$ 204,883	\$ 162,411

The majority of unbilled revenue relates to the previous month's traffic volume for which an invoice has not yet been sent.

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determines the allowance based on specific known troubled accounts, historical experience, and other currently available evidence.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(7) Property and Equipment

Property and equipment consists of the following at December 31:

	2007	2006
	(In thousands)	
Network equipment	\$ 41,861	\$ 18,852
Software	8,258	2,281
Leasehold improvements	1,591	—
Other tangible fixed assets	3,798	306
Total at cost	55,508	21,439
Accumulated depreciation	(20,542)	(10,493)
Net book value	\$ 34,966	\$ 10,946

Total depreciation and amortization expense related to property and equipment was \$8.8 million, \$5.7 million and \$11.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

(8) Goodwill and Other Intangible Assets

In conjunction with the closing of the KPN Transaction on October 1, 2007, we recorded \$248.8 million of goodwill, which is not being amortized. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," we reviewed goodwill for impairment as of December 31, 2007. We have assigned all of the goodwill to our wholesale trading reporting unit. Our test at December 31, 2007 determined that this reporting unit's fair value exceeded the carrying value of the net assets of the reporting unit, using projected discounted cash flow modeling. As a result, no impairment was required to be recorded. Estimating future cash flows requires management to make projections that can differ materially from actual results.

Additionally, in connection with the KPN Transaction, we recorded \$97.7 million of amortizing intangible assets, including trade mark and trade names, wholesale customer and retail distributor relationships, termination partner relationships and technology. The estimated useful life of trade mark and trade names is 15 years and is being amortized on a straight-line basis. The estimated useful life of wholesale customer relationship is 10 years and the estimated useful life of retail distributor relationships is 5 years and these intangible assets are being amortized using an economic consumption method to reflect the diminishing cash flows from these relationships in the future. The estimated useful life of termination partner relationships is 5 years and is being amortized using an economic consumption method to reflect diminishing cash flows from these relationships in the future. The estimated useful life of technology is 5 years and is being amortized on a straight-line basis.

We evaluate whether there has been an impairment in the carrying value of our long-lived assets, including intangibles assets, in accordance with SFAS No. 144, "Accounting for Impairment of Long-Lived Assets." We have determined there has been no impairment of other intangible assets as of December 31, 2007.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(8) Goodwill and Other Intangible Assets (Continued)

The following table summarizes other intangible assets as of December 31, 2007.

	Gross Carrying Value	Accumulated Amortization	Balance
(In thousands)			
Trademark and trade names	\$ 21,800	\$ 363	\$ 21,437
Wholesale customer relationships	20,700	663	20,037
Retail distributor relationships	13,500	621	12,879
Termination partner relationships	8,400	588	7,812
Technology	33,300	1,665	31,635
Total	\$ 97,700	\$ 3,900	\$ 93,800

We currently expect to amortize the following remaining amounts of intangible assets as of December 31, 2007 in the fiscal periods as follows:

Year ended December 31,	(In thousands)
2008	\$ 15,373
2009	16,870
2010	16,039
2011	14,874
2012	11,302
Thereafter	19,342
Total	\$ 93,800

(9) Accrued Expenses

Accrued expenses consist of the following at December 31:

	2007	2006
(In thousands)		
Termination fees and circuit costs	\$ 109,883	\$ 71,027
Compensation	3,644	524
Dividend payable	1,744	—
Income taxes	11,947	16,969
Accrued other	9,685	462
Total accrued expenses	\$ 136,903	\$ 88,982

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(10) Income Taxes

The components of income before provision for income taxes are as follows for the years ended December 31:

	2007	2006	2005
	(In thousands)		
Domestic	\$ (13,479)	\$ 430	\$ 1,397
Foreign	38,131	59,944	58,067
Total	\$ 24,652	\$ 60,374	\$ 59,464

The components of the provision for income taxes are as follows for the years ended December 31:

	2007	2006	2005
	(In thousands)		
Current:			
Federal	\$ 89	\$ 93	\$ 487
State	18	18	248
Foreign	10,114	19,194	23,669
Current	\$ 10,221	\$ 19,305	\$ 24,404
Deferred:			
Federal	16	26	(42)
State	(612)	3	(6)
Foreign	(1,096)	(1,450)	(5,508)
Deferred	(1,692)	(1,421)	(5,556)
Provision for income taxes	\$ 8,529	\$ 17,884	\$ 18,848

The effective income tax rate differed from the statutory federal income tax rate due to the following:

	2007	2006	2005
	(In thousands)		
Statutory federal income tax (benefit)	\$ 8,628	\$ 21,131	\$ 20,812
State income taxes, there is no federal tax benefit	13	20	247
Permanent differences	146		
Foreign tax rate differential	(3,578)	(3,267)	(2,211)
US losses not benefited	3,247		
Other	73		
Provision for income taxes	\$ 8,529	\$ 17,884	\$ 18,848

Deferred income taxes at December 31, 2007 and 2006 reflect the net tax effects of net operating loss and tax credit carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for tax purposes.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(10) Income Taxes (Continued)

The components of our net deferred tax assets (liabilities) are as follow as of December 31:

	2007	2006
	(In thousands)	
Net operating loss carry forward	\$ 76,629	\$ —
Acquired intangible assets	(40,633)	
Depreciation	2,139	373
Research credits	793	
Accruals	(2,486)	
Stock compensation	1,563	
Accounts receivables	769	
Capital loss carry forward	2,000	
Net deferred tax assets	40,774	373
Less: valuation allowance	(42,114)	—
	\$ (1,340)	\$ 373

We have recorded a valuation allowance against the US net deferred tax assets since it is more likely than not that the US net deferred tax assets will not be realized. At such time as the valuation allowance is realized or recognized, \$32 million will reduce goodwill and \$6 million will reduce tax expense.

At December 31, 2007, we have research and experimentation ("R&E") credit carry forwards for federal and state purposes of approximately \$0.8 million, available to offset future taxable income. The R&E credit carry forwards generally expire between 2012 and 2020.

As of December 31, 2007, we had available U.S. and state net operating loss carry forwards ("NOLs") of approximately \$205 million. The majority of these NOLs were acquired through the KPN Transaction. The operating loss carry forwards expire between 2008 and 2027. These carry forwards may be used to offset future income taxes payable at the federal and state levels, if any, and are subject to review by the U.S. Internal Revenue Service ("IRC") and various state taxing authorities.

In general, the rules of Section 382 of the Code apply to limit a corporation's ability to utilize existing net operating loss carryovers if the corporation experiences an Ownership Change. An ownership change results from transactions increasing the ownership of certain existing stockholders and, or, new stockholders in the stock of a corporation by more than 50 percentage points during a three year testing period.

The Company has determined that its NOLs are subject to Section 382 limitations. As a result of several ownership changes, the utilization of our NOLs is subject to annual limitations. In addition, approximately \$111 million of the federal NOLs will expire unused and cannot be used by the company. These expired NOLs are therefore not reflected as deferred tax assets at December 31, 2007.

We have two annual limitation amounts, computed pursuant to IRC Section 382. The first annual limitation for NOLs generated before August 2005 is approximately \$5 million. The second annual limitation for NOLs generated between August 2005 and September 2007 is approximately \$16 million. Any unused IRC Section 382 annual loss limitation amount may be carried forward to the following

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(10) Income Taxes (Continued)

year. Those unused limitation losses are then added to the current IRC Section 382 annual limitation amount.

We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes", and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Prior to 2007 we recorded estimated income tax liabilities to the extent they were probable and could be reasonably estimated. The adoption of FIN 48 had no effect on our financial statements at January 1, 2007.

We file U.S. federal, state and foreign income tax returns in jurisdictions with varying statutes of limitations. We are subject to U.S. federal income tax, as well as income tax in multiple state and foreign jurisdictions. As of December 31, 2007, we were subject to examination in the U.S. federal and state tax jurisdictions for the 1997 to 2006 tax years and were also subject to examination in significant foreign jurisdictions for the 2000 to 2006 tax years.

The following table summarizes the activity related to our unrecognized tax benefits:

(in thousands)	2007
Balance at adoption at January 1, 2007	\$ —
Acquisition of aquired company liability	307
Additions or reductions for tax positions related to the current year	169
Additions or reductions for tax positions related to prior years	—
Decreases relating to settlements with tax authorities	—
Reductions in benefits related to lapse of statute of limitations	—
Balance at December 31, 2007	\$ 476

At December 31, 2007, we had approximately \$476,000 of unrecognized tax benefits, all of which will impact the effective tax rate, if recognized. In addition we had \$133,000 of accrued interest and penalties. We do not expect the balance of unrecognized tax benefits to change significantly during the next 12 months.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(10) Income Taxes (Continued)

We have not provided for taxes for the unremitted earnings of non-U.S. operations because it is our policy to permanently reinvest those earnings. We had approximately \$24 million in unremitted earnings at December 31, 2006 and \$23 million at December 31, 2007 for which taxes were not provided. It is not practicable to estimate the amount of the deferred tax liability on such unremitted earnings, accordingly no deferred US or foreign taxes have been accrued on such undistributed earnings.

(11) Long-Term Debt

Long-term debt consists of the following as of December 31:

	2007	2006
	(In thousands)	
Bank borrowings	\$ 25,000	\$ —
Capital lease obligations	755	—
	25,755	—
Less: Current portion	(755)	—
Long-term portion	\$ 25,000	\$ —

On October 2, 2007, we entered into a Second Amended and Restated Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank, which amended and restated a certain Amended and Restated Loan and Security Agreement dated as of December 29, 2003. We entered into the Loan Agreement to obtain funding for working capital purposes and in support of the transaction with KPN. Pursuant to the Loan Agreement, we may borrow up to \$35.0 million from time to time under a secured revolving credit facility for a two-year period. Borrowings under the line of credit will be on a formula basis, based on eligible domestic and foreign accounts receivable. The line of credit contains quarterly financial covenants, consisting primarily of minimum profitability and minimum liquidity requirements. Interest on borrowings under the line of credit will be based, in part, on our quarterly profitability, with the maximum interest rate being the bank's prime rate, plus 0.5%, or LIBOR, plus 2.75%. The line of credit has a quarterly commitment fee of 0.63% on any unused portion of the line of credit and an up-front, one-time facility fee of 0.75%, or \$263,000. The revolving credit facility is also guaranteed by all domestic wholly-owned subsidiaries. The revolving credit facility is collateralized by a first priority lien and security interest on the assets of iBasis and such guarantors. In addition, iBasis has pledged 66.2% of all its ownership in KPN Global Carrier Services, a wholly-owned subsidiary based in The Netherlands, as collateral for the revolving credit facility. Pursuant to the terms of the Loan Agreement, we may use the proceeds solely as (i) working capital, (ii) to fund our general business requirements, and (iii) to fund the dividend paid by us in connection with the transaction with KPN.

Subsequent to December 31, 2007, we signed a non-binding term sheet with Silicon Valley Bank to initiate the process of amending the Loan Agreement to expand our borrowing capability from \$35.0 million to \$50.0 million.

At December 31, 2007, we had \$25.0 million in borrowings outstanding and had issued outstanding standby letters of credit of \$2.9 million under the Loan Agreement.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(12) Accrued Restructuring Costs

At December 31, 2007, we had accrued restructuring costs of \$1.7 million, which consisted of \$0.7 million remaining in future payment obligations relating to a terminated New York City facility lease and \$1.0 million of costs accrued for future lease obligations for certain vacant leased facilities, net of future sublease payments. Payments of these restructuring costs will be made through February 2011.

A summary of accrued restructuring costs is as follows:

(In thousands)	Future Payment Obligation on Lease Termination	Contractual Lease Obligations Relating to Vacant Facilities	Total
Acquisition of acquired company liability	\$ 771	\$ 1,119	\$ 1,890
Cash payments	(51)	(132)	(183)
Balance, December 31, 2007	\$ 720	\$ 987	\$ 1,707
Current portion, included in accrued expenses			\$ 764
Long-term portion, included in other long-term liabilities			943
Total			\$ 1,707

(13) Pensions and Postretirement Plans

Substantially all employees of KPN GCS are participants in various defined benefit pension plans and defined contribution plans administered and sponsored by Royal KPN. Benefits under the pension plans are based primarily on years of service and employees' compensation. The majority of the pension expenses relate to pension plans in The Netherlands and the United States.

These consolidated financial statements reflect the defined benefit plans on a multi-employer basis in accordance with SFAS 87. As such, Royal KPN allocated costs associated with the pension plans to KPN GCS based upon a ratio of weighted pensionable income for service costs and allocates costs associated with other components of pension expense, such as interest costs, amortization of actuarial gains/losses, etc., based on projected benefit obligations relative to the total projected benefit obligation of the plans.

Pension expense allocated to KPN GCS from Royal KPN for its employees participating in Royal KPN pension plans was approximately \$0.1 million, \$0.4 million, and \$0.7 million, for the years ended December 31, 2007, 2006 and 2005, respectively.

Dutch employees of Royal KPN are also eligible for early retirement benefits. This plan is accounted for in accordance with FAS 87 (as amended by FAS 158). The early retirement plan is neither funded nor insured through a third party, but is paid directly by KPN GCS to the early retirement employees. Royal KPN allocated early retirement expenses (service costs, interest costs, prior service costs, and actuarial gains and losses) to KPN GCS based on a ratio of service costs relating to its employees relative to the Royal KPN early retirement costs. Until September 30, 2007, Royal KPN allocated the early retirement provision to KPN GCS based on a ratio of the projected

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(13) Pensions and Postretirement Plans (Continued)

benefit obligation relating to its employees relative to Royal KPN's projected benefit obligation. Early retirement expenses were \$2,000, \$62,000 and \$71,000, for the years ended December 31, 2007, 2006 and 2005, respectively.

As a result of the closing of the KPN Transaction on October 1, 2007, the liability relating to early retirement obligations is no longer being allocated to us by Royal KPN. Accordingly, there was no obligation for early retirement benefits in our consolidated balance sheet as of December 31, 2007. At December 31, 2006, the total liability relating to early retirement obligations was \$1.2 million, of which \$1.0 million was included in long-term liabilities.

(14) Commitments and Contingencies

Commitments

We lease our administrative and operating facilities, which expire at various dates through 2018. The future approximate minimum lease payments under such operating leases as of December 31, 2007 consist of the following:

Year ended December 31,	(in thousands)
2008	\$ 2,898
2009	1,916
2010	867
2011	395
2012	280
Thereafter	1,810
Total future minimum lease payments	\$ 8,166

At December 31, 2007, we had commitments with certain telecommunications carriers for the termination of minutes for the year ended December 31, 2008 totaling \$17.6 million. In addition, interest payments on our bank borrowings outstanding at December 31, 2007 of \$25.0 million are estimated to be \$1.9 million for the year ended December 31, 2008 and \$1.4 million for the year ended December 31, 2009, based on market rates as of December 31, 2007. As of December 31, 2007, we did not have any other material purchase obligations, or other material long-term commitments reflected on our consolidated balance sheet.

Litigation

In addition to litigation that we have initiated or responded to in the ordinary course of business, we are currently party to the following potentially material legal proceedings:

Class Action Pursuant to 1999 Initial Public Offering

In 2001, we were served with several class action complaints that were filed in the United States District Court for the Southern District of New York against us and several of our officers, directors, and former officers and directors, as well as against the investment banking firms that underwrote our November 10, 1999 initial public offering of common stock and our March 9, 2000 secondary offering.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(14) Commitments and Contingencies (Continued)

of common stock. The complaints were filed on behalf of a class of persons who purchased our common stock between November 10, 1999 and December 6, 2000.

The complaints are similar to each other and to hundreds of other complaints filed against other issuers and their underwriters, and allege violations of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, primarily based on the assertion that there was undisclosed compensation received by our underwriters in connection with our public offerings and that there were understandings with customers to make purchases in the aftermarket. In September, 2001, the complaints were consolidated and allege that our prospectuses failed to disclose these arrangements. The consolidated complaint seeks an unspecified amount of monetary damages and other relief. In October 2002, the individual defendants were dismissed from the litigation by stipulation and without prejudice and subject to an agreement to toll the running of time-based defenses. In February 2003, the district court denied our motion to dismiss.

In June 2004, we and the individual defendants, as well as many other issuers named as defendants in the class action proceeding, entered into an agreement-in-principle to settle this matter, and this settlement was presented to the court. The district court granted a preliminary approval of the settlement in February 2005, subject to certain modifications to the proposed bar order, to which plaintiffs and issuers agreed. In August 2005, the district court issued a preliminary order further approving the modifications to the settlement, certifying the settlement classes and scheduled a fairness hearing, after notice to the class. The fairness hearing was held on April 24, 2006 and the motion for approval of the settlement is pending. Plaintiffs have continued to pursue their claims against the underwriters. The district court established a procedure whereby six "focus" cases are being pursued initially and has certified a class of purchasers in those cases. The underwriters appealed the certification order in each of the six cases and in December 2006, the United States Court of Appeals for the Second Circuit reversed the certification orders. Since the pending settlement with the issuers involves parallel classes to those in the six focus cases, it is not expected that the district court will act favorably on the issuer settlement in its current form.

We anticipate additional settlement negotiations will occur, but there can be no assurance that those negotiations will result in a revised settlement. We believe that if this matter is not settled, we have meritorious defenses which we intend to vigorously assert.

We cannot estimate potential losses, if any, from these matters or whether, in light of our insurance coverage, any loss would be material to our financial condition, results of operations or cash flows. As such, no amounts have been accrued as of December 31, 2007.

Actions Pursuant to Option Investigation

On December 21, 2006, two derivative actions naming us as a nominal defendant were filed in the United States District Court for the District of Massachusetts: *David Shutvet, Derivatively on Behalf of iBasis, Inc., v. Ofer Gneezy et al.*, U.S.D.C. Civil Action No. 06-12276-DPW; and *Victor Malozi, Derivatively on Behalf of iBasis, Inc., v. Ofer Gneezy et al.*, U.S.D.C. Civil Action No. 06-12277-DPW. The complaints in these two actions each name the same defendants: Ofer Gneezy, our President, Chief Executive Officer, and Director; Gordon J. VanderBrug, our Executive Vice President and Director; Richard G. Tennant, our Senior Vice President of Finance and Administration and Chief Financial Officer; Paul H. Floyd, our Senior Vice President of R&D, Engineering and Operations; Charles Corfield, Charles M. Skibo, W. Frank King, David Lee, and Robert H. Brumley, our Directors;

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(14) Commitments and Contingencies (Continued)

Daniel Price, former Senior Vice President of Speech Solutions and our former Director; John G. Henson, Jr., our former Vice President, Engineering and Operations; Michael J. Hughes, our former Chief Financial Officer and former Vice President of Finance and Administration; Charles Giambalvo, our former Senior Vice President of Worldwide Sales; Jonathan D. Draluck, our former Vice President, Business Affairs, General Counsel and Secretary; and John Jarve, Charles Houser, and Carl Redfield, our former Directors. The complaints allege that the defendants caused or allowed our "insiders" to backdate their stock option grants, and caused or allowed us (i) to file materially false and misleading financial statements that materially understated our compensation expenses and materially overstated our quarterly and annual net income and earnings per share, and (ii) to make disclosures in our periodic filings and proxy statements that falsely portrayed our options as having been granted at exercise prices equal to the fair market value of our common stock on the date of the grant. The complaints also allege that certain defendants engaged in illegal insider selling of our common stock while in possession of undisclosed material adverse information. Based on these and other allegations, the complaints assert claims for: violation of Section 14(a) of the Exchange Act; disgorgement under the Sarbanes-Oxley Act of 2002; unjust enrichment; breach of fiduciary duty for approving improperly dated stock option grants to our executive officers; breach of fiduciary duties for insider selling and misappropriation of information; abuse of control; gross mismanagement; waste of corporate assets; rescission of certain stock option contracts; and constructive trust. The complaints seek the following relief: damages in favor of us for the individual defendants' alleged wrongdoing; disgorgement of all bonuses or other incentive-based or equity-based compensation received by Mr. Gneezy and Mr. Tennant during any period for which we restated our financial results; a declaration that the Director defendants caused us to violate Section 14(a) of the Exchange Act; certain corporate governance reforms; an accounting of all undisclosed backdated stock option grants, cancellation of all unexercised grants, and revision of our financial statements; disgorgement of all profits obtained by the defendants from the allegedly backdated stock option grants and related equitable relief; and an award to the plaintiffs of their costs and disbursements for the action, including reasonable attorney's fees and accountants' and experts' fees, costs and expenses.

On May 10, 2007, the United States District Court for the District of Massachusetts entered orders consolidating the above derivative actions under Civil Action No. 06-12276-DPW. On June 15, 2007, the Plaintiffs filed a consolidated complaint. On August 24, 2007, we filed a motion to dismiss all of the claims asserted in the consolidated complaint. After hearing oral argument on our motion to dismiss on November 28, 2007, the Court issued a Memorandum and Order on December 4, 2007, in which the Court concluded that there was no basis for federal court jurisdiction over the case. Specifically, the Court ruled that the plaintiffs had failed to state a claim under federal law because: (1) the plaintiffs' claims under Section 14 of the Securities Exchange Act were barred by the statute of repose and inadequately pled loss causation; and (2) there is no private right of action under Section 304 of the Sarbanes-Oxley Act. Since these federal claims were the sole grounds for plaintiffs' claim to federal court jurisdiction in their Consolidated Complaint, and the case was at an early stage in the litigation process, the Court also declined to exercise supplemental jurisdiction over the plaintiffs' remaining state law claims. Accordingly, the Court issued a formal order dismissing the entire action on December 5, 2007.

On December 19, 2007, the plaintiffs filed a motion asking the Court to reconsider and amend its prior judgment, in which plaintiffs sought to premise their claim to federal jurisdiction alternatively on diversity of citizenship between the plaintiffs and defendants in the consolidated action. On January 11, 2008, we filed an opposition to that motion. On January 31, 2008, the plaintiffs filed a reply brief after

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(14) Commitments and Contingencies (Continued)

having received the Court's leave to do so. The Court has not yet ruled on the plaintiffs' motion for reconsideration.

We announced on October 20, 2006, that we were contacted by the SEC as part of an informal inquiry and we further disclosed on March 29, 2007, on our Current Report on Form 8-K, that the SEC had notified us that we would be receiving a formal order of investigation relating to our stock option practices. On April 13, 2007, we received the formal order of investigation. The SEC investigation seeks documents and information from us relating to the grant of our options from 1999 through 2007. The SEC has taken testimony from individuals including certain of our current and former officers and directors and expect that the SEC may seek the testimony of additional individuals during the first half of 2008. We are cooperating fully with the SEC investigation that is ongoing. There is no assurance that other regulatory inquiries will not be commenced by other U.S. federal, state or other regulatory agencies.

We cannot estimate the amount of losses, if any, from these matters, or whether any loss would be material to our financial condition, results of operations or cash flows. As such, no amounts have been accrued as of December 31, 2007.

Regulatory Proceedings

On June 30, 2006, the Federal Communications Commission ("FCC") issued an order requiring providers of prepaid calling cards that utilize Internet Protocol to contribute to the Universal Service Fund ("USF") and pay access charges and other regulatory fees both in the future and for some prior period of time. In connection with our Retail business, we plan to absorb or pass along such future fees, to the extent permitted by law. We filed an appeal of the retroactive aspect of the FCC Order with the United States Court of Appeals in Washington, D.C. Following oral arguments before the United States Court of Appeals in early October 2007, the Court issued a decision in early December 2007 denying our appeal of the retroactive aspect of the FCC Order. As a result of this decision, as of December 31, 2007, we estimate that the maximum potential retroactive USF charge relating to our Retail business prior to the effective date of the FCC Order of October 31, 2006 would be approximately \$3.2 million, of which we previously accrued \$0.6 million for the period of July 1, 2006 to October 31, 2006. As such, we have recorded an additional charge in the amount of \$2.6 million in the fourth quarter of 2007 and will have to fund these retroactive fees in the future.

Sub-Distributor Action

On September 20, 2007, J & J Communications ("J&J"), a sub-distributor of calling cards distributed through iBasis distributor Abdul Communications ("Abdul"), amended a complaint filed in the United States District Court for the District of Maryland against Abdul, to add iBasis and PCI, a wholesale calling-card provider ("PCI"), as defendants in the matter. The complaint asserts that J&J has lost and continues to lose money because iBasis and PCI deactivated calling cards for which J&J allegedly paid. J&J is seeking in excess of one million dollars, plus punitive damages, attorneys fees and litigation costs based on a variety of claims against Abdul, iBasis, and PCI, predicated on contractual theories, various torts, and an alleged violation of §201 of the Communications Act. With respect to iBasis, J&J alleges both direct liability and vicarious liability, for its alleged status as principal in an alleged agency relationship with Abdul. iBasis responded to the amended complaint through an answer and motion to dismiss on February 8, 2008.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(14) Commitments and Contingencies (Continued)

We cannot estimate the amount of losses, if any, from this matter, or whether any loss would be material to our financial condition, results of operations or cash flows. As such, no amount has been accrued as of December 31, 2007.

