20 Most Dangerous Stocks for February

20 Large/Mid Cap and 20 Small Cap Stocks

- **Key Highlights: price decreases in the past month move 4 stocks off the lists: HPQ (-5%), AGE (-3%), FLDR (-13%) and DTAS (-2%).**
- **Figure 1 details all additions and deletions to the list.**
- **Figure 2 highlights 7 stocks with price drops greater than 5% that remain on the list.**
- **Figures 3 and 4 show the 20 Large Cap and 20 Small Cap Dangerous stocks.**
- **Pages 2-4 explain our stock selection methodology.**
- **Institutional Investor Magazine highlighted our #1 ranking for stock-picking on October 11, 2005.**

Investment Perspective

The report presents unique investment ideas produced by our analysis of the NOTES to FINANCIAL STATEMENTS for over 3500 companies.

Contributors

David Trainer
david.trainer@newconstructs.com
615-599-4462 ext 2#

Kiran Akkineni
kiran.akkineni@newconstructs.com
615-599-4462 ext 4#

NC Analyst Team
615-599-4462 ext. 5#

Note
This document is available to clients in the ***Research*** area of our site *www.newconstructs.com*.

Figure 1: Most Dangerous List Changes for February

Market Cap	Drops	Adds	Reason for Turnover
Large Cap	HPQ		Meaningful Price Depreciation: -5%
	AGE		Meaningful Price Depreciation: -3%
	WEC		Displaced - Price Appreciation of other Stocks
		ARG	Meaningful Price Appreciation: +16%
		BJ	Rank Improved via Departure of other Stocks
		ANDW	Market Value Increase - From Small to Large Cap List
Small Cap	FLDR		Meaningful Price Depreciation: -13%
	DTAS		Meaningful Price Depreciation: -2%
	AML		Acquired by Morgan Stanley Real Estate
	ANDW		Market Value Increase - From Small to Large Cap List
		PKTR	Meaningful Price Appreciation: +25%
		KEYW	Meaningful Price Appreciation: +16%
		SIVB	Meaningful Price Appreciation: +2%
		MANH	Rank Improved via Departure of other Stocks

Sources: New Constructs, LLC

Figure 2: Price Drops for Stocks Still on the List

Large Cap		Small Cap	
Ticker	Price Drop	Ticker	Price Drop
XLNX	-5%	NWRE	-17%
		EZEM	-11%
		LOJN	-8%
		SWKS	-7%
		CRAI	-7%
		ARXX	-6%

Sources: New Constructs, LLC

Important Disclosure Information is contained on the last (two) page(s) of this report.
The recipient of this report is directed to read these disclosures.

20 Most Dangerous Stocks: Methodology

We determine the Most Dangerous Stocks based on three criteria. The stocks exhibit:

1. **Expensive valuations** because their *Price-to-Economic Book Value* (EBV) ratios are greater than 2 or less than zero, and they have *Growth Appreciation Periods* (GAP) greater than 15 years.
2. **Poor economic performance** because they generated negative economic earnings in the last fiscal year, and their Economic Profit Margins have been negative on average during the past 3 years.
3. **Misleading accounting performance** because they reported positive GAAP Earnings and GAAP Earnings Growth while their economic profits declined in their latest fiscal year.

We do not predict the future value of stocks.

Identifying Expensive Valuations. The most dangerous stocks have valuations that imply that the company's future financial performance will meaningfully exceed anything the company has done in the past 3 years. Rather than predicting a warranted or future value for a company or stock, we measure **the market's** prediction for the financial performance of companies as reflected in stock prices. Our measures of valuation are intentionally objective. Our goal is to position investors to make informed decisions about whether or not they agree with the market's prediction for the future financial performance of companies.

Our valuation analysis focuses on assessing the feasibility of future financial performance requirements embedded in stock price.

In our opinion, a more rigorous way to assess the valuation of stocks is to look at two metrics: the ratio of *Price-to-Economic Book Value* (EBV)[1] per share and the market-implied *Growth Appreciation Period* (GAP). The ratio of Price-to-EBV highlights the degree of difference between the company's current level of cash flow and the level of future cash flow that the market expects. Economic Book Value essentially measures the perpetuity value of the company's current annual after-tax cash flow (NOPAT). The larger the Price-to-EBV ratio (whether or not it is positive or negative), the greater is the improvement in cash flow required to justify the stock price. The market-implied GAP measures the number of years the company must grow its economic profits in order to justify its stock price. The longer the GAP the longer a company must maintain a competitive advantage and earn returns above its cost of capital on new investments.

