

STOCK ANALYSIS REPORT**Neutral Tandem Incorporated (TNDM) – Analysis by Nathan Ramos – April 1, 2010**<http://www.betapeg.com>

Industry: **Communications Services**
Sector: **Services**
Recommendation: **STRONG BUY**
Price: **\$16.22 (as of April 1, 2010)**
Target Price: **\$35.33 or 119.14% undervalued**
52 Week Low-High: **\$14.50-34.56**
Fundamentals Grade: **B**
Investment Style: **Small Cap Blend**
Consider Buying: **When less than \$27.25**

CORPORATE INFORMATION

Location: One South Wacker Drive Suite 200
Chicago, IL 60606
Phone: 312-3848000
Fax: 312-3463276
Web Site: <http://www.neutraltandem.com>
Employees: 147
Exchange: NASDAQ

BUSINESS SUMMARY

Neutral Tandem, Inc. provides tandem interconnection services principally to competitive carriers, including wireless, wireline, cable and broadband telephony companies. Competitive carriers use tandem switches to interconnect and exchange local and long distance traffic between their networks without the need to establish direct switch-to-switch connections. As of December 31, 2009, the Company had operated in 137 markets connecting calls to an estimated 480 million telephone numbers assigned to carriers.

ANALYSIS

Neutral Tandem is a company whose fundamentals are not recognized by the stock market. Revenues have increased six-fold since 2005 at an annualized rate of 43%. Profits have outpaced revenue growth with an eight-fold increase since 2006 at an annualized rate of 69%. The earnings yield, return on assets and net profit margin indicate Tandem has substantial profitability strength. Tandem's current ratio of 17 is far above the market average indicating the Company has plenty of cash to declare a dividend, expand into new markets, research new technologies, etc. Management has used their excellent cash position to announce a \$25 million stock buyback program. Tandem has no long-term debt which further indicates the strength of the Company's balance sheet. Global Internet Protocol (IP) traffic is expected to jump from 10 to 56 exabytes per month in just 5 years. Tandem is in an excellent market position to capitalize on this exponential growth of data transmission. Tandem's stock remains depressed despite these fundamentals. The target price is calculated to be \$35.33 which indicates the Company to be substantially undervalued by the market. Tandem does not currently pay a dividend. Risks include market risks, government regulation, patent litigation, etc. Refer to the 2009 annual report for more.

[2009 Annual Report](#)

KEY STATISTICS

Beta:	0.92
Dividend Rate per Share:	NA
Dividend Yield:	NA
Earnings Yield:	7.43%
EPS (past 12-mo.):	\$1.21
Institutional Ownership:	95%
Market Capitalization:	\$551.48 Mil – Small Cap
Net Income (past 12-mo.):	\$41.30 Mil
Net Profit Margin:	24.26%
Return on Assets:	15.95%
Revenue (past 12-mo.):	\$168.90 Mil
Total Shares Outstanding:	33.60 Mil

PRICE RATIOS:

Forward P/E:	34.21
PEG:	1.04
PB:	2.29
PE:	13.25
PS:	3.26

FINANCIAL CONDITION:

Current Ratio:	17.17
Debt/Income:	0.00
Debt Ratio:	0.06

PRICE HISTORY*5-Year Price Chart*

The chart does not indicate any recognizable pattern. The support level can be founded at \$15.

HISTORICAL FINANCIAL PERFORMANCE AND ESTIMATES (in millions)

