Most Dangerous Stocks for February

20 Large/Mid Cap and 20 Small Cap Stocks

Investment Perspective

The report presents unique investment ideas produced by our analysis of SEC Filings for over 3000 companies.

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Note:
Go to www.newconstructs.com to access our research on individual companies and our Most Attractive and Most Dangerous Stocks reports.

- **19 stocks from last month's report underperformed the S&P 500 (+1.85%). 17 stocks had negative returns. See Figure 1 below.**
- **23 new stocks make our February lists. See Figure 3 below.**
- **All of our Most Dangerous Stocks have a 'Very Dangerous' rating, the worst score in our Risk/Reward Rating system.**
- **Very Dangerous Stocks have Misleading Earnings, which means reported earnings are rising while economic earnings and ROIC are declining.**
- **Figures 5 and 6 on pages 6 and 7 show this month's stocks.**
- **Institutional Investor Magazine highlighted our #1 ranking for stock-picking in an October, 2005, article.**

Figure 1: 19 Under-Performers From Last Month's Report

Large Cap	
Ticker	Decline From 01/09/07
NTAP	-5.4%
MMC	-5.2%
BCO	-3.2%
CELG	-2.1%
VRSN	-2.1%
DTE	-1.9%
HCBK	-1.4%
VSH	-1.4%
DDS	1.2%
S&P 500	1.9%

Small Cap	
Ticker	Decline From 01/09/07
ZQK	-7.8%
INMD	-7.1%
RNWK	-4.2%
BDY	-4.1%
SMSC	-3.6%
SUNH	-3.5%
CBC	-2.4%
FLDR	-2.0%
CTS	-0.3%
CT	0.6%
S&P 500	1.9%

Sources: New Constructs, LLC,
Note: Gain/Decline performance analysis excludes dividends.

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Most Dangerous Stocks: Monthly Updates

19 stocks from our January Most Dangerous Large Cap and Small Cap lists underperformed the S&P 500, which rose 1.85%. 17 of those stocks had negative returns. We measure performance based on closing prices from January 9th, 2007, the last trading day before we published the report to subscribers. See Figure 2 for details.

Figure 2: Under-Performers From Last Month's Report

Large Cap			Small Cap		
Ticker	Company Name	Decline From 01/09/07	Ticker	Company Name	Decline From 01/09/07
NTAP	Network Appliance	-5.4%	ZQK	Quiksilver Inc	-7.8%
MMC	Marsh & Mclennan	-5.2%	INMD	Integramed America Inc	-7.1%
BCO	Brink'S Co	-3.2%	RNWK	Realnetworks	-4.2%
CELG	Celgene Corp	-2.1%	BDY	Bradley Pharmaceutical	-4.1%
VRSN	Verisign Inc	-2.1%	SMSC	Standard Microsystems	-3.6%
DTE	Dte Energy Co.	-1.9%	SUNH	Sun Healthcare Grp	-3.5%
HCBK	Hudson City Bcp	-1.4%	CBC	Capital Bancorp Ltd	-2.4%
VSH	Vishay Intertech	-1.4%	FLDR	Flanders Corp	-2.0%
DDS	Dillard Inc.	1.2%	CTS	Cts Corporation	-0.3%
S&P 500	S&P 500	1.9%	CT	Capital Trust Cl A	0.6%
			S&P 500	S&P 500	1.9%

Sources: New Constructs, LLC,
Note: Gain/Decline performance analysis excludes dividends.

Figure 3 shows the 23 new stocks that make our February Most Dangerous Stocks lists.

Figure 3: Additions for February

Large Cap Additions	
Ticker	Company Name
ADP	Automatic Data Processing Inc.
CETV	Central European Media Enterprises Ltd
DKS	Dick'S Sporting Goods Inc
HE	Hawaiian Elec
HRS	Harris Corp
JPM	J.P. Morgan Chase & Co.
MGM	Mgm Mirage
MU	Micron Technology
TDS	Tel & Data Sys
TE	Teco Energy
USM	U.S. Cellular Cp

Small Cap Additions	
Ticker	Company Name
ALCO	Alico Inc
BJRI	Bj Restaurants
CACH	Cache Inc
FORM	Formfactor Inc
HEC	Harken Energy Cp
KAI	Kadant Inc
MSEX	Middlesex Water Co
OCPI	Optical Commun Products Inc
PLCE	Children'S Place Retail Stores Inc
PSYS	Psychiatric Solutions Inc
RGS	Regis Corp
SHEN	Shenandoah Telecommun Co

Sources: New Constructs, LLC

Please see Appendix A for explanations of additions and deletions to the large and small cap lists.

Most Dangerous Stocks: Methodology

Our Most Dangerous Stocks have Very Dangerous ratings because they have:

1. **Poor-Quality Earnings** based on:
   a. Misleading earnings: rising and positive GAAP earnings while economic earnings are negative and falling; and
   b. low Returns on Invested Capital (ROIC).