Other Matters

We are also party to suits for collection, related commercial disputes, claims by former employees, claims related to certain taxes, claims from carriers and foreign service partners over reconciliation of payments for circuits, Internet bandwidth and/or access to the public switched telephone network, and claims from estates of bankrupt companies alleging that we received preferential payments from such companies prior to their bankruptcy filings. Our employees have also been named in proceedings arising out of business activities in foreign countries. We intend to prosecute vigorously claims that we have brought and employ all available defenses in contesting claims against us, or our employees. Nevertheless, in deciding whether to pursue settlement, we will consider, among other factors, the substantial costs and the diversion of management's attention and resources that would be required in litigation. In light of such costs, we have settled various and in some cases similar matters on what we believe have been favorable terms which did not have a material impact our financial position, results of operations, or cash flows. The results or failure of any suit may have a material adverse affect on our business. We cannot estimate the amount of losses, if any, from these matters, or whether any loss would be material to our financial condition, results of operations or cash flows. As such, no amounts have been accrued as of December 31, 2007.

(15) Related Party Transactions*Framework Services Agreement*

As required by and in anticipation of the closing of the KPN Transaction, KPN GCS entered into a Framework Services Agreement with KPN in June 2006. Under these agreements, revenues earned and costs incurred from KPN changed to primarily reflect market prices.

Pursuant to the Framework Services Agreement:

- KPN appointed KPN GCS as a preferred supplier of mobile services for KPN and all their affiliates and subsidiaries; and
- KPN appointed KPN GCS as its exclusive provider for international direct dialing, ISDN and Inmarsat services for all international telephone and fax traffic originating from or carried over KPN's fixed networks.

The Framework Services Agreement has a ten-year term, which is automatically extended for subsequent one-year periods unless either party provides at least three months written notice prior to the end of the then current term. The Framework Services Agreement includes:

- A Service Agreement for International Direct Dial Services and ISDN Services: KPN GCS provides international direct dialing, ISDN and Inmarsat services for international telephone and fax traffic over KPN's fixed network at a price equal to the expected cost of providing services which is determined in advance of the period plus a margin as set forth in the agreement at declining rates through the year 2010. Thereafter, margins shall be negotiated each year.

iBasis, Inc.**Notes to Consolidated Financial Statements (Continued)****(15) Related Party Transactions (Continued)**

- A Service Agreement for Management Fee for Shared Services: KPN GCS and KPN will share the following: financial services, human resources, legal services, IT systems, office space, insurance premiums, and administrative and professional support services.
- A Service Agreement for Transmission Path Services: The parties agreed upon certain measurable performance parameters for specific activities relating to various transmission path services that KPN provides to KPN GCS. In addition, the parties also agreed to certain specified service deliverables that KPN GCS is to provide as a system provider and service provider to KPN.
- A Service Agreement for IT System Support and Maintenance: The parties agreed upon certain measurable performance parameters for the support and maintenance services that KPN provides to certain information technology ("IT") systems of KPN GCS, including: service provisioning, IT architecture, pricing arrangements for IT maintenance and support, key performance indicators, operational procedures for user incidents, settlement and reporting procedures and other detailed operational IT maintenance and support related specifications.
- A Service Agreement for National Transmission Backbone: The parties agreed upon certain performance, financial, and reporting parameters for KPN's delivery and maintenance of backbone transmission capacity between the international domain and the national domain for KPN GCS.
- A Service Agreement for Support and Maintenance for Technical Infrastructure: The parties agreed upon certain performance, reporting, and financial parameters relating to maintenance and support of the technical infrastructure that KPN provides to KPN GCS. These maintenance and support activities include: capacity management, innovation, delivery of signaling services, and network maintenance.

Prior to the Framework Services Agreement, KPN GCS entered into agreements with KPN and its affiliates and subsidiaries for the sale of international wholesale minutes and the provision of corporate administrative services. The agreements for the sale and purchase of traffic from and to KPN and its affiliates and subsidiaries were made annually and reviewed periodically. These agreements were based on the internal pricing policies of KPN and relevant regulatory requirements. These historical internal pricing policies were not necessarily indicative of the prices KPN GCS would have paid or received had KPN GCS been a stand alone company.

Intellectual Property Cross-Licenses

In connection with the closing of the KPN Transaction, iBasis entered into an Intellectual Property License Agreement with Royal KPN. Pursuant to the agreement, iBasis has been granted a worldwide, non-transferable, and non-exclusive license to use Royal KPN's portfolio of patents and certain other Royal KPN intellectual property, and Royal KPN has been granted a worldwide, non-transferable, and non-exclusive license to use iBasis' portfolio of patents.

Revenue and Data and Telecommunication Costs

Revenue from KPN and its subsidiaries amounted to \$197.3 million, \$209.2 million, and \$249.5 million for the years ended December 31, 2007, 2006 and 2005, respectively, and is reported in Net revenue from related parties in the Consolidated Statement of Operations.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(15) Related Party Transactions (Continued)

Under the Framework Services Agreement that was established in June 2006, there was a reduction in price for the termination of international voice traffic coming from the retail organization of KPN, compared to the prior pricing model in effect. As a result, net revenue from related parties decreased approximately \$31.4 million in the period from June 2006 through December 31, 2006. Costs also decreased as a result of lower prices for national and international transmission (approximately \$0.9 million) and corporate services (approximately \$5.0 million) over the same period due the pricing under the Framework Services Agreement, compared to the prior pricing model in effect. In April 2005, the KPN internal pricing model was adjusted as a result of organizational changes at Royal KPN, resulting in an increase in Net revenue from related parties, and a decrease in data and telecommunication costs—related parties.

Data and telecommunication costs purchased from KPN and its subsidiaries amounted to \$114.2 million, \$134.3 million and \$138.6 million for the years ended December 31, 2007, 2006 and 2005, respectively, and is reported in Data and telecommunications costs—related parties in the Consolidated Statement of Operations. These costs relate to services for the procurement and transmission of sending and receiving traffic (provided to KPN GCS by KPN and its subsidiaries). Agreements between KPN GCS and KPN and its subsidiaries for the sale of wholesale international minutes were made at various prices and quantities.

Allocated expenses

Historically, KPN GCS relied on KPN for a substantial part of its operational and administrative support, for which it was allocated costs primarily consisting of costs for centralized research, legal, human resources, payroll, accounting, employee benefits, facilities, insurance, information technology, telecommunications, treasury and other corporate and infrastructure costs. These expenses were allocated based on the ratio of KPN GCS revenue, operating expenses, and number of employees compared to comparable revenue, operating expenses, and number of employees of KPN, as appropriate for each cost category. However, these allocated expenses did not necessarily reflect the utilization of services provided to or the benefits received by KPN GCS.

Engineering and network operations expenses include allocated costs from KPN, which were \$8.4 million, \$8.9 million and \$11.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Selling, general and administrative expenses include allocated corporate and divisional costs from KPN, which were \$13.3 million, \$20.8 million and \$19.9 million for the years ended December 31, 2007, 2006 and 2005, respectively.

There has been no allocation of interest expense from KPN as there is no debt specific to KPN GCS.

Working Capital and Debt Adjustments related to KPN Transaction

In accordance with the Share Purchase Agreement for the KPN Transaction, a post-closing adjustment was required if (i) iBasis' working capital was lower than or exceeded \$37,100,000; (ii) iBasis' debt exceeded or was lower than \$2,900,000; (iii) the combined working capital deficit of KPN GCS was lower than or exceeded (\$6,100,000); and/or (iv) the combined debt of KPN GCS exceeded \$0, as of the date of the closing of the KPN Transaction. Based on iBasis's balance sheet

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(15) Related Party Transactions (Continued)

position on the date of the closing of the KPN Transaction, working capital was \$13,353,000 less than the specified level of \$37,100,000, and debt was \$1,776,000 less than the specified level of \$2,900,000. As a result, a payment of \$11,577,000 is due to KPN from iBasis. Based on KPN GCS's balance sheet position on the date of the closing of the KPN Transaction, working capital deficit was less than the specified level of (\$6,100,000) by \$3,945,000 and debt was at the specified level of \$0. As a result, a payment of \$3,945,000 is due to KPN from iBasis. The total amount of \$15,522,000 due to KPN will be paid by iBasis in three successive quarterly installments beginning in the first quarter of 2008.

Accounts Payable and Accounts Receivable to Related Parties

As of December 31, 2007, we had accounts payable to KPN and its subsidiaries of \$11.8 million and this amount is reflected in Accounts payable—related parties on the Consolidated Balance Sheets. This balance includes the \$15.5 million due to KPN for the post-closing working capital and debt adjustments of iBasis and KPN GCS. As of December 31, 2006, we had accounts receivables from KPN and its subsidiaries of \$33.8 million and this amount is reflected in Accounts receivable from related parties on the Consolidated Balance Sheets.

(16) Stockholders' Equity

Authorized Capital Stock

We have authorized for issuance 170 million shares of common stock, \$0.001 par value per share.

We also have authorized for issuance 15 million shares of preferred stock, \$0.001 par value per share. There are no shares of preferred stock issued or outstanding.

Stock Incentive Plan

At the Annual Meeting of Shareholders held on September 27, 2007, the shareholders of iBasis, Inc. approved the adoption of the iBasis, Inc. 2007 Stock Plan. The 2007 Stock Plan authorizes the grant of up to 3,500,000 shares of common stock for the issuance of stock options, restricted and unrestricted stock awards and other stock-based awards to employees, consultants and directors of iBasis. Under the terms of the 2007 Stock Plan, the exercise price of options granted shall be determined by the Board of Directors and for ISOs shall not be less than fair market value of our Common Stock on the date of grant. Options vest quarterly in equal installments over four years, provided that no options shall vest during the employees' first year of employment. The expiration date of each stock option shall be determined by the Board of Directors, but shall not exceed 10 years from the date of grant. The newly adopted 2007 Stock Plan replaces the iBasis, Inc. Amended and Restated 1997 Stock Incentive Plan, which expired on August 11, 2007. Pursuant to the terms of the Amended and Restated 1997 Stock Incentive Plan, all outstanding options under such plan will remain in effect until they expire by their terms.

iBasis, Inc.

Notes to Consolidated Financial Statements (Continued)

(16) Stockholders' Equity (Continued)

Warrants

At December 31, 2007, we had the following warrants to purchase shares of our common stock outstanding:

	Shares Outstanding (In thousands)	Exercise Price Per share
Warrant issued in conjunction with the issuance of iBasis secured notes in 2003	98	\$ 1.95
Warrant issued for investment banking services in connection with private equity placement of iBasis in September 2004	366	6.30
Warrant issued for investment banking advisory services for iBasis in 2006	67	9.00
Total warrants outstanding	531	

(17) Summary of Quarterly Information (Unaudited)

The following table reflects our quarterly results of operations for the years ended December 31, 2007 and 2006.

Year Ended December 31, 2007	First Quarter(1)	Second Quarter(1)	Third Quarter	Fourth Quarter	Total Year
Total net revenue	\$ 178,550	\$ 193,684	\$ 215,679	\$ 350,645	\$ 938,558
Total costs and operating expenses	170,867	182,508	210,002	350,377	913,754
Income from operations	7,683	11,176	5,677	268	24,804
Net income (loss)	\$ 5,639	\$ 8,357	\$ 4,146	\$ (2,019)	\$ 16,123
Basic and diluted net income (loss) per share	\$ 0.14	\$ 0.21	\$ 0.10	\$ (0.03)	\$ 0.33
Year Ended December 31, 2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Total net revenue	\$ 206,183	\$ 208,052	\$ 210,445	\$ 189,509	\$ 814,189
Total costs and operating expenses	187,098	196,972	201,926	166,717	752,713
Income from operations	19,085	11,080	8,519	22,792	61,476
Net income	\$ 14,038	\$ 7,093	\$ 6,186	\$ 15,173	\$ 42,490

Basic and diluted net income per share	\$	0.35	\$	0.18	\$	0.15	\$	0.38	\$	1.06
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- (1) First quarter 2007 costs and operating expenses and income from operations has been revised for \$1.3M of costs that were previously capitalized that should have been expensed. Included in this amount is \$964,000 of costs related to the year ended December 31, 2006 that were corrected in the first quarter of 2007. This adjustment reduced net income by \$1.0 million and basic and diluted net income per share by \$0.02. Second quarter 2007 costs and operating expenses and income from

iBasis, Inc.**Notes to Consolidated Financial Statements (Continued)****(17) Summary of Quarterly Information (Unaudited) (Continued)**

operations has also been revised for \$357,000 of costs that were previously capitalized that should have been expensed. This adjustment reduced net income by \$266,000 and basic and diluted net income per share by \$0.01 per share.

(18) Foreign Currency Translation of Historical KPN GCS Financial Statements

The historical KPN GCS financial statements were denominated in Euros, the reporting currency of KPN GCS. The financial statements were translated into US dollars for inclusion in this Form 10-K.

Item 9. Change in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as the Company's are designed to do, and management necessarily was required to apply its judgment in evaluating the risk related to controls and procedures.

In connection with the preparation of this Annual Report on Form 10-K, as of December 31, 2007, an evaluation was performed under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2007.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act.

Management has excluded KPN GCS from its assessment of internal control over financial reporting as of December 31, 2007 because it was acquired in a purchase business combination that was accounted for as a reverse acquisition of the Company during 2007. KPN GCS' total assets and total revenues represent or 30% and 85%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2007.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework*. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2007 based on the criteria set forth by COSO in *Internal Control—Integrated Framework*.

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2007, which appears herein.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable

PART III**Item 10. *Directors, Executive Officers and Corporate Governance***

Information required by this item regarding our directors, executive officers and corporate governance matters may be found in iBasis's Proxy Statement relating to iBasis's 2008 Annual Meeting of Stockholders [] (the "2008 Proxy Statement") and is incorporated herein by reference. Information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, may be found under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2008 Proxy Statement and is incorporated herein by reference.

Item 11. *Executive Compensation*

The information required by this item is included under the captions "Executive Officers and Executive Compensation," "Compensation Committee Interlocks and Insider Participation," "Compensation Committee Report" and "Executive Compensation" in the 2008 Proxy Statement and incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this item is included under the caption "Security Ownership of Certain Beneficial Owners and Management" in the 2008 Proxy Statement and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is included under the captions "Certain Relationships and Related Transactions" and "Director Independence" in the 2008 Proxy Statement and is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services*

The information required by this item is included under the caption "Independent Public Accountants" in the 2008 Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. *Exhibits, Financial Statements and Schedules*(a)(1) **Financial Statements:**

We have filed the following documents as part of this Annual Report on Form 10-K:

	Page
Consolidated Financial Statements:	
<u>Report of Independent Registered Public Accounting Firm</u>	53
<u>Financial Statements</u>	56
<u>Consolidated Balance Sheets as of December 31, 2007 and 2006</u>	56
<u>Consolidated Statements of Operations for the Three Years Ended December 31, 2007, 2006 and 2005</u>	57
<u>Consolidated Statements of Stockholders' Equity for the Three Years Ended December 31, 2007, 2006 and 2005</u>	58
<u>Consolidated Statements of Cash Flows for the Three Years Ended December 31, 2007, 2006 and 2005</u>	59
<u>Notes to Consolidated Financial Statements</u>	60

(2) Index to Financial Statements Schedules: All financial statement schedules have been omitted because the required information is included in our consolidated financial statements, or the related notes, or is not applicable.

(3) Index to Exhibits:

Exhibit Number	Description
2.1	Share Purchase and Sale Agreement between the Registrant and KPN B.V. (formerly KPN Telecom B.V.), dated as of June 21, 2006 (incorporated by reference from Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed August 9, 2006 (file no. 000-27127)).
2.1.1	Amendment No. 1 to Share Purchase and Sale Agreement between the Registrant and KPN B.V. dated as of December 18, 2006 (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed December 18, 2006 (file no. 000-27127)).
2.1.2	Amendment No. 2 to Share Purchase and Sale Agreement between the Registrant and KPN B.V. dated as of April 27, 2007 (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed April 27, 2007 (file no. 000-27127)).
2.1.3	Amendment No. 3 to Share Purchase and Sale Agreement between the Registrant and KPN B.V. dated as of August 1, 2007 (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 7, 2007 (file no. 000-27127)).
3.1	First Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference from Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 filed on December 21, 2007 (file no. 333-148307)).
3.2	Second Amended and Restated By-Laws of the Registrant (incorporated by reference from Exhibit 3.01 to the Registrant's Current Report on Form 8-K filed on October 5, 2007 (file no. 000-27127)).
3.2.1	Amendment No. 1 to the Second Amended and Restated By-Laws of the Registrant (incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on November 14, 2007 (file no. 000-27127)).

- 10.1 Lease, dated January 8, 1999, as amended, between the Registrant and Rodger P. Nordblum and Peter C. Nordblum as Trustees of Northwest Associates under Declaration of Trust dated December 9, 1971 with respect to property located at 20 Second Avenue, Burlington, Massachusetts (incorporated by reference from Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (file no. 333-85545)).
- 10.2 Lease, dated as of August 7, 1998, between the Registrant and 111 Eighth Avenue LLC, relating to property located at 111 Eighth Avenue, New York, New York (incorporated by reference from Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (file no. 333-85545)).
- 10.3 Lease, dated December 11, 1998 between the Registrant and Downtown Properties L.L.C., with respect to property located at 611 Wilshire Boulevard, Los Angeles, California (incorporated by reference from Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (file no. 333-85545)).
- 10.4 Lease, dated October 22, 1999, between the Registrant and Roger P. Nordblom and Peter C. Nordblom, as Trustees of N.W. Building 1 Associates under Declaration of Trust dated November 11, 1984 and filed with the Middlesex South Registry District of the Land Court as Document Number 674807 with respect to property located at 10 Second Avenue, Burlington, Massachusetts (incorporated by reference from Exhibit 10.28 to the Registrant's Registration Statement on Form S-1 (file no. 333-96535)).
- 10.5 2000 Stock Plan of the Registrant (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 5, 2007 (file no. 000-27127)).
- 10.6 iBasis, Inc. 2007 Stock Plan (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 3, 2007 (file no. 000-27127)).
- 10.7 2007 Executive Officer Bonus Plan (incorporated by reference from Exhibit 10.76 to the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2007 (file no. 000-27127)).
- 10.8 Form of Stock Option Agreement under the iBasis, Inc. 2007 Stock Plan (incorporated by reference from Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on October 3, 2007 (file no. 000-27127)).
- 10.9 Employment Agreement between the Registrant and Ofer Gneezy, dated as of August 11, 1997 (incorporated by reference from Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (file no. 333-85545)).
- 10.10 Employment Agreement between the Registrant and Gordon J. VanderBrug, dated as of August 11, 1997. (incorporated by reference from Exhibit 10.10 to the Registrant's Registration Statement on Form S-1 (file no. 333-85545)).
- 10.11 Offer Letter and Employment Agreement, between the Registrant and Mark S. Flynn, dated January 30, 2007 (incorporated by reference from Exhibit 10.77 to the Registrant's Quarterly Report on Form 10-Q for the three months ended March 31, 2007 (file no. 000-27127)).
- 10.12 Offer Letter between the Registrant and Edwin van Ierland, dated September 11, 2007 (incorporated by reference from Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the three months ended September 30, 2007 (file no. 000-27127)).
- 10.13 Offer Letter between the Registrant and Richard Tennant, dated as of September 17, 2001 and Employment Agreement, dated as of September 20, 2001 (incorporated by reference from Exhibit 10.30 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001 (file no. 000-27127)).

- 10.14 Offer Letter between the Registrant and Paul Floyd, dated as of April 2, 2001 and Proprietary Information and Inventions Agreement dated April 12, 2001 (incorporated by reference from Exhibit 10.31 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001 (file no. 000-27127)).
- 10.15 First Amended and Restated Registration Rights Agreement, dated as of July 12, 1999, among the Registrant and the holders of the capital stock of the Registrant who become parties thereto (incorporated by reference from Exhibit 10.17 to the Registrant's Registration Statement on Form S-1 (file no. 333- 85545)).
- 10.16 Warrant and Registration Rights Agreement, dated January 29, 2003, by and among iBasis, Inc. and U.S. Bank National Association, as Collateral Agent (incorporated by reference from Exhibit 4.3 to the Registrant's Current Report on Form 8-K dated January 30, 2003 (file no. 000-27127)).
- 10.17 Second Amended and Restated Loan and Security Agreement dated October 2, 2007, evidenced by, among other documents, a certain Second Amended and Restated Loan and Security Agreement dated as of October 2, 2007 between iBasis, Inc. and Silicon Valley Bank (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated October 2, 2007 (file no. 000-27127)).
- 10.18 Form of Common Stock Purchase Warrant issued by the Registrant pursuant to the terms of the Securities Purchase Agreement, dated as of September 24, 2004, by and among the Registrant and the Purchasers (as defined therein) to each of the Purchasers (incorporated by reference from Exhibit 10.3 to the Registrant's Current Report on Form 8-K dated September 24, 2004 (file no. 000-27127)).
- 10.19 Common Stock Purchase Warrant issued by the Registrant to Tejas Securities Group, Inc. on September 24, 2004. (incorporated by reference from Exhibit 10.70 to the Registrant's Form S-1, filed October 18, 2004 (file no. 333-119796)
- 10.20 Registration Rights Agreement dated as of October 1, 2007, between iBasis, Inc. and KPN B.V. (incorporated by reference from Exhibit 4.01 to the Registrant's Current Report on Form 8-K, filed October 5, 2007 (file no. 333-27127)).
- 10.21 Second Amended and Restated Loan and Security Agreement dated October 2, 2007 between iBasis, Inc. and Silicon Valley Bank (incorporated by reference from Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 9, 2007 (file no. 000-27127)).
- 21.1 Significant Subsidiaries of the Registrant.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 23.2 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certificate of iBasis, Inc. Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certificate of iBasis, Inc. Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certificate of iBasis, Inc Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certificate of iBasis, Inc Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

iBASIS, INC.

March 14, 2008

By: /s/ OFER GNEEZY

Ofer Gneezy
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

Name	Title	Date
/s/ OFER GNEEZY Ofer Gneezy	President and Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2008
/s/ GORDON VANDERBRUG Gordon J. VanderBrug	Executive Vice President and Director	March 14, 2008
/s/ RICHARD TENNANT Richard G. Tennant	Senior Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2008
/s/ EELCO BLOK Eelco Blok	Director	March 14, 2008
/s/ ROBERT BRUMLEY Robert H. Brumley	Director	March 14, 2008
/s/ CHARLES CORFIELD Charles N. Corfield	Director	March 14, 2008
/s/ JOOST FARWERCK Joost Farwerck	Director	March 14, 2008
/s/ W. FRANK KING W. Frank King	Director	March 14, 2008

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

FORM 10-Q

(Mark
one)

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission File Number: 000-27127

iBasis, Inc.