Date	2005	2006	2007	2008	2009	2010 Est.
<i>Capital Expenditures</i>	14	17	20	22	18	\$20.16
<i>Current Assets</i>	11	32	127	131	206	\$330.39
<i>Current Assets/Share</i>	\$0.37	\$1.07	\$4.10	\$4.09	\$6.06	\$9.60
<i>Current Liabilities</i>	7	13	16	11	12	\$14.02
<i>Current Liabilities/Share</i>	\$0.23	\$0.43	\$0.52	\$0.34	\$0.35	\$0.41
<i>Current Ratio</i>	1.57	2.46	7.94	11.91	17.17	\$24.56
<i>EPS</i>	-\$0.02	\$0.17	\$0.19	\$0.75	\$1.21	\$1.42
<i>Free Cash Flow/Share</i>	-\$0.40	-\$0.13	\$0.13	\$0.41	\$1.12	\$1.63
<i>Long-term Debt</i>	4	8	3	0.24	0	\$0
<i>Long-term Debt/Share</i>	\$0.13	\$0.27	\$0.10	\$0.01	\$0.00	\$0
<i>Net Cash Balance</i>	1	20	112	110	161	\$511.21
<i>Net Cash/Share</i>	\$0.03	\$0.67	\$3.61	\$3.44	\$4.74	\$14.90
<i>Net Income</i>	-0.47	5	6	24	41	\$48.53
<i>Net Profit Margin</i>	-1.68%	9.43%	6.98%	19.83%	24.26%	27.67%
<i>Operating Cash Flow</i>	2	13	24	35	56	\$98.05
<i>PB</i>	0.00	0.00	4.10	2.68	3.21	\$4.37
<i>PE</i>	0.00	0.00	98.43	20.11	18.87	\$34.21
<i>PS</i>	0.00	0.00	6.87	3.99	4.58	\$6.38
<i>Revenue/Share</i>	\$0.93	\$1.77	\$2.77	\$3.78	\$4.97	\$6.47
<i>Sales (millions)</i>	28	53	86	121	169	\$222.54
<i>Shares Outstanding</i>	30	30	31	32	34	\$34.83
<i>Stock Price</i>			19.05	15.08	22.75	\$35.33
<i>Total Assets</i>	31	62	166	196	257	\$364.11
<i>Total Assets/Share</i>	\$1.03	\$2.07	\$5.35	\$6.13	\$7.56	\$10.59
<i>Total Equity</i>	19	37	144	180	241	\$368.20
<i>Total Equity/Share</i>	\$0.63	\$1.23	\$4.65	\$5.63	\$7.09	\$10.70
<i>Total Liabilities</i>	12	25	22	16	16	\$17.89
<i>Total Liabilities/Share</i>	\$0.40	\$0.83	\$0.71	\$0.50	\$0.47	\$0.52

RELATIVE STRENGTH

Tandem has outperformed 11% of the market in the last 12 months indicating the stock to be substantially undervalued relative to its fundamentals grade of 83%.

STOCK PRICE VALUATION**Stock Price Estimates (FY2009)**

Methodologies	Intrinsic Values	Discount Rates
<i>Indefinite Life</i>	\$7.89	-51.07%
<i>PE</i>	\$48.72	202.21%
<i>PEII</i>	\$33.14	105.56%
<i>PS</i>	\$41.23	155.79%
<i>PSII</i>	\$40.73	152.69%
<i>PSIII</i>	\$15.34	-4.83%
<i>PB</i>	\$46.20	186.59%
<i>PBII</i>	\$14.16	-12.13%
<i>Market Ratio</i>	\$22.75	41.13%
<i>FS</i>	\$39.21	143.21%
<i>Gamma</i>	\$125.43	678.13%
<i>Inverse Gamma</i>	\$30.17	87.15%
<i>52 Week</i>	\$33.75	109.35%
<i>Stock Price I</i>	\$28.44	76.41%
<i>Stock Price II</i>	\$29.55	83.31%
<i>Free Cash Flow</i>	\$33.08	105.22%
<i>Revenue</i>	\$29.60	83.65%
<i>Total Equity</i>	\$34.35	113.10%
<i>Earnings</i>	\$26.87	66.68%
<i>Cash</i>	\$71.57	343.98%
<i>Current Assets</i>	\$36.05	123.66%
<i>Current Liabilities</i>	\$19.32	19.88%
<i>Current Ratio</i>	\$32.54	101.88%
<i>Profit Margin</i>	\$25.94	60.94%
<i>Total Assets</i>	\$31.88	97.79%
<i>Total Liabilities</i>	\$20.53	27.38%
<i>Future Intrinsic Value</i>	\$35.33	119.14%

Tandem is valued at \$35.33 which is undervalued at a current price of \$16.22 (April 1, 2010).

COMPETITION

Growth Rates %	Company	Industry	S&P 500
Sales (Qtr vs year ago qtr)	28	7.1	10.3
Net Income (YTD vs YTD)	72	45.5	10.5
Net Income (Qtr vs year ago qtr)	28.4	83.9	108.8
Sales (5-Year Annual Avg.)	117.89	14.54	7.81
Net Income (5-Year Annual Avg.)		9.63	8.41
Dividends (5-Year Annual Avg.)		27.21	5.05
Price Ratios	Company	Industry	S&P 500
Current P/E Ratio	13.1	31.4	21.1
P/E Ratio 5-Year High		2.9	14
P/E Ratio 5-Year Low		0.8	2.8
Price/Sales Ratio	3.18	2.25	2.25
Price/Book Value	2.23	2.5	5.41
Price/Cash Flow Ratio	9.6	6.2	16
Profit Margins %	Company	Industry	S&P 500
Gross Margin	70	62.2	38.7
Pre-Tax Margin	38.4	14.8	14.3
Net Profit Margin	24.5	9.9	10.5
5Yr Gross Margin (5-Year Avg.)	66.3	60.7	38
5Yr PreTax Margin (5-Year Avg.)	25.8	10.3	16
5Yr Net Profit Margin (5-Year Avg.)	16.6	4.7	11.3
Financial Condition	Company	Industry	S&P 500
Debt/Equity Ratio	0	0.68	1.36
Current Ratio	17.8	1.2	1.4
Quick Ratio	17.8	1.1	1.2
Interest Coverage		20.5	26.9
Leverage Ratio	1.1	2.4	4.4
Book Value/Share	7.16	15.56	22.19
Investment Returns %	Company	Industry	S&P 500
Return On Equity	19.6	16.9	20.8
Return On Assets	18.3	8.7	6.9
Return On Capital	19.2	12	9.4
Return On Equity (5-Year Avg.)	17.5	16.4	16.4
Return On Assets (5-Year Avg.)	12.8	8.4	7.6
Return On Capital (5-Year Avg.)	14.1	12	10.3