New Constructs rectifies accounting distortions in GAAP financial statements.

Identifying Poor Economic Performance. The most dangerous stocks also have reported profits that tell a different story than the economics of their businesses. There are many ways that GAAP profits can differ from Economic Profits. Scandals at Enron, Worldcom, Adelphia, and others provide evidence of just how far companies can stretch accounting rules in order to appear more profitable than they truly are. New Constructs

[1] Economic Book Value (EBV) measure 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.

rectifies accounting distortions in order to provide investors with a cleaner and truer analysis of a company's profitability. Our process involves digging vigorously into SEC filings, especially the Notes to the Financial Statements in order to gather, model, and deliver the economic results of a company's performance.

The metrics we use to measure the economic performance of companies are Economic Profit Margin and Economic Earnings. The Economic Profit Margin for a company equals its Return on Invested Capital (ROIC) minus its Weighted-Average Cost of Capital (WACC). The Economic Earnings of a company equal its Economic Profit Margin multiplied by its Invested Capital. We believe our measures of economic performance are substantially more accurate than accounting metrics because we make adjustments for all the issues listed in Figure 1.

Cash is king. When reported earnings and economic cash flow diverge, the market follows cash.

Identifying Misleading Accounting Performance. When accounting results do not jibe with economic results, the market follows economic results, which provide a much better reflection of cash flow. Dangerous stocks report positive GAAP Earnings and Earnings Growth while their economic profits are negative and declining.

Conclusion

Companies that have expensive valuations, poor economics and misleading earnings present investors more risk of downside than upside price performance. We believe these stocks present investors with stocks that offer dangerous risk/reward.

We consider companies whose Price-to-EBV ratios and market-implied GAPs exceed the thresholds stated above to have **expensive valuations**.

We consider companies with negative economic earnings and a negative economic profit margin on average over the past 3 years to have **poor economics**.

We consider companies whose GAAP Earnings and GAAP Earnings trends contradict their economic performance to have **misleading earnings**.

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

Figure 3: Ranked by Price-to-EBV Ratio in Descending order

			Expensive Valuation		Poor Economics		Misleading Earnings			
			as of 2/7/06		Last Fiscal Year		Last Fiscal Year			
	Ticker	Company Name	Price-to-EBV	Market-Implied GAP (years)	Economic Profit Margin (3yr avg)	Economic Earnings Per Share	Positive EPS	Positive EPS Growth	Negative Economic Earnings Trend ($mm)	Market Value ($mm)
1	UDR	United Dominion Realty Trust	16.1	Greater than 100	-4%	($0.49)	$0.56	160%	($38)	$3,187
2	TSCO	Tractor Supply	15.0	Greater than 100	0%	($0.10)	$1.57	12%	($10)	$2,366
3	ANDW*	Andrew	14.6	Greater than 100	-8%	($0.90)	$0.24	18%	($3)	$2,167
4	ROP	Roper Industries	10.8	41	-2%	($0.83)	$1.24	75%	($28)	$2,863
5	USM	United States Cellular	10.4	60	-5%	($3.13)	$1.26	79%	($71)	$4,391
6	CAKE	Cheesecake Factory	7.2	Greater than 100	-1%	($0.11)	$0.84	13%	($2)	$2,895
7	CVS	CVS	5.7	59	-1%	($0.33)	$1.09	7%	($203)	$22,146
8	MAR	Marriott International Inc	5.7	47	-1%	($0.67)	$2.48	21%	($117)	$15,087
9	ARI	Arden Realty	5.3	Greater than 100	-3%	($0.83)	$1.12	22%	($6)	$2,955
10	BJ*	BJ's Wholesale Club	4.7	48	-1%	($0.59)	$1.63	11%	($14)	$2,126
11	WTR	Aqua America	4.7	24	-2%	($0.39)	$0.64	7%	($4)	$3,473
12	NFG	National Fuel Gas	4.5	34	0%	($1.34)	$2.23	11%	($158)	$2,708
13	FCEA	Forest City	4.4	Greater than 100	0%	($0.19)	$0.84	98%	($13)	$3,813
14	ACXM	Acxiom	4.0	68	-3%	($0.34)	$0.70	17%	($11)	$2,121
15	XLNX	Xilinx	3.7	Greater than 100	-1%	($0.02)	$0.87	2%	($52)	$9,460
16	REG	Regency Realty	3.6	Greater than 100	-1%	($0.26)	$2.08	0%	($11)	$3,850
17	ADS	Alliance Data Systems	3.5	70	-3%	($0.55)	$1.22	45%	($16)	$3,454
18	ARG*	Airgas	3.5	Greater than 100	-1%	($0.07)	$1.07	14%	($11)	$2,733
19	NBG	National Bank of Greece SA	-81.3	62	-6%	($0.18)	$0.16	106%	($315)	$14,691
20	KWK	Quicksilver Resources	-462.5	Greater than 100	-1%	($0.22)	$0.41	72%	($16)	$3,454
	SPX	S&P 500	1.6	25	5%	$0.29	$2.51	25%	$341	