(Exact name of registrant as specified in its charter)

Delaware	04-3332534
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

20 Second Avenue, Burlington, MA 01803

(Address of principal executive offices, including zip code)

(781) 505-7500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether each registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value \$0.001 per share, as of July 31, 2009

71,228,328

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Table of Contents**Part I—Financial Information****Item 1. Financial Statements****iBasis, Inc.****Condensed Consolidated Balance Sheets****(unaudited)**

	June 30, 2009	December 31, 2008
	(in thousands, except per share data)	
Assets		
Cash and cash equivalents	\$ 57,342	\$ 56,912
Accounts receivable and unbilled revenue—external parties, net of allowance for doubtful accounts of \$3,136 and \$4,654, respectively	210,087	234,946
Accounts receivable—related parties	8,830	2,053
Prepaid expenses and other current assets	8,674	6,477
Total current assets	<u>284,933</u>	<u>300,388</u>
Property and equipment, net	28,316	34,836
Other assets	1,395	1,573
Intangible assets, net	77,531	87,206
Goodwill	17,324	17,324
Total assets	<u>\$ 409,499</u>	<u>\$ 441,327</u>
Liabilities and Stockholders' Equity		
Accounts payable—external parties	\$ 146,045	\$ 155,676
Accrued expenses	142,703	151,685
Deferred revenue	12,488	13,894
Current portion of long-term debt	636	577
Total current liabilities	<u>301,872</u>	<u>321,832</u>
Long-term debt, net of current portion	19,236	27,380
Deferred income taxes	2,331	2,534
Other long-term liabilities	894	1,063
Total liabilities	<u>324,333</u>	<u>352,809</u>
Stockholders' equity:		
Common stock, \$0.001 par value, authorized—170,000 shares and 170,000 shares, respectively; issued—76,204 and 76,204 shares; outstanding—71,228 and 71,228 shares, respectively	76	76
Additional paid-in capital	338,785	337,590
Treasury stock at cost; 4,976 and 4,976 shares, respectively	(15,000)	(15,000)
Accumulated other comprehensive loss	3	(1,140)
Accumulated deficit	(238,698)	(233,008)
Total stockholders' equity	<u>85,166</u>	<u>88,518</u>
Total liabilities and stockholders' equity	<u>\$ 409,499</u>	<u>\$ 441,327</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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iBasis, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended June 30,	
	2009	2008
	(in thousands, except per share data)	
Net revenue—external parties	\$193,161	\$299,167
Net revenue—related parties	48,124	61,673
Total net revenue	<u>2 41,285</u>	<u>360,840</u>
Costs and operating expenses:		
Data communications and telecommunications—external parties (excluding depreciation and amortization)	1 92,564	297,804
Data communications and telecommunications—related parties (excluding depreciation and amortization)	16,897	25,560
Engineering and network operations expenses	4,950	6,028
Selling, general and administrative expenses	16,828	19,430
Depreciation and amortization	10,806	8,488
Total costs and operating expenses	<u>2 42,045</u>	<u>357,310</u>
Income (loss) from operations	(760)	3,530
Interest income	114	524
Interest expense	(440)	(554)
Foreign exchange gain (loss), net	174	(541)
Income (loss) before provision for income taxes	(912)	2,959
Provision for income taxes	3,078	2,946
Net income (loss)	<u>\$ (3,990)</u>	<u>\$ 13</u>
Net income (loss) per share:		
Basic	\$ (0.06)	\$ 0.00
Diluted	\$ (0.06)	\$ 0.00
Weighted average common shares outstanding:		
Basic	71,228	74,517
Diluted	71,228	75,072

The accompanying notes are an integral part of these condensed consolidated financial statements.

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iBasis, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Six Months Ended June 30,	
	2009	2008
	(in thousands, except per share data)	
Net revenue—external parties	\$404,990	\$573,836
Net revenue—related parties	91,802	111,907
Total net revenue	<u>4 96,792</u>	<u>685,743</u>
Costs and operating expenses:		
Data communications and telecommunications—external parties (excluding depreciation and amortization)	4 01,812	564,183
Data communications and telecommunications—related parties (excluding depreciation and amortization)	32,165	48,679
Engineering and network operations expenses	9,951	12,656
Selling, general and administrative expenses	34,034	39,251
Depreciation and amortization	19,043	15,719
Total costs and operating expenses	<u>4 97,005</u>	<u>680,488</u>
Income (loss) from operations	(213)	5,255
Interest income	191	964
Interest expense	(1,138)	(1,437)
Foreign exchange loss, net	(389)	(792)
Income (loss) before provision for income taxes	<u>(1,549)</u>	<u>3,990</u>
Provision for income taxes	4,141	6,049
Net loss	<u>\$ (5,690)</u>	<u>\$ (2,059)</u>
Net loss per share:		
Basic	\$ (0.08)	\$ (0.03)
Diluted	\$ (0.08)	\$ (0.03)
Weighted average common shares outstanding:		
Basic	71,228	74,734
Diluted	71,228	74,734

The accompanying notes are an integral part of these condensed consolidated financial statements

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iBasis, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended June 30,	
	2009	2008
	(in thousands)	
Cash flows from operating activities:		
Net loss	\$ (5,690)	\$(2,059)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	19,043	15,719
Stock-based compensation	1,195	1,247
Provision for doubtful accounts receivable	873	900
Changes in assets and liabilities:		
Accounts receivable and unbilled revenue—external parties	23,986	(23,185)
Accounts receivable—related parties	3,186	(1,951)
Prepaid expenses and other current assets	(2,197)	(1,847)
Other assets	178	33
Accounts payable—external parties	(9,631)	(9,932)
Accounts payable—related parties	—	(5,798)
Accrued expenses	(8,982)	43,644
Deferred revenue	(1,406)	(655)
Long-term deferred income taxes	(204)	(236)
Other long-term liabilities	(168)	(365)
Net cash provided by operating activities	20,183	15,515
Cash flows from investing activities:		
Purchases of property and equipment	(2,777)	(6,977)
Purchase of certain assets from TDC	—	(11,050)
Maturities of available-for-sale short-term marketable investments	—	1,999
Decrease in other long-term assets	—	5,000
Net cash used in investing activities	(2,777)	(11,028)
Cash flows from financing activities:		
Bank borrowings (repayments)	(8,129)	5,000
Payment of loan from related party	(9,963)	(4,742)
Purchases of common stock	—	(4,867)
Proceeds from exercises of common stock options	—	434
Payments of principal on capital lease obligations	(327)	(1,149)
Dividend payment related to warrant exercise	—	(323)
Net cash used in financing activities	(18,419)	(5,647)
Effect of exchange rate changes on cash and cash equivalents	1,443	(71)
Net increase (decrease) in cash and cash equivalents	430	(1,231)
Cash and cash equivalents, beginning of period	56,912	63,735
Cash and cash equivalents, end of period	\$ 57,342	\$ 62,504
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,638	\$ 1,464
Taxes paid	\$ 2,338	\$ 5,958
Supplemental disclosure of non-cash investing and financing activities:		
Common stock issued in exchange for cashless warrant exercise	\$ —	\$ 192
Contribution to equity for forgiveness of costs billed by related party	\$ —	\$ 818
Contribution to equity for expenses paid directly by related party	\$ —	\$ 492
Property and equipment acquired under long-term financing arrangement	\$ 359	\$ 1,731

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements****(unaudited)****(1) Business and Presentation****Presentation**

The unaudited condensed consolidated financial statements presented herein have been prepared by us and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement. Interim results are not necessarily indicative of results for a full year. The condensed consolidated balance sheet as of December 31, 2008 was derived from our audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, but we believe that the disclosures are adequate to make the information presented not misleading.

Balances and transactions with KPN and its other subsidiaries ("related parties") have not been eliminated, but are presented herein as balances and transactions with related parties.

Out-of-Period Adjustments

During the three months ended June 30, 2009, we identified immaterial errors in our consolidated financial statements for the years ended December 31, 2005 and 2008 and the three months ended March 31, 2009. These errors related to understating depreciation expense (totaling \$1.2 million in additional expense, net of tax in 2008 and \$0.6 million in additional expense, net of tax, in the three months ended March 31, 2009) and understating the valuation of foreign denominated accounts receivable (totaling \$1.7 million in an additional gain, net of tax) in 2005. As a result of these errors, net income was understated by approximately \$1.7 million in 2005 and net loss was understated by approximately \$1.2 million in 2008 and \$0.6 million in the three months ended March 31, 2009. We corrected these errors during the three months ended June 30, 2009. The combined impact to correct these errors on the three and six months ended June 30, 2009 results of operations was to increase net loss by \$0.1 million and decrease net loss by \$0.5 million, respectively. We evaluated these errors considering both qualitative and quantitative factors and considered the impact of these errors in relation to the periods in which they originated, as well as the current period, which is when they were corrected. We have concluded that these adjustments are not material to any prior periods' consolidated financial statements nor are they expected to be material to the year ending December 31, 2009.

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (revised 2007) ("SFAS No. 141R"), *"Business Combinations"* and SFAS No. 160 ("SFAS No. 160"), *"Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51."* SFAS No. 141R changes how business acquisitions are accounted for and impacts financial statements both on the acquisition date and in subsequent periods. SFAS No. 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(1) Business and Presentation (Continued)**

and classified as a component of equity. SFAS No. 141R and SFAS No. 160 were effective beginning the first fiscal quarter of 2009. With our adoption of SFAS No. 141R on January 1, 2009, previously reserved pre-acquisition net operating losses will reduce income tax expense when utilized or when the valuation allowance for such net operating losses is released, which may have a material effect on our results operations and financial position in 2009 and in future years. Prior to January 1, 2009, the utilization of previously reserved pre-acquisition net operating losses reduced goodwill. The adoption of SFAS No. 160 on January 1, 2009 did not have a material effect on our statements of financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161 ("SFAS No. 161"), *"Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133."* The standard is intended to enhance the current disclosure framework in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The standard requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS No. 161 on January 1, 2009 did not have a material effect on our financial position, results of operations or cash flows.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *"Determination of the Useful Life of Intangible Assets"* ("FSP 142-3"). FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset, under SFAS No. 142, *"Goodwill and Other Intangible Assets"* ("SFAS No. 142"). FSP 142-3 is intended to improve the consistency between the useful life of an intangible asset determined under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other generally accepted accounting principles. The adoption of FSP 142-3 on January 1, 2009 did not have a material effect on our financial position, results of operations or cash flows.

In May 2008, the FASB issued SFAS No. 162 ("SFAS No. 162"), *"The Hierarchy of Generally Accepted Accounting Principles."* SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles. SFAS No. 162 becomes effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *"The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles."* We do not expect that the adoption of SFAS No. 162 to have a material effect on our financial position, results of operations or cash flows.

In May 2009, the FASB issued SFAS No. 165 ("SFAS No. 165"), *Subsequent Events*, which is effective for interim or annual periods beginning after June 15, 2009. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. We have evaluated events, as defined by SFAS No. 165 through the date that the Financial Statements were issued on August 7, 2009.

In July 2009, the FASB issued SFAS No. 168 ("SFAS No. 168"), *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles—A Replacement of FASB*

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(1) Business and Presentation (Continued)**

Statement No. 162, which is effective for interim and annual periods beginning after September 15, 2009. SFAS No. 168 will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. We do not expect the adoption of SFAS No. 168 to have a material effect on our financial position, results of operations or cash flows.

(2) Net loss per share

Basic and diluted net loss per common share is determined by dividing net loss by the weighted average common shares outstanding during the period.

The following table summarizes common shares that have been excluded from the computation of basic and diluted weighted average common shares for the six months ended June 30, 2009 and 2008 because their inclusion would be anti-dilutive:

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in thousands)	
Options to purchase common shares	5,425	4,516
Warrants to purchase common shares	432	432
Total	<u>5,857</u>	<u>4,948</u>

(3) Stock-Based Compensation

We issue stock options as an equity incentive to employees and non-employee directors under our 2007 Stock Plan (the "2007 Plan"). The stock options we issued under our 2007 Plan are for a fixed number of shares with an exercise price equal to the fair market value of our stock on the date of grant, which is the closing price as reported on the NASDAQ Stock Market LLC. The employee stock option grants under the 2007 Plan typically vest quarterly in equal installments over four years, provided that no options shall vest during the employees' first year of employment, and have a term of ten years.

The 2007 Plan replaced the 1997 Stock Incentive Plan, which expired on August 11, 2007. All outstanding stock options granted under the 1997 Stock Incentive Plan will remain in effect until they expire according to their terms.

The Company records stock-based compensation expense in accordance with SFAS 123(R). SFAS 123(R) requires companies to recognize share-based payments to employees as compensation expense using the "fair value" method. The fair value of stock options and shares purchased pursuant to the 2007 Plan is calculated using the Black-Scholes valuation model. Under the fair value recognition provisions of SFAS 123(R), stock-based compensation, measured at the grant date based on the fair value of the award, is recognized as expense ratably over the service period.

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(3) Stock-Based Compensation (Continued)**

The following table presents the stock-based compensation expense included in our unaudited condensed consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Stock-based compensation expense:				
Engineering and network operations	\$152	\$167	\$ 299	\$ 312
Sales, general and administrative	457	5 01	896	935
Total stock-based compensation	<u>\$609</u>	<u>\$668</u>	<u>\$1,195</u>	<u>\$1,247</u>

During the three and six months ended June 30, 2009, we granted stock options totaling 11,600 shares and 1,317,100 shares, respectively, and during the three and six months ended June 30, 2008, we granted stock options totaling 18,100 shares and 1,294,150 shares, respectively. Shares granted during the six months ended June 30, 2009 and 2008 include shares granted to our directors, officers and employees. Shares granted during the three months ended June 30, 2009 and 2008 were to employees only. The fair value of these stock option awards were estimated using the Black-Scholes model with the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(In thousands)			
Risk free interest rate	2.15%	3.17%	2.07%	2.90%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Expected life	6 .25 years	6 .25 years	6 .25 years	6 .25 years
Volatility	100%	100%	100%	100%
Fair value of options granted	\$ 1.00	\$ 2.75	\$ 0.74	\$ 3.62

The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield of zero is based on the fact that we have no current intention to pay cash dividends. Our estimate of the expected life was based on a combination of the vesting period of four years and the term of ten years for these stock option grants. Our estimate of expected volatility is based on the historical volatility of our common stock over the period which approximates the expected life of the options.

No income tax benefit was realized from stock option exercises during the three and six months ended June 30, 2009 and 2008.

(4) Business Segment Information

During the three and six months ended June 30, 2009 and 2008, we operated in two business segments, Trading and Retail. Our Trading business segment includes revenue from wholesale Trading and Outsourcing. We consider Outsourcing as part of our Trading segment as the products we sell are

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(4) Business Segment Information (Continued)**

primarily the same products that we sell to our wholesale Trading customers and Outsourcing and wholesale Trading are managed as one business. Our Retail business segment consists primarily of our prepaid calling card services and Pingo, our prepaid calling service sold directly to consumers through an Internet website.

A breakdown of our revenue and gross profit, defined as net revenue less data communications and telecommunications costs, for the three and six months ended June 30, 2009 and 2008 is as follows:

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008	
	Revenue	Gross Profit	Revenue	Gross Profit
	(In millions)			
Trading	\$166.2	\$ 19.7	\$272.1	\$ 23.7
Outsourcing	54.2	8.8	67.8	11.0
Retail	20.9	3.3	20.9	2.8
Total	<u>\$241.3</u>	<u>\$ 31.8</u>	<u>\$360.8</u>	<u>\$ 37.5</u>

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
	Revenue	Gross Profit	Revenue	Gross Profit
	(In millions)			
Trading	\$349.5	\$ 39.5	\$526.2	\$ 45.4
Outsourcing	102.2	16.3	118.0	21.2
Retail	45.1	7.0	41.5	6.3
Total	<u>\$496.8</u>	<u>\$ 62.8</u>	<u>\$685.7</u>	<u>\$ 72.9</u>

We use net revenue and gross profit, which is net revenue less data communications and telecommunications costs, as the basis for measuring profit or loss and making decisions on our Trading and Retail business segments. We do not allocate our engineering and network operations expenses, selling, general and administrative expenses, and depreciation and amortization between Trading and Retail.

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(4) Business Segment Information (Continued)**

Operating results, excluding interest income and expense, foreign exchange gains or losses, and income tax expense, for our two business segments are as follows:

	Three Months Ended June 30, 2009		
	Trading	Retail	Total
	(In thousands)		
Net revenue—external parties	\$172,244	\$20,917	\$193,161
Net revenue—related parties	48,124	—	48,124
Total net revenue	<u>220,368</u>	<u>20,917</u>	<u>241,285</u>
Data communications and telecommunication costs—external parties	174,996	17,568	192,564
Data communications and telecommunication costs—related parties	16,897	—	16,897
Total data communications and telecommunications	<u>191,893</u>	<u>17,568</u>	<u>209,461</u>
Gross profit	<u>\$28,475</u>	<u>\$3,349</u>	<u>31,824</u>
Engineering and network operations expenses			4,950
Selling, general and administrative expenses			16,828
Depreciation and amortization			10,806
Loss from operations			<u>\$ (760)</u>

	Three Months Ended June 30, 2008		
	Trading	Retail	Total
	(In thousands)		
Net revenue—external parties	\$278,295	\$20,872	\$299,167
Net revenue—related parties	61,673	—	61,673
Total net revenue	<u>339,968</u>	<u>20,872</u>	<u>360,840</u>
Data communications and telecommunication costs—external parties	279,732	18,072	297,804
Data communications and telecommunication costs—related parties	25,560	—	25,560
Total data communications and telecommunications	<u>305,292</u>	<u>18,072</u>	<u>323,364</u>
Gross profit	<u>\$34,676</u>	<u>\$2,800</u>	<u>37,476</u>
Engineering and network operations expenses			6,028
Selling, general and administrative expenses			19,430
Depreciation and amortization			8,488
Income from operations			<u>\$ 3,530</u>

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(4) Business Segment Information (Continued)**

	Six Months Ended June 30, 2009		
	Trading	Retail	Total
	(In thousands)		
Net revenue—external parties	\$359,875	\$45,115	\$404,990
Net revenue—related parties	91,802	—	91,802
Total net revenue	<u>4 51,677</u>	<u>4 5,115</u>	<u>496,792</u>
Data communications and telecommunication costs—external parties	3 63,715	3 8,097	401,812
Data communications and telecommunication costs—related parties	32,165	—	32,165
Total data communications and telecommunications	<u>3 95,880</u>	<u>3 8,097</u>	<u>433,977</u>
Gross profit	<u>\$ 55,797</u>	<u>\$ 7,018</u>	<u>62,815</u>
Engineering and network operations expenses			9,951
Selling, general and administrative expenses			34,034
Depreciation and amortization			19,043
Loss from operations			<u>\$ (213)</u>

	Six Months Ended June 30, 2008		
	Trading	Retail	Total
	(In thousands)		
Net revenue—external parties	\$532,391	\$41,445	\$573,836
Net revenue—related parties	1 11,907	—	1 11,907
Total net revenue	<u>6 44,298</u>	<u>41,445</u>	<u>6 85,743</u>
Data communications and telecommunication costs—external parties	5 29,019	35,164	5 64,183
Data communications and telecommunication costs—related parties	48,679	—	48,679
Total data communications and telecommunications	<u>5 77,698</u>	<u>35,164</u>	<u>6 12,862</u>
Gross profit	<u>\$6 6,600</u>	<u>\$ 6,281</u>	<u>72,881</u>
Engineering and network operations expenses			12,656
Selling, general and administrative expenses			39,251
Depreciation and amortization			15,719
Income from operations			<u>\$ 5,255</u>

Assets relating to our Trading and Retail business segments consist of accounts receivable, net of allowance for doubtful accounts, customer and distributor relationships intangible assets and goodwill.

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(4) Business Segment Information (Continued)**

We do not allocate cash and cash equivalents, prepaid expenses and other current assets, property and equipment, net, or other assets between Trading and Retail.

	As of June 30, 2009		
	Trading	Retail	Total
	(In thousands)		
<i>Segment assets:</i>			
Accounts receivable and unbilled revenue—external parties, net	\$204,005	\$ 6,082	\$210,087
Intangible assets—customer and distributor relationships, net	23,123	8,726	31,849
Goodwill	17,324	—	17,324
	<u>\$244,452</u>	<u>\$14,808</u>	<u>2 59,260</u>
Non-segment assets			1 50,239
Total assets			<u>\$409,499</u>

	As of December 31, 2008		
	Trading	Retail	Total
	(In thousands)		
<i>Segment assets:</i>			
Accounts receivable and unbilled revenue—external parties, net	\$224,883	\$10,063	\$234,946
Intangible assets—customer and distributor relationships, net	26,147	10,420	36,567
Goodwill	17,324	—	17,324
	<u>\$268,354</u>	<u>\$20,483</u>	<u>2 88,837</u>
Non-segment assets			1 52,490
Total assets			<u>\$441,327</u>

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(5) Accounts Receivable and Unbilled Revenue—External Parties**

Accounts receivable—external parties, net consists of the following:

	As of June 30, 2009	As of December 31, 2008
	(In thousands)	
Accounts receivable	\$ 202,233	\$ 183,239
Unbilled revenue	10,990	56,361
	<u>213,223</u>	<u>239,600</u>
Allowance for doubtful accounts	(3,136)	(4,654)
Total accounts receivable—external parties	<u>\$ 210,087</u>	<u>\$ 234,946</u>

The allowance for doubtful accounts reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on specific known uncollectible accounts, historical experience, and other currently available evidence. During the six months ended June 30, 2009, we wrote-off \$2.4 million of previously reserved accounts receivable to the allowance for doubtful accounts. The balance of the allowance for doubtful accounts as of December 31, 2008 has been adjusted to reflect the current period classification of the components of the allowance.

(6) Property and Equipment

Property and equipment, net, consists of the following:

	As of June 30, 2009	As of December 31, 2008
	(In thousands)	
Network equipment	\$ 44,463	\$ 44,332
Software	16,091	17,538
Leasehold improvements	1,414	1,629
Other tangible fixed assets	3,378	3,594
	<u>65,346</u>	<u>67,093</u>
Accumulated depreciation	(37,030)	(32,257)
Total property and equipment, net	<u>\$ 28,316</u>	<u>\$ 34,836</u>

Total depreciation and amortization expense related to property and equipment was \$6.0 million and \$4.2 million for the three months ended June 30, 2009 and 2008, respectively, and \$9.4 million and \$7.6 million for the six months ended June 30, 2009 and 2008, respectively.

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(7) Goodwill and Other Intangible Assets**

Other intangible assets, net consisted of the following:

	<u>As of June 30, 2009</u>		<u>As of December 31, 2008</u>	
	<u>At Cost</u>	<u>Accumulated Amortization</u>	<u>At Cost</u>	<u>Accumulated Amortization</u>
	<u>(In thousands)</u>			
Trademarks and trade names	\$ 21,800	\$ (2,544)	\$ 21,800	\$ (1,817)
Wholesale customer relationships	30,747	(7,616)	30,747	(4,616)
Retail distributor relationships	13,500	(4,779)	13,500	(3,080)
Termination partner relationships	8,400	(3,637)	8,400	(2,719)
Technology	33,300	(11,656)	33,300	(8,325)
Other	64	(48)	64	(48)
	<u>\$107,811</u>	<u>\$ (30,280)</u>	<u>\$107,811</u>	<u>\$ (20,605)</u>

We currently expect to amortize the following remaining amounts of intangible assets as of June 30, 2009 in the fiscal periods as follows:

<u>Year ending December 31,</u>	<u>(In thousands)</u>
2009 (remaining six months)	\$ 9,691
2010	17,916
2011	16,382
2012	12,517
2013	3,875
Thereafter	17,150
Total	<u>\$ 77,531</u>

Impairment

We have two operating segments which are also our reporting units: (1) Trading and (2) Retail. As of June 30, 2009 and December 31, 2008, all goodwill was assigned to our Trading reporting unit.

At each year-end we perform an annual impairment test of goodwill as required under the provisions of SFAS 142 and whenever events or changes in circumstances would more likely than not reduce the fair value of a reporting unit below its carrying value. SFAS No. 142 requires that the impairment test be performed through the application of a two-step process. The first step compares the carrying value of our reporting units, which are our Trading and Retail operating segments, to their estimated fair values as of the test date. If fair value is less than carrying value, a second step must be performed to quantify the amount of the impairment, if any. We estimate the fair value of our reporting units using an income approach, as of December 31, 2008, which estimates fair value based upon future cash flows discounted to their present value. We then reconcile the estimated fair value of our reporting units to our overall market capitalization. Assessing the impairment of goodwill requires us to make certain significant assumptions, estimates and judgments, including future revenue, expenses, cash flows, discount rates and implied control premiums. The actual results may differ from

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(7) Goodwill and Other Intangible Assets (Continued)**

these assumptions and estimates and it is possible that such differences could have a material impact on our financial statements.

We base the valuation of our Trading reporting unit, in part, on i) our actual historical performance; ii) our estimate of the future performance of our Trading reporting unit and iii) projections developed by an independent analyst. As a result of our annual impairment analysis as of December 31, 2008, we concluded there had been an impairment of the carrying value of goodwill of \$214.7 million as of December 31, 2008. In addition, the carrying value of goodwill was further reduced by \$16.8 million, to \$17.3 million, as of December 31, 2008, as a result of the utilization of previously reserved pre-acquisition net operating losses.

For intangible assets, we assess the carrying value of these assets whenever events or circumstances indicate that the carrying value may not be recoverable. We determined that the adverse business climate and the significant drop in our market capitalization experienced during the fourth quarter of fiscal 2008 were significant events that indicated that the carrying amount of our intangible assets might not be recoverable. SFAS No. 144 requires a two-step test to be performed prior to assessing the impairment of goodwill. The first step compares the carrying value of the asset, or asset group, to the undiscounted cash flows of the asset, or asset group. If the asset or asset group's carrying value exceeds the undiscounted cash flows, step two of the test is required to measure the impairment loss, if any. An asset or asset group cannot be impaired below the asset or asset group's fair value.