AND

2. **Expensive valuations**, based on:
   a. *2-year Average Free-Cash Flow Yields*[1] that are very low or negative;
   b. *Price-to-Economic Book Value* (EBV) [2] ratios that are relatively high; and
   c. *Growth Appreciation Periods*[3] (GAP) that are relatively high.

Only stocks that earn an Overall Rating of Very Dangerous are allowed on our Most Dangerous Stocks lists.

The above characteristics also qualify stocks for a 'Very Dangerous' rating, according to our Risk/Reward Rating system. Figure 4 shows our Risk/Reward Rating analysis, which we apply to the 3000+ companies that we cover. Stocks get a grade of 1 to 5 for each criterion, 5 being the worst and 1 being the best score. The Overall score is based on the average score of all five criteria. Stocks must get an average score of 4.25 or above to be rated Very Dangerous. Only Very Dangerous stocks are allowed on our Most Dangerous Stocks lists.

Figure 4: New Constructs Risk/Reward Rating for Stocks

Overall	Quality of Earnings		Valuation		
Risk/Reward Rating	Economic vs Reported EPS	Return on Invested Capital (ROIC)	FCF Yield 2yr Avg	Price-to-EBV Ratio	Growth Appreciation Period (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	>3.5 or -1>0	>50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4>3.5 or <-1	20>50
Neutral	Neutral	3rd Quintile	-1%<3%	1.6>2.4	10>20
Attractive	Positive EP	2nd Quintile	3%<10%	1.1>1.6	3>10
Very Attractive	Rising EP	Top Quintile	>10%	0>1.1	0>3
Actual Values	-$1.55/$0.65	8%	2.3%	3.1	39yrs

Sources: New Constructs, LLC

[1] Free-Cash Flow Yields measure the % of the total value of the firm for which the Free Cash Flows of the firm account. The formula is $[(FCF_t + FCF_{t-1})/(\text{Current Enterprise Value} + \text{Enterprise Value}_{t-1})]$, where 't' is the latest fiscal year.
[2] Economic Book Value (EBV) measures the no-growth value of the business based on its annual after-tax cash flow. The Formula for EBV is: (NOPAT / WACC) + Excess Cash + Non-operating assets – Debt (incl. Operating Leases) - Value of Outstanding Stock Options – Minority Interests.
[3] Growth Appreciation Period measures the number of years, implied by the market-price, that a company will grow its economic earnings. This measure assigns a numerical value to the width of the moat around a firm's business.

Explanation of Risk/Reward Grading Scale

Our Risk/Reward grading scale assigns a rating to every stock under our coverage according to what we believe are the 5 most important criteria for assessing the risk versus reward of stocks.

Overall Risk/Reward Ranking	**The Overall Risk/Reward Ranking provides a final ranking based on the equal-weighted average ranking of each criterion.**
Very Dangerous	2yr Average FCF Yield is not included in the average.
Dangerous	2yr Average FCF Yield is not included in the average.
Neutral	All criteria are equal-weighted in the average calculation.
Attractive	All criteria are equal-weighted in the average calculation.
Very Attractive	All criteria are equal-weighted in the average calculation.
Economic vs Reported EPS	**Ranks stocks based on how their Economic Earnings compare to their Reported Earnings. Values based on Latest Fiscal Year.**
Very Dangerous	Negative and declining Economic Earnings despite positive and rising Reported Earnings
Dangerous	Same as above except Reported Earnings are not rising or Reported Earnings are not positive
Neutral	Negative Economic and Reported Earnings
Attractive	Economic Earnings are positive
Very Attractive	Economic Earnings are positive and rising
Return on Invested Capital (ROIC)	**Ranks stocks based on their ROIC. Values based on Latest Fiscal Year.**
Bottom Quintile	Very Dangerous = in the bottom 20% of all companies
4th Quintile	Dangerous = in the bottom 40% of all companies
3rd Quintile	Neutral = in the middle 20% of all companies
2nd Quintile	Attractive = in the top 40% of all companies
Top Quintile	Very Attractive = in the top 20% of all companies
FCF Yield 2yr Avg	**Ranks stocks based on their 2-year average Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.**
<-5%	Very Dangerous = less than or equal to -5%
-5%<-1%	Dangerous = more than -5% but less than or equal to -1%
-1%<3%	Neutral = more than -1% but less than or equal to +3%
3%<10%	Attractive = more than +3% but less than or equal to +10%
>10%	Very Attractive = more than +10%