* Denotes stocks that have not appeared on the Most Dangerous list within the last 3 months.

Sources: New Constructs, LLC

Important Disclosure Information is contained on the last (two) page(s) of this report. The recipient of this report is directed to read these disclosures.

The 20 Most Dangerous Stocks for February – Small Cap

Figure 4: Ranked by Price-to-EBV Ratio in Descending order

			Expensive Valuation		Poor Economics		Misleading Earnings			
			as of 2/7/06		Last Fiscal Year		Last Fiscal Year			
	Ticker	Company Name	Price-to-EBV	Market-Implied GAP (years)	Economic Profit Margin (3yr avg)	Economic Earnings Per Share	Positive EPS	Positive EPS Growth	Negative Economic Earnings Trend ($mm)	Market Value ($mm)
1	NWRE	Neoware Systems	55.0	Greater than 100	-5%	($0.41)	$0.46	36%	($4)	$360
2	VRNT	Verint Systems	37.7	62	-8%	($0.89)	$0.81	33%	($10)	$842
3	POWI	Power Integrations Inc	35.2	Greater than 100	-14%	($0.34)	$0.63	11%	($2)	$824
4	EPIQ	EPIQ Systems	33.9	43	-1%	($0.57)	$0.49	2%	($10)	$384
5	CELL	Brightpoint	28.8	Greater than 100	-6%	($0.39)	$0.38	38%	($2)	$891
6	XXIA	Ixia	19.1	Greater than 100	-15%	($0.15)	$0.29	108%	($2)	$728
7	MATR	Matria Healthcare	18.6	Greater than 100	-4%	($0.70)	$1.74	271%	($1)	$650
8	ARXX	Aeroflex	14.1	Greater than 100	-8%	($0.60)	$0.22	29%	($5)	$837
9	CKH	Seacor Holdings	12.4	41	-4%	($3.72)	$1.07	72%	($12)	$1,302
10	ANEN	Anaren	11.3	Greater than 100	-10%	($0.70)	$0.37	2%	($6)	$336
11	SWKS	Skyworks Solutions	11.1	30	-9%	($0.68)	$0.16	11%	($9)	$798
12	MDCC	Molecular Devices	10.6	Greater than 100	-8%	($2.85)	$1.04	104%	($6)	$481
13	WMGI	Wright Medical Group	9.7	59	-2%	($0.35)	$0.68	35%	($9)	$710
14	LOJN	LoJack	9.0	Greater than 100	-2%	($0.02)	$0.64	26%	($2)	$370
15	EZEM	E-Z-Em	8.5	Greater than 100	-30%	($0.45)	$0.63	0%	($1)	$212
16	SIVB	Silicon Valley Bancshares	8.5	Greater than 100	-4%	($1.00)	$1.74	442%	($5)	$1,722
17	CRAI	Charles River Associates	8.1	35	-1%	($0.27)	$1.55	34%	($4)	$461
18	PKTR*	Packeteer	8.1	72	-11%	($0.21)	$0.42	31%	($3)	$395
19	KEYW*	Essex	7.5	91	-66%	($0.36)	$0.13	830%	($4)	$330
20	MANH	Manhattan Associates	7.4	Greater than 100	-6%	($0.38)	$0.71	1%	($4)	$650
	SPX	S&P 500	1.6	25	5%	$0.29	$2.51	25%	$341	

* Denotes stocks that have not appeared on the Most Dangerous list within the last 3 months.

