

# America's Most Profitable Companies

Ranked and rated by Free Cash Flow, which public managements make money the most efficiently? The most consistently? It doesn't take risky debt leverage to show superior returns on equity.

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Here is EQUITIES new improved list of America's Most Profitable Companies. This is our eleventh list and who says that we can't get better? In this age of accounting shenanigans we have added an important new hurdle so you can avoid tomorrow's now-you-see-it, now-you-don't Enrons.

Just for openers, to make our list each of the 136 surviving companies had to have a minimum return on equity of 20% based on positive Free Cash Flow Earnings from operations, not only for the most recent reporting period, but also for the last 20. If the earnings aren't real, or return on equity isn't backed by positive cash flow, we can wait until they are.

To update and improve our list of America's most profitable companies we consulted once again with EQUITIES regular columnist Michael Markowski, founder of StockDiagnostics.com. This quantitative analytics stock research firm used one of its leading edge proprietary financial statement metrics Free Cash Return on Equity (FCROE) instead of the traditional Return On Equity (ROE). The new screen only recognizes or utilizes cash profits instead of conventional ROE, which includes booked profits. Booked revenue and the resulting profit have been a key contributor to the recent accounting scandals because they allow a company to sell a product or service by booking a receivable instead of collecting cash and the receivable may or may not ever be collected. FCROE is calculated by dividing Tangible Book Value by Free Cash Flow (Free Cash Flow/Tangible Book value) and ROE is calculated by dividing Book Value by Net Income (Net Income/Book Value). Obviously, StockDiagnostics's metric is also more conservative because it uses

Tangible Book Value, which is the value of a company's hard assets such as plant and equipment, instead of ordinary Book Value, which includes a company's soft assets including goodwill.

It's a tough list to make, but our demanding criteria left us with solid companies with seasoned managements who admirably carry out their charge: to make money for the company and its stockholders. Of the 136 companies, 80 list on the NYSE, 54 on Nasdaq and two on the AMEX. We're proud to point out that 14 previously presented at an EQUITIES conference when each was much smaller. Favorites of the Famous picker Ray Dirks helped us attract AFLAC, Markel and Sierra Health Services and 5 more insurance companies. Asta Funding, Mediware and U.S. Physical Therapy also saw their profits and their stock soar. Now listed on the AMEX, CCA Industries presented when its stock was only \$1, and tripled overnight. It has tripled again.

After a company cleared our minimum 20% return criteria, we got picky, applying more stringent standards and eliminating those companies which didn't measure up.

What are the other hurdles! First, companies had to have been publicly traded for at least a year. We also deleted real estate investment trusts or other companies which had to, by law, payout most of their earnings since this practice creates an artificially high return on equity. Next, we axed companies with a debt-to-equity ratio of 200% or greater. Unfair? Not at all. Return on equity means less when a company's equity base is only a small part of the total capital used in the business. Checking return on capital, we often find

that these heavily leveraged rejects return well below our cutoff of 15% return on total capital required to make our list.

Finally, we eliminated contenders whose trailing 12-month earnings are down 50% or more. This exempts companies which have stumbled badly recently, even though they have shown solid profitability over the past five years.

Congratulations to each and every management whose company made our new America's Most Profitable list. Many companies are dressed up to go public in an IPQ or by backing into a public shell. But only the best will have the staying power to create a public record to match those we have screened for this study. We don't know what lies ahead. But we can look backwards and say, "Bravo!"