As required by SFAS No. 144, we performed our assessment, as of December 31, 2008, at the asset group level which represented the lowest level of cash flows that are largely independent of cash flows of other assets and liabilities. For us, this asset grouping is at the reporting unit level. When performing this test at the reporting unit level, goodwill is included in the carrying value of the asset group. The carrying value of the Trading reporting unit, including goodwill (prior to the goodwill impairment charge described above), was greater than the undiscounted cash flows while the Retail reporting unit's undiscounted cash flows exceeded the carrying value. For our Trading reporting unit, we performed step two of the impairment test and determined there was no impairment of our intangible assets as the fair value of the asset group, excluding goodwill, was greater than the carrying value. The projections and assumptions used in calculating the fair value of the assets were consistent with the projections used in the goodwill impairment test as of December 31, 2008. We also reassessed the amortization method and remaining amortization period for the assets, as of December 31, 2008, and determined that no changes to the amortization period or method were necessary.

During the three months ended March 31, 2009, our market capitalization continued to decline. As a result, we considered this to be an indication that the carrying value of \$17.3 million of our goodwill may be impaired. Accordingly, we conducted an analysis to determine if there had been an impairment of the carrying value of goodwill as of March 31, 2009. Our analysis was performed in accordance with SFAS 142, as described above. As a result of this analysis, we determined that the carrying value of goodwill was not impaired as of March 31, 2009. In addition, we performed an analysis under SFAS 144 of our other intangible assets and determined that the carrying value of our other intangible assets was not impaired as of March 31, 2009.

During the three months ended June 30, 2009, our market capitalization increased to approximately \$93.3 million. In addition, the financial performance of our Trading reporting unit for

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(7) Goodwill and Other Intangible Assets (Continued)**

the six months ended June 30, 2009 approximated our prior financial projections for this period. As our market capitalization was in excess of the book value of our Trading reporting unit as of June 30, 2009 and the financial performance of our Trading reporting unit had met our prior expectations, we determined that the carrying value of goodwill was not impaired as of June 30, 2009. It is reasonably possible that there could be an impairment of our intangible assets and/or our remaining goodwill in the near term and the amounts could be material.

(8) Accrued Expenses

Accrued expenses consist of the following:

	As of June 30, 2009	As of December 31, 2008
	(In thousands)	
Termination fees and circuit costs	\$ 116,719	\$ 136,655
Compensation	4,128	3,224
Dividend payable	1,421	1,421
Accrued other	20,435	10,385
Total accrued expenses	<u>\$ 142,703</u>	<u>\$ 151,685</u>

(9) Accrued Restructuring Costs

At June 30, 2009, we had accrued restructuring costs of \$0.7 million, which consisted of \$0.4 million in future payment obligations relating to a terminated New York City facility lease and \$0.3 million of costs accrued for future lease obligations for certain vacant leased facilities, net of future sublease payments. Payments of these restructuring costs will be made through February 2011.

A summary of accrued restructuring costs for the six months ended June 30, 2009 is as follows:

	Future Payment Obligation on Lease Termination	Contractual Lease Obligations Relating to Vacant Facilities (In thousands)	Total
Balance, December 31, 2008	\$ 490	\$ 611	\$1,101
Cash payments	(117)	(259)	(376)
Balance, June 30, 2009	<u>\$ 373</u>	<u>\$ 352</u>	<u>\$ 725</u>
Current portion, included in accrued expenses			\$ 580
Long-term portion, included in other long-term liabilities			145
Total			<u>\$ 725</u>

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(10) Income Taxes**

The income tax provision of \$3.1 million and \$2.9 million for the three months ended June 30, 2009 and 2008, respectively, and \$4.1 million and \$6.0 million for the six months ended June 30, 2009 and 2008, respectively, primarily relates to income taxes on the taxable income of our Netherlands operations. For the six months ended June 30, 2009 compared to the six months ended June 30, 2008, the lower income tax provision was largely a result of our integration efforts, which have increased the level of management and support of our Netherlands operations that is being provided from our U.S. headquarters. As a result, we have been able to reduce the pre-tax income of our Netherlands operations and, correspondingly, we have reduced the level of losses in the U.S. for which we receive no current tax benefit.

As discussed in Note 10 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008, we have recorded a valuation allowance against our U.S. net deferred tax assets since it is more likely than not that our U.S. net deferred tax assets will not be realized. With our adoption of SFAS No. 141R on January 1, 2009, previously reserved pre-acquisition net operating losses will reduce income tax expense when utilized or when the valuation allowance for such net operating losses is released.

(11) Line of Credit and Long-Term Debt

Long-term debt consists of the following:

	As of June 30, 2009	As of December 31, 2008
	(In thousands)	
Bank borrowings	\$ 18,951	\$ 27,080
Capital lease obligations	921	877
	<u>19,872</u>	<u>27,957</u>
Less: Current portion	(636)	(577)
Long-term portion	<u>\$ 19,236</u>	<u>\$ 27,380</u>

In October 2007, we entered into a Second Amended and Restated Loan and Security Agreement (the "Loan Agreement") with Silicon Valley Bank, which amended and restated a certain Amended and Restated Loan and Security Agreement dated as of December 29, 2003. We entered into the Loan Agreement to obtain funding for working capital purposes and in support of the KPN Transaction. Pursuant to the Loan Agreement, as subsequently amended, we may borrow up to \$35.0 million from time to time under a secured revolving credit facility through September 30, 2010. Borrowings under the line of credit will be on a formula basis, based on eligible domestic and foreign accounts receivable. The line of credit contains quarterly financial covenants, consisting primarily of minimum profitability and minimum liquidity requirements. The line of credit has a quarterly commitment fee of 0.63% on any unused portion of the line of credit and an up-front, one-time facility fee of 0.75%, or \$263,000. The revolving credit facility is also guaranteed by all domestic wholly-owned subsidiaries. The revolving credit facility is collateralized by a first priority lien and security interest on the assets of iBasis and such guarantors. In addition, iBasis has pledged 66.2% of all of its ownership in iBasis Netherlands B.V., a wholly-owned subsidiary based in The Netherlands, as collateral for the revolving

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(11) Line of Credit and Long-Term Debt (Continued)**

credit facility. Pursuant to the terms of the Loan Agreement, we may use the proceeds solely for working capital and to fund our general business requirements.

In April and September 2008, we modified the Loan Agreement, which modifications were subsequently superseded by a more recent modification. On January 26, 2009, we entered into the Third Loan Modification Agreement with Silicon Valley Bank, effective as of December 30, 2008. The modification to the Loan Agreement contains the following amendments, among others:

- i) We decreased the amount available under the Loan Agreement from \$50.0 million to \$35.0 million;
- ii) We extended the maturity date of the Loan Agreement to September 30, 2010;
- iii) We established minimum interest rates payable on amounts drawn under the Loan Agreement, which include an interest rate floor of 4.25% on amounts subject to Silicon Valley Bank's prime rate and an interest rate floor of 2.0% on amounts subject to the LIBOR rate;
- iv) We changed formulas for determining quarterly adjustments to margins applicable to prime rate and LIBOR rate and formula for unused revolving line fee from formulas based on the total funded debt ratio to formulas based on EBITDA (earnings before interest, taxes, depreciation and amortization) minus capital expenditures;
- v) We increased the frequency of certain financial reporting requirements from quarterly to monthly as requested by Silicon Valley Bank;
- vi) We modified the minimum adjusted quick ratio financial covenant to require a minimum adjusted quick ratio of 0.80 to 1.00 for the fiscal quarter ended December 31, 2008 and as of the end of each fiscal quarter thereafter;
- vii) We deleted the minimum consolidated EBITDA financial covenant;
- viii) We added a financial covenant requiring consolidated EBITDA minus capital expenditures to be at least (a) a loss of \$1,000,000 with respect to the fiscal quarters ending December 31, 2008 and March 31, 2009, (b) \$1.00 with respect to the fiscal quarter ending June 30, 2009, (c) \$1,750,000 with respect to the fiscal quarter ending September 30, 2009, and (d) \$3,500,000 with respect to the fiscal quarter ending December 31, 2009 and each fiscal quarter thereafter; and
- ix) We modified the minimum liquidity financial covenant to require a new minimum liquidity amount of \$17.5 million measured at the end of each fiscal month through August 31, 2009 and a minimum of \$20 million at the end of each fiscal month thereafter. In addition, we are required to maintain at least 40% of our total cash, cash equivalents and short-term investments with Silicon Valley Bank.

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(11) Line of Credit and Long-Term Debt (Continued)**

In connection with this modification, we paid Silicon Valley Bank a modification fee of \$52,500 and a revolving line renewal fee of \$175,000 which are being recognized as interest expense.

At June 30, 2009 and December 31, 2008, we had \$19.0 million and \$27.1 million, respectively, in borrowings outstanding, and had issued outstanding standby letters of credit of \$2.5 million and \$2.6 million, respectively, under the Loan Agreement. As of June 30, 2009, we were in compliance with all of the covenants under the Loan Agreement.

In the six months ended June 30, 2009, we purchased certain equipment for \$0.4 million under a four year financing agreement, with payments due monthly through May 2013.

(12) Commitments and Contingencies***Commitments***

We lease our administrative and operating facilities, under operating leases which expire on various dates through 2018. The future approximate minimum lease payments under these operating leases as of June 30, 2009 consist of the following:

	(in thousands)
Less than one year	\$ 2,496
One to two years	1,137
Two to three years	855
Three to four years	830
Four to five years	379
Thereafter	1,361
Total future minimum lease payments	<u>\$ 7,058</u>

At June 30, 2009, we had commitments with certain telecommunications carriers for the termination of minutes for the next twelve months totaling \$35.6 million. As of June 30, 2009, we did not have any other material purchase obligations, or other material long-term commitments reflected on our consolidated balance sheets.

Litigation

In addition to litigation that we have initiated or responded to in the ordinary course of business, we are currently party to the following potentially material legal proceedings:

Complaint Filed Against Royal KPN and Affiliates Relating to Unsolicited Tender Offer by KPN

For a description of the complaint the Company filed against Royal KPN and its affiliates in August 2009 relating to the unsolicited tender offer by KPN, please see the legal proceedings described under the heading "Tender Offer by Royal KPN" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in this Quarterly Report on Form 10-Q.

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(12) Commitments and Contingencies (Continued)***Class Action Pursuant to 1999 Initial Public Offering*

In 2001, we were served with several class action complaints that were filed in the United States District Court for the Southern District of New York against us and several of our officers, directors, and former officers and directors, as well as against the investment banking firms that underwrote our November 10, 1999 initial public offering of common stock and our March 9, 2000 secondary offering of common stock. The complaints were filed on behalf of a class of persons who purchased our common stock between November 10, 1999 and December 6, 2000.

The complaints are similar to each other and to hundreds of other complaints filed against other issuers and their underwriters, and allege violations of the Securities Act of 1933, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), primarily based on the assertion that there was undisclosed compensation received by our underwriters in connection with our public offerings and that there were understandings with customers to make purchases in the aftermarket.

In September 2001, the complaints were consolidated and allege that our prospectuses failed to disclose these arrangements. The consolidated complaint seeks an unspecified amount of monetary damages and other relief. In October 2002, the individual defendants were dismissed from the litigation by stipulation and without prejudice and subject to an agreement to toll the running of time-based defenses. In February 2003, the district court denied our motion to dismiss.

In June 2004, we and the individual defendants, as well as many other issuers named as defendants in the class action proceeding, entered into an agreement-in-principle to settle this matter, and this settlement was presented to the court. The district court granted a preliminary approval of the settlement in February 2005, subject to certain modifications to the proposed bar order, to which plaintiffs and issuers agreed. In August 2005, the district court issued a preliminary order further approving the modifications to the settlement, certifying the settlement classes and scheduled a fairness hearing, after notice to the class. Plaintiffs have continued to pursue their claims against the underwriters. The district court established a procedure whereby six "focus" cases are being pursued initially and has certified a class of purchasers in those cases. The underwriters appealed the certification order in each of the six cases and in December 2006, the United States Court of Appeals for the Second Circuit reversed the certification orders. Motions to dismiss amended complaints filed in the six focus cases have been denied.

The plaintiffs, the underwriter defendants, the issuer defendants and the issuer's insurers have entered into preliminary settlement agreements, subject to approval of the district court. The district court issued a Preliminary Approval Order on June 11, 2009 and scheduled the Settlement Fairness Hearing for September 10, 2009. The proposed settlement would release all of the claims asserted against us and would be funded by the underwriter defendants and the issuers' insurers. There can be no assurance that the proposed settlement will be approved by the district court. We believe that if this matter is not settled, we have meritorious defenses which we intend to vigorously assert. We cannot estimate potential losses, if any, from these matters or whether, in light of our insurance coverage, any loss would be material to our financial condition, results of operations or cash flows. As such, no amounts have been accrued as of June 30, 2009.

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(12) Commitments and Contingencies (Continued)***SEC Option Investigation*

We announced on October 20, 2006, that we were contacted by the SEC as part of an informal inquiry and we further disclosed on March 29, 2007, in our Current Report on Form 8-K, that the SEC had notified us that we would be receiving a formal order of investigation relating to our stock option practices. On April 13, 2007, we received the formal order of investigation. The SEC investigation sought documents and information from us relating to the grant of our options from 1999 through 2006. The SEC has taken testimony from individuals including certain of our current and former officers and directors. We have cooperated fully with the SEC investigation and we are in communication with the SEC staff regarding the outcome of the investigation. There is no assurance that we will be able to resolve the SEC investigation on acceptable terms without the institution of enforcement proceedings by the SEC against us or one or more of our senior executive officers or that other inquiries will not be commenced by other U.S. federal, state or other regulatory agencies. An SEC enforcement proceeding could seek an injunction against future violations of the securities laws, a civil penalty and, as to individual executives, disgorgement and a bar order against serving as an officer or director of a publicly traded company. A bar order as to any of our senior executive officers would deprive us of any such executive's services and could have a material adverse affect on our business.

We cannot estimate the amount of losses, if any, from the SEC investigation, or whether any loss would be material to our financial condition, results of operations or cash flows. As such, no amounts have been accrued as of June 30, 2009.

Sub-Distributor Action

On September 20, 2007, J & J Communications ("J & J"), a sub-distributor of calling cards distributed through iBasis distributor Abdul Communications ("Abdul"), amended a complaint filed in the United States District Court for the District of Maryland against Abdul, to add iBasis and PCI, a wholesale calling-card provider ("PCI"), as defendants in the matter. The complaint asserts that J & J has lost and continues to lose money because iBasis and PCI deactivated calling cards for which J & J allegedly paid. J & J is seeking in excess of \$1.0 million, plus punitive damages, attorneys fees and litigation costs based on a variety of claims against Abdul, iBasis, and PCI, predicated on contractual theories, various torts, conspiracy and an alleged violation of § 201 of the Telecommunications Act. With respect to iBasis, J & J alleges both direct liability and vicarious liability, for its alleged status as principal in an alleged agency relationship with Abdul. iBasis responded to the amended complaint through an answer and motion to dismiss on February 8, 2008. On June 2, 2008, the Court dismissed the conspiracy and Telecommunications Act claims.

Mandated mediation took place on May 28, 2009 but failed to result in any settlement. Fact discovery has been completed and the Plaintiff filed a damages expert report on July 14, 2009. On July 17th, 2009, Defendants filed a joint motion to modify the schedule and stay expert discovery pending the resolution of summary judgment motions ("Joint Motion"). In the Joint Motion, the Defendants requested that the Court require summary judgment motions to be filed by August 27th. The Joint Motion is pending with the Court. If J&J's claims survive motions to dismiss, a trial would commence in the three months ended December 31, 2009 or the three months ended March 31, 2010.

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(12) Commitments and Contingencies (Continued)**

We cannot estimate the amount of losses, if any, from this matter, or whether any loss would be material to our financial condition, results of operations or cash flows. As such, no amount has been accrued as of June 30, 2009.

Bankruptcy Preference Claim

On April 24, 2001 (the "Petition Date"), World Access, Inc. ("World Access"), WorldxChange Communications, Inc. ("WorldxChange"), and Facilicom International, LLC ("Facilicom"), together with other related debtors (collectively, the "Debtors"), filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Northern District of Illinois (Eastern Division). The Debtors' cases are jointly administered but have not been substantively consolidated. Prior to the Petition Date, we and the Debtors engaged in a reciprocal business relationship. On or about April 21, 2003 the Debtors initiated a large number of avoidance actions, including an adversary proceeding in which the Debtors asserted claims against us for allegedly preferential transfers and nonpayment of overdue amounts owed by iBasis to the Debtors totaling approximately \$2.1 million. We have asserted defenses to the claims, invoked statutory defenses and filed proofs of claim for approximately \$0.5 million to which the trustee for the Debtors has objected. In July 2009, we entered into a settlement agreement with the Debtors pursuant to which we will pay \$0.5 million in full payment of all claims. We made this payment in early August 2009. As of June 30, 2009, we had accrued \$0.5 million for this claim.

Consumer Class Action

We were named in a putative consumer class action complaint, filed in the United States District Court for the District of New Jersey. We were served on May 27, 2008. The putative class action plaintiff, Orlando Ramirez, asserted violations of consumer protection statutes in New Jersey and other states on behalf of an asserted nationwide class of purchasers due to an alleged failure to adequately disclose the actual calling time available on iBasis' prepaid calling cards. We filed a motion to change venue to the Eastern District of New York where named plaintiff resides and purchased the card. Plaintiffs were granted a voluntary dismissal, without prejudice, on July 9, 2008. On December 19, 2008, a substantially similar complaint was filed against us on behalf of Mr. Ramirez in the United States District Court for the Eastern District of New York. We were served with the summons and complaint on April 16, 2009. On June 30, 2009, we filed a motion in the Eastern District to require plaintiffs to pay our attorneys fees and costs incurred in connection with plaintiff's prior filing in the District of New Jersey. Oral argument on the motion has been set for August 11, 2009. We believe that we have substantial defenses to the claims alleged in the complaint and we intend to vigorously defend against the claims asserted. We cannot estimate the amount of losses, if any, from this matter, or whether any loss would be material to our financial condition, results of operations or cash flows. As such, no amount has been accrued as of June 30, 2009.

Other Matters

We are also subject to suits for collection, related commercial disputes, claims by former employees, garnishment actions, claims related to certain taxes, claims from carriers and foreign service partners over reconciliation of payments for circuits, Internet bandwidth and/or access to the public

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(12) Commitments and Contingencies (Continued)**

switched telephone network, and claims from estates of bankrupt companies alleging that we received preferential payments from such companies prior to their bankruptcy filings. We cannot estimate the amount of losses, if any, from these matters, or whether any loss would be material to our financial condition, results of operations or cash flows. As such, no amount has been accrued as of June 30, 2009.

(13) Related Party Transactions***Revenue and Data and Telecommunication Costs***

Revenue from KPN and its subsidiaries amounted to \$48.1 million and \$61.7 million for the three months ended June 30, 2009 and 2008, respectively, and \$91.8 million and \$111.9 million for the six months ended June 30, 2009 and 2008, respectively, and is reported in net revenue from related parties in the Condensed Consolidated Statements of Operations.

Data and telecommunication costs purchased from KPN was \$14.2 million and \$25.6 million for the three months ended June 30, 2009 and 2008, respectively, and \$29.5 million and \$48.7 million for the six months ended June 30, 2009 and 2008, respectively, and is reported in data and telecommunications costs—related parties in the Condensed Consolidated Statements of Operations. These costs relate to services for the procurement and transmission of sending and receiving traffic (provided to us by KPN and its subsidiaries).

Allocated expenses

Engineering and network operations expenses include allocated costs from KPN, which were \$0.9 million and \$1.7 million for the three months ended June 30, 2009 and 2008, respectively, and \$2.1 million and \$3.5 million for the six months ended June 30, 2009 and 2008, respectively. The reduction in engineering and network operations support from KPN reflects the results of our integration efforts and the migration of our mid-range voice product to our VoIP network.

Selling, general and administrative expenses include allocated corporate and divisional costs from KPN, which were \$0.8 million and \$0.9 million for the three months ended June 30, 2009 and 2008, respectively, and \$1.5 million and \$2.0 million for the six months ended June 30, 2009 and 2008, respectively. The decrease in these allocated costs from KPN primarily reflects certain costs that were previously allocated, such as audit fees, which are now being paid directly by us, as well as the result of the integration of our Netherlands and U.S. operations.

Working Capital and Debt Adjustments related to KPN Transaction

In accordance with the Share Purchase Agreement for the KPN Transaction, a post-closing adjustment was required if (i) iBasis' working capital was lower than or exceeded \$37.1 million; (ii) iBasis' debt exceeded or was lower than \$2.9 million; (iii) the combined working capital of KPN GCS was lower than or exceeded \$(6.1) million; and/or (iv) the combined debt of KPN GCS exceeded \$0, as of the date of the closing of the KPN Transaction. Based on iBasis' balance sheet position on the date of the closing of the KPN Transaction, working capital was \$3.4 million less than the specified level of \$37.1 million, and debt was \$1.8 million less than the specified level of \$2.9 million. As a result, a payment of \$11.6 million was due to KPN from iBasis. Based on KPN GCS's balance sheet position

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(13) Related Party Transactions (Continued)**

on the date of the closing of the KPN Transaction, working capital exceeded the specified level of \$(6.1) million by \$3.9 million and debt was at the specified level of \$0. As a result, payment of \$3.9 million was due to KPN from iBasis.

In early 2008, KPN forgave \$0.8 million in expenses incurred by KPN GCS since the closing of the KPN Transaction. As a result, the amount due to KPN was reduced by this amount and the reduction was recorded as a contribution to equity. These expenses were recorded in our results of operations in the three months ended March 31, 2008. The total amount of \$14.7 million due to KPN was scheduled to be paid by iBasis in three successive quarterly installments through the third quarter of 2008, with interest at the rate of 6% per annum. In May 2008, we made the first payment of \$5.2 million, including interest, to KPN. In September 2008, we revised the terms of the remaining balance of \$10.3 million due to KPN to extend the payment date of the second installment payment to March 2009 and the final installment to June 2009. In addition, the interest rate was increased to 7% on the principal amount due, effective October 1, 2008, and we paid additional interest of \$60,000 relating to the extension of the second installment that was originally due June 30, 2008. In March 2009, we made the second installment payment of \$5.5 million, including interest, and in June 2009, we made the third and final installment payment of \$5.2 million, including interest, to KPN.

Tender Offer by Royal KPN

On July 13, 2009, the Company's Board of Directors received a letter from Royal KPN stating its intention to commence a tender offer, through its subsidiary KPN (the "Purchaser"), to acquire all of the shares of the Company's common stock not owned by KPN at an offer price of \$1.55 per share in cash (the "Offer"). On July 15, 2009, the Board of Directors of the Company unanimously approved the creation of a special committee (the "Special Committee"), composed of W. Frank King (Chairman), Charles N. Corfield and Robert H. Brumley, to evaluate the Offer and make a recommendation to the stockholders of the Company. On July 28, 2009, the Purchaser commenced the Offer and described the terms of the Offer in a Tender Offer Statement filed with the SEC under cover of Schedule TO. On July 30, 2009, the Company, acting through the Special Committee, responded to the Offer by filing under Schedule 14D-9, which contained the unanimous recommendation of the Special Committee that the Company's stockholders reject the Offer and not tender their shares pursuant to the Offer, because the tender offer price of \$1.55 per share was grossly inadequate, opportunistic and not in the best interests of the Company's shareholders.

On July 30, 2009, the Board of Directors approved the adoption of a limited duration shareholder rights plan. The rights plan was implemented through the Company's entry into a rights agreement with Computershare Trust Company, N.A., as rights agent, and the declaration of a non-taxable dividend distribution of one preferred stock purchase right (each, a "Right") for each outstanding share of the Company's common stock. The dividend is payable on August 10, 2009 to holders of record as of the close of business on August 10, 2009. Each right is attached to and trades with the associated share of common stock. The rights will become exercisable only if a person acquires beneficial ownership of 15% or more of the Company's common stock (or, in the case of a person who beneficially owned 15% or more of the Company's common stock on the date the rights plan was adopted, such person acquires beneficial ownership of any additional shares of the Company's common stock) or after the date of the Rights Agreement, commences a tender offer that, if consummated, would result in

Table of Contents**iBasis, Inc.****Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)****(13) Related Party Transactions (Continued)**

beneficial ownership by a person of 15% or more of the Company's common stock. The rights will expire on July 30, 2010, unless the rights are earlier redeemed or exchanged. A copy of the rights agreement was filed with the SEC on July 30, 2009 as Exhibit 4.1 to the Company's Current Report on Form 8-K.