INSIDER ACTIVITY

The following corporate insiders or major shareholders have recently filed transaction reports with the SEC.

Recent Insider Trading Activity: Neutral Tandem Inc

Date	Name	Transaction	Num Shares	Price(s)	Value
02/01/10	JUNKROSKI ROBERT M	Exercise	1,000	\$2.56	2,560.00
02/01/10	JUNKROSKI ROBERT M	Sold	1,000	\$15.50	15,500.00
01/04/10	JUNKROSKI ROBERT M	Sold	1,000	\$23.29	23,290.00
01/04/10	JUNKROSKI ROBERT M	Exercise	1,000	\$2.56	2,560.00
12/16/09	HYNES JAMES P	Gift	12,000	NA	NA
12/11/09	HAWK ROBERT C	Sold	1,458	\$20.36	29,684.88
12/11/09	HAWK ROBERT C	Exercise	1,458	\$3.68	5,365.44
12/11/09	HYNES JAMES P	Gift	13,100	NA	NA
12/11/09	WREN RIAN J	Sold	50,000	\$21.38	1.07 Mil
12/11/09	WREN RIAN J	Exercise	50,000	\$1.17	58,500.00
12/10/09	HAWK ROBERT C	Sold	4,375	\$20.79	90,956.25
12/10/09	HAWK ROBERT C	Exercise	4,375	\$3.68	16,100.00
12/10/09	HYNES JAMES P	Sold	50,000	\$20.71	1.04 Mil
12/01/09	JUNKROSKI ROBERT M	Sold	1,000	\$22.91	22,910.00
12/01/09	JUNKROSKI ROBERT M	Exercise	1,000	\$2.56	2,560.00

MAJOR HOLDERS**BREAKDOWN**

% of Shares Held by All Insider and 5% Owners:	11%
% of Shares Held by Institutional & Mutual Fund Owners:	102%
% of Float Held by Institutional & Mutual Fund Owners:	115%
Number of Institutions Holding Shares:	202

TOP INSTITUTIONAL HOLDERS

Holder	Shares	% Out	Value*	Reported
WELLS FARGO & COMPANY	2,670,447	7.94	\$60,752,669	31-Dec-09
NEXT CENTURY GROWTH INVESTORS LLC	2,352,282	6.99	\$53,514,415	31-Dec-09
BlackRock Fund Advisors	1,407,176	4.18	\$32,013,254	31-Dec-09
EAGLE ASSET MANAGEMENT, INC.	1,356,275	4.03	\$30,855,256	31-Dec-09
UBS O'CONNOR LLC	1,265,000	3.76	\$28,778,750	31-Dec-09
VANGUARD GROUP, INC. (THE)	1,246,515	3.71	\$28,358,216	31-Dec-09
FEDERATED INVESTORS, INC.	1,020,525	3.03	\$23,216,943	31-Dec-09
WELLINGTON MANAGEMENT COMPANY, LLP	1,018,600	3.03	\$23,173,150	31-Dec-09
BANK OF AMERICA CORPORATION	859,691	2.56	\$19,557,970	31-Dec-09

TOP MUTUAL FUND HOLDERS

Holder	Shares	% Out	Value*	Reported
CALAMOS GROWTH FUND	650,000	1.93	\$14,787,500	31-Dec-09
Wells Fargo Advantage Growth Fd	575,000	1.71	\$13,081,250	31-Dec-09
PRICE (T. ROWE) NEW HORIZONS FUND	500,000	1.49	\$11,375,000	31-Dec-09
ISHARES S&P SMALLCAP 600 INDEX FD	448,398	1.33	\$6,932,233	31-Jan-10
ISHARES RUSSELL 2000 INDEX FD	429,166	1.28	\$6,634,906	31-Jan-10
Wells Fargo Advantage Discovery Fd	369,472	1.10	\$8,405,488	31-Dec-09
WASATCH SMALL CAP GROWTH FUND	366,034	1.09	\$8,327,273	31-Dec-09

OFFICERS AND DIRECTORS

James P. Hynes	Chairman of the Board
Rian J. Wren	President, Chief Executive Officer, Director
Robert M. Junkroski	Chief Financial Officer, Executive Vice President
Surendra Saboo Ph.D.	Chief Operating Officer, Executive Vice President
Richard Monto	Senior Vice President - External Affairs, General Counsel, Secretary
David Lopez	Senior Vice President - Sales
Dixon R. Doll	Director
Peter J. Barris	Director
Robert C. Hawk	Director
Lawrence M. Ingeneri	Director

GLOSSARY

Bear Market: Market dominated by sellers.

