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200 Best Small Companies

The Top 10

Behind the numbers of this year's best small companies.
By Kurt Badenhausen and Christina Settini

Small fry got smacked hard in year two of the Great Recession: 42% of the companies in the Russell 2000 small-company index lost money in the last 12 months, versus 22% for those in the S&P 500. Still, enough winners emerged to ease the sector's overall pain. The Russell was up 8%, the S&P 6%.

Our list of the 200 Best Small Companies in America begins with a search for companies that show both sales and earnings growth. Candidates must have annual revenue between \$5 million and \$750 million, be publicly traded for at least a year and have a stock price no lower than \$5. Rankings are based on earnings growth, sales growth and return on equity in the past 12 months and over five years; we dropped companies with fuzzy accounting or looming legal troubles. We also compared the stock performance of each company with that of its peers. Shares of last year's list members outpaced the Russell by ten percentage points.

Seventy-one companies on last year's list fell off, including No. 6, PetroQuest Energy, an oil and natural gas explorer squeezed by falling prices. Eight companies outgrew the list, such as Under Armour (sales: \$776 million). Five of this year's top ten are newcomers, including top-ranked Lumber Liquidators, seller of hardwood flooring, which went public at the end of 2007.

For more financial data and corporate governance ratings, visit www.forbes.com/200best.



① Lumber Liquidators

Started in 1994 by building contractor Thomas Sullivan, who sold surplus wood at bargain prices. Today the Toano, Va. company sells 150 varieties of flooring at more than 170 stores in 45 states. Longer store hours, a commission-driven sales staff and plenty of marketing savvy have helped in the housing downturn.



② Allegiant Travel

Operates a low-cost airline serving resort locales such as Las Vegas and Orlando. Chief Executive Maurice Gallagher receives a cash bonus only if profits (in the sense of earnings before interest and taxes) exceed 5% of sales. He's collecting: The Las Vegas company's 11% margin last year was among the highest for airlines in the U.S.

3 Quality Systems

This Irvine, Calif. outfit sells software that manages electronic medical records. Should get a shot in the arm from the \$20 billion in medical records subsidies enacted in last winter's stimulus legislation.



4 LHC Group

Hungry Lafayette, La. acquirer of home health care companies, now in 18 states, provides nursing, rehabilitation, hospice and long-term care.

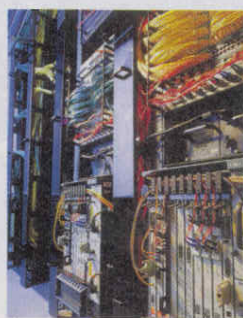
5 Green Mountain Coffee Roasters

Its gourmet java, sold through coffee shops and grocers, still pours in a recession. Sales at the Waterbury, Vt. company have jumped 56% and the stock has tripled in the last 12 months.



6 Transcend Services

Converts doctors' notes into legible digital files, either by hand or using speech recognition software. Revenue per customer (now 230 of them) has increased 79% in the past two years.

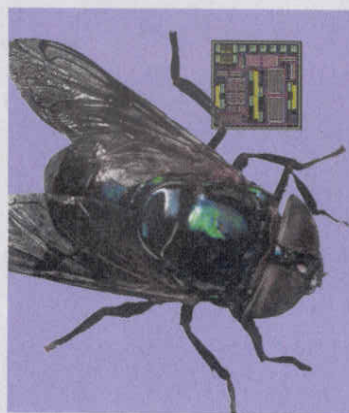


7 Rackspace Hosting

Provides cloud-computing services (applications that run on off-site servers) to 51,000 customers. Employees (or Rackers) compete for a monthly Straightjacket customer service award. Shares of the San Antonio, Tex. company have risen 77% since its initial offering last year.

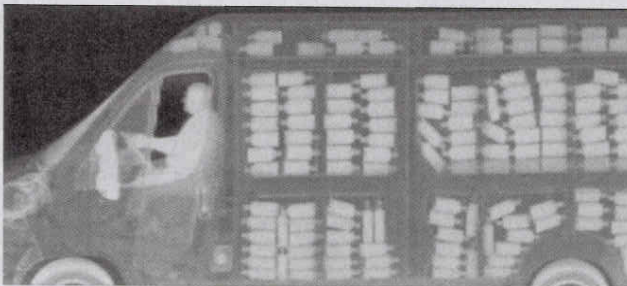
8 NVE

This Eden Prairie, Minn. company uses nanotechnology to make miniature sensors (some weighing less than a mosquito) for medical devices. The smallest member of our list, with sales of \$25 million, is also one of the most profitable, with a net margin of 43%.



9 American Public Education

Operates two for-profit online schools geared toward veterans and public service employees like firemen and teachers. The Charles Town, W. Va. company offers 76 degree programs, in fields ranging from homeland security to business administration, to 53,000 students in more than 100 countries.



10 American Science & Engineering

Makes X-ray systems that sniff for drugs and weapons. The Pentagon in January awarded the Billerica, Mass. outfit a \$39 million contract for its rugged trailers that screen suspicious vehicles for bombs.