Price-to-EBV Ratio	**Ranks stocks based on their Price-to-Economic Book Value Ratio. Values based on Latest Closing Stock price and Latest Fiscal Year.**
>3.5 or -1>0	Very Dangerous = greater than or equal to 3.5 or less than 0 but greater than -1
2.4>3.5 or <-1	Dangerous = greater than or equal to 2.4 but less than 3.5 and less than or equal to -1
1.6>2.4	Neutral = greater than or equal to 1.6 but less than 2.4
1.1>1.6	Attractive = greater than or equal to 1.1 but less than 1.6
0>1.1	Very Attractive = greater than or equal to 0 but less than 1.1
Growth Appreciation Period (yrs)	**Ranks stocks based on their Market-Implied Growth Appreciation Period. Values based on Latest Closing Stock price and Default Forecast Scenario.**
>50	Very Dangerous = greater than or equal to 50 years
20>50	Dangerous = at least 20 years but less than 50
10>20	Neutral = at least 10 years but less than 20
3>10	Attractive = at least 3 years but less than 10
0>3	Very Attractive = at least 0 years but less than 3

Appendix A – Additions/Deletions from Lists

Most Dangerous Large and Mid-Cap Stocks

Deletions:

BCO - Stock price decreased 3.2% since January report.
CELG - Stock price decreased 2.1% since January report.
DTE - Stock price decreased 1.9% since January report.
HCBK - Stock price decreased 1.4% since January report.
VSH - Stock price decreased 1.4% since January report.
CVG - Displaced by decrease in rank of other stocks.
DDS - Displaced by decrease in rank of other stocks.
EBAY - Displaced by decrease in rank of other stocks.
LAUR - Displaced by decrease in rank of other stocks.
SFI - Displaced by decrease in rank of other stocks.
SRP - Displaced by decrease in rank of other stocks.

Additions:

CETV - Stock price increased 19.9% since January report.
MGM - Stock price increased 14.6% since January report.
JPM - Stock price increased 6.7% since January report.
TDS - Stock price increased 4.7% since January report.
HRS - Stock price increased 4.0% since January report.
DKS - Stock price increased 2.5% since January report.
USM - Stock price increased 1.8% since January report.
ADP - Addition by improved rank of other stocks.
HE - Addition by improved rank of other stocks.
MU - Addition by improved rank of other stocks.
TE - Addition by improved rank of other stocks.

Most Dangerous Small-Cap Stocks

Deletions:

RNWK - Stock price decreased 4.2% since January report.
SMSC - Stock price decreased 3.6% since January report.
SUNH - Stock price decreased 3.5% since January report.
ZQK - New filing data on 01-12-2007.
B - Displaced by decrease in rank of other stocks.
CHDN - Displaced by decrease in rank of other stocks.
CT - Displaced by decrease in rank of other stocks.
CTS - Displaced by decrease in rank of other stocks.
EPIQ - Displaced by decrease in rank of other stocks.
POWL - Displaced by decrease in rank of other stocks.
SFNT - Displaced by decrease in rank of other stocks.
VMI - Displaced by decrease in rank of other stocks.

Additions:

KAI	- Stock price increased 14.1% since January report.
ALCO	- Stock price increased 8.7% since January report.
PSYS	- Stock price increased 8.4% since January report.
RGS	- Stock price increased 6.6% since January report.
SHEN	- Stock price increased 2.0% since January report.
CACH	- Stock price increased 1.5% since January report.
FORM	- Stock price increased 0.5% since January report.
BJRI	- Addition by improved rank of other stocks.
HEC	- Addition by improved rank of other stocks.
MSEX	- Addition by improved rank of other stocks.
OCPI	- Addition by improved rank of other stocks.
PLCE	- Addition by improved rank of other stocks.