On August 3, 2009, the Company filed a lawsuit in the Court of Chancery in the State of Delaware, against Royal KPN, Purchaser, other KPN entities and certain members of KPN's management and Supervisory Board (collectively, the "Defendants") with respect to the Offer. The complaint asserts: several counts for breaches of fiduciary duty against certain of the Defendants, aiding and abetting the breaches of fiduciary duty against certain of the Defendants, civil conspiracy against all Defendants, and fraudulent inducement against certain of the Defendants. The complaint seeks, among other relief, to enjoin the Offer.

As a result of the commencement of the Offer by KPN and our filing of the complaint against the Defendants, we expect to incur significant expenses during the three months ended September 30, 2009, primarily for legal and investment banking consultation to the Company's Special Committee and Board of Directors.

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Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Overview

We are a leading wholesale carrier of international long distance telephone calls and a provider of retail prepaid calling services and enhanced services for mobile operators.

Our operations consist of our wholesale trading business ("Trading"), in which we connect buyers and sellers of international telecommunications services, and our retail services business ("Retail"). Our Trading business also includes outsourcing revenue ("Outsourcing") which we generate as a managed services provider of wholesale international voice services for certain carrier customers, including KPN B.V. ("KPN") which owns a majority of our outstanding common stock.

In our Trading business we receive voice traffic from buyers—originating telecommunications carriers who are interconnected to our network via Voice over Internet Protocol ("VoIP") or traditional time division multiplexing ("TDM") connections, and we route that traffic over our network to sellers—local service providers and telecommunications carriers in the destination countries with whom we have established agreements to manage the completion or termination of calls. We offer our Trading service on a wholesale basis to carriers, mobile operators, consumer VoIP companies, telephony resellers and other service providers worldwide. Our Outsourcing revenue currently consists of international voice traffic we terminate for Royal KPN N.V. ("Royal KPN") and its affiliates and for TDC, a leading telecommunications carrier in Denmark.

Our Retail business consists of retail prepaid calling cards, which are marketed through distributors primarily to ethnic communities within major metropolitan markets in the United States, and Pingo®, a prepaid calling service that we offer and sell directly to consumers via an eCommerce model. Both can be private-labeled for other service providers. The prepaid calling card business and Pingo leverage our existing international network and have the potential to deliver higher margins than are typically achieved in the wholesale Trading business. In addition, the retail prepaid calling card business typically has a faster cash collection cycle than the wholesale Trading business. In 2007, we launched PingoBusiness, enhancements that enable businesses to manage multiple Pingo accounts through a single administrative account.

We use proprietary, patented and patent-pending technology in our global VoIP network to automate the selection of routes and termination partners based on a variety of performance, quality, and business metrics. We have call termination agreements with local service providers in more than 100 countries in North America, Europe, Asia, the Middle East, Latin America, Africa and Australia.

Transaction with KPN B.V., a subsidiary of Royal KPN N.V.

On October 1, 2007, iBasis, Inc. ("iBasis," the "Company", "we" and "our") and KPN B.V., a subsidiary of Royal KPN, completed transactions ("KPN Transaction") pursuant to which iBasis issued 40,121,074 shares of its common stock to KPN and acquired the outstanding shares of two subsidiaries of KPN (collectively, "KPN GCS"), which encompassed KPN's international wholesale voice business. The Company also received \$55 million in cash from KPN, subject to post-closing adjustments based on the working capital and debt of iBasis and KPN GCS as described elsewhere in this Quarterly Report on Form 10-Q. Immediately after issuance on October 1, 2007, the shares of iBasis common stock issued to KPN represented 51% of the issued and outstanding shares of iBasis common stock on a fully-diluted basis (which included all of the issued and outstanding common stock and the common stock underlying outstanding "in-the-money" stock options, as adjusted, and warrants to purchase common stock). On October 8, 2007, iBasis paid a dividend in the amount of \$113 million at a rate of \$3.28 per share to each of its shareholders on the record date of September 28, 2007, the trading date immediately prior to the closing date of the KPN Transaction.

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The officers of iBasis immediately prior to the closing of the KPN Transaction have continued to serve as the officers of the combined company and one executive of KPN GCS, Edwin van Ierland, was appointed as the Company's Senior Vice President Worldwide Sales. Upon the closing of the KPN Transaction, Messrs. Charles Skibo and David Lee, two independent members of iBasis' board of directors, resigned as members of the board of directors and the board of directors of iBasis appointed Messrs. Eelco Blok and Joost Farwerck, two executives of Royal KPN N.V., as directors to fill the vacancies created by the resignations of Messrs. Skibo and Lee.

Although iBasis acquired all of the outstanding capital stock of KPN GCS, after the closing of the transaction, KPN holds a majority of the outstanding common stock of iBasis and KPN's director designees are expected to represent, at a future date, a majority of the Company's board of directors. Accordingly, for accounting and financial statement purposes, the KPN Transaction was treated as a reverse acquisition of iBasis by KPN GCS under the purchase method of accounting and the financial results of KPN GCS became the historical financial results of the combined company and replace the historical financial results of iBasis as a stand-alone company.

Tender Offer by Royal KPN

On July 13, 2009, the Company's Board of Directors received a letter from Royal KPN stating its intention to commence a tender offer, through its subsidiary KPN (the "Purchaser"), to acquire all of the shares of the Company's common stock not owned by KPN at an offer price of \$1.55 per share in cash (the "Offer"). On July 15, 2009, the Board of Directors of the Company unanimously approved the creation of a special committee (the "Special Committee"), composed of W. Frank King (Chairman), Charles N. Corfield and Robert H. Brumley, to evaluate the Offer and make a recommendation to the stockholders of the Company. On July 28, 2009, the Purchaser commenced the Offer and described the terms of the Offer in a Tender Offer Statement filed with the SEC under cover of Schedule TO. On July 30, 2009, the Company, acting through the Special Committee, responded to the Offer by filing under Schedule 14D-9, which contained the unanimous recommendation of the Special Committee that the Company's stockholders reject the Offer and not tender their shares pursuant to the Offer, because the tender offer price of \$1.55 per share was grossly inadequate, opportunistic and not in the best interests of the Company's shareholders.

On July 30, 2009, the Board of Directors approved the adoption of a limited duration shareholder rights plan. The rights plan was implemented through the Company's entry into a rights agreement with Computershare Trust Company, N.A., as rights agent, and the declaration of a non-taxable dividend distribution of one preferred stock purchase right (each, a "Right") for each outstanding share of the Company's common stock. The dividend is payable on August 10, 2009 to holders of record as of the close of business on August 10, 2009. Each right is attached to and trades with the associated share of common stock. The rights will become exercisable only if a person acquires beneficial ownership of 15% or more of the Company's common stock (or, in the case of a person who beneficially owned 15% or more of the Company's common stock on the date the rights plan was adopted, such person acquires beneficial ownership of any additional shares of the Company's common stock) or after the date of the Rights Agreement, commences a tender offer that, if consummated, would result in beneficial ownership by a person of 15% or more of the Company's common stock. The rights will expire on July 30, 2010, unless the rights are earlier redeemed or exchanged. A copy of the rights agreement was filed with the SEC on July 30, 2009 as Exhibit 4.1 to the Company's Current Report on Form 8-K.

On August 3, 2009, the Company filed a lawsuit in the Court of Chancery in the State of Delaware, against Royal KPN, Purchaser, other KPN entities and certain members of KPN's management and Supervisory Board (collectively, the "Defendants") with respect to the Offer. The complaint asserts: several counts for breaches of fiduciary duty against certain of the Defendants, aiding and abetting the breaches of fiduciary duty against certain of the Defendants, civil conspiracy against all

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Defendants, and fraudulent inducement against certain of the Defendants. The complaint seeks, among other relief, to enjoin the Offer.

As a result of the commencement of the Offer by KPN and our filing of the complaint against the Defendants, we expect to incur significant expenses during the three months ended September 30, 2009, primarily for legal and investment banking consultation to the Company's Special Committee and Board of Directors.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements. The preparation of these financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires us to (i) make judgments, assumptions and estimates that affect the reported amounts of assets, liabilities, revenue and expenses; and (ii) disclose contingent assets and liabilities. A critical accounting estimate is an assumption that could have a material effect on our consolidated financial statements if another, also reasonable, amount were used or a change in the estimates is reasonably likely from period to period. We base our accounting estimates on historical experience and other factors that we consider reasonable under the circumstances. However, actual results may differ from these estimates. To the extent there are material differences between our estimates and the actual results, our future financial condition and results of operations will be affected. Our critical accounting policies and estimates are described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2008. There have been no changes to these critical accounting policies and estimates for the three and six months ended June 30, 2009.

Out-of-Period Adjustments

During the three months ended June 30, 2009, we identified immaterial errors in our consolidated financial statements for the years ended December 31, 2005 and 2008 and the three months ended March 31, 2009. These errors related to understating depreciation expense (totaling \$1.2 million in additional expense, net of tax in 2008 and \$0.6 million in additional expense, net of tax, in the three months ended March 31, 2009) and understating the valuation of foreign denominated accounts receivable (totaling \$1.7 million in an additional gain, net of tax) in 2005. As a result of these errors, net income was understated by approximately \$1.7 million in 2005 and net loss was understated by approximately \$1.2 million in 2008 and \$0.6 million in the three months ended March 31, 2009. We corrected these errors during the three months ended June 30, 2009. The combined impact to correct these errors on the three and six months ended June 30, 2009 results of operations was to increase net loss by \$0.1 million and decrease net loss by \$0.5 million, respectively. We evaluated these errors considering both qualitative and quantitative factors and considered the impact of these errors in relation to the periods in which they originated, as well as the current period, which is when they were corrected. We have concluded that these adjustments are not material to any prior periods' consolidated financial statements nor are they expected to be material to the year ending December 31, 2009. As such, these out-of-period errors were recorded in our Statement of Operations for the three months ended June 30, 2009.

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The following table sets forth for the periods indicated the principal items included in the Condensed Consolidated Statements of Operations as a percentage of total net revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net revenue—external parties	80.1%	82.9%	81.5%	83.7%
Net revenue—related parties	19.9	17.1	18.5	16.3
Total net revenue	100.0	100.0	100.0	100.0
Costs and operating expenses:				
Data communications and telecommunications—external parties	79.8	82.5	80.9	82.3
Data communications and telecommunications—related parties	7.0	7.1	6.4	7.1
Engineering and network operations	2.1	1.7	2.0	1.8
Selling, general and administrative	7.0	5.4	6.9	5.7
Depreciation and amortization	4.5	2.3	3.8	2.3
Total costs and operating expenses	100.3	99.0	100.0	99.2
Income (loss) from operations	(0.3)	1.0	(0.0)	0.8
Interest income (expense), net	(0.2)	(0.0)	(0.2)	(0.1)
Foreign exchange gain (loss), net	0.1	(0.2)	(0.1)	(0.1)
Income (loss) before provision for income taxes	(0.4)	0.8	(0.3)	0.6
Provision for income taxes	1.3	0.8	0.8	0.9
Net income (loss)	(1.7)%	0.0%	(1.1)%	(0.3)%

Three Months Ended June 30, 2009 Compared to the Three Months Ended June 30, 2008

Net revenue. Our primary source of revenue from external parties are the fees that we charge customers for completing voice and fax calls over our network. We charge our customers fees, per minute of traffic, that are dependent on the length and destination of the call and recognize this revenue in the period in which the call is completed. Revenue from related parties consists of fees that we charge KPN and its affiliates for the traffic they send to us to complete over our network. The fees that we charge KPN and its affiliates are based on the pricing in established service level agreements. Our average revenue per minute ("ARPM") is based upon our total net revenue divided by the number of minutes of traffic over our network for the applicable period. Our average margin per minute ("AMPM") is based upon our total revenue less total data communications and telecommunications costs divided by the number of minutes of traffic over our network for the applicable period. ARPM and AMPM are key telecommunications industry financial measurements. We believe these measurements are useful in understanding our financial performance, as well as industry trends. Although the long distance telecommunications industry has been experiencing declining prices in recent years due to the effects of deregulation and increased competition, our ARPM and AMPM can fluctuate from period to period as a result of shifts in traffic over our network to higher priced, or lower priced, destinations.

Total revenue was \$241.3 million for the three months ended June 30, 2009 compared to \$360.8 million for the same period in 2008. Revenue from external parties was \$193.2 million for the three months ended June 30, 2009 compared to \$299.2 million for the same period in 2008. The decrease in revenue from external parties primarily reflects the results of a new pricing initiative, which

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we commenced in the fourth quarter of 2008, which has focused our efforts on higher margin traffic and elimination or reduction in low margin or unprofitable traffic, as well as the effect of the global economic downturn. Our gross profit, defined as total net revenue less total data communications and telecommunications costs, as a percentage of total revenue, improved to 13.2% for the three months ended June 30, 2009 from 10.4% for the same period in 2008. The weaker euro in the three months ended June 30, 2009 also resulted in a decrease in total revenue of approximately \$24 million in U.S. dollars, on our euro-denominated revenue over the same period in 2008. In addition, the current adverse global economic conditions has contributed to a year-to-year decline in the amount of traffic we receive from prepaid calling card providers and wholesale carriers whose traffic comes from prepaid calling card providers.

Revenue from related parties for the three months ended June 30, 2009 was \$48.1 million, compared to \$61.7 million for the same period in 2008. The decrease in revenue was primarily due to the effect of the weaker euro year-to-year on this euro-denominated revenue.

Minutes of traffic for the three months ended June 30, 2009 were 4.7 billion minutes compared to 6.2 billion minutes for the same period in 2008. Average revenue per minute was 5.14 cents per minute for the three months ended June 30, 2009, compared to 5.84 cents per minute for the same period in 2008. Average margin per minute for the three months ended June 30, 2009 was 0.68 cents per minutes compared to 0.61 cents per minute for the same period in 2008.

Data communications and telecommunications costs. Data communications and telecommunications costs are comprised primarily of termination and circuit costs. Termination costs are paid to local service providers, or to KPN and its affiliates, to terminate voice and fax calls received from our network. Termination costs are negotiated with the local service providers and termination costs for traffic we send to KPN and its affiliates are based primarily on pricing in service level agreements. Circuit costs primarily include fees for connections between our network and our customers and/or service provider partners and charges for Internet access at our Internet Central Offices.

Total data communications and telecommunications costs were \$209.5 million for the three months ended June 30, 2009 compared to \$323.4 million for the same period in 2008. Data communications and telecommunications costs from external parties were \$192.6 million for the three months ended June 30, 2009 compared to \$297.8 million for the same period in 2008. This decrease primarily reflects the lower revenue year-to-year. Data communications and telecommunications costs from related parties were \$16.9 million for the three months ended June 30, 2009 compared to \$25.6 million for the same period in 2008. As a percentage of total net revenue, total data communications and telecommunications costs were 86.8% for the three months ended June 30, 2009 compared to 89.6% for the same period in 2008.

Engineering and network operations expenses. Engineering and network operations expenses include the expenses associated with developing, operating and supporting our network and expenses for operating our network operations centers. Also included in this category are engineering expenses incurred in developing, enhancing and supporting our network and our proprietary software applications. Engineering and network operations support of our TDM network are provided by KPN and charged to us under a service level agreement.

Engineering and network operations expenses were \$4.9 million for the three months ended June 30, 2009 compared to \$6.0 million for the same period in 2008. The reduction in engineering and network operations expenses reflect the reduced level of support from KPN as a result of our integration efforts and the migration of our mid-range voice product to our VoIP network.

Selling, general and administrative expenses. Selling, general and administrative expenses include salaries, payroll tax and benefit expenses, and other costs for sales and marketing functions and general corporate functions, including executive management, finance, legal, facilities, information technology and human resources.

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Selling, general and administrative expenses were \$16.8 million for the three months ended June 30, 2009 compared to \$19.4 million for the same period in 2008. The decrease in expenses reflects lower administrative support costs from KPN, as well as our continued monitoring and control of expenses. The decrease in support costs from KPN primarily reflects the result of our integration of our Netherlands and U.S. operations. During the three months ended June 30, 2009, we began using a new enterprise resource planning ("ERP") system, as well as a new billing system, which has allowed us to centralize our finance function, rate management and commercial operations. These new systems enable us to gain efficiencies in manpower, as well as provide improved visibility and control over our sources of revenue.

Depreciation and amortization expenses. Depreciation and amortization expenses were \$10.8 million for the three months ended June 30, 2009, compared to \$8.5 million for the same period in 2008. During the three months ended June 30, 2009, we corrected an error totaling \$1.8 million which related to prior periods (See Out-of-Period Adjustments noted). Excluding the effect of the correction of this error, the increase in depreciation and amortization expense primarily reflects a higher level of amortization of our intangible assets.

Interest income and expense. Interest expense, net was \$0.3 million for the three months ended June 30, 2009 compared to \$30,000 for the same period in 2008. The increase in interest expense, net, primarily relates to interest and related fees on borrowings under our Loan Agreement with Silicon Valley Bank.

Foreign exchange gain (loss), net. Foreign exchange gain, net was \$0.2 million for the three months ended June 30, 2009, compared to a loss of \$0.5 million for the same period in 2008. These foreign exchange gains and losses are primarily the result of the change in exchange rates between the U.S. dollar and the euro on our euro-denominated assets and liabilities. During the three months ended June 30, 2009, we corrected an error totaling \$2.3 million (\$1.7 million net of tax) which related to prior periods (See Out-of-Period Adjustments noted above). Excluding the effect of the correction of this error, foreign exchange loss, net was \$2.5 million for the three months ended June 30, 2009.

Income taxes. The income tax provision was \$3.1 million for the three months ended June 30, 2009 and \$2.9 million for the same period in 2008 and primarily relates to income taxes on the taxable income of our operations in The Netherlands. In 2009, we expect to generate taxable income in the U.S. and lower taxable income in The Netherlands, compared to 2008, primarily as a result of the integration of our U.S. and Netherlands operations. In the U.S., we will be able to utilize our available net operating loss carry forwards to offset this expected taxable income.

Six Months Ended June 30, 2009 Compared to the Six Months Ended June 30, 2008

Net revenue. Total revenue was \$496.8 million for the six months ended June 30, 2009 compared to \$685.7 million for the same period in 2008. Revenue from external parties was \$405.0 million for the six months ended June 30, 2009 compared to \$573.8 million for the same period in 2008. The decrease in revenue from external parties primarily reflects the results of a new pricing initiative, which we commenced in the fourth quarter of 2008, which has focused our efforts on higher margin traffic and elimination or reduction in low margin or unprofitable traffic. As a result, our gross profit, defined as total net revenue less total data communications and telecommunications costs, as a percentage of total revenue, improved to 12.7% for the six months ended June 30, 2009 from 10.6% for the same period in 2008. The weaker euro in the six months ended June 30, 2009 also resulted in a decrease in total revenue of approximately \$45 million in U.S. dollars, on our euro-denominated revenue over the same period in 2008. In addition, the current adverse global economic conditions has contributed to a year-to-year decline in the amount of traffic we receive from prepaid calling card providers and wholesale carriers whose traffic comes from prepaid calling card providers.

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Revenue from related parties for the six months ended June 30, 2009 was \$91.8 million, compared to \$111.9 million for the same period in 2008. The decrease in revenue was primarily due to the effect of the weaker euro year-to-year on this euro-denominated revenue.

Minutes of traffic for the six months ended June 30, 2009 were 9.8 billion minutes compared to 12.0 billion minutes for the same period in 2008. Average revenue per minute was 5.06 cents per minute for the six months ended June 30, 2009, compared to 5.72 cents per minute for the same period in 2008. Average margin per minute for the six months ended June 30, 2009 was 0.64 cents per minutes compared to 0.61 cents per minute for the same period in 2008.

Data communications and telecommunications costs. Total data communications and telecommunications costs were \$434.0 million for the six months ended June 30, 2009 compared to \$612.9 million for the same period in 2008. Data communications and telecommunications costs from external parties were \$401.8 million for the six months ended June 30, 2009 compared to \$564.2 million for the same period in 2008. This decrease primarily reflects the lower minutes of traffic year-to-year. Data communications and telecommunications costs from related parties were \$32.2 million for the six months ended June 30, 2009 compared to \$48.7 million for the same period in 2008. As a percentage of total net revenue, total data communications and telecommunications costs were 87.3% for the six months ended June 30, 2009 compared to 89.4% for the same period in 2008.

Engineering and network operations expenses. Engineering and network operations expenses were \$10.0 million for the six months ended June 30, 2009 compared to \$12.7 million for the same period in 2008. The reduction in engineering and network operations expenses reflect the reduced level of support from KPN as a result of our integration efforts and the migration of our mid-range voice product to our VoIP network.

Selling, general and administrative expenses. Selling, general and administrative expenses were \$34.0 million for the six months ended June 30, 2009 compared to \$39.3 million for the same period in 2008. The decrease in expenses reflects lower administrative support costs from KPN, as well as our continued monitoring and control of expenses. The decrease in support costs from KPN primarily reflects the result of our integration of our Netherlands and U.S. operations. During the six months ended June 30, 2009, we began using a new enterprise resource planning ("ERP") system, as well as a new billing system, which has allowed us to centralize our finance function, rate management and commercial operations. These new systems enable us to gain efficiencies in manpower, as well as provide improved visibility and control over our sources of revenue.

Depreciation and amortization expenses. Depreciation and amortization expenses were \$19.0 million for the six months ended June 30, 2009, compared to \$15.7 million for the same period in 2008. During the six months ended June 30, 2009, we corrected an error totaling \$1.8 million which related to prior periods (See Out-of-Period Adjustments noted above). Excluding the effect of the correction of this error, the increase in depreciation and amortization expense primarily reflects a higher level of amortization of our intangible assets.

Interest income and expense. Interest expense, net was \$0.9 million for the six months ended June 30, 2009 compared to \$0.5 million for the same period in 2008. The increase in interest expense, net, primarily relates to interest and related fees on borrowings under our Loan Agreement with Silicon Valley Bank.

Foreign exchange gain (loss), net. Foreign exchange loss, net was \$0.4 million for the six months ended June 30, 2009, compared to a loss of \$0.8 million for the same period in 2008. During the six months ended June 30, 2009, we corrected an error totaling \$2.3 million (\$1.7 million net of tax) which related to prior periods (See Out-of-Period Adjustments noted above). These foreign exchange gains and losses are primarily the result of the change in exchange rates between the U.S. dollar and the

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euro on our euro-denominated assets and liabilities. Excluding the effect of the correction of this error, foreign exchange loss, net was \$2.7 million for the six months ended June 30, 2009.

Income taxes. The income tax provision was \$4.1 million for the six months ended June 30, 2009 and \$6.0 million for the same period in 2008 and primarily relates to income taxes on the taxable income of our operations in The Netherlands. In 2009, we expect to generate taxable income in the U.S. and lower taxable income in The Netherlands, compared to 2008, primarily as a result of the integration of our U.S. and Netherlands operations. In the U.S., we will be able to utilize our available net operating loss carry forwards to offset this expected taxable income.

Liquidity and Capital Resources

Cash provided by operating activities was \$20.2 million in the six months ended June 30, 2009 and was the result of the net loss of \$5.7 million, after non-cash charges of \$21.1 million and by net changes in operating assets and liabilities of \$4.8 million. Non-cash charges for the six months ended June 30, 2009 consisted primarily of depreciation and amortization expense. The net change of \$4.8 million in operating assets and liabilities was primarily a result of reduction in accounts receivable—external parties of \$24.0 million, partially offset by a reduction in accounts payable—external parties of \$9.6 million and accrued expenses of \$9.0 million. The reduction in accounts receivable—external parties, accounts payable—external parties and accrued expenses is largely a result of the lower level of revenue during the six months ended June 30, 2009. In addition, the reduction in accounts receivable—external parties reflects improved accounts receivable collections.

Cash provided by operating activities was \$15.5 million in the six months ended June 30, 2008 and was the result of the net loss of \$(2.1) million and changes in other assets and liabilities of \$(4.1) million, offset by non-cash charges of \$17.9 million, primarily depreciation and amortization. Accounts receivable and unbilled revenue, net—external parties increased by \$23.2 million and accounts payable—external parties and accrued expenses, combined, increased by \$33.7 million. These increases primarily reflected the higher sequential quarterly revenue and related data and telecommunications costs.

Cash used in investing activities in the six months ended June 30, 2009 consisted of \$2.8 million used for purchases of property and equipment.

Cash flows used in investing activities in the six months ended June 30, 2008 was \$11.0 million. Additions to property and equipment were \$7.0 million in the six months ended June 30, 2008. On April 1, 2008, we acquired certain assets from TDC, the leading telecommunications carrier in Denmark, as well as certain assets, contracts and employees of TDC's subsidiary in the U.S., TDC Carrier Services U.S., for approximately \$10.9 million in cash and incurred \$0.1 million in legal fees. Cash provided by investing activities included a reduction in other assets, relating to investing activities, of \$5.0 million and maturities of short-term marketable securities of \$2.0 million.

