

200

Best Small Companies

These little giants are among the **toughest competitors** in today's corporate America.

By Cecily Fluke
and Lesley Kump

Every year we're more particular about membership in this elite list. To qualify, candidates have to show a consistent pattern of positive growth during a five-year period, as well as over the last 12 months. With statistical help from William O'Neil & Co. in Los Angeles, we selected companies with sales in the \$5 million to \$750 million range ("small" by FORBES standards), net profit margins greater than 5% and share prices above \$5 as of Oct. 1. We excluded financial institutions because the fate of their assets is more dependent on the markets than on management; utilities, which are regulated by the government; and REITs, since they're required to pay out 95% of their taxable income.

That still leaves us with a diversified list of vibrant players. In the top 10, for example, you'll find 9 different industries. Dominating the list are 31 medical products outfits, 16 computer software and equipment manufacturers and 7 oil-and-gas companies—hardly a surprise.

There are 57 newcomers to the list. Among them: DJ Orthopedics (rank 88), which provides nonsurgical products (from knee braces to bone-stimulation devices); its five-

year earnings growth of 176% was second best among the 200. FLIR Systems (rank 59) is in the very hot field of night-vision products and thermography; bouncing back from a few difficult years, it recently won a \$6.3 million contract to provide imaging cameras to the U.S. Air Force.

Some 200 Best standbys—like military-equipment supplier Engineered Support Systems and Corinthian Colleges—have grown too large for the list. But other onetime stalwarts, like Krispy Kreme, have been expelled. The doughnutmaker is the subject of an ongoing SEC investigation into same-store-sales accounting and bizarre earnings guidance.

A few members showed spectacular growth over the last year. RC2, (rank 43), a maker of collectibles and toys (think John Deere tractors and Nascar racers), jumped 130 places on our list thanks largely to a five-year EPS growth rate of 69%. Net income at Resources Connection (rank 19) leaped ahead 94% last year as it spread its consulting services abroad. **F**

Additional research provided by Kurt Badenhausen, Abigail Lavin and Lacey Rose.

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RANK '04 '03	COMPANY (consecutive years on list) business	RETURN ON EQUITY 5-year average %	GROWTH		DEBT/ CAPITAL ¹ %	SALES latest 12 mos (\$mil)	NET INCOME latest 12 mos (\$mil)	RECENT PRICE (\$)	EPS 2005 est (\$)	P/E 2005 est	MARKET VALUE ² (\$mil)
			SALES 5-year average %	EPS 5-year average %							
50 44	Stericycle (4) provides medical-waste-management services	14	32 U	42	28	469	74.5	45.91	2.11	22	2,057
51 14	K-Swiss (3) designs & markets athletic footwear & apparel	24	13 N	23	0	462	58.0	19.00	1.59	12	686
52 57	Charles River Labs International (3) provides research for drug development	16	28 U	29 U	29	660	89.9	46.64	2.15	22	2,125
53	Integra LifeSciences develops medical devices for surgery	6	43	58	31	215	31.0	32.99	1.42	23	909
54	Universal American Financial provides insurance for elderly & self-employed	12	37	25	18	612	51.4	12.91	1.10	12	689
55	Team provides specialized industrial services	13	13	100 U	29	108	5.8	15.76	1.39	11	131



Helped by a strong alliance with Caterpillar (which owns 25%), **all-terrain-equipment** maker **ASV** (rank 44) anticipates it will generate \$151 million in sales this year.

56	Hansen Natural distributes soft drinks & juices	15 N	12 N	6 N	1	137	10.6	25.00	NA	NA	257
57 43	Merit Medical Systems (4) develops products for cardiovascular disease procedures	15	14	51 U	0	146	18.8	15.20	0.85	18	403
58 38	Daktronics (2) supplies electronic scoreboards & large video displays	16	14	22 N	2	210	17.7	25.89	1.23	21	457
59	FLIR Systems produces thermal-imaging systems to enhance night vision	4 N	16 N	29	55	396	56.4	58.04	2.38	24	2,120
60	Gen-Probe develops products for clinical diagnosis & blood screening	4 N	17 N	168 U	0	248	50.0	40.49	1.15	35	2,013
61 63	Panera Bread (2) offers fresh-baked breads in cities throughout the country	12	22	55 U	0	414	33.3	37.93	1.60	24	1,154
62	CCA Industries manufactures health & beauty products	14	8	188 U	2	55	5.5	8.83	1.03	9	62
63 120	Pediatrics Medical Group (3) provides hospital-based neonatal services	12	27	26	0	592	94.0	55.00	4.72	12	1,682
64	Comtech Telecommunications develops advanced communications solutions	9	41	23 N	44	216	19.3	28.85	1.44	20	384
65 75	Mentor (4) makes products for esthetic & general surgery	19	15	24 U	43	440	56.4	34.03	1.56	22	1,408
66 60	Knight Transportation (10) short- to medium-haul truckload carrier	15	21	20	0	379	40.2	22.18	0.92	24	1,208

■ Not on last year's list. **N** Recent trend up versus five-year average. **U** Recent trend down versus five-year average. Additional footnotes on page 212.

For more information, go to www.forbes.com/bestsmall