3D ADVISORS

This 3DAdvisors Report Covers:
✓ **Insider Trading**: Insider Trading Behavior
Accounting: Quality of Earnings Issues
Governance: Corporate Governance Issues

Insider Research Bulletin

June 29, 2009

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Insider Research Bulletin describes significant insider trading behavior that we have identified at the following companies and is a summary of the first step in our research process. The next step is that these same companies will undergo a review of accounting and governance behavior, and if we identify indicative behavior in one or both areas, then a "full 3DA research report" will be published on that company. Note: Inclusion of a company in this report by itself does not necessarily mean a full research report will be published. The ⬆ symbol indicates that we have observed trading behavior that suggests a bullish sentiment.

Insider Research Bulletin is published periodically and exclusively for 3DA Research subscribers.

Companies in this Bulletin

- J. Crew Group Inc. (NYSE: JCG)
- Neutral Tandem Inc. (NASDAQ: TNDM)

Discussion of 3DAdvisors Findings

J. Crew Group Inc. (NYSE: JCG)

Many of our clients probably recall our having covered behavior at J.Crew in the not-too-distant past when Chairman and Chief Executive **Millard "Mickey" Drexler** executed a series of subtle, yet largely bullish Grantor Retained Annuity Trust (GRAT) contributions. His activity proved highly predictive for more than a year before his mid-2008 GRAT transactions were sabotaged by the market chaos during the second half of the year. His persistence, however, has resulted in hefty profits for his trusts' beneficiaries, as the shares have rebounded dramatically since the first quarter, when he contributed another 2 million shares into new trusts in the $10 to $15 range. While we still believe in the validity of Drexler's GRAT strategy, trading profiles are rarely static and a recent round of more bearish behavior by other JCG insiders now brings the issue's current valuation into question. J.Crew executives surfaced en masse after the Company released first quarter earnings on 05/28/09 that declined 33%, albeit less of a drop-off than the Street was looking for. In a short window between 06/03/09 and 06/05/09, four Section 16 officers and three non-registered mid-level execs collectively sold 182,000 shares, some which were disposed with aggressive 10b5-1 trades. And while Drexler did not surface with any sales of his own, he pulled shares out of a GRAT and did not reallocate them into a similar trust as he had done for years; a very subtle hint the upside potential he previously saw on a number of occasions is not currently realistic.

There are few apparel retailers, or really any retailers for that matter, that can lay claim to having slipped up as much as J.Crew had in the second half of 2008. Despite having surpassed (lowered) sell-side earnings estimates for the last three quarters, the Company, once a Wall Street darling, was chastised for everything from website malfunctions to out-of-control inventory and deteriorating comps. The shares, which traded as high as $50 in May 2008, lost the support of the investor community and plunged to a new low of $8 in November and remained around $10 to $11 until March when the market rebound resuscitated the shares. By late May the shares were up to a six-month high of $20 and would go even higher on the 1Q09 earnings report. Despite posting a significant year-over-year drop in profits from $0.48 to $0.32, eroding margins and forecasting a 57% decline in fiscal 2Q earnings, the shares gapped up 26% on optimism the business is trending in the right direction. Let's not forget the apparent "Obama Tailwind" that whipped up the shares when it became known that the First Kids liked JCG clothing. The current trading behavior of its insiders suggests to us that they feel risk in holding their shares at current levels.

Just days after J.Crew released first quarter earnings, two named executive officers, President of Retail and Direct **Tracy Gardner** (45) and Executive V.P. of Factory and Madewell **Libby Wadle** (36) opened sales plans (06/02/09). They commenced their trading immediately afterwards, waiting just one or two days instead of the 30 to 60 period recommended by most attorneys. This was very different behavior than we had seen from the two in the past, as they each had delayed 10b5-1 sales for at least two weeks and upwards of two months after adopting previous plans. Based on Gardner's trading history, we suspect she will be selling more through her plan in the upcoming weeks. It is likely Wadle completed her plan after selling 81% of her actionable holdings in back-to-back sessions. Even if more shares are sold, the plans have already served their purpose in short order as the two key executives reaped substantial profits on the first quarter earnings surprise, using Rule 10b5-1 as their cover. Other executives traded immediately after the earnings release as well, including CFO **James Scully** and Executive V.P. of Human Resources **Lynda Markoe**. Scully dropped 66% of his actionable holdings at prices (roughly $27) well below those he last sold at in March 2008 ($40 to $45). In addition to monetizing options with six years remaining before expiration, he also diversified some of his common stock holdings. Markoe lightened her exposure to JCG by 35% when she tapped into all three of her vested option series to sell 26,000 shares, her first sale since becoming a registered insider in December.

We also note that there have been mid-level officers (non-Section 16 filers) taking profits. This was revealed by Form 144 filings which indicate a restricted securities holder's intent to sell; such filings tend to receive almost no attention from the mainstream media and investor community but can be just as informative as the Form 4s. In fact, J.Crew is one of a very small number of companies we have seen where the trading behavior of non-registered insiders is so identifiable. Since the Company's July 2006 IPO, there has been a total of 120 sales filed on 144s by non-registered JCG executives compared to 65 dispositions reported by the Section 16 filers on Form 4s.