Cash used in financing activities in the six months ended June 30, 2009 consisted of repayments of \$8.1 million of our bank borrowings and a principal payments of \$10.0 million to fully pay-off our Working Capital Loan to KPN. The repayments of \$8.1 million of our bank borrowings were a result of lower borrowing capability under our Loan Agreement with Silicon Valley Bank. The reduction in borrowing capability was primarily a result of a decline in accounts receivable due to the revenue in the six months ended June 30, 2009. Payments of capital lease obligations were \$0.3 million.

Cash used in financing activities in the six months ended June 30, 2008 was \$5.7 million. We borrowed an additional \$5.0 million under our bank line of credit during the period. We made our first installment payment on our working capital adjustment indebtedness with KPN of \$4.7 million and made purchases of our common stock in the amount of \$4.9 million under our stock repurchase program during that period. Payments of capital lease obligations were \$1.1 million.

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On January 26, 2009, the Company and Silicon Valley Bank modified the Loan Agreement, effective as of December 30, 2008 to reduce the amount available under the Loan Agreement from \$50.0 million to \$35.0 million, extend the maturity date of the Loan Agreement to September 30, 2010 and to modify certain financial covenants. In connection with this modification, we paid Silicon Valley Bank a modification fee of \$52,500 and a revolving line renewal fee of \$175,000. See Note 11 "Line of Credit and Long-Term Debt" of our Condensed Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for further information on our Loan Agreement.

At June 30, 2009 and December 31, 2008, we had \$19.0 million and \$27.1 million, respectively, in borrowings outstanding, and had issued outstanding standby letters of credit of \$2.5 million and \$2.6 million, respectively, under the Loan Agreement. As of June 30, 2009, we were in compliance of all of the covenants under the Loan Agreement.

In the six months ended June 30, 2009, we purchased certain equipment for \$0.4 million under a four year financing agreement, with payments due monthly through May 2013. In the six months ended June 30, 2008, we purchased certain software licenses for \$1.7 million under a 30-month financing agreement, with payments due on a semi-annual basis through June 2010.

We anticipate that our June 30, 2009 balance of \$57.3 million in cash and cash equivalents, together with expected net cash flow generated from operations, will be sufficient to fund our operations and capital asset expenditures for the next twelve months. We expect capital asset expenditures to be between \$10 million to \$14 million in 2009.

Off-Balance Sheet Arrangements

Under accounting principles generally accepted in the U.S., certain obligations and commitments are not required to be included in the consolidated balance sheets and statements of operations. These obligations and commitments, while entered into in the normal course of business, may have a material impact on liquidity. As of June 30, 2009, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Contractual Obligations

The following table summarizes our future contractual obligations as of June 30, 2009:

	Total	Payment Due Dates				
		Less than 1 Year	1 to 2 Years	2 to 3 Years	3 to 5 Years	After 5 Years
			(In thousands)			
Bank borrowings	\$18,951	\$ —	\$18,951	\$ —	\$ —	\$ —
Interest on bank borrowings(1)	1,362	1,090	272	—	—	—
Capital lease obligations, including interest	993	718	103	1 03	69	—
Operating leases	7,058	2,496	1,137	8 55	1,209	1,361
Purchase commitments for termination of minutes	3 5,630	35,630	—	—	—	—
Total	<u>\$63,994</u>	<u>\$ 39,934</u>	<u>\$20,463</u>	<u>\$958</u>	<u>\$1,278</u>	<u>\$1,361</u>

- (1) Interest payments on bank borrowings are projected using our borrowing rate as of June 30, 2009. Future interest payments may differ from these amounts based on changes in market interest rates.

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As of June 30, 2009, the total amount of net unrecognized tax benefits for uncertain tax positions and the accrual for the related interest was \$0.7 million. We are unable to make a reasonably reliable estimate of when cash settlement, if any, will occur with a tax authority as the timing of examinations and ultimate resolution of those examinations is uncertain.

New Accounting Pronouncements

For a description of new accounting pronouncements, see Note 1 "Business and Presentation" of our Condensed Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

Our primary market risk exposure is related to interest rates and foreign currency exchange rates. We are exposed to foreign currency risk which can create volatility in earnings and cash flows from period to period. Historically, KPN GCS sought to economically hedge a portion of its foreign currency risk arising from foreign exchange receivables and foreign currency-denominated forecasted transactions. Foreign exchange contracts were used to fix or protect the exchange rate to be used for foreign currency-denominated transactions. Hedge accounting was not applied in the historical financial statements of KPN GCS. We do not currently engage in trading market risk sensitive instruments or purchasing hedging instruments, whether interest rate, foreign currency exchange, commodity price or equity price risk and have not purchased options or entered into swaps or forward or futures contracts.

Our revenues are primarily denominated in U.S. dollars or euros. Thus, we are exposed to foreign currency exchange rate fluctuations as the financial results and balances of our foreign entities are converted into U.S. dollars. As exchange rates vary, these results, when converted, may vary from expectations and may adversely impact our results of operations and financial condition. For example, if the dollar weakens relative to the euro, our euro denominated revenues and expenses would increase when stated in U.S. dollars. Conversely, if the U.S. dollar strengthens relative to the euro, our euro denominated revenues and expenses would decrease.

Our primary interest rate risk is the risk on borrowings under our Loan Agreement with Silicon Valley Bank, which is subject to interest rates based on the bank's prime rate or LIBOR, plus margin. We had \$19.0 million in borrowings under our Loan Agreement at June 30, 2009. If, for example, interest rates were to increase by 1%, this would result in additional annual interest expense of \$0.2 million on our current level of borrowings. A change in the applicable interest rates would also affect the rate at which we could borrow funds or finance equipment purchases. Our capital lease obligations are fixed rate debt.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents*Changes in Internal Control Over Financial Reporting*

During the three months ended June 30, 2009, we began using a new Enterprise Resource Planning ("ERP") system, as well as a new central customer billing system. Implementing this new ERP and billing system involved significant changes in business processes that management believes will provide meaningful benefits, including more standardized and efficient processes throughout the Company. For the quarter ended June 30, 2009, there were material changes to our internal controls over financial reporting related to the implementation of the ERP system. The changes in business processes primarily affected our customer billing process and recording and reporting of revenues and expenditures. While we believe that this new system and the related changes to internal controls will strengthen our internal controls over financial reporting, there are inherent risks in implementing any new ERP system and we will continue to evaluate and test these control changes in order to provide certification as of year-end on the effectiveness, in all material respects, of our internal controls over financial reporting.

Table of Contents**Part II—Other Information****Item 1. Legal Proceedings**

The discussion of legal proceedings in Note 12 "Commitments and Contingencies" of our Condensed Notes to Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q is hereby incorporated by reference.

In addition, for a description of the complaint we filed against Royal KPN and its affiliates in August 2009 relating to the unsolicited tender offer by KPN, please see the legal proceedings described under the heading "Tender Offer by Royal KPN" in "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A: Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

KPN's tender offer to purchase all of our outstanding common stock is disruptive to our business and threatens to adversely affect the Company's financial condition and results of operations.

On July 13, 2009, our Board of Directors received a letter from Royal KPN indicating its intention to commence a tender offer, through its subsidiary KPN, to acquire all of the shares of our common stock not owned by KPN at an offer price of \$1.55 per share in cash (the "Offer"). On July 15, 2009, our Board of Directors of the Company unanimously approved the creation of a special committee (the "Special Committee"), composed of W. Frank King (Chairman), Charles N. Corfield and Robert H. Brumley, to evaluate the Offer and make a recommendation to our stockholders. On July 28, 2009, the Purchaser commenced the Offer and described the terms of the Offer in a Tender Offer Statement filed with the SEC under cover of Schedule TO. On July 30, 2009, the Company, acting through the Special Committee, responded to the Offer by filing under Schedule 14D-9, which contained the unanimous recommendation of the Special Committee that our stockholders reject the Offer and not tender their shares pursuant to the Offer, because the tender offer price of \$1.55 per share was grossly inadequate, opportunistic and not in the best interests of the Company's shareholders.

The Offer is highly conditional and creates substantial uncertainties. The Offer may adversely impact our ability to attract new customers and may cause potential or current customers to seek alternative suppliers. In particular, the Offer may adversely impact our ability to successfully market and sell our products and services. Additionally, the Offer may create uncertainty for our management, employees, current and potential customers, suppliers and other third parties. This uncertainty could adversely affect our ability to retain key employees and to hire new talent, cause third parties to terminate their relationship with us, or not to renew or enter into arrangements with us; and negatively impact our business during the pendency of the Offer.

In addition, the review and response to the Offer requires the expenditure of significant time and resources by us and may be a significant distraction for our management and employees. Additionally, we, including, members of our Board of Directors may be named in lawsuits related to the Offer. Any future lawsuits may become burdensome and result in significant costs of defense, indemnification, and liability. Each of these factors, individually or in the aggregate, may adversely affect our financial condition and results of operations.

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KPN, our controlling stockholder, may seek to influence our business in a manner that is adverse to us or adverse to other stockholders who may be unable to prevent actions by KPN.

As our majority stockholder, KPN controls the outcome of most actions requiring the approval of our stockholders. Our Second Amended and Restated By-laws, as amended, provide among other things, that during the control period (as defined therein), no fewer than two members of the Company's Board of Directors will be nominated by KPN. In addition, commencing on October 1, 2009, in connection with any annual or special meeting of stockholders at which members of the Board of Directors are to be elected that is held during the control period, no fewer than two additional directors will be nominated by KPN, provided, that if the aggregate number of directors serving on the Board of Directors is increased during the control period, the number of directors nominated by KPN will be increased proportionately. The By-laws also provide that, following October 1, 2009, the Company's chief executive officer may be removed and replaced by a unanimous vote of the KPN-nominated directors and any independent directors. Further, during the control period, a resolution of the Board of Directors with respect to the following matters may not be approved, absent exceptional circumstances, without the approval of a majority of the entire Board of Directors, including the unanimous approval of the KPN-nominated directors:

- the appointment or removal of the Company's chief financial officer;
- the approval of the Company's annual budget or three-year business plan;
- any financings, guarantees, acquisitions, dispositions, incurrences of liens or other encumbrances (or any series of related financings, guarantees, acquisitions, dispositions, incurrences of liens or other encumbrances), that involve, in each case the aggregate payment or receipt by (or incurrence of obligations of or to) the Company or any of the Company's subsidiaries or other affiliates of consideration in excess of \$10,000,000;
- any one or series of related mergers, consolidations or other similar transactions that involve the aggregate payment or receipt by (or incurrence of obligations of or to) the Company or any of the Company's subsidiaries or other affiliates of consideration in excess of \$10,000,000;
- any investments, reorganizations, joint ventures, partnerships, leases or capital expenditures (or any series of related investments, reorganizations, joint ventures, partnerships, leases or capital expenditures), that involve, in each case, the aggregate payment or receipt by (or incurrence of obligations of or to) the Company or any of the Company's subsidiaries or other affiliates of consideration in excess of \$10,000,000 which are not covered in the Company's annual budget;
- any issuance, grant, sale or offer or any repurchase, reduction, redemption, conversion, sub-division, consolidation, cancellation or otherwise by the Company of Shares, other capital stock or any instruments with voting rights or that are convertible into capital stock, including options and warrants, other than upon the exercise of options, warrants or other convertible securities outstanding on October 1, 2007, pursuant to the terms of such options, warrants and other convertible securities;
- any declaration by the Company of dividends or other distributions to stockholders;
- any amendments to the Company's certificate of incorporation or by-laws; and
- any commencement of voluntary bankruptcy proceedings, dissolution or similar proceedings by the Company or any of the Company's subsidiaries or other affiliates.

Currently, two of our directors—Messrs. Eelco Blok and Joost Farwerck—also serve as officers of KPN or affiliates of KPN. We cannot assure that KPN will not seek to influence our business in a manner that is contrary to our goals or strategies, or the interests of other stockholders. Moreover,

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persons who are directors of iBasis and who are also officers of KPN may decline to take actions in a manner that might be favorable to us but adverse to KPN.

The Company's stock price has been volatile and may continue to fluctuate significantly.

As a result of KPN's unsolicited tender offer, as well as the recent volatility in general market conditions, the market price of the Company's common stock has been subject to significant fluctuations. The future trading price of the Company's common stock is likely to be volatile and could be subject to wide price fluctuations.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and, in particular, our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in Part I—Item 2 contain or incorporate a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act including statements regarding:

- our expectations regarding the outcome of the legal proceedings that we are currently a party to, including our defense strategies, the results of negotiations and settlements in such legal proceedings and our estimates regarding the amount of fees and losses to be paid in connection with such legal proceedings;
- our expectations that the VoIP market offers significant growth potential for us;
- the potential of our prepaid calling card business and Pingo to generate higher margins;
- uncertainty related to the unsolicited tender offer commenced by KPN and litigation that we have initiated relating to the tender offer;
- our expectations regarding our ability to generate taxable income in the U.S. and lower taxable income in The Netherlands;
- uncertainty related to current economic conditions and the related impact on demand for our products; and
- our liquidity.

Any or all of our forward-looking statements in this Quarterly Report on Form 10-Q may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this Quarterly Report on Form 10-Q will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially.

Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects" and similar expressions are intended to identify forward-looking statements. There are a number of factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements, many of which are beyond our control, including the factors set forth under "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2008, as updated or supplemented by "Part II—Item 1A—Risk Factors" of this Quarterly Report on Form 10-Q. In addition, the forward-looking statements contained herein represent our estimate only as of the date of this filing and should not be relied upon as representing our estimate as of any subsequent date. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Table of Contents**Item 4A. Submission of Matters to a Vote of Security Holders**

On May 26, 2009, the Company held its Annual Meeting of Shareholders. At the meeting, shareholders voted upon three matters. On the first matter, the shareholders re-elected Messrs. Ofer Gneezy and Charles N. Corfield as Class 1 directors to serve on the Company's board of directors until the annual meeting of shareholders to be held in 2012 and until their successors are duly elected and qualified or until their earlier resignation or removal. In addition, although Class 2 and 3 directors were not the subject of shareholder votes at the annual meeting, Gordon J. VanderBrug, Eelco Blok and W. Frank King currently serve as the Company's Class 2 directors with terms ending at the 2010 annual meeting of shareholders and Robert H. Brumley and Joost Farwerck currently serve as the Company's Class 3 directors with terms ending at the 2011 annual meeting of shareholders.

On the second matter, the shareholders ratified the adoption of the iBasis, Inc. Executive Bonus Plan

On the third matter, the shareholders ratified the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2009.

The results of the shareholder votes are as follows:

	<u>For</u>	<u>Withheld</u>
Election of Class 1 Directors:		
Ofer Gneezy	60,640,778	2,958,822
Charles N. Corfield	62,550,811	1,048,789

	<u>For</u>	<u>Against</u>	<u>Abstentions</u>	<u>Broker non-votes</u>
Ratification of adoption of iBasis, Inc. Executive Bonus Plan	51,672,364	2,289,409	53,653	9,584,174

	<u>For</u>	<u>Against</u>	<u>Abstentions</u>	<u>Broker non-votes</u>
Ratification of Independent Registered Public Accounting Firm:				
PricewaterhouseCoopers LLP	63,518,176	75,249	6,175	0

Item 5. Other Information.**Important Legal Information**

In connection with the tender offer commenced by KPN B.V., the Company has filed with the SEC a Solicitation/Recommendation Statement on Schedule 14D-9 on July 30, 2009 and amendments thereto.

Item 6. Exhibits**(a) Exhibits:**

- 10.1† Form of Severance and Change-in-Control Agreement dated as of May 11, 2009, between iBasis, Inc. and each of the Chief Executive Officer and Executive Vice President (separate agreements entered into by each of Ofer Gneezy and Gordon J. VanderBrug) (incorporated by reference to Exhibit (e)(21) to the Company's Schedule 14D-9 filed with the SEC on July 30, 2009).

Table of Contents

- 10.2† Form of Severance and Change-in-Control Agreement dated as of May 11, 2009, between iBasis, Inc. and each Senior Vice President (separate agreements entered into by each of Richard G. Tennant, Mark S. Flynn, Paul H. Floyd and Edwin van Ierland) (incorporated by reference to Exhibit (e)(22) to the Company's Schedule 14D-9 filed with the SEC on July 30, 2009).
- 31.1* Certification of iBasis, Inc. Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification of iBasis, Inc. Chief Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
- 32.1‡ Certifications of iBasis, Inc. Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
-

† Indicates management compensatory plan, contract or arrangement.

* Filed herewith.

‡ Furnished herewith.

Table of Contents**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

iBasis, Inc.

August 7, 2009

By: /s/ RICHARD TENNANT

Richard Tennant
*Senior Vice President and
Chief Financial Officer
(Authorized Officer and
Principal Financial and Accounting Officer)*

42

Exhibit E

Tennessee Secretary of State Certification of Authority

Secretary of State
Division of Business Services
312 Eighth Avenue North
6th Floor, William R. Snodgrass Tower
Nashville, Tennessee 37243

DATE: 06/23/08
REQUEST NUMBER: 6334-0683
TELEPHONE CONTACT: (615) 741-2286
FILE DATE/TIME: 06/23/08 1458
EFFECTIVE DATE/TIME:
CONTROL NUMBER: 0579946

TO:
IBASIS RETAIL INC
20 SECOND AVE

BURLINGTON, MA 01803

RE:
IBASIS
APPLICATION FOR REGISTRATION OF ASSUMED CORPORATE
NAME

THIS WILL ACKNOWLEDGE THE FILING OF THE ATTACHED ASSUMED NAME
REGISTRATION FOR A FIVE YEAR PERIOD BEGINNING WITH AN EFFECTIVE DATE AS
INDICATED ABOVE.

THE CORPORATION MAY RENEW THE RIGHT TO USE THIS NAME WITHIN TWO
(2) MONTHS PRECEDING THE EXPIRATION OF SUCH RIGHT, FOR A PERIOD OF FIVE (5)
YEARS, BY FILING AN APPLICATION WITH THE SECRETARY OF STATE.

WHEN CORRESPONDING WITH THIS OFFICE OR SUBMITTING DOCUMENTS FOR
FILING, PLEASE REFER TO THE CORPORATION CONTROL NUMBER GIVEN ABOVE.

FOR: APPLICATION FOR REGISTRATION OF ASSUMED CORPORATE ON DATE: 06/23/08
NAME

FROM:
CAPITAL FILING SERVICE (CFS)
8161 HIGHWAY 100
#172
NASHVILLE, TN 37221-0000

RECEIVED:	FEES	
	\$20.00	\$0.00
TOTAL PAYMENT RECEIVED:		\$20.00

RECEIPT NUMBER: 00004444110
ACCOUNT NUMBER: 00101230



SS-4458

Riley C. Darnell

RILEY C. DARNELL
SECRETARY OF STATE


RECEIVED
STATE OF TENNESSEE

2008 JUN 23 PM 2:58

BILLY DARNELL
SECRETARY OF STATE
For Office Use Only

FILED
47

6334.0683

 State of Tennessee Department of State Corporate Filings 312 Eighth Avenue North 6th Floor, William R. Snodgrass Tower Nashville, TN 37243		APPLICATION FOR REGISTRATION OF ASSUMED CORPORATE NAME							
<p>Pursuant to the provisions of Section 48-14-101(d) of the Tennessee Business Corporation Act or Section 48-54-101(d) of the Tennessee Nonprofit Corporation Act, the undersigned corporation hereby submits this application:</p> <p>1. The true name of the corporation is <u>iBasis Retail, Inc.</u></p> <p>2. The state or country of incorporation is <u>Delaware</u></p> <p>3. The corporation intends to transact business in Tennessee under an assumed corporate name.</p> <p>4. The assumed corporate name the corporation proposes to use is <u>iBasis</u></p> <p>[NOTE: The assumed corporate name must meet the requirements of Section 48-14-101 of the Tennessee Business Corporation Act or Section 48-54-101 of the Tennessee Nonprofit Corporation Act.]</p> <table border="0"><tr><td><u>6/12/08</u> Signature Date</td><td><u>iBasis Retail, Inc.</u> Name of Corporation</td></tr><tr><td><u>Secretary</u> Signer's Capacity</td><td><u>[Signature]</u> Signature</td></tr><tr><td></td><td><u>Mark S. Flynn</u> Name (typed or printed)</td></tr></table> <p>0579946</p>				<u>6/12/08</u> Signature Date	<u>iBasis Retail, Inc.</u> Name of Corporation	<u>Secretary</u> Signer's Capacity	<u>[Signature]</u> Signature		<u>Mark S. Flynn</u> Name (typed or printed)
<u>6/12/08</u> Signature Date	<u>iBasis Retail, Inc.</u> Name of Corporation								
<u>Secretary</u> Signer's Capacity	<u>[Signature]</u> Signature								
	<u>Mark S. Flynn</u> Name (typed or printed)								
SS-4402 (Rev. 4/01)		Filing Fee: \$20							
		RDA1720							

Secretary of State
Division of Business Services
312 Eighth Avenue North
6th Floor, William R. Snodgrass Tower
Nashville, Tennessee 37243

DATE: 06/23/08
REQUEST NUMBER: 6334-0680
TELEPHONE CONTACT: (615) 741-2286
FILE DATE/TIME: 06/23/08 1458
EFFECTIVE DATE/TIME: 06/23/08 1458
CONTROL NUMBER: 0579946

TO:
IBASIS RETAIL INC
20 SECOND AVE

BURLINGTON, MA 08103

RE:
IBASIS RETAIL, INC.
APPLICATION FOR CERTIFICATE OF AUTHORITY -
FOR PROFIT

WELCOME TO THE STATE OF TENNESSEE. THE ATTACHED CERTIFICATE OF
AUTHORITY HAS BEEN FILED WITH AN EFFECTIVE DATE AS INDICATED ABOVE.

A CORPORATION ANNUAL REPORT MUST BE FILED WITH THE SECRETARY OF STATE
ON OR BEFORE THE FIRST DATE OF THE FOURTH MONTH FOLLOWING THE CLOSE OF THE
CORPORATION'S FISCAL YEAR. PLEASE PROVIDE THIS OFFICE WITH WRITTEN
NOTIFICATION OF THE CORPORATION'S FISCAL YEAR. THIS OFFICE WILL MAIL THE
REPORT DURING THE LAST MONTH OF SAID FISCAL YEAR TO THE CORPORATION AT THE
ADDRESS OF ITS PRINCIPAL OFFICE OR TO A MAILING ADDRESS PROVIDED TO THIS
OFFICE IN WRITING. FAILURE TO FILE THIS REPORT OR TO MAINTAIN A REGISTERED
AGENT AND OFFICE WILL SUBJECT THE CORPORATION TO ADMINISTRATIVE REVOCATION
OF ITS CERTIFICATE OF AUTHORITY.

WHEN CORRESPONDING WITH THIS OFFICE OR SUBMITTING DOCUMENTS FOR
FILING, PLEASE REFER TO THE CORPORATION CONTROL NUMBER GIVEN ABOVE.

FOR: APPLICATION FOR CERTIFICATE OF AUTHORITY -
FOR PROFIT

ON DATE: 06/23/08

FROM:
CAPITAL FILING SERVICE (CFS)
8161 HIGHWAY 100
#172
NASHVILLE, TN 37221-0000

FEES
RECEIVED: \$600.00 \$0.00
TOTAL PAYMENT RECEIVED: \$600.00

RECEIPT NUMBER: 00004444109
ACCOUNT NUMBER: 00101230



SS-4458

Riley C. Darnell

RILEY C. DARNELL
SECRETARY OF STATE

RECEIVED
STATE OF TENNESSEE

2008 JUN 23 PM 4:58

For Office Use Only

State of Tennessee



Department of State
Corporate Filings

312 Eighth Avenue North
6th Floor, William R. Snodgrass Tower
Nashville, TN 37243

APPLICATION FOR
CERTIFICATE OF AUTHORITY
(FOR PROFIT)

WILEY DARNELL
SECRETARY OF STATE

FILED

Pursuant to the provisions of Section 48-25-103 of the Tennessee Business Corporation Act, the undersigned corporation hereby applies for a certificate of authority to transact business in the State of Tennessee, and for that purpose sets forth:

1. The name of the corporation is iBasis Retail, Inc.
*If different, the name under which the certificate of authority is to be obtained is _____

[NOTES: The Secretary of State of the State of Tennessee may not issue a certificate of authority to a foreign corporation for profit if its name does not comply with the requirements of Section 48-14-101 of the Tennessee Business Corporation Act. *If obtaining a certificate of authority under a different corporate name, an application for registration of an assumed corporate name must be filed pursuant to Section 48-14-101(d) with an additional \$20.00 fee.]

