

THE 100 SMARTEST COMPANIES OF 2007

By Robert Hertzberg, April 9, 2007

It's usually pretty straightforward to figure out how "smart" someone is. For children, we might look at their standardized test scores and academic records. For our friends, we might consider how well they speak, the breadth of their interests and the depths of their insights. For our business associates, it's simpler still: If they make a lot of money, presto—they're smart.

In truth, a person's wallet isn't a bad proxy for his business smarts. And the same can be said for the collections of people that comprise companies. A company's total value is a reflection of its individual workers' smarts. Wouldn't that be a good thing to measure?

For the second straight year, Baseline has undertaken that effort with the goal of identifying the smartest American companies. The 100 companies that appear in the list that starts on this page came out of an analysis we did of more than 4,200 organizations. The methodology is the brainchild of Paul A. Strassmann, who spent years as a technology executive (Xerox, General Foods, Kraft) and was the Pentagon's first chief information officer. His formula (which is spelled out here) provides a way of figuring out the average value that has been created by a company's workers—everyone from the chief executive through middle managers to the lowest-paid staffers. Baseline's underlying assumption is that the smartest companies must necessarily be skilled at managing information.

To even be considered, a company had to meet a few criteria. It had to be publicly traded, so we could see the market value that investors were placing on it. It had to have been public for at least three years, so we could take averages and avoid giving too much credit to a new company that might be the temporary object of Wall Street's ardor.

It would be nice if dumb luck had nothing to do with the appearance on our list of any of these 100 companies. But the heavy representation of real-estate investment trusts and energy companies—two sectors that have done extremely well on Wall Street in recent years—suggests that isn't the case. So, what's instructive is to look at differences in per-employee value between companies in these industries. Why, for instance, does Host Hotels, the No. 1 company on our

list, have a knowledge value per employee that's more than half again as high as last year's and 23% higher than No. 2-ranked Alexander's? One reason is that Host Hotels, a real-estate investment trust that owns 70 Marriotts, has been improving its operations with the help of business intelligence software that it put in place in mid-2003. (Click [here](#) for more on Host Hotels' business intelligence system.)

Rank	Company/Industry	Knowledge Value Per Employee
1	Host Hotels & Resorts, Real Estate	\$16,261,902
2	Alexander's, Real Estate	\$13,224,866
3	Sirius Satellite Radio, Broadcasting	\$12,540,550
4	Realty Income, Real Estate	\$12,425,920
5	Travelzoo, Technology	\$12,047,361
6	IStar Financial, Real Estate	\$11,043,219
7	Alexandria RE Equities, Real Estate	\$10,753,647
8	Montpelier Re Holdings, Insurance	\$10,683,139
9	Allied Capital, Financial Services	\$10,194,227
10	XM Satellite Radio, Broadcasting	\$9,777,978
11	Gilead Sciences, Biotechnology	\$9,049,911
12	W. P. Stewart & Co., Financial Services	\$8,759,271
13	Ambac Financial, Insurance	\$8,729,852
14	Kimco Realty, Real Estate	\$8,683,229
15	Tessera Technologies, Technology	\$8,323,397
16	Saul Centers, Real Estate	\$8,077,800
17	Genentech, Biotechnology	\$7,824,