Sources: New Constructs, LLC

Important Disclosure Information is contained on the last (two) page(s) of this report. The recipient of this report is directed to read these disclosures.

Appendix 1 – Additions/Deletions from Lists

Most Dangerous Large and Mid Cap Stocks

Deletions:

HPQ – Stock Price Decreased 5% since January publication.

AGE – Stock Price Decreased 3% since January publication.

WEC – Displaced – Stock Price Appreciation of other Stocks.

Additions:

ARG – Stock Price Increased 16% since January publication.

BJ – Rank Improved due to Price Depreciation of other Stocks.

ANDW – Increase in Market Value led to movement from Small Cap to the Large Cap Attractive List.

Most Dangerous Small Cap Stocks

Deletions:

FLDR – Stock Price Decreased 13% since January publication.

DTAS – Stock Price Decreased 2% since January publication.

AML – Acquired by Morgan Stanley Real Estate's Prime Property Fund February 7, 2006.

ANDW – Increase in Market Value led to movement from Small Cap to the Large Cap Dangerous List.

Additions:

PKTR – Stock Price Increased 25% since January publication.

KEYW – Stock Price Increased 16% since January publication.

SIVB – Stock Price Increased 2% since January publication.

MANH – Rank Improved due to Price Depreciation of other Stocks.

New Constructs™ – Profile

New Constructs™ is a specialty equity research firm. Our main activity is delivering to clients an integrated research platform that maximizes the analytical value of financial data. This platform offers clients a suite of interactive analytical tools, along with traditional equity research and raw data services. All of our products are customizable. Our primary goal is to empower clients to achieve better investment performance.

Our main products are MaxVal™, MaxStrategy™ and MaxData™. These research tools are delivered via www.newconstructs.com. MaxVal is a DCF-based, equity valuation model that allows clients to define their own forecasts and forecast drivers. MaxStrategy is a stock screening/ranking tool that enables clients to analyze stocks based on many metrics, several unique to our platform. Both MaxVal & MaxStrategy are integrated with MaxData, our proprietary financial database. Unlike many other research firms, we do not buy our raw material - corporate financial data - from commercial vendors. Rather, we source it ourselves to create MaxData.

The key advantage provided by MaxData is that it delivers data drawn directly from SEC filings, including the *Notes to the Financial Statements*. We can cost-effectively deliver any reported data point. We believe our capabilities in this area are unmatched.

MaxData provides a scalable approach to the time-consuming task of collecting and modeling data. It enables our research analysts to gather and analyze corporate filings more efficiently and accurately than any manual process. MaxData can implement any valuation methodology requested by clients. For example, our MaxVal models provide both a high-integrity economic analysis as well as a traditional GAAP accounting analysis.

The result is a research platform that empowers better investment performance.

Our clients are professional investors, research firms, consulting firms and publicly listed corporations. We also partner with colleges and business schools. Our products may also be of interest to active individual investors.

For further information, contact:

David Trainer
david.trainer@newconstructs.com
(615) 599-4462

REGULATORY REQUIRED DISCLOSURES

Analyst Certification
I, David Trainer, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuer(s) as of the date of this report. I further certify that no part of my compensation was, is, or will be directly, or indirectly, related to the specific recommendations or views contained in this research report.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs™, LLC, and/or its subsidiaries or affiliates (collectively, "New Constructs") have not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

This report was originally issued by New Constructs for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, to New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs.

New Constructs is an independent organization with no financial ties or management ties to the companies it covers. None of the members of New Constructs' management team or Board of Directors holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk. New Constructs' Stock Ownership Policy prevents any of its employees from having an ownership position in a covered company that is equal to or greater than 1% of its outstanding stock.

Copyright New Constructs, LLC 2003, 2004, 2005., 2006 All rights reserved.