2. The state or country under whose law it is incorporated is Delaware

3. The date of its incorporation is 06/29/2007 (must be month, day, and year), and the period of duration, if other than perpetual, is _____

4. The complete street address (including zip code) of its principal office is
20 Second Avenue, Burlington, MA 01803

Street City State/County Zip Code

5. The complete street address (including the county and the zip code) of its registered office in Tennessee and the name of its registered agent is
800 S. Gay Street, Suite 2021, Knoxville, Tennessee, Knox County 37929

Street City State/County Zip Code

Registered Agent C T CORPORATION SYSTEM

6. The names and complete business addresses (including zip code) of its current officers are: (Attach separate sheet if necessary.)
Offer Gneezy, 20 Second Avenue, Burlington, MA 01803
Mark S. Flynn, 20 Second Avenue, Burlington, MA 01803

7. The names and complete business addresses (including zip code) of its current board of directors are: (Attach separate sheet if necessary.)
Gordon VanderBrug, 20 Second Avenue, Burlington, MA 01803
Richard Tennant, 20 Second Avenue, Burlington, MA 01803
Offer Gneezy, 20 Second Avenue, Burlington, MA 01803

8. If the corporation commenced doing business in Tennessee prior to the approval of this application, the date of commencement (month, day and year) _____

9. The corporation is a corporation for profit.

10. If the document is not to be effective upon filing by the Secretary of State, the delayed effective date/time is _____ (date), _____ (time).
[NOTE: A delayed effective date shall not be later than the 90th day after the date this document is filed by the Secretary of State.]

[NOTE: This application must be accompanied by a certificate of existence or a document of similar import (for example, a certificate of good standing) duly authenticated by the Secretary of State or other official having custody of corporate records in the state or country under whose law it is incorporated. The certificate shall not bear a date of more than two (2) months prior to the date the application is filed in this state.]

Signature Date Colabr

Secretary _____

Signer's Capacity _____

SS-4431 (Rev. 4/01)

Filing Fee: \$600

iBasis Retail, Inc.

Name of Corporation

Signature Mark S. Flynn

Mark S. Flynn

Name (typed or printed)

RDA 1878

Delaware

PAGE 1

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "IBASIS RETAIL, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWENTIETH DAY OF JUNE, A.D. 2008.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

4381514 8300

080715726

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



Harriet Smith Windsor
Harriet Smith Windsor, Secretary of State
AUTHENTICATION: 6677508

DATE: 06-20-08

0334-0001

Exhibit F

SMALL AND MINORITY-OWNED TELECOMMUNICATIONS BUSINESS PARTICIPATION PLAN

Pursuant to T.C.A. § 65-5-112, as amended, iBasis Retail, Inc. (“iBasis Retail”) submits this small and minority-owned telecommunications business participation plan (“Plan”) with its Application for a Certificate of Public Convenience and Necessity to provide resold telecommunications services in Tennessee.

I. PURPOSE

The purpose of T.C.A. § 65-5-112 is to provide opportunities for small and minority-owned businesses to provide goods and services to telecommunications service providers. iBasis Retail is committed to the goals of T.C.A. § 65-5-112 and supports the participation of small and minority-owned telecommunications businesses in the telecommunications industry. iBasis Retail will seek, to the extent feasible, and with regard for price and quality factors, to purchase goods and services from small and minority-owned businesses in the connection with the provision of iBasis Retail’s telecommunications services in the state of Tennessee.

II. DEFINITIONS

As defined in §65-5-112:

Minority-Owned Business. Minority-owned business shall mean a business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is owned, by an individual who personally manages and controls daily operations of such business, and who is impeded from normal entry into the economic mainstream

because of race, religion, sex or national origin and such business has annual gross receipts of less than four million dollars (\$4,000,000).

Small Business. Small Business shall mean a business with annual gross receipts of less than four million dollars (\$4,000,000).

III. ADMINISTRATION

iBasis Retail's Plan will be overseen and administered by the individual named below, hereinafter referred to as the Administrator, who will be responsible for carrying out iBasis Retail's efforts to provide equal opportunities for small and minority-owned businesses related to the provision of telecommunications services in the state of Tennessee. The Administrator of the Plan will be:

Ellen Schmidt
Senior Counsel
iBasis Retail, Inc.
20 Second Avenue
Burlington, MA 01803
781-575-7500 (tel.)

The Administrator's responsibilities will include:

- (1) Maintain an updated Plan in compliance with T.C.A. § 65-5-112 and the rules and orders of the Tennessee Regulatory Authority.
- (2) Ensure that small and minority-owned telecommunications businesses are included in the solicitation for goods and services that they are capable of providing in the state of Tennessee.
- (3) Prepare and submit forms, reports or records as may be reasonably required by the Tennessee Regulatory Authority.
- (4) Serve as the primary liaison to and cooperate with the Tennessee Regulatory Authority, other agencies of the State of Tennessee, and small and minority-owned businesses, to locate and use qualified small and minority-owned businesses as defined in §65-5-112 for the provision of telecommunications services in Tennessee.
- (5) Review any solicitations for services in Tennessee to ensure that they do not inhibit and/or restrict competition from small and minority-owned businesses for

contracts for goods and services which they are capable of providing in the state of Tennessee.

(6) Maintain iBasis Retail's records of any solicitations and contract awards related to the provision of telecommunications services in Tennessee, and any related correspondence.

(7) Review and evaluate iBasis Retail's annual performance regarding contracting with small and minority-owned businesses in Tennessee.

(8) Prepare and submit annual updates to this plan as required by T.C.A. § 65-5-112.

In performance of these duties, and to the extent applicable, the Administrator will utilize a number of resources, including: Chambers of Commerce; The Tennessee Department of Economic and Community Development; The United States Department of Commerce, office of Small Business Administration, and office of Minority Business; The National Minority Supplier Development Counsel; The National Association of Women Business Owners; The National Association of Minority Contractors; Historically Black Colleges, Universities, and Minority Institutions.

The efforts to promote and ensure equal opportunities for small and minority-owned businesses are primarily provided under the list of Administrator's duties above. Additional efforts to provide opportunities to small and minority-owned businesses will include offering, where appropriate and feasible, small and minority-owned businesses assistance with technical, insurance, bonding, licensing, production, and deadline requirements related to the provision of telecommunications services in Tennessee.

IV. RECORDS AND COMPLIANCE REPORTS

iBasis Retail will maintain records of qualified small and minority-owned businesses and the efforts to use the goods and services of such businesses in relation to the provision of telecommunications services in Tennessee. In addition, iBasis Retail

will maintain records of any educational training activities conducted or attended and of any internal procedures adopted to support this Plan.

iBasis Retail will submit records and reports as required by the Tennessee Regulatory Authority concerning the Plan. Moreover, iBasis Retail will cooperate fully with any surveys and studies as required by the Tennessee Regulatory Authority.

iBasis Retail, Inc.

By: 

Ellen Schmidt
Senior Counsel/
Plan Administrator

October 27, 2009

Exhibit G

Surety Bond

October 29, 2009

Chairman Sara Kyle
c/o Sharla Dillon
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

Dear Chairman Kyle:

Pursuant to the Tennessee Regulatory Authority's (the "Authority") request, iBasis Retail, Inc. ("Applicant") hereby provides the enclosed Tennessee Telecommunications Service Provider's Surety Bond for \$20,000. Applicant is a wholly owned subsidiary of iBasis, Inc. ("iBasis"). As stated in its initial application, Applicant is a newly formed entity that submitted the financial statements of its parent company, iBasis, in support of its own qualifications, as is common industry practice. Moreover, iBasis stated that it will guarantee the financial obligations of Applicant. Accordingly, this letter of credit is submitted under iBasis' name.

Should you have any questions regarding the foregoing or the attached, please contact the undersigned at 202-434-7300. Kindly date-stamp the extra copy of this letter and return it to us in the enclosed FedEx envelope.

Respectfully submitted,



Kemal Hawa
Counsel for iBasis, Inc. and iBasis Retail, Inc.

TENNESSEE REGULATORY AUTHORITY

TENNESSEE TELECOMMUNICATIONS SERVICE PROVIDER'S SURETY BOND

Bond #: 08BSBFE9586

WHEREAS, iBasis, Inc. (the "Principal"), has applied to the Tennessee Regulatory Authority for authority to provide telecommunications services in the State of Tennessee; and

WHEREAS, under the provisions of Title 65, Chapter 4, Section 125(j) of the Tennessee Code Annotated, as amended, the Principal is required to file this bond in order to obtain such authority and to secure the payment of any monetary sanction imposed in any enforcement proceeding brought under Title 65 of the Tennessee Code Annotated or the Consumer Telemarketing Act of 1990 by or on behalf of the Tennessee Regulatory Authority (the "TRA"); and

WHEREAS, Hartford Fire Insurance Company (the "Surety"), a corporation licensed to do business in the State of Tennessee and duly authorized by the Tennessee Commissioner of Insurance to engage in the surety business in this state pursuant to Title 56, Chapter 2 of the Tennessee Code Annotated, has agreed to issue this bond in order to permit the Principal to comply with the provisions of Title 65, Chapter 4, Section 125(j) of the Tennessee Code Annotated;

NOW THEREFORE, BE IT KNOWN, that we the Principal and the Surety are held and firmly bound to the STATE OF TENNESSEE, in accordance with the provisions of Tennessee Code Annotated, Title 65, Chapter 4, Section 125(j), in the full amount of twenty thousand dollars (\$20,000.00) lawful money of the United States of America to be used for the full and prompt payment of any monetary sanction imposed against the Principal, its representatives, successors or assigns, in any enforcement proceeding brought under Title 65 of Tennessee Code Annotated or the Consumer Telemarketing Act of 1990, by or on behalf of the TRA, for which obligation we bind ourselves, our representatives, successors and assigns, each jointly and severally, firmly and unequivocally by these presents.

This bond shall become effective on the 1st day of October, 2008 and shall be continuous; provided, however, that each annual renewal period or portion thereof shall constitute a new bond term. Regardless of the number of years this bond may remain in force, the liability of the Surety shall not be cumulative, and the aggregate liability of the Surety for any and all claims, suits or actions under this bond shall not exceed Twenty Thousand Dollars (\$20,000.00). The Surety may cancel this bond by giving thirty (30) days written notice of such cancellation to the TRA and Principal by certified mail, it being understood that the Surety shall not be relieved of liability that may have accrued under this bond prior to the date of cancellation.

PRINCIPAL

SURETY

iBasis, Inc.
Name of Company authorized by the TRA

Hartford Fire Insurance Company
Name of Surety

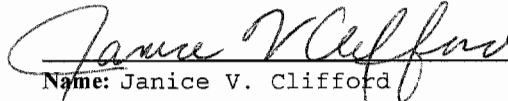
Company ID # as assigned by TRA

One Hartford Plaza, Hartford, CT 06155
Address of Surety

SIGNATURE OF PRINCIPAL

SIGNATURE OF SURETY AGENT





Name:
Title:

Name: Janice V. Clifford
Title: Attorene-in-Fact

Address of Surety Agent:

470 ATLANTIC AVENUE
BOSTON, MA 02210

THIS BOND IS ISSUED IN ACCORDANCE WITH THE PROVISIONS OF SECTION 125, CHAPTER 4, TITLE 65 OF THE TENNESSEE CODE ANNOTATED AS AMENDED BY CHAPTER NO. 586, 2000 PUBLIC ACTS. SHOULD THERE BE ANY CONFLICT WITH THE TERMS HEREOF AND THE STATUTE OR REGULATIONS PROMULGATED THEREUNDER, THE STATUTE OR REGULATIONS SHALL PREVAIL. (POWER OF ATTORNEY FROM AN APPROVED INSURANCE COMPANY MUST BE ATTACHED.)

ACKNOWLEDGMENT OF PRINCIPAL

Massachusetts
STATE OF ~~TENNESSEE~~
COUNTY OF Middlesex

Before me, a Notary Public of the State and County aforesaid, personally appeared Richard Tennant with whom I am personally acquainted and who, upon oath, acknowledged himself to be the individual who executed the foregoing bond on behalf of iBASIS, INC, and he acknowledged to me that he executed the same.

WITNESS my hand and seal this 9 day of December, 2008.

My Commission Expires:

October 5, 2012



SUSAN LORRAINE NEE
Notary Public
Commonwealth of Massachusetts
My Commission Expires
October 5, 2012

Susan L. Nee
Notary Public

ACKNOWLEDGMENT OF SURETY

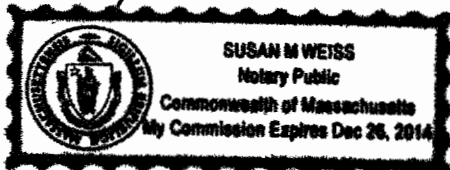
Massachusetts
STATE OF ~~TENNESSEE~~
COUNTY OF Suffolk

Before me, a Notary Public of the State and County aforesaid, personally appeared Janice V. Clifford with whom I am personally acquainted and who, upon oath, acknowledged himself to be the individual who executed the foregoing bond on behalf of iBASIS, Inc., the within named Surety, a corporation licensed to do business in the State of Tennessee and duly authorized by the Tennessee Commissioner of Insurance to engage in the surety business in this state pursuant to Title 56, Chapter 2 of the Tennessee Code Annotated, and that he as such an individual being authorized to do so, executed the foregoing bond, by signing the name of the corporation by himself and as such individual.

WITNESS my hand and seal this 3rd day of December, 2008.

My Commission Expires:

12/26/14, 2000



Susan M. Weiss
Notary Public

APPROVAL AND INDORSEMENT

This is to certify that I have examined the foregoing bond and found the same to be sufficient and in conformity to law, that the sureties on the same are good and worth the penalty thereof, and that the same has been filed with the Tennessee Regulatory Authority, State of Tennessee, this _____ day of _____, 20____.

Name: _____

Title: _____

POWER OF ATTORNEY

Direct Inquiries/Claims to:

THE HARTFORD

BOND, T-4

P.O. BOX 2103, 690 ASYLUM AVENUE
HARTFORD, CONNECTICUT 06115

call: 888-266-3488 or fax: 860-757-5835

Agency Code: 08 084700

KNOW ALL PERSONS BY THESE PRESENTS THAT:

- ☒ **Hartford Fire Insurance Company**, a corporation duly organized under the laws of the State of Connecticut
☐ **Hartford Casualty Insurance Company**, a corporation duly organized under the laws of the State of Indiana
☐ **Hartford Accident and Indemnity Company**, a corporation duly organized under the laws of the State of Connecticut
☐ **Hartford Underwriters Insurance Company**, a corporation duly organized under the laws of the State of Connecticut
☐ **Twin City Fire Insurance Company**, a corporation duly organized under the laws of the State of Indiana
☐ **Hartford Insurance Company of Illinois**, a corporation duly organized under the laws of the State of Illinois
☐ **Hartford Insurance Company of the Midwest**, a corporation duly organized under the laws of the State of Indiana
☐ **Hartford Insurance Company of the Southeast**, a corporation duly organized under the laws of the State of Florida

having their home office in Hartford, Connecticut (hereinafter collectively referred to as the "Companies") do hereby make, constitute and appoint, **up to the amount of UNLIMITED** :

BETSEY TAN, TINA HINCKLEY, JIM SMITH, JANICE V. CLIFFORD OF BOSTON, MASSACHUSETTS

their true and lawful Attorney(s)-in-Fact, each in their separate capacity if more than one is named above, to sign its name as surety(ies) only as delineated above by ☒, and to execute, seal and acknowledge any and all bonds, undertakings, contracts and other written instruments in the nature thereof, on behalf of the Companies in their business of guaranteeing the fidelity of persons, guaranteeing the performance of contracts and executing or guaranteeing bonds and undertakings required or permitted in any actions or proceedings allowed by law.

In Witness Whereof, and as authorized by a Resolution of the Board of Directors of the Companies on January 22, 2004, the Companies have caused these presents to be signed by its Assistant Vice President and its corporate seals to be hereto affixed, duly attested by its Assistant Secretary. Further, pursuant to Resolution of the Board of Directors of the Companies, the Companies hereby unambiguously affirm that they are and will be bound by any mechanically applied signatures applied to this Power of Attorney.



Scott Sadowsky

Scott Sadowsky, Assistant Secretary

M. Ross Fisher

M. Ross Fisher, Assistant Vice President

STATE OF CONNECTICUT }
COUNTY OF HARTFORD } ss. Hartford

On this 3rd day of March, 2008, before me personally came M. Ross Fisher, to me known, who being by me duly sworn, did depose and say: that he resides in the County of Hartford, State of Connecticut; that he is the Assistant Vice President of the Companies, the corporations described in and which executed the above instrument; that he knows the seals of the said corporations; that the seals affixed to the said instrument are such corporate seals; that they were so affixed by authority of the Boards of Directors of said corporations and that he signed his name thereto by like authority.



CERTIFICATE

Scott E. Paseka

Scott E. Paseka

Notary Public

My Commission Expires October 31, 2012

I, the undersigned, Assistant Vice President of the Companies, DO HEREBY CERTIFY that the above and foregoing is a true and correct copy of the Power of Attorney executed by said Companies, which is still in full force effective as of October 28, 2008

Signed and sealed at the City of Hartford.



Gary W. Stumper

Gary W. Stumper, Assistant Vice President

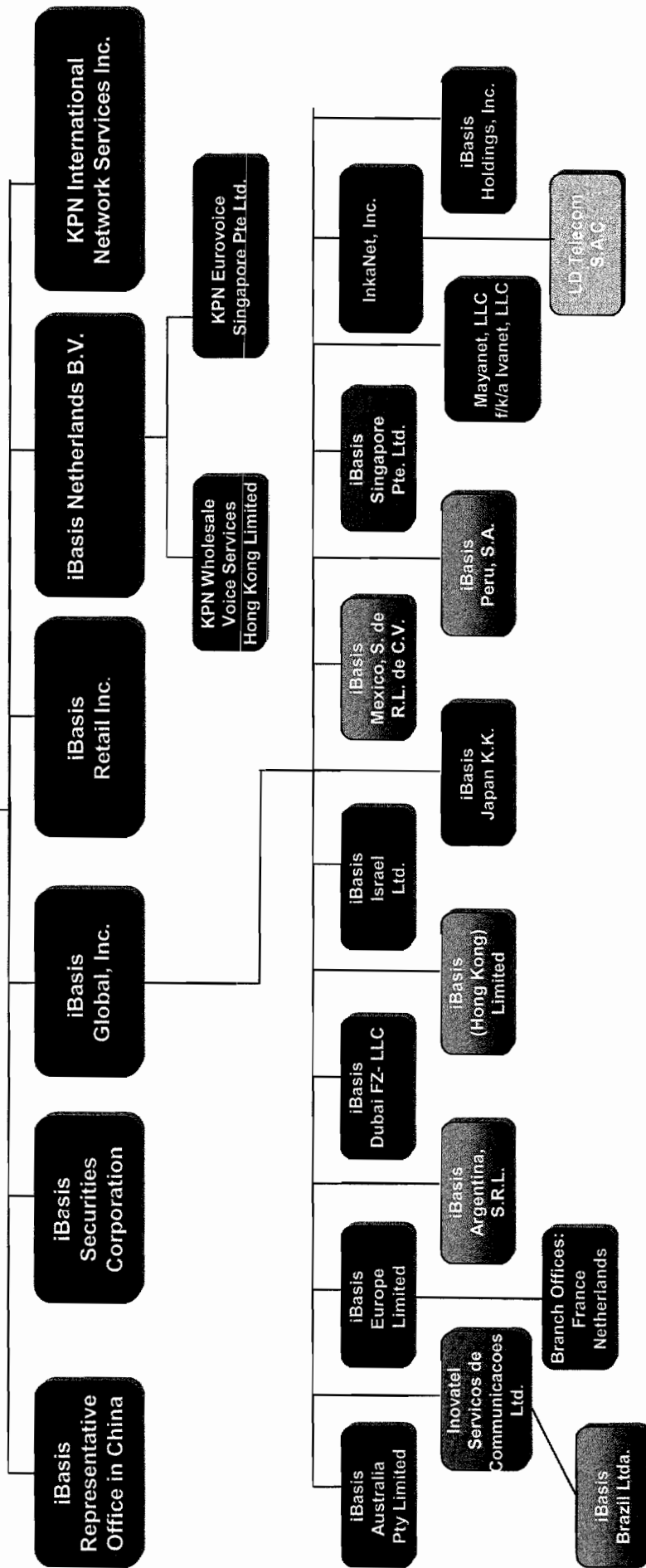
Exhibit H

Organizational Chart

Organization Chart depicting the relationship between iBasis Retail, Inc. and its parent company, iBasis, Inc., and other affiliates.

iBasis

iBasis, Inc.



As of June 3, 2008

Domestic Entity

Foreign Entity

Foreign Entity – Minority interest held by Patricia Kelly Marelli Sato

Foreign Entity – Minority interests held by Richard Tennant, Reserve Cash Limited and Territorial Cash Limited

Foreign Entity – Minority interest held by iBasis Holdings, Inc.

Foreign Entity – Minority interest held by Mayanet LLC

Exhibit I

Proposed Tariff

RESOLD INTEREXCHANGE TELECOMMUNICATIONS SERVICES

THIS TARIFF CONTAINS THE
REGULATIONS AND RATES APPLICABLE TO THE PROVISION OF
COMPETITIVE RESOLD INTEREXCHANGE TELECOMMUNICATIONS SERVICES
WITHIN THE STATE OF TENNESSEE

Issued Date:

Issued By: Tony Bloom
Vice President
20 Second Ave
Burlington, MA 01803

Effective Date:

CHECK SHEET

The sheets of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets as named below comprise all changes from the original tariff and are currently in effect as of the date on the bottom right-hand side of this sheet.

<u>SHEET</u>	<u>REVISION</u>	<u>SHEET</u>	<u>REVISION</u>
1	Original	28	Original
2	Original	29	Original
3	Original		
4	Original		
5	Original		
6	Original		
7	Original		
8	Original		
9	Original		
10	Original		
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22	Original		
23	Original		
24	Original		
25	Original		
26	Original		
27	Original		

* - Indicates Revised Sheet

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SYMBOLS

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

- D - Delete Or Discontinue
- I - Change Resulting In An Increase To A Customer's Bill
- M - Moved To Or From Another Tariff Location
- N - New
- R - Change Resulting In A Reduction To A Customer's Bill
- T - Change In Text Or Regulation But No Change In Rate Or Charge

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TARIFF FORMAT SHEETS

- A. Sheet Numbering: Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between pages 11 and 12 would become page 11.1.
- B. Sheet Revision Numbers: Revision numbers also appear in the upper right corner of each sheet where applicable. These numbers are used to indicate the most current page version on file with the Commission. For example, a 4th Revised Sheet 13 would cancel a 3rd Revised Sheet 13. Consult the Check Sheet for the sheets currently in effect.
- C. Paragraph Numbering Sequence: There are nine (9) levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2.
 - 2.1
 - 2.1.1
 - 2.1.1.A
 - 2.1.1.A.1
 - 2.1.1.A.1.(a)
 - 2.1.1.A.1.(a).I
 - 2.1.1.A.1.(a).I.(i)
 - 2.1.1.A.1.(a).I.(i).(1)
- D. Check Sheets: When a tariff filing is made with the Commission, an updated Check Sheet accompanies the tariff filing. The Check Sheet lists the sheets contained in the tariff, with a cross reference to the current Revision Number. When new sheets are added, the Check Sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (*). There will be no other symbols used on this sheet if these are the only changes made to it (*i.e.*, the format, etc. remains the same except for the revised revision levels on some sheets). The tariff user should refer to the latest Check Sheet to find out if a particular sheet is the most current on file with the Commission.

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SECTION 1 – TECHNICAL TERMS AND ABBREVIATIONS

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

ANI – ANI stands for Automatic Number Identification.

Applicant – An Applicant is any entity or person who applies for Service under this tariff.

Application for Service – The Application for Service is the Company's standard order form which includes all pertinent, billing, technical, and other descriptive information which will enable the Company to provide Telecommunications Services as required.

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

Authorized User – An Authorized User is a person, firm, corporation, or other entity that either is authorized by the Customer to receive or send Telecommunications or is placed in a position by the Customer, either through acts or omissions, to send or receive Telecommunications.

CLEC – CLEC is an acronym for Competitive Local Exchange Carrier.

Commission – Commission is used throughout this tariff to mean the Tennessee Regulatory Authority.

Company – Company refers to iBasis Retail, Inc.

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

Dedicated Access – The Customer gains entry to the Company's Services by a direct path from the Customer's location to the Company's Point-of-Presence.

DUC – DUC is an acronym for Designated Underlying Carrier.