The 20 Most Dangerous Stocks for February – Large and Mid-Cap Stocks

Figure 5: Ranked by Price-to-Economic Book Value in Descending Order

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 01/31/07			
	Ticker	Company Name	Rising GAAP Earnings ($mm)	Declining Economic Cash Flows	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield (2yr Avg)	High or Negative Price-to-Economic Book Value	Long Market-Implied GAP (years)	Market Value ($mm)
1	MGM*	Mgm Mirage	$30.92	($501)	Bottom Quintile	-16%	88.6	21	$19,937
2	USM*	U.S. Cellular Cp	$25.23	($18)	Bottom Quintile	-4%	47.1	Greater than 100	$6,256
3	DVA	Davita Inc	$6.39	($166)	Bottom Quintile	-19%	33.3	15	$5,502
4	NTAP	Network Appliance	$40.70	($40)	4th	-2%	14.1	Greater than 100	$13,952
5	SGMS	Scientific Games Corp	$14.30	($27)	4th	-2%	10.3	57	$2,773
6	CETV*	Central European Media Enterp	$23.96	($22)	4th	-23%	8.3	Greater than 100	$3,008
7	MU*	Micron Technology	$220.00	($238)	Bottom Quintile	-11%	6.3	Greater than 100	$8,961
8	VRSN	Verisign Inc	$220.24	($23)	Bottom Quintile	-3%	5.5	Greater than 100	$6,151
9	TDS*	Tel & Data Sys	$155.69	($36)	Bottom Quintile	0%	4.4	93	$6,451
10	HRS*	Harris Corp	$35.70	($18)	3rd	-6%	4.3	Greater than 100	$6,754
11	MMC	Marsh & Mclennan	$228.00	($318)	Bottom Quintile	2%	4.1	52	$15,871
12	LM	Legg Mason Inc	$735.74	($345)	4th	-18%	3.6	Greater than 100	$12,624
13	ADP*	Automatic Data Processing Inc.	$498.60	($6)	Bottom Quintile	-7%	2.9	53	$27,429
14	MHS	Medco Hlth Soln	$120.40	($59)	4th	-6%	2.9	63	$17,058
15	JPM*	J.P. Morgan Chase & Co.	$4,056.00	($2,807)	Bottom Quintile	-25%	2.3	Greater than 100	$177,848
16	HE*	Hawaiian Elec	$17.04	($247)	Bottom Quintile	-31%	-1.4	45	$2,165
17	TE*	Teco Energy	$826.50	($5)	Bottom Quintile	-1%	-1.6	99	$3,499
18	KSU	Kansas City Sthrn Ind.	$75.70	($128)	Bottom Quintile	-32%	-2.9	38	$2,270
19	DKS*	Dick'S Sporting Goods Inc	$4.08	($9)	4th	-13%	-6.8	84	$2,564
20	IVGN	Invitrogen Corp	$43.22	($43)	Bottom Quintile	-13%	-13.7	Greater than 100	$3,200

* New on the Large Cap Most Dangerous list since 01/09/07

Sources: New Constructs, LLC

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The 20 Most Dangerous Stocks for February – Small-Cap Stocks

Figure 6: Ranked by Price-to-Economic Book Value in Descending Order

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 01/31/07			
	Ticker	Company Name	Rising GAAP Earnings ($mm)	Declining Economic Cash Flows	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield (2yr Avg)	High or Negative Price-to-Economic Book Value	Long Market-Implied GAP (years)	Market Value ($mm)
1	FORM*	Formfactor Inc	$5.00	($12)	Bottom Quintile	-4%	389.4	Greater than 100	$1,608
2	INMD	Integramed America Inc	$0.54	($0)	Bottom Quintile	-3%	66.8	Greater than 100	$86
3	BJRI*	Bj Restaurants	$2.09	($3)	Bottom Quintile	-5%	26.9	Greater than 100	$452
4	ALCO*	Alico Inc	$0.38	($3)	Bottom Quintile	-4%	24.7	Greater than 100	$386
5	BDY	Bradley Pharmaceutical	$0.01	($0)	Bottom Quintile	-28%	19.0	Greater than 100	$322
6	LAYN	Layne Christensen Co	$4.93	($7)	Bottom Quintile	-18%	14.9	86	$475
7	PLCE*	Children'S Place Retail Stores I	$22.30	($11)	4th	-9%	14.0	66	$1,500
8	CBC	Capital Bancorp Ltd	$9.21	($19)	Bottom Quintile	-9%	13.0	25	$638
9	PSYS*	Psychiatric Solutions Inc	$11.02	($21)	Bottom Quintile	-23%	9.8	31	$1,744
10	RGS*	Regis Corp	$44.95	($12)	4th	-8%	8.1	95	$1,888
11	CDE	Coeur D'Alene Mines Cp	$27.41	($3)	Bottom Quintile	-9%	7.4	Greater than 100	$1,064
12	FLDR	Flanders Corp	$2.74	($1)	Bottom Quintile	-1%	6.4	88	$231
13	NHC	Natl Healthcare Corp	$4.66	($6)	4th	-21%	6.4	97	$672
14	OCPI*	Optical Commun Products Inc	$0.45	($6)	Bottom Quintile	-22%	6.0	Greater than 100	$177
15	CACH*	Cache Inc	$0.11	($1)	4th	-6%	5.5	Greater than 100	$362
16	SHEN*	Shenandoah Telecommun Co	$0.49	($2)	4th	-6%	4.7	70	$355
17	KAI*	Kadant Inc	$6.22	($8)	Bottom Quintile	-12%	3.9	30	$378
18	MSEX*	Middlesex Water Co	$0.03	($0)	Bottom Quintile	-5%	3.8	30	$210
19	HEC*	Harken Energy Cp	$60.80	($16)	Bottom Quintile	-31%	-0.4	48	$103
20	NCT	Newcastle Investment Cp	$17.95	($38)	Bottom Quintile	-21%	-0.5	34	$1,416

* New on the Small Cap Most Dangerous list since 01/09/07

Sources: New Constructs, LLC

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