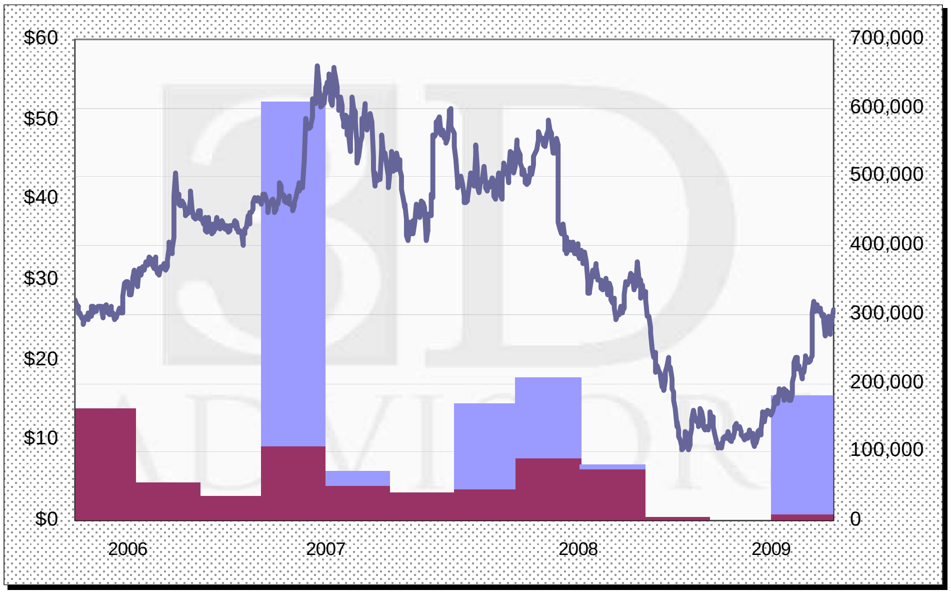
One such recent seller was **Holly Cohen**, V.P. of Real Estate, Planning and Construction, who filed her intent to sell 3,210 shares on 06/02/09 with the issue trading around $27. Her last proposed sale in June 2007 occurred at 85% higher prices. We find Cohen's sale very interesting since the Company lowered its forecast for new store openings to 24 after opening 42 in 2008. Also selling was V.P. of Financial Planning and Analysis, Treasurer **Stuart Haselden**, whose planned 06/02/09 sale was in line with his past volume, though at a drastically lower price. The last insider to file a 144 in June was General Counsel **Arlene Hong**, whose previous activity occurred in September 2008 just two weeks after the Company slashed its 3Q08 and fiscal 2008 guidance. JCG shares would lose 73% of their value in the two months after her timely disposition.

Even though CEO Drexler has not bought or sold any stock this year, he has quietly reallocated shares held in a GRAT which we find very informative. Those of our clients interested in reading a brief synopsis of his GRAT history should view our most recent coverage posted on 04/14/09. Drexler has deposited shares into GRATs on six different occasions over the last two years and with the exception of his two late 2008 contributions, his timing has been quite prescient. JCG shares have appreciated on average 70% in the three months following his other four contributions. Now, with JCG trading at a discount to the prices associated with all four of his 2008 GRAT contributions, Drexler recently withdrew 650,000 of the 1,000,000 shares out of his 2008 GRAT #2 (funded on 06/02/08) and moved the shares into a regular trust account.

This is the first time he terminated or withdrew shares from an existing GRAT and did not immediately use the shares to fund a new trust. This is even more interesting to us because assets deposited in a GRAT must appreciate more than the associated "Hurdle Rate" (Section 7520 Rate) in order for the GRAT to generate any tax advantages for the beneficiaries of the trust. The current rate of 2.8% is marginally higher than it was in January and March (2.4%) when he funded his last two trusts, but well below the rates associated with his 2008 GRATs and still close to all-time low levels as the average monthly rate over the last 20 years was 6.7%. From a Hurdle Rate standpoint, there has never been a better time to open a GRAT; that is, unless Drexler has concerns his JCG shares have limited or no upside and consequently cannot outgain the Hurdle Rate.

For all the attention we have given to Drexler's GRAT activity for its effectiveness in predicting near-term upside, it is easy to overlook that other executives' sales have been every bit as prescient. CFO Scully unloaded 80% of his holdings in March 2008 after the shares traded up to $45 on the Company's solid 2007 results and fiscal 2008 earnings forecast of $1.85 to $1.87 (analysts expected $1.52). His sales were executed at prices up to $45. Around the same time Tracy Gardner adopted a sales plan and unloaded her entire position (116,000 shares) at prices as high as $47. Less than one month after her final sale J.Crew plummeted 20% when it lowered fiscal 2008 guidance to a range of $1.70 to $1.75. During the same period Scully and Gardner were selling hand over fist, ten different mid-level officers filed 144s covering more than 100,000 shares, the highest volume activity from this group since June 2007 when the issue traded at record prices. Not to be outdone, Libby Wadle opened a sales plan of her own in June 2008, right after the earnings revision, and completed her 10b5-1 trades by the middle of August. Twelve days later the Company announced it had missed its second quarter guidance by 13% and again lowered fiscal 2008 earnings guidance to $1.44 to $1.54. The non-Section 16 filers (officers) were sellers right up to the disappointing 2Q08 earnings reported in late August and even continued selling into September.