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SECTION 1 – TECHNICAL TERMS AND ABBREVIATIONS – (CONT'D.)

InterLATA Call – An InterLATA call is any call that originates in one LATA and terminates in a different LATA.

IntraLATA Call – An IntraLATA call is any call that originates in one LATA and terminates in the same LATA.

IXC – IXC stands for Interexchange Carrier.

LATA – LATA is an acronym for Local Access Transport Area, which is a geographic boundary within which a Local Exchange Carrier provides communications services.

LEC – LEC is an acronym for Local Exchange Carrier.

NPA – NPA literally stands for Numbering Plan Area but is more commonly referred to as an area code.

NXX – NXX represents the first three digits of a Customer's telephone number.

PIC – PIC stands for Primary Interexchange Carrier.

PIN – PIN stands for Personal Identification Number.

Platform – Platform is the proprietary technology and associated computer equipment that is used in conjunction with the Company's Prepaid Calling Cards.

Point of Sale – Point of Sale is the location at which a Customer purchases the Prepaid Calling Card.

POP – POP is an acronym for Point-of-Presence. A POP may be (a) the central office of the Underlying Carrier; (b) a location where the LEC or CLEC hands off traffic of the Company's Customer to the Underlying Carrier; or (c) the location where the Customer's facility interconnects with the DUC.

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SECTION 1 – TECHNICAL TERMS AND ABBREVIATIONS – (CONT'D.)

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

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

Resp. Org – Responsible Organization or entity identified by a toll-free service Customer that manages and administers records in the toll free number database and management system.

Service(s) – Service consists of any Telecommunications Service provided by the Company pursuant to this tariff.

Switched Access – The Customer gains entry to the Company's Services by a transmission line that is switched through the Local Exchange Carrier to reach the Company's Point-of-Presence.

Telecom Unit – A measurement of Telecommunications Service equivalent to one minute of usage between any two points within the State of Tennessee.

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

Underlying Carrier – A Telecommunications carrier whose network facilities provide the technical capability and capacity necessary for the transmission and reception of Customer Telecommunications traffic.

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SECTION 2 – RULES AND REGULATIONS

2.1 Undertaking of the Company

This tariff contains the regulations and rates applicable to intrastate interexchange Telecommunications Services provided by the Company for Telecommunications between points within the State of Tennessee. Services are furnished subject to the availability of facilities and subject to the terms and conditions of this tariff in compliance with limitations set forth in the Commission's rules. The Company's Services are provided on a statewide basis and are not intended to be limited geographically. The Company offers Service to all those who desire to purchase Service from the Company consistent with all of the provisions of this tariff. The Company may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities when authorized by the Customer to allow connection of a Customer's location to a Service provided by the Company. The Customer shall be responsible for all charges due for such Service arrangement.

- 2.1.1 The Services provided by the Company are not part of a joint undertaking with any other entity providing Telecommunications channels or facilities but may involve the services of Underlying Carriers.
- 2.1.2 The rates and regulations contained in this tariff apply only to the Services furnished by the Company and do not apply, unless otherwise specified, to the lines, facilities, or services provided by LECs or other common carriers for use in accessing the Services of the Company.
- 2.1.3 The Company reserves the right to limit the length of communications, discontinue furnishing Services, or limit the use of Service necessitated by conditions beyond its control, including, without limitation: lack of satellite or other transmission medium capacity; the revision, alteration, or re-pricing of the Underlying Carrier's tariffed offerings; or when the use of Service becomes or is in violation of the law or the provisions of this tariff.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.2 Use and Limitations of Services

- 2.2.1 The Company's Services may be used for any lawful purpose consistent with the transmission and switching parameters of the Telecommunications facilities utilized in the provision of Services, subject to any limitations set forth in this Section 2.2.
- 2.2.2 The use of the Company's Services without payment for Service or attempting to avoid payment for Service by fraudulent means or devices, schemes, false or invalid numbers, or false calling or credit cards is prohibited.
- 2.2.3 The Company's Services are available for use twenty-four (24) hours per day, seven (7) days per week.
- 2.2.4 The Company's Services may be denied for nonpayment of charges or for other violations of this tariff subject to Section 2.5.1 herein.
- 2.2.5 Customers shall not use the Service provided under this tariff for any unlawful or abusive purpose, including but not limited to:
- A. Use of the Service to transmit a message or to locate a person or otherwise to give or obtain information without payment of the applicable charge; or
 - B. Obtaining or attempting to obtain or assisting another to obtain or to attempt to obtain Services by tampering, rearranging, or making connection with any Service components of the Company or the DUC or by any trick or scheme or by any other fraudulent means or device whatsoever with intent to avoid payment in whole or in part of the charges for such Services; or
 - C. Use of the Service of the Company to send a message or messages anonymously or otherwise in a manner reasonably expected to frighten, abuse, torment, or harass another; or
 - D. Use of the Service in such a manner as to interfere unreasonably with the use of Services by one or more other Customers.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.2 Use and Limitations of Services (cont.)

- 2.2.6 All Services are interstate and/or international offerings, but the Customer has the option to use the Service to place intrastate calls. Intrastate Service is only available if the Customer purchases the Company's interstate and/or international Service offerings.
- 2.2.7 The Customer is responsible for notifying the Company immediately of any unauthorized use of Services.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.3 Liabilities of the Company

- 2.3.1 The Company's liability will be limited to that expressly assumed in Section 2.3 of this tariff.
- 2.3.2 The Company shall not be liable for any claim, loss, expense, damage, or for any interruption, delay, error, omission, or defect in any Service, facility, or transmission provided under this tariff, if caused by an act of God, fire, war, civil disturbance, act of government, or due to any other causes beyond the Company's control.
- 2.3.3 The Company shall not be liable for, and shall be fully indemnified and held harmless by the Customer against any claim, loss, expense, or damage for defamation, libel, slander, invasion, infringement of copyright or patent, unauthorized use of any trademark, trade name or service mark, proprietary or creative right, or any other injury to any person, property, or entity arising out of the material, data, or information transmitted.
- 2.3.4 No agent or employee of any other carrier or entity shall be deemed to be an agent or employee of the Company.
- 2.3.5 The Company's liability, resulting in whole or in part from or arising in connection with the furnishing of Service under this tariff, including but not limited to mistakes, omissions, interruptions, delays, errors, or other defects and not caused by the gross negligence or willful misconduct of the Customer, shall not exceed an amount equal to the charges provided for under this tariff for the long distance call for the period during which the call was affected.
- 2.3.6 The Company shall not be liable for and shall be indemnified and saved harmless by any Customer or by any other entity from any and all loss, claims, demands, suits, or other action or any liability whatsoever, whether suffered, made, instituted, or asserted by any Customer or any other entity for any personal injury to, or death of, any person or persons, and for any loss, damage, defacement, or destruction of the premises of any Customer or any other entity or any other property whether owned or controlled by the Customer or others.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.3 Liabilities of the Company (cont.)

- 2.3.7 The Company shall not be liable for any indirect, special, incidental, or consequential damages under this tariff including, but not limited to, loss of revenue or profits, for any reason whatsoever, including the breakdown of facilities associated with the Service, or for any mistakes, omissions, delays, errors, or defects in transmission occurring during the course of furnishing Service.
- 2.3.8 Unless otherwise provided in the specific Service section, the Company will not be liable to the Customer for damages or be obligated to make any adjustment, refund, or cancellation of charges unless the Customer has notified the Company in writing of any dispute concerning the charges, or the basis of any claims for damages, within sixty (60) calendar days after an invoice is rendered or a debit is effected by the Company for the call giving rise to the dispute or claim. Any such notice shall set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demand. If the Customer is not satisfied with the Company's resolution of the billing issue, the Customer may submit an application to the Commission for review and resolution.
- 2.3.9 The remedies set forth herein are exclusive and in lieu of all other warranties and remedies, whether express or implied, INCLUDING WITHOUT LIMITATION IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.3 Liabilities of the Company (cont.)

2.3.10 The Company is not liable for failure of performance hereunder due to causes beyond its control, including but not limited to:

- A. Unavoidable interruption in the working transmission facilities including but not limited to fire, explosion, vandalism, cable cut, or other similar occurrence; or
- B. Natural Disasters such as storms, fire, flood, or other catastrophes; or
- C. Any law, order, regulation, direction, action, or request of the United States government, or any other governmental entity having jurisdiction over the Company or of any department, agency, commission, bureau, corporation, or other instrumentality of any one or more of such governmental entity, or of any civil or military entity; or
- D. National Emergencies, insurrections, riots, wars, strikes, lockouts, work stoppages, or other labor difficulties, supplier failures shortages or the like; or
- E. Notwithstanding anything in this tariff to the contrary, the lawful acts of individuals, including acts of the Company's agents and employees if committed beyond the scope of their employment.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.3 Liabilities of the Company (cont.)

2.3.11 The Company is not liable for:

- A. Damages caused by negligence or willful misconduct of the Customer; or
- B. The use or abuse of any Service described herein by any party including, but not limited to, the Customer's employees or members of the public. "Use or Abuse" includes but is not limited to, any calls placed by means of PBX-re-origination or any other legal or illegal equipment, service, or device. In the case of inbound Service, this also applies to third parties who dial the Customer's toll free inbound number by mistake; or
- C. Any action or omission of any other company or companies furnishing a portion of the Services, or facilities, or equipment associated with the Services; or
- D. Any action, such as suspension of Service, blocking, or deactivating the provision of Service for all traffic or traffic to or from certain NPA NXXs, certain countries, cities, or individual telephone stations for any Service offered under this tariff in order to control fraud or non-payment.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.4 Responsibilities of the Customer

- 2.4.1 The Customer is responsible for placing any necessary orders and complying with tariff regulations. The Customer is also responsible for the payment of charges for Services provided under this tariff.
- 2.4.2 The Customer is responsible for any charges incurred for special construction and/or special facilities which the Customer requests and which are ordered by the Company on the Customer's behalf.
- 2.4.3 If required for the provision of the Company's Services, the Customer must provide any equipment space, supporting structure, conduit, and electrical power without charge to the Company.
- 2.4.4 The Customer is responsible for arranging access to its premises at times mutually agreeable to the Company and the Customer when required for Company personnel to install, repair, maintain, program, inspect, or remove equipment associated with the provision of the Company's Services.
- 2.4.5 If any Company equipment is installed in a Customer location, the Customer shall cause the temperature and relative humidity in the equipment space provided by the Customer for the installation of the Company's equipment to be maintained within the range normally provided for the operation of microcomputers.
- 2.4.6 If a Customer interfaces with Company equipment, the Customer shall ensure that the equipment and/or system is properly interfaced with the Company's facilities or Services, that the signals emitted into the Company's network are of the proper mode, bandwidth, power, and signal level for the intended use of the subscriber and in compliance with criteria set forth in this tariff, and that the signals do not damage equipment, injure personnel, or degrade Service to other Customers. If the Federal Communications Commission or some other appropriate certifying body certifies terminal equipment as being technically acceptable for direct electrical connection with the telephone network, the Company will permit such equipment to be connected with its channels without the use of protective interface devices. If the Customer fails to maintain the equipment and/or the system properly, with resulting imminent harm to the Company's equipment, personnel, or the quality of Service to other Customers, the Company may, upon written notice, require the use of protective equipment at the Customer's expense. If this fails to produce satisfactory quality and safety, the Company may, upon written notice, terminate the Customer's Service.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.4 Responsibilities of the Customer (cont'd.)

- 2.4.7 The Customer must pay the Company for replacement or repair of damage to any equipment or facilities of the Company caused by negligence or willful acts of the Customer or others, by improper use of the Services, or by use of equipment provided by the Customer or others.
- 2.4.8 The Customer must pay for the loss or theft of any Company equipment installed at the Customer's premises.
- 2.4.9 If the Company installs equipment at the Customer's premises, the Customer shall be responsible for the payment of any applicable installation charge.
- 2.4.10 The Customer must use the Services offered in this tariff in a manner consistent with the terms of this tariff and the policies and regulations of all state, federal, and local authorities having jurisdiction over the Services.
- 2.4.11 The Customer is responsible for all lost and stolen travel cards, calling cards, and associated PINs.
- 2.4.12 In the event that parties other than the Customer (*e.g.*, the Customer's customer) will have use of the Services directly or indirectly through the Customer, then the Customer agrees to forever indemnify and hold the Company and any affiliated or unaffiliated third party provider or operator of facilities employed in the provision of the Services harmless from and against any and all claims, demands, suits, actions, losses, damages, assessments, or payments which may be asserted by said parties.
- 2.4.13 Upon receipt of the Company's Prepaid Calling Cards, the Customer will assume all risks of loss or misuse of such Prepaid Calling Cards.
- 2.4.14 The Customer will not use the Company's name or any service mark or trademark of the Company or refer to the Company in connection with any product, equipment, promotion or promotional material, publication, contracts, or bill of the Customer without the express prior written consent of the Company.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.4 Responsibilities of the Customer (cont'd.)

2.4.15 The Customer is responsible for the payment of all charges for Services provided under this tariff and for the payment of all assessments, fees, surcharges, taxes, or similar liabilities whether charged to or against the Company or the Customer. This includes but is not limited to amounts the Company is required by government or other entities to collect and/or pay to designated entities. The Company may adjust its rates and charges, or impose additional rates and charges, in order to recover these amounts. Unless otherwise specified herein, if any entity imposes charges on the Company in connection with the Customer's Service, that entity's charges may be passed through to the Customer. The Customer is responsible for the payment of all such charges.

2.4.16 The cancellation of Services by the Customer pursuant to Section 2.5.4 of this tariff or discontinuance or suspension of Services by the Company pursuant to Section 2.5 of this tariff does not relieve the Customer of any obligations to pay the Company for charges due and owing for Services furnished up to the time of discontinuance. The remedies set forth herein will not be exclusive and the Company will at all times be entitled to all rights available to it under either law or equity.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.5 Cancellation or Interruption of Services

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

- A. For nonpayment of any sum due to the Company for more than thirty (30) days after issuance of the bill for the amount due; or
- B. For violation of any of the provisions of this tariff; or
- C. For violation of any law, rule, regulation, or policy of any governing authority having jurisdiction over the Company's Services; or
- D. By reason of any order or decision of a court, public service commission, federal regulatory body, or other governing authority prohibiting the Company from furnishing its Services.

The above notice is not required in those instances where the Company does not have contact information for the Customer.

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

2.5.3 Service may be discontinued by the Company without notice to the Customer, by blocking traffic to certain counties, cities, or NXX exchanges, or by blocking calls using certain Customer Authorization Codes, when the Company deems it necessary to take such action to prevent unlawful use of its Service. The Company will restore Service as soon as it can be provided without undue risk, and will, upon request by the Customer affected, assign a new Authorization Code to replace the one that has been deactivated, or otherwise make the Customer whole.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.5 Cancellation or Interruption of Services (cont'd.)

2.5.4 The Customer may terminate Service upon verbal or written notice for the Company's standard month-to-month contract. The Customer will be liable for all usage on any of the Company's Service offerings until the Customer actually leaves the Service. Customers will continue to have the Company's Service and be responsible for payment until the Customer or its agent notifies its LEC and changes its long distance carrier.

The Company's discontinuance policies concerning Prepaid Calling Card Services is found in Section 3.1

2.6 Credit Allowance - Interruption of Service

2.6.1 Credit may be given for disputed calls, on a per call basis.

2.6.2 Credit shall not be issued for the unavailability of long distance Services.

2.6.3 The Company's credit allowance policies concerning Prepaid Calling Card Services is found in Section 3.1.6.

2.7 Deposit

The Company may require deposits for certain Services if specifically provided for in the applicable Service description of this tariff.

2.8 Advance Payments

The Company may require advance payments for recurring and non-recurring charges for certain Services if specifically provided for in the applicable Service description of the tariff. This will be applied against the next month's charges, and if necessary, a new advance payment will be collected for the next month.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.9 Payment and Billing

- 2.9.1 For any Service that is not prepaid, Service is provided and billed on a billing cycle basis, beginning on the date that Service becomes effective. Billing is payable upon receipt.
- 2.9.2 The Customer is responsible for payment of all charges for Services furnished to the Customer, as well as to all persons using the Customer's codes, exchange lines, facilities, or equipment, with or without the knowledge or consent of the Customer. The security of the Customer's Authorization Codes, subscribed exchange lines, and direct connect facilities is the responsibility of the Customer. All calls placed using direct connect facilities, subscribed exchange lines, or Authorization Codes will be billed to and must be paid by the Customer. For any Services that are not prepaid and that have charges based on actual usage during a month, any accrued interest will be billed monthly in arrears.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.10 Collection Costs

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

2.11 Taxes

When a Customer receives a bill from the Company for Services, all federal, state, and local taxes, assessments, surcharges, or fees, including sales taxes, use taxes, gross receipts taxes, and municipal utilities taxes, will be billed as separate line items and are not included in the rates quoted herein. Any applicable sales tax or exemption must be certified in writing and supported by appropriate documentation.

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SECTION 2 – RULES AND REGULATIONS (CONT'D.)

2.12 Late Charge

For all Services that are not prepaid, if payment is not received by the Customer by the due date, a late fee of the lesser of (a) one and one-half (1½) percent per month or (b) the maximum percentage permitted by law, shall be assessed against the Customer's delinquent balance of undisputed usage not paid by the due date. A Customer that is past due with a payment is liable for all reasonable attorneys' fees and other properly documented costs of collection incurred by the billing Customer, if any.

2.13 Return Check Charge

A fee in the amount of \$25.00 will be charged whenever a check or draft presented for payment for Service is not accepted by the institution on which it is written.

2.14 Reconnection Charge

A reconnection fee per occurrence in the amount of \$25.00 will be charged when Service is reestablished for Customers which has been disconnected due to non-payment. Payment of the reconnection fee and any other outstanding amounts will be due in full prior to reconnection of Service.

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SECTION 3 - DESCRIPTION OF SERVICE

3.1 Prepaid Calling Card Services

3.1.1 General

The Company may produce and arrange for the distribution and sale of Prepaid Calling Cards. The Prepaid Calling Cards will be brand marked iBasis, Inc. or iBasis Retail, Inc.

All Prepaid Calling Card Services are interstate and international offerings with the Customer having the ability to use the Prepaid Calling Card to place calls within the state. All applicable fees, directions for use, and customer service information are included on the back of the Cards or on the packaging. Prepaid Calling Cards have no cash redemption value. The Company is not responsible for lost or stolen Cards, or PINs, or unauthorized use.

3.1.1.1 Customers may purchase the Company's Prepaid Calling Cards at a variety of retail outlets or through other distribution channels.

3.1.1.2 Prepaid Calling Card Services will be available with designated Card face values such as two dollars (\$2.00), three dollars (\$3.00), five dollars (\$5.00), ten dollars (\$10.00), twenty dollars (\$20.00), or alternatively, other values in one-cent (\$.01) U.S. increments.

3.1.2 Description of Service

The Company's Prepaid Calling Card Service is a prepaid long distance Service that allows Customers to obtain a predetermined amount of access to the Company's long distance Services by purchasing the Company's Prepaid Calling Cards. The Cards are a cash-value-based Service with fixed face values on the Cards that are available to the Customer that purchases the Cards. Some Cards may include a recharge option as set forth in Section 3.1.3.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D.)

3.1 Prepaid Calling Card Services (cont'd.)

3.1.2 Description of Service (cont'd.)

3.1.2.1 Prepaid Calling Card Usage

- A. Prepaid Calling Card Service is offered via access numbers printed on the back of the Cards. The Customer dials the access number on the Card and is then prompted by an automated voice response system to enter the Authorization Code (or PIN), which is either included on the back of the Card or otherwise provided to the Customer upon purchase. The Customer then enters the called telephone number. A PIN is not required if the Card provides for ANI registration and the Customer registers its ANI with the Company.
- B. The Calling Card Platform validates the PIN or ANI, determines the time remaining on the Card, which is prompted to the caller, and completes the call.
- C. Billing for a call begins when the Platform receives a signal that the called-to number is answered. Billing ends when the Platform receives a signal that the calling or called party has terminated the call. Upon call termination, the total consumed cost for each call is deducted from the remaining balance on the Card.
- D. Calls are billed in increments ranging from one to five minutes depending on the specific calling Card and the destination called.
- E. All calls must be charged against a Card that has a sufficient balance. All callers will receive a warning tone one (1) minute before the balance is reduced to zero (0). The call will be interrupted when the balance is reduced to zero (0).
- F. Calling Cards are only valid if activated by an authorized distributor or reseller and used prior to their expiration dates. The Company will not refund unused balances after Cards have expired.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D.)

3.1 Prepaid Calling Card Services (cont'd.)

3.1.3 Extra Features

The following extra features may be available on some of the Company's Cards:

- A. ANI Registration – Cards that have an ANI registration option will be disclosed as such. For these Cards, a Customer has the option of registering its ANI with the Company so that it is not necessary to input the PIN number for the call to be validated.
- B. Recharge Option – Cards that have the recharge option will be disclosed as such. For these Cards, Customers may select an amount of access to the Company's Service from a choice of pre-designated amounts. A Customer may recharge the Cards by selecting one of the pre-designated amounts.

3.1.4 Call Blocking

The Company will block calls made to the following types of numbers: "500," "700," "855," "900," "976," "411," "555," "885," "886," and "872." These types of calls, therefore cannot be completed.

3.1.5 Customer Service

Customers may dial the customer service number on the back of the Card twenty-four (24) hours per day, seven (7) days per week to report any problems with the Card or Service. A live operator is available to take calls from 10:00 a.m. to 12:00 a.m. ET. When a live operator is not available, Customers may leave messages regarding their questions or concerns and the Company will return messages within one (1) business day from the date messages are received.

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SECTION 3 - DESCRIPTION OF SERVICE (CONT'D.)

3.1 Prepaid Calling Card Services (cont'd.)

3.1.6 Credits

- 3.1.6.1 To receive credit, the Customer must promptly notify the Company at the designated toll free number on the back of the Card and furnish the PIN, the called number, the trouble experienced, and the approximate time the call was placed.
- 3.1.6.2 With the provision of the above information, the Customer will receive a credit equivalent of up to one (1) minute under the following circumstances:
 - A. When a call charged to a Prepaid Calling Card is interrupted due to a cut-off or one-way transmission.
 - B. Credit for failure of Service shall also be allowed for failure of power, equipment, or systems, which are provided for and are the responsibility of the Company if such failures occur while a completed call is in progress.
- 3.1.6.3 Credit allowances will not be given for interruptions that are due to the failure of power, equipment, or systems not provided by the Company.
- 3.1.6.4 Credit allowances will not exceed the amount of usage deducted from the card balance.
- 3.1.6.5 No credits will be provided in the event of any force majeure events.

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SECTION 3 - DESCRIPTION OF SERVICE, (CONT'D.)

3.1 Prepaid Calling Card Services (cont'd.)

3.1.7 Refunds

If a Prepaid Calling Card is unusable for reasons beyond the Customer's control, the Card has not exceeded the expiration period, and the retail outlet has not provided a replacement card, a Customer may submit a refund request by calling customer service and providing all relevant information. Upon verification that a refund is due, the Customer will be provided with either a replacement card equal to the value remaining in the account, or if possible, the equivalent value on the Customer's card. Card replacements will be accomplished either via the retail outlet where the card was purchased or sent to the Customer's address, at the option of the Customer. No monetary refunds will be provided.

The refund will be provided to the Customer within sixty (60) days of notification by the Customer of the problem.

3.2 Discontinuance of Prepaid Calling Card Service

If the Company wishes to discontinue Service, it will ensure either through its contracts with its network providers, distributors, or marketing agents, or other means, that purchased Cards remain usable through their expiration dates or, if the Card does not have an expiration date, for one (1) year from the date of first use, or that Customers are otherwise made whole.

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SECTION 4 - RATES AND CHARGES

4.1 Rates and Charges for Prepaid Calling Services Are As Follows:

A base per minute rate of up to \$.99 per minute.

A weekly fee of \$0.89 is assessed within twenty-four (24) hours after the first call and each week thereafter.

Up to a \$0.99 hang-up fee will be applied to calls that do not use up the entire card balance.

4.2 Payphone Surcharge

Pursuant to the FCC's Order in CC Docket 96-128, this surcharge applies only to dial-around calls, *i.e.*, calls originating using a carrier's access code, a Customer's 800 and other toll-free numbers, calling cards, and prepaid phone card calls, from payphone instruments.

The Customer shall pay the Company a per call surcharge of up to \$0.99 per call for all such traffic.

4.3 Promotional Offerings

The Company may from time to time make promotional offerings available in which the rates and charges differ from the tariffed rates in Section 4.1. These offerings will be limited to certain Cards and dates and the Commission will be notified as required of these promotions.

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