Rank	Company	Symbol	Recent Price	5yr avg fc roe	sl_ttm pchg	eps_tm pchg	p/e	Industry
1	GREAT NORTHN IRON ORE PPTYS	GNI	114.5	73.26	-1.28	-3.50	13	Metal Mining
2	SIERRA HEALTH SVCS INC	SEI	43.77	71.17	10.92	-15.04	29	Health Care Plans
3	ITT EDUCATIONAL SERVICES INC	ESI	68.48	6417	10.22	33.02	27	Educational Services
4	BERKLEY W R CORP	BER	35.65	61.61	11.99	30.51	14	Property and Casualty Insurance
5	USANA HEALTH SCIENCES INC	USNA	4493	58.79	18.49	22.31	22	Vitamins and Nutrition Products
6	AFLAC INC	AFL	43.15	52.35	5.91	18.33	14	Life and Health Insurance
7	PROTECTIVE LIFE CORP	PL	43.82	50.98	7.55	5.77	12	Life and Health Insurance
8	ZENITH NATL INS CORP	ZNT	39.31	50.62	-0.14	-0.81	9	Property and Casualty Insurance
9	SEI INVESTMENTS CO	SEIC	49.26	48.36	21.62	18.37	25	Services to Financial Companies
10	WORLDACCEP CORP DEL	WRLD	41.39	47.81	15.43	16.04	21	Consumer Financial Services
11	MCGRAW HILL COS INC	MHP	57.33	46.83	11.61	12.10	25	Publishing - Books
12	NAVIGATORS GROUP INC	NAVG	46.11	46.41	19.00	-28.31	23	Property and Casualty Insurance
13	PHILADELPHIA CONS HLDG CORP	PHLY	33.61	45.70	21.30	49.65	15	Property and Casualty Insurance
14	AMERICAN EXPRESS CO	AXP	52.13	44.40	-9.95	3.26	18	Consumer Financial Services
15	AMERICAN FINL GROUP INC OHIO	AFG	45.43	43.07	2.21	-32.75	15	Property and Casualty Insurance
16	CATALINA MARKETING CORP	POS	28.78	4290	-0.93	17.10	20	Direct Marketing
17	ORACLE CORP	ORCL	14.77	42.36	21.88	15.88	23	Software and Programming
18	APO LLO GROUP INC	APOL	45.35	4207	18.66	141.97	18	Educational Services
19	GRACO INC	GGG	39.75	41.94	13.89	18.72	20	Machinery - Pumps
20	PROGRESSIVE CORP OHIO	PGR	23.7	41.42	3.44	-6.18	13	Property and Casualty Insurance
21	GREAT AMERN FINL RES INC	GFR	20.69	41.30	-2.74	-31.71	14	Life and Health Insurance
22	PROASSURANCE CORP	PRA	50.54	41.03	-22.76	166.89	7	Property and Casualty Insurance
23	UTAH MED PRODS INC	UTMD	30	40.95	6.12	1469	16	Disposable Medical Products
24	COACH INC	COH	30.16	40.38	23.68	66.25	25	Apparel
25	LANDAUER INC	LDR	46.91	40.36	5.02	-9.43	25	Pollution and Treatment Control Products

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26	POLARIS INDS INC	PII	39	40.31	1.17	29.17	12	Recreational Vehicles
27	UNITEDHEALTH GROUP INC	UNH	47.77	40.16	30.29	19.75	19	Health Care Plans
28	MERCK & CO INC	MRK	41.59	40.07	-2.69	-13.17	19	Pharmaceuticals
29	EMC INS GROUP INC	EMCI	29.33	38.60	14.69	208.76	8	Property and Casualty Insurance
30	PAPA JOHNS INTL INC	PZZA	33.95	37.56	1.18	67.89	28	Restaurants
31	FPIC INS GROUP INC	FPIC	37.63	37.47	23.05	31.71	11	Property and Casualty Insurance
32	VERITAS DGC INC	VTS	56.25	35.67	23.27	155.59	17	Oil Well Equipment and Services
33	NATIONWIDE FINL SVCS INC	NFS	45.71	35.39	243	6.63	12	Life and Health Insurance
34	WEBSense INC	WBSN	19.35	35.17	2920	2808	25	Internet Software and Services
35	HARLAND JOHN H CO	JH	39.5	34.71	26.31	34.09	14	Office Supplies
36	CORPORATE EXECUTIVE BRD CO	EXBD	94.61	3446	29.27	24.83	52	Management Consulting Services
37	MARKEL CORP	MKL	360	3445	-093	-24.80	24	Property and Casualty Insurance
38	COMPUCREDIT CORP	CCRT	28.31	34.32	4943	20.04	9	Consumer Financial Services
39	3M CO	MMM	69.28	34.32	6.71	9.80	16	Multi-Industry
40	BMC SOFTWARE INC	BMC	23.6	34.02	241	58.89	44	Software and Programming
41	CRYPTOLOGIC INC	CRYP	21.79	34.02	35.29	58.03	13	Internet Software and Services
42	PSYCHEMEDICS CORP	PMD	16.95	33.92	4.96	22.25	22	Medical Labs and Research
43	ACXIOM CORP	ACXM	24.57	33.57	8.96	1.31	35	Data Processing
44	U S PHYSICAL THERAPY INC	USPH	1549	33.57	12.31	17.97	23	Healthcare Facilities and Services
45	KOSS CORP	KOSS	20.67	33.34	30.10	31.85	12	Audiovisual Products
46	AUTODESK INC	ADSK	33.74	33.30	24.25	48.49	28	CAD/CAM Software
47	RENAISSANCE LEARNING INC	RLRN	13.55	33.02	8.88	-545	19	Educational Software
48	TRANSACTION SYS ARCHITECTS	TSAI	37.64	32.96	11.20	-5.66	29	Software and Programming
49	COCA COLA CO	KO	4402	3248	3.53	6.59	20	Non-Alcoholic Beverages
50	HCC INS HLDGS INC	HCC	3063	32.40	2512	-1.00	18	Property and Casualty Insurance

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**America's Most Profitable**  
**136 companies visit**  
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