Figure 1. JCG Daily Closing Price, 07/06/06 through 06/26/09 (Gray Line and Left Scale) and Quarterly 144 Shares Sold by Non-Section 16 Insiders (Red Bars, Right Scale) and Section 16 Filing Insiders* (Blue Bars, Right Scale). Source: Reuters and JCG SEC Filings.



* Named executive officers were prohibited from selling between the June 2006 IPO and April 2007, when the second of two consecutive lock-up periods expired. The spike in 2Q07 sales is correlated with the lock-up expiration.

We are certain our clients are aware of the fact that J.Crew's clothes, particularly at its flagship stores, are priced well above those of its direct competitors. It is no secret consumers have flocked to lower-priced retailers, which is evidenced by same store sales being negative the last four quarters, a trend that is likely to continue in the current quarter. And while the Company did manage to report a substantial positive earnings surprise for its fiscal 1Q09, profits still declined 33% from the same period a year ago. Earnings guidance for its fiscal 2Q09 came in above the sell-side consensus estimate by a wide margin, but even if they hit the high end of their $0.08 to $0.12 range, it will still represent a 57% decline from their fiscal 2Q08. The Company even suspended providing annual guidance because of the unpredictability caused by the weakening economy.

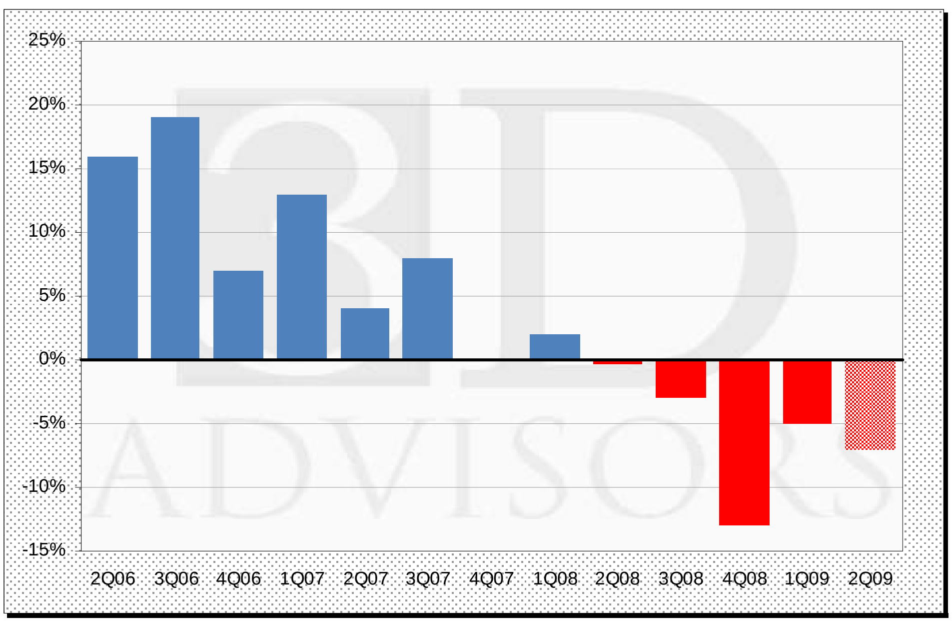
Margins are another big issue to which Wall Street seems to have turned a blind eye. Operating margins fell to a record low 27.6% in the fourth quarter due to inventory issues and associated markdowns. Although they did return to healthier levels in the first quarter (42.2%), the forecast is for a 400 basis point decline to 37% in the 2Q. This trend will likely continue into the second half of the year as the Company has announced it will cut prices on 25% of the clothing at its already lower-priced casual concept, Madewell, and has already lowered prices at Crewcuts, its new children's clothing stores. On the 05/28/09 1Q conference call, CEO Drexler, who is typically very candid when delivering bad news, artfully redirected pricing questions to merchandising and fashion. When management was pressed again on the topic, albeit in a different approach, CFO Scully was a little more forthcoming and his answer made it pretty clear customers can expect to soon see deals at their nearest J.Crew store.

Analyst: On the cost savings of the second half of the year, are you looking to deliver those savings to the bottom line or are there any investments in price or quality that you're looking at that may mitigate some of the savings flow through to the profit line?

James Scully, CFO: I think it's -- when it comes to the unit costs, I mean I think it's a matter of sharing a bit with the consumer. We've got to take some to the bottom line but it's more about sharing with the consumer, I think adjusting prices based on that in the second half of the year. But I think the important thing is it has nothing to do with the quality aspect. It's maintaining the quality. It's realizing the savings that Mickey said were past due, sharing some of the consumer and holding back a little bit for us.

Even given the Company's declining fundamentals and lack of earnings visibility, it is quite interesting how management has aggressively taken profits into the recent momentum. The shares currently trade at a trailing P/E of 35.4, making it the second most expensive stock in the apparel retailer group. On a forward earnings multiple, JCG still ranks near the top of the list. Although J.Crew managed to exceed sell-side earnings expectations in a few recent quarters, the bar had been lowered considerably after the Company's numerous downward guidance adjustments. With the currently inflated valuation, any setback could result in significant volatility. We have begun a more comprehensive analysis of the Company's earnings quality and fundamentals.

Figure 2. Year-Over-Year Same Store Sales Growth, 2Q06 through 2Q09, % Change (2Q09 is forecast). Source: JCG.



