

## BARRON'S

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Inundated by e-mail, Tweets, blog posts and phone calls, we were pleased to receive Nicholas Lardieri's handwritten letter praising stocks changing hands for just a few bucks each. The Florida resident explained he has done well over time by focusing on shares that have dropped below \$10 apiece, since they often have been given up for dead. In the depths of the financial crisis, membership in what is mostly a small-cap group grew to include such well-known names as Citigroup (ticker: C) and Ford (F).

Although we are aware that small-caps and some of the big distressed outfits have soared in the past two years, Lardieri's missive prompted us to screen for stocks selling between 1 and 5 a share. We wanted debt-free names that were profitable in 2010, with analyst expectations for earnings expansion in 2011. With those criteria, we ended up with 10 names—interesting names. A few caveats: These are all small-caps, a sector that's gained 143% since March 2009 as measured by the Russell 2000, which hit a record high April 29. Most have participated in the rally, and a few look a tad expensive. In addition, small-caps generally are more volatile and risky than their larger brethren, and less liquid. Lardieri says he uses options to save money and protect against downside risk. A few of the stocks have a limited Wall Street following, which can be a bad thing or a good thing.

We'll follow up on the constituents of our roster in a few months and let you know how they did.

Most of our retailers have strong cash flows. Casual Male Retail Group, which sells big-and-tall men's shoes and clothing, reports cash flow per share of 61 cents. Positive first-quarter sales trends boosted consensus earnings for the current fiscal year (ending in January) to 41 cents per share. Wet Seal, which sells young women's clothes, said March's comparable-store sales rose 4.7% over March 2010. Its shares are pricey, at nearly 20 times forward earnings, but profit is expected to rise 12% this fiscal year (January) and 21% next. Tuesday Morning, the seller of closeout upscale home goods, boasts 69 cents per share in cash flow. Competition is stiff, but it plans to increase its store count this year (June). Projected earnings growth is strong, at 28% for this year and 41% next year.

A familiar name, Leapfrog Enterprises, makes educational electronic games for kids. Profits have swung wildly at times, depending on the popularity of its toys; this summer, it will sell a portable-learning tablet for \$99. A new CEO is expected to bolster meager profits. The stock has tumbled 20% in the past 12 months.

We have four tech names in our basket. The first is Zix, which posted its first profit and positive cash flow in 2010; it sells software that enables e-mail encryption and electronic-medical prescriptions to business and government markets. Projected earnings growth of 12% in 2011, however, may make it tougher to justify a pricey multiple of 21.5. 8X8 helps small businesses cut costs with Internet-based phone services. The stock has been hovering between 1 and 2 for several years, but cash flow has improved. One problem: scant analyst coverage. Ditto for Westell Technologies, which sells broadband products like routers as well as telecom equipment and services, and has been around for 25 years. Kopin recently was upgraded by Wunderlich Securities, which raised its price target to 6. It cited the chip maker's chance to widen margins in developing hands-free computing applications and potential military-sales growth.

Hackett Group consults for companies primarily here, but also in Europe and, increasingly, Asia. It identifies best practices and works to measure and improve performance. It has begun to sell some of its own automated tools.

Three analysts covering the stock expect a 13% jump in 2011 earnings to 32 cents per share; all of them rate it a Buy.

U.S. budget woes are a concern for Force Protection, an armored-vehicle maker. The stock reflects the worries, even though the firm this year is expected to deliver 75% of its \$562 million funded backlog. The board has approved a buyback of up to \$20 million in stock, now at 4.86 a share. That's just above its net tangible asset value of 4.61 per share, notes Imperial Capital research. The firm thinks the stock can trade between 5.50 and 6.50.

EPS	Cash flow		Recent	Price/	12-Mo	2011
Company/Ticker			Price	Book	Chg	FY EPS
P/E	'11 vs '10	per share				
Westell Technologies/WSTL			\$3.57	2.2	157%	\$ 0.22
16.2	38%	\$0.26				
8X8/EGHT			2.96	9.6	123	0.11
26.2	61	0.11				
Hackett Group/HCKT			3.81	1.4	36	0.32
12.0	13	0.37				
Zix/ZIXI			3.12	28.1	29	0.15
21.5	12	0.17				
Force Protection			/FRPT 4.88	2.2	3	0.37
13.2	23	0.53				
Kopin			4.45	1.8	0	0.10
46.8	36	0.18				
Wet Seal/WTSLA			4.40	1.5	-2	0.22
19.7	12	0.38				
Casual Male/CMRG			4.06	1.6	-3	0.41
9.8	25	0.61				
Tuesday Morning/TUES			4.89	0.8	-7	0.32
15.3	28	0.69				
Leapfrog Enterprises/LF			4.21	1.7	-20	0.19
22.0	282	0.40				
Russell 2000			829.24	2.2	19	39.04
21.2	43	57.95				

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