

OPS WINNERS & SINNERS

Ten stocks under \$10 with huge cash flow growth



By MICHAEL MARKOWSKI

Attaining growth of free cash flow (defined as cash flow from operations minus capital expenditures) is difficult for most small companies. Many lack the experience and the human resources that are required to manage receivables and inventories, the two key components of cash flow management. Nevertheless, the ability of a small company to manage and grow its cash flow is essential for its very survival.

There are small companies that do a great job of growing their cash flow, and I have identified ten whose stock prices are under \$10 and that have performed exceptionally well over their respective latest twelve months. All ten have annualized free cash flow growth rates ranging from 225% to 990%.

Three of the ten sell or provide services directly to the consumer. Samsonite Corporation (OTCBB:SAMC-103), the luggage and leather company, has the lowest-priced shares of the ten. It increased its free cash flow by 309% in its latest twelve months and also generated its sixth consecutive quarter of double-digit revenue growth after being unable to do so for 16 consecutive quarters. Medifast Inc. (Amex:MED-9.09), with annualized free cash flow of 237%, takes the weight off of its customers with its weight, disease management and other consumable health and diet products. Working the other side of the street is Main Street Restaurant Group Inc., (Nasdaq:MAIN-5.05), a franchisee of **TGJ** Friday's. It generated annualized free cash flow of 408% by putting the weight on its customers.

The remaining seven are all technology plays. Two of them sell software applications to businesses. Onyx Software Corporation (Nasdaq:ONXS-4.63) and Applix Inc. (Nasdaq:APLX-7.70) have recent free cash flow growth rates of 225% and 970%, respectively. Three are in the communications related products and software industries. Glenayre Technologies Inc. (Nasdaq:GEMS-5.39), Numerex Corp (Nasdaq:NMRX-7.51) and Westell Technologies Inc. (Nasdaq:WSTL-4.07) and have free cash flow growth rates of 389%, 739% and 226% respectively.

Of the remaining two companies, one of them - Greenfield Online, Inc. (Nasdaq:SRVY-5.89) - conducts Web-based or online surveys and generated free cash flow growth of 530%. The other, Edgewater Technology, Inc. (Nasdaq:EDGW-6.36), is an information technology management consulting company and improved its free cash flow by 970% over its latest twelve months.

Companies that I have been mentioned positively in this column in recent issues should be sold due to deteriorating cash flow fundamentals. They include United Online Inc. (Nasdaq:UNTD-12.47), Merge Technologies Incorporated (Nasdaq:MRGE-15.65) and TransAct Technologies Inc. (Nasdaq:TACT-9.21). New companies to be avoided are Agilent Technologies, Inc. (NYSE:A-38.28) and Time Warner Inc. (NYSE:TWX-168.6)

MICHAEL MARKOWSKI is founder of *StockDiagnostics.com* and utilized its CFFO (Cash Flow From Operations) and OPS (Operational cash flow Per Share) metrics to predict the bankruptcies of several large companies and, in early 2005, General Motors' serious credit problems. *StockDiagnostics.com* publishes current and historical cash flow metrics on more than 8,000 companies.