- **Tracy Gardner (45)*** – President of Retail and Direct. Between 06/03/09 and 06/05/09 Gardner sold 46,545 shares under a 10b5-1 plan. The issue here is that she entered into the plan on 06/02/09 and commenced the selling the next day. The disposed shares came from options with far-off expiration dates (April 2014 and July 2015). This new sales plan is Gardner's third since the IPO, but it marks the first time she has started selling so soon after opening a plan. She waited over one month after adopting her first plan on 03/16/07 and more than two weeks after her second on 03/14/08 before executing the first trade. Granted, her sales so far under this new plan have **covered just 25% of her actionable holdings** whereas her 2007 and 2008 10b5-1 sales erased all of her ownership, but we anticipate seeing more sales from her in the near future based on her earlier plan sales taking place for upwards of two months. Gardner will have 96,000 shares and options become actionable in August followed by another 67,000 next year (see Appendix A).

- **John Scully (44)*** – Chief Financial Officer, Chief Administrative Officer. Scully exercised all actionable options in three different options series, each with a September 2015 expiration date, and immediately sold the underlying 62,000 shares on 06/05/09. During the same session he also sold 13,000 shares out of his common stock holdings, **depleting his ownership by 66%**. There is also a timing element to his past behavior, as his only two prior rounds of sales occurred shortly before the Company issued earnings guidance that disappointed Wall Street. This year he will vest in 79,000 shares and options and then will have another 32,500 vest next April (see Appendix A).

- **Libby Wadle (36)*** – Executive V.P. of Factory and Madewell. Wadle has been in retail for most of her young professional career, working at Gap and later Coach before joining J.Crew in 2004. Prior to this year her only sales as a Section 16 filer came under a sales plan, entered into in June 2008, through which she sold 7,258 shares of common in August. We note that she waited two months to commence her sales under her first plan. She seems to be displaying more urgency now: After adopting her second plan on 06/02/09, she began selling just two business days later. On 06/04/09 and 06/05/09 Wadle exercised 24,197 options from her August 2014 and August 2015 options series and sold 22,597 shares. While the transactions did add 1,600 shares to her common holdings, which had been depleted entirely by her 2008 dispositions, the net result was an **81% decrease in her combined stock and vested options**. Due to her lack of remaining actionable equity we would be surprised if her current sales plan calls for further trades. If this proves to be the case, then it would be evident she abused Rule 10b5 by cashing in the majority of her ownership right after opening the plan in order to profit from the recent price strength. She will have 55,000 options and shares vest over the next 12 months (see Appendix A).

- **Lynda Markoe (42)** – Executive V.P. of Human Resources. Markoe is another former Gap employee that Drexler brought to JCG. Although she has been with the Company for five years, she only became a registered Section 16 filer in December 2008. Before this time, however, she did file 144s so we know her trading history going back to 2006. What the data show is that her sale of 26,617 shares on 06/05/09 nearly matched the total she disposed between 2006 and 2008 (29,000 shares). In addition to clearing out her December 2013 and June 2014 options series, she also monetized half of the options from a July 2015 series; none of these were at risk of expiring. The sale covered 35% of her actionable holdings. She has just 13,000 options and shares scheduled to become actionable in the next year and is the lone executive who sold more shares than they will have vest downstream (see Appendix A).

* Indicates that the individual is a Named Executive in the Company's most recent Proxy.

Neutral Tandem Inc. (NASDAQ: TNDM)

A sell-side analyst with coverage on Neutral Tandem, a telecom company that provides services that connect phone networks between providers, recently upgraded his rating and price target on the shares, citing an increasing number of wireless subscribers. While we appreciate the basis for the analyst's endorsement, especially as the Company has benefited from rising minute-based revenues and even its expansion into new geographical markets, we find his comments on TNDM management's insider selling quite myopic. The analyst minimized the recent trading behavior by claiming it was a "continuation of long-running trends". Long-running trends indeed, which to us started out as some of the most aggressive post-IPO lock-up selling we have seen and has persisted at a breakneck pace right up to this report date. This name has been on our radar for over one year now, dating back to when the Company had a market capitalization well below our normal minimum. With this year's market price gains catapulting TNDM's market cap to $1 billion, and the selling volume accelerating even further with the stock price, we feel the name is now an interesting candidate deserving of our clients' attention and further investigation.

Although we have encountered companies where management (and institutional stockholders) have cashed out higher percentages of ownership after a lock-up expiration, TNDM insiders are part of a much smaller group that takes advantage of every feasible channel to cash out shares, including some that should not have been available to them. For example, four insiders (including three named executives) sold 221,000 shares into the November 2007 IPO. This in itself is not rare or even excessive, but the same four individuals would then sell into a secondary offering held five months later (April 2008) for the primary institutional investors, Doll Capital Management (DCM) and New Enterprise Associates (NEA). A total of nine insiders, including Chief Executive Officer and President **Rian Wren** (52), sold a total of 990,000 shares in this second offering. The issue we take with these trades is that the underwriter, Morgan Stanley, waived the terms of the six-month lock-up agreement associated with the earlier IPO for these particular insiders. In effect, the secondary allowed the insiders to circumvent the initial IPO lock-up period and take profits while Company employees not granted the same exemption were prohibited from trading.