Beta: A measure of stock price history relative to the market price history which indicates volatility. A company with a beta of 1 would be as volatile as the market. A beta less than one indicate less volatility to the market. The higher the beta, the more volatile a stock price is.

Bull Market: Market dominated by buyers.

Dividend Rate per Share: The amount of dividends paid per share.

Dividend Yield: The dividend return as a percentage of the stock price.

Earnings: The amount of profits that a company produces during a specific period.

Earnings per Share (EPS): Total earnings divided by all shares outstanding.

Fair Value: The price at which a stock is intrinsically valued.

Fiscal Year: Any 12-month period that a company uses for accounting purposes.

Forward P/E: Same as the traditional P/E except the estimated future EPS is used. If earnings are expected to grow in the future, the estimated P/E will be lower than the current P/E.

Fundamental Analysis: Method of stock analysis in which the company data is used to place an *intrinsic value* of the stock. This value is compared to the current market price. If the *intrinsic value* is less than the market price, the stock is undervalued, indicating a potential buy position.

Fundamental Grade: A grading system used to evaluate the quality of a company based on fundamental analysis.

Industry: A category used to describe a company's primary business activity.

Insider Activity: Corporate insiders (i.e. CEOs, executives, etc.) and major shareholders transactions of stock.

Institutional Investor: A non-bank investor who trades stocks in such large amounts that they require special treatment and lower commissions.

Institutional Ownership: The percentage of institutional investors who have a position in stock.

Intrinsic Value: The actual value of a stock based on tangible and intangible aspects of the company.

Investment Style: A classification used to indicate what kind of investors the stock is most attractive too. There are nine categories and they include:

- Large value
- Large blend
- Large growth
- Medium value
- Medium blend
- Medium growth
- Small value
- Small blend
- Small growth

Market Capitalization: The market value of a company is the value of its outstanding shares. This figure is found by taking the stock price and multiplying it by the total number of shares outstanding.

Outstanding Shares: Stock currently held by investors.

Price/Earnings (PE) Ratio: A valuation ratio of a company's current share price compared to its per-share earnings.

Calculated as:

$$= \frac{\text{Market Value per Share}}{\text{Earnings per Share (EPS)}}$$

The P/E ratio is a comparison of the stock price and earning. The lower the P/E, the better valued the company relative to earnings.

Price/Sales (P/S) Ratio: A ratio for valuing a stock relative to its own past performance. Price to sales is calculated by dividing a stock's current price by its revenue per share for the trailing 12 months:

$$\text{PSR} = \frac{\text{Share Price}}{\text{Revenue Per Share}}$$

Revenue: The income that comes directly from business operations.

Sector: A group of stocks in the same industry or market.

Target Price: An analyst's estimated stock price for a given period of time.

Technical Analysis: Method of stock analysis in which stock price data is used to determine trends. Charting the stock price history indicates up trends (buy), down trends (sell), and flat trends (even). Support lines drawn along lows and resistance lines drawn along highs indicate the time to buy and sell.

Trailing Twelve Months (ttm): A sum of a metric over the last twelve months. EPS (ttm) is earnings per share over the last twelve months.

Volatility: A measure of the fluctuations in stock price. The higher the volatility, the more you can win and lose. *Betas* higher than 1 are more volatile than the market. If the market goes up 1%, a stock with a beta = 3 would likely go up 3%. Likewise, the same the can be true for declines.

SOURCES OF INFORMATION

1. <http://www.investopedia.com>
 2. <http://www.moneycentral.msn.com>
 3. <http://www.finance.yahoo.com>
 4. <http://www.finance.google.com>
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ANALYTICAL METHODOLOGY

This stock report is based on the financial models developed by Nathan Ramos and available to the public at www.betapeg.com. Ratings are based on a ratio of fundamentals to valuation. Highly rated stocks have excellent fundamentals and high valuation relative to market value while low rated stocks have weak fundamentals and low valuation relative to market value.

DISCLAIMER

This document was prepared by Nathan Ramos, a non-certified stock analyst. The material contained is based upon information considered to be accurate but is not warranted by its source. Any opinions expressed are in good faith and are only correct as of the stated date of the report. This report serves as a guide to researching a particular company and does not serve any professional advisory function whatsoever.