Selling stock in the first two offerings was just the tip of the iceberg. It was disclosed in the IPO prospectus that all of Neutral Tandem's named executive officers (we would later find out additional officers as well) and certain board members adopted 10b5-1 sales plan to facilitate trading upon the expiration of the lock-up period. The subsequent April stock offering would delay commencement of these sales until late June 2008 when the secondary lock-up expired. Even though they had just sold in the first two stock offerings and each had new 10b5-1 plans primed and ready to go, CFO **Robert Junkroski** and Senior V.P. of Sales **David Lopez** *began selling outside of their respective plans during the blackout period*. We presume the underwriters granted these two officers another waiver to sell during this second blackout period and they wasted no time cashing in a combined $2.5 million worth of stock. While the unorthodox timing of these trades was indeed suspicious, it was the nature of the shares sold that really piqued our interest.

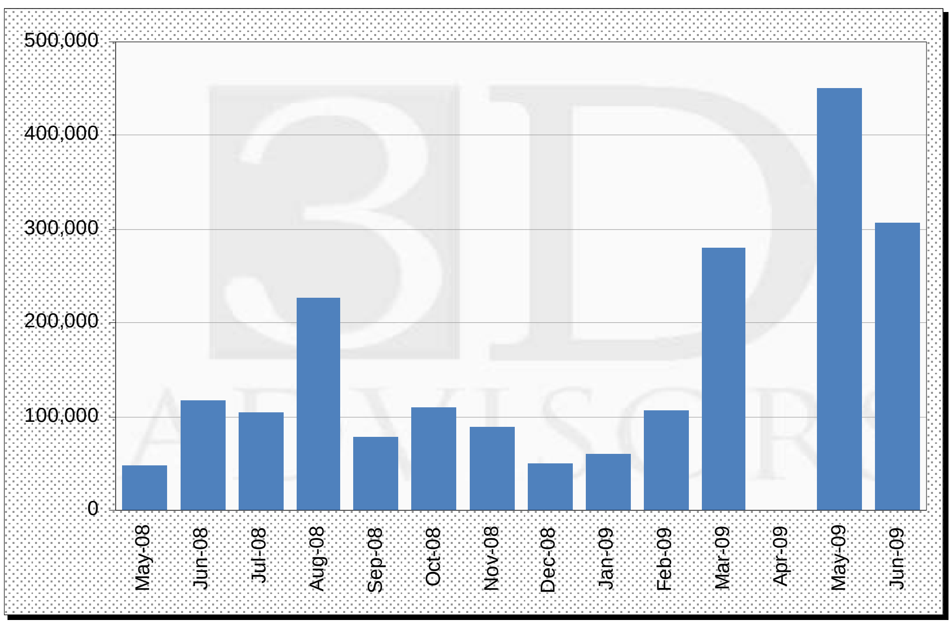
It has always been our contention corporate insiders are quite sensitive and strategic when buying and selling shares held in accounts benefitting their children and, to a lesser degree, other family members. We are always on alert when we see insiders taking action on such positions. Prior to the IPO CFO Junkroski had funded two trusts, one for his son and one for his daughter, with a total of 40,000 TNDM shares; he also reported owning 10,000 shares jointly with his parents. SVP Lopez similarly had separate trusts for his three children holding a total of 6,000 shares and also a Grantor Retained Annuity Trust (GRAT) for their benefit holding 42,500 shares. *Both executives liquidated each of these trusts during the second lock-up period in May and June of 2008*. At the same time, Director **Robert Hawk** closed out four separate accounts, three for his children and one for his sister, which collectively held 2,000 shares. It stands to reason the three believed these positions were at risk and turned to the underwriters for waivers from the trading restrictions so that they could immediately divest the shares. Seldom have we seen such activity being carried out by so many insiders at a company.

While the first seven months of Neutral Tandem's insider trading history proved compelling by itself, the behavior continued in rather convincing fashion. After distributing 1.2 million shares in the first two stock offerings and 142,000 shares during the above-mentioned second lock-up period, insiders would sell an additional 680,000 shares in the second half of 2008 through their initial 10b5-1 plans. A disclosure in the Proxy Statement filed on 04/23/09 reveals executives (names not provided) adopted new plans in 2009 to continue taking profits without interruption. Though the plan adoption dates were not provided, we believe the sales commenced late in the second quarter, based on the trading patterns. Prior to the adoption of these new plans, the 4Q08 earnings release date seemed a distinct turning point as the insider selling volume accelerated. TNDM shares gapped up from $15.97 to $17.74 on 02/05/09 after the Company reported 4Q08 earnings that topped expectations and also forecasted 1Q09 earnings to come in slightly ahead of the sell-side consensus. The shares were quickly gaining favor and would close the following week up another 12% to almost $20. Insiders would sell 105,000 shares in February followed by 280,000 shares in March, the most sold in any month since the secondary offering. But this record would not stand for long.

With their 10b5-1 plans seemingly concluded and the trading window closing before the second quarter earnings release, April marked the first month since the IPO insiders did not sell. They would soon get their opportunity: On 04/30/09 the Company delivered another strong quarter, reporting first quarter sales and earnings increased 46% and 125%, respectively, handily beating expectations while also raising guidance for the full year. The shares, which opened that Wednesday morning at $26.09, closed the week at an all-time high of $29.64. CFO Junkroski commenced trading under his new sales plan on 05/01/09, executing his largest 10b5-1 sale on record (100,000 shares). Other insiders would follow his lead. From 05/01/09 through 06/24/09, nine of them distributed a total of 757,350 shares at an average price of $29. CEO Wren sold nearly as many shares after the earnings release as he had during the previous nine months. And there were a number of additional noteworthy transactions that are described in more detail below.

The above aside, it is the severe holdings erosions that put an exclamation point on our thinking here. When we first began monitoring the activity, the post-IPO sales looked fairly ordinary on a percentage basis with no executive having sold more than 29% in the first two stock offerings. As we have stated, our initial interest centered more on the lock-up period sales and liquidation of children's shares. The persistence of selling activity, combined with the fact that insider sales volume started to outpace the vesting of the stock options of the related individuals (options vest monthly), began to take its toll. For example, CEO Wren had been selling between 30,000 and 80,000 shares per month between August and March, but vested in only 21,000 options per month during that period. He vested in 117,000 shares between April and June and sold 290,000 shares during that span. Chief Operating Officer **Surendra Saboo** had 9,000 options become actionable each month from September through December but was selling four times as many in the same period. The executives had an irregularly-large number of options become exercisable in April, the first vesting date of their April 2008 option grants, but they sold considerably more than what had been vested after the first quarter earnings release. In fact, SVP Lopez even monetized most of these newly-vested options two weeks later and then sold all of his common stock in June. Following Lopez's last sale, there remains only one named executive officer, CFO Junkroski, who holds any TNDM common stock.

Figure 3. Monthly Shares Sold by TNDM Insiders, May 2008 through June 26, 2008. (Only shares held directory by TNDM executives and directors are shown.) Source: TNDM SEC Filings.



Neutral Tandem's insiders are not the only ones to have depleted their holdings this year. The Company's two primary initial investors, Doll Capital Management (DCM) and New Enterprise Associates (NEA), collectively controlled 35% of the outstanding shares (14 million) prior to selling 3 million shares in the April 2008 secondary. Both began selling down their positions in January, but NEA liquidated its remaining 3.8 million shares in March while DCM sold its last 704,000 shares in early May. Meanwhile, DCM's co-founder, **Dixon Doll**, a TNDM board member and Chairman of the Compensation Committee, sold 46,000 of his personal shares since March and looks to have the remainder of his shares pledged to Goldman Sachs. Director Robert Hawk, a DCM Venture Partner, sold 94% of his TNDM holdings (130,000 shares) in May as well. Lastly, NEA's board representative, **Peter Barris**, traded his personal shares for the first time since the IPO, dumping all his common in June.

Insider	Position	% Sold Since IPO *	Value of Shares Sold
R. Hawk	Director	98%	$6,692,563
D. Lopez	SVP of Sales	97%	$4,906,933
R. Wren	CEO	88%	$18,918,862
R. Junkroski	CFO	85%	$12,437,382
S. Saboo	COO	61%	$4,013,945
J. Hynes	Founder, Chairman	40%	$12,323,159
R. Monto	General Counsel	34%	$450,205

* Includes shares acquired from the exercise of stock options that vested after the IPO date.

Insider	Position	Shares Sold Last 52 Weeks	Options Vesting Next 52 Weeks
R. Wren	Pres, CEO	650,000	249,496
S. Saboo	COO	140,000	136,436
R. Junkroski	CFO	539,014	49,992
D. Lopez	SVP of Sales	183,102	24,996
R. Monto	General Counsel	17,500	37,490
R. Hawk	Director	220,500	17,496
J. Hynes	Founder, Chairman	260,147	17,496

It is not out of the realm of possibilities that we may see a board shakeup at the next annual meeting as DCM and NEA no longer own a majority of the shares. This situation could nullify the Amended and Restated Stockholders' Agreement and the right it gives them to designate three board members. This could be an "interesting" transition as the board currently has just two independent members not associated with the venture capital firms and that NEA and DCM designees currently hold five of the nine committee seats. While it might prove difficult in the early stages, it is our bet that the board is destined for an overhaul as the very same venture cap directors that make up the Compensation Committee, and hold responsibility for supervising insider ownership, no longer have any exposure to the shares themselves after selling side by side with the executives.

Regarding their 10b5-1 plan administration, a few points worthy of mention: The Company has disclosed the existence of management's trading plans in SEC filings, such as stock offering prospectuses and Proxy Statements, but has never provided relevant information such as the names of those involved, adoption, commencements or expiration dates, or even the number of shares involved. The non-disclosure of the most important plan specifics is quite interesting to us considering the prevalence and impact these plans have had on related insiders' holdings. It is our opinion they have deliberately withheld the details in order to keep the insiders' diversification intentions off the public record. Yet, there is one bit of information in the Proxy pertaining to their 10b5-1 guidelines we find very informative and speaks to the looseness of their trading policy and indifference to the spirit of Rule 10b5-1 [bolding is ours]:

> Under a Rule 10b5-1 plan, a broker executes trades pursuant to parameters established by the director or executive officer when entering into the plan, without further direction from such director or executive officer. **Any director or executive officer party to such plan may amend or terminate it in some circumstances. Our directors and executive officers may also buy or sell additional shares outside of a Rule 10b5-1 plan when they are not in possession of material, nonpublic information.**

While such activities as modifying, terminating or selling shares outside of a plan are not formally prohibited, securities attorneys and governance watchdogs advise corporate clients to use these practices in very limited situations. We cannot recall ever having seen a company that openly permits these behaviors, particularly selling outside of a plan. With the attention of the SEC and media now on Rule 10b5-1 abuses due to the insider trading charges brought against Angelo Mozillo (Countywide Financial), we are even more surprised Neutral Tandem has made its cavalier policies public. It is impossible to determine if they have in fact amended or sold outside of their respective plans due to the limited amount of 10b5-1 disclosure, but there is plenty of evidence they defied the spirit and letter of the Rule in other manners.

- **Rian Wren (52)*** – President, Chief Executive Officer, Director. Wren, a former Comcast exec, has been a regular seller in the past year, selling under 10b5-1 plans after each of the last four quarterly releases. Despite the fact that the Company has disclosed next to nothing about his plans, we need little help to understand that his most prolific selling occurred after the 1Q09 earnings. From 05/19/09 to 06/24/09 Wren sold 290,000 shares at an average price of $28. The stock was acquired when, on the same dates, he exercised options from two series with expiration dates seven years out (February 2016, October 2016). These represent the most shares he has sold in any window since the shares began trading. In the last 14 months he has sold 888,000 shares with a market value of $18.9 million (pre-tax profit of $17.2 million). His actionable holdings have decreased 71% in the last year alone, but even more important, he has **disposed of nearly 90% of the total equity in his possession since the IPO**, taking into account stock options that vested in the interim. Wren is one of a very small group of chief executives we have encountered who do not directly own any of their company's stock. He will have 250,000 options become exercisable on a monthly basis through next May (see Appendix B), but those will not even replace the equity he sold in the last four months.

- **Robert Junkroski (44)*** – Chief Financial Officer. At this time there isn't an equity type Junkroski has not sold, an account he has not sold out of, or a manner in which to sell he has not utilized. His behavior has fascinated us from day one and continues to do so. As we described above, Junkroski first took profits in the November 2007 IPO. He would later sell additional shares in the April 2008 secondary and then one month later cleared out all the shares held in separate accounts for the benefit of his two children and a third account holding shares for his parents. The latter trades, which occurred in May and June, were held during the secondary offering lock-up period when his peers were prohibited from trading. During the second half of 2008 he carried out sales through a 10b5-1 trading plan, under which he sold a total of 175,000 shares, none of which stemmed from option exercises (all common), at prices between $17 and $20.

After a seven month selling lull Junkroski resurfaced after the 1Q09 earnings release. On 05/01/09 he sold 100,000 shares under his new 10b5-1 sales plan entered into this year; 70,000 came from his common stock holdings and 30,000 were acquired on the same day when he exercised his August 2016 option series. He would then trade again on 06/08/09 under the same 10b5-1 plan, this time monetizing 44,000 options, some of which had just vested two months earlier, while also disposing 14,000 shares from his common holdings. The trades were executed at prices as high as $31. These were his largest sales since the secondary offering and increased the total amount he has diversified since the IPO to 600,000 shares, which translates to profits of $11.5 million before paying the tax bill. **The shares accounted for almost 85% of his actionable holdings at his disposal since the issue began trading.** He will have just 50,000 options become actionable in the next year, less than 10% of the amount he has sold (see Appendix B).

- **David Lopez (44)*** – Senior V.P. of Sales. Before joining TNDM, Lopez worked at Focal Communications Corp. with Junkroski, which might explain the similar trading patterns the two have exhibited. Lopez sold in the IPO and again in the April 2008 secondary. During the associated lock-up period he cleared out three separate accounts holding stock for his children. And by July 2008 he had sold out all the shares held in a Grantor Retained Annuity Trust. Having sold off much of his common position, Lopez began monetizing stock options in December and executed his second option-related sale in February. He would strike again on 05/04/09 and 06/11/09 with sales that really stand out to us. Lopez first monetized all 16,500 exercisable options from a series that had just begun vesting one month earlier; he is the only executive to act on this particular series so far. In June he cleared out his last remaining 21,250 shares of common under a brand new 10b5-1 plan. These two trades show his resolve to unwind his position and he did just that, **cashing in 97% of his actionable ownership**. With just 25,000 options becoming actionable over the next year, it does not appear Lopez anticipates the same profit-taking opportunities being available down the road (see Appendix B).

- **Surendra Saboo (49)*** – Executive V.P., Chief Operating Officer. Saboo has been the most consistent trader, at least with regards to timing and volume, of any of his peers. After selling 85,000 shares in the secondary offering, he waited nearly four months before commencing sales under a 10b5-1. Although we do not have access to the plan details for any TNDM insider, it appears Saboo's plan called for a weekly sale of 7,000 shares from August through the end of 2008 regardless of share price. He completed these sales by mid-December and had not surfaced until 05/08/09, which is when he seemingly commenced a new sales plan. On this date he exercised 15,000 options from his May 2016 series and sold the underlying shares at $28. This was his largest plan sale yet. It remains unclear if there are additional shares reserved for sale by this current 10b5-1, but at this point he has already **shed 61% of the actionable equity in his possession since the initial offering**. And he is yet to use any of his derivative equity to build a direct ownership position as he currently has no stock. Saboo will have 136,000 options become actionable over the next 12 months (see Appendix B).

- **Dixon Doll (66)** and **Robert Hawk (69)** – Directors. These two are discussed together because of their association with Doll Capital Management (DCM). DCM is a venture capital firm, founded by Dixon Doll, which was an early TNDM investor and stockholder. At the time of the IPO, DCM owned 7.2 million shares or 23% of the outstanding stock. A Stockholders' Agreement, jointly involving New Enterprise Associates (NEA), gives the majority shareholders three board seats, which included Doll and DCM Venture Partner Hawk. Not only has DCM cleared out its entire TNDM position, including its last 705,000 shares in May, but Doll and Hawk have been selling their personal stakes as well. Doll sold 46,000 shares between March and May while Hawk unloaded 130,000 shares on 05/18/09 and 05/27/09. **The trades wiped out 26% and 95% of their holdings, respectively**, although Doll's remaining holdings are reportedly pledged to Goldman Sachs. It is unclear if they will remain on the board now that DCM has sold off its position.

* Indicates that the individual is a Named Executive in the Company's most recent Proxy.

Appendix A

Common Stock and Option Holdings for Selected J. Crew Group, Inc. (JCG) Insiders

	Actionable Position as of 06/29/09:			Derivative Equity Expected to Vest in Next 12 Months			
Name	**Common**	**Options** [1]	**Total** [2]	**Grant Date**	**Strike Price** [3]	**Vesting Dates** [4]	**# Vesting**
Millard "Mickey" Drexler	4,343,215	3,433,838	**7,777,053**	08/08/05	$7.75	08/08/09	38,716
Chairman, CEO				08/08/05	$12.91	08/08/09	38,716
				04/15/09	$16.25	04/15/10	60,000
				04/15/09	N/A	04/15/10	30,000
							167,432
Tracy Gardner	32,923	115,598	**148,521**	08/14/05	$6.92	08/14/09	67,753
President of Retail and Direct				08/14/05	N/A	08/14/09	29,037
				03/15/05	$7.75	03/15/10	9,679
				03/15/05	$12.91	03/15/10	9,679
				04/15/09	$16.25	04/15/10	28,000
				04/15/09	N/A	04/15/10	20,000
							164,148
Lynda Markoe	22,492	29,037	**51,529**	04/15/09	$16.25	04/15/10	6,000
EVP of Human Resources				04/15/09	N/A	04/15/10	7,000
							13,000
John Scully	33,062	9,101	**42,163**	09/07/05	$6.92	09/07/09	24,198
CFO, CAO				09/07/05	$7.75	09/07/09	19,358
				09/07/05	$12.91	09/07/09	19,358
				09/07/05	N/A	09/07/09	16,938
				04/15/09	$16.25	04/15/10	15,000
				04/15/09	N/A	04/15/10	17,500
							112,352
Libby Wadle	1,600	7,500	**9,100**	08/01/04	N/A	08/01/09	2,420
EVP of Factory and Madewell				08/14/09	$6.93	08/14/09	14,518
				08/14/05	N/A	08/14/09	4,839
				04/15/09	$16.25	04/15/10	25,000
				04/15/09	N/A	04/15/10	9,000
							55,777

[1] Total number of vested, in-the-money options.

[2] Total actionable position includes common stock plus vested in-the-money options.

[3] Strike Price N/A indicates the series is restricted stock, not options.

[4] A range of dates indicates the options vest equally on a monthly basis. The total provided is the cumultive amount of equity scheduled to vest during the date range.

Note: Red text indicates series is currently out-of-the-money

3D ADVISORS

Appendix B

Common Stock and Option Holdings for Selected Neutral Tandem, Inc. (TNDM) Insiders

	Actionable Position as of 06/29/09:			Derivative Equity Expected to Vest in Next 12 Months			
Name	**Common**	**Options** [1]	**Total** [2]	**Grant Date**	**Strike Price**	**Vesting Dates** [3]	**# Vesting**
Rian Wren	0	122,832	**122,832**	02/06/06	$1.17	07/06/09 - 01/06/10	112,000
President, CEO				10/11/06	$3.68	07/11/09 - 06/11/10	62,496
				04/22/08	$17.90	07/22/09 - 06/22/10	75,000
							249,496
Robert Junkroski	100,000	5,176	**105,176**	08/29/06	$2.56	06/29/09 - 05/29/10	12,492
CFO				04/22/08	$17.90	07/22/09 - 06/22/10	37,500
							49,992
Surendra Saboo	0	143,110	**143,110**	08/29/06	$2.56	06/29/09 - 05/29/10	18,744
COO				05/09/06	$1.33	07/09/09 - 04/09/10	67,700
				04/22/08	$17.90	07/22/09 - 06/22/10	49,992
							136,436
David Lopez	0	8,544	**8,544**	10/23/06	$3.68	07/23/09 - 06/23/10	8,748
Senior V.P. of Sales				04/22/08	$17.90	07/22/09 - 06/22/10	16,248
							24,996
Richard Monto	0	33,540	**33,540**	04/22/08	$17.90	07/22/09 - 06/22/10	28,740
General Counsel				04/26/07	$4.14	04/26/10	8,750
							37,490
Robert Hawk	2,192	3,125	**5,317**	10/11/06	$3.68	07/11/09 - 06/11/10	17,496
Director							
							17,496

[1] Total number of vested, in-the-money options.

[2] Total actionable position includes common stock plus vested in-the-money options.

[3] A range of dates indicates the options vest equally on a monthly basis. The total provided is the cumultive amount of equity scheduled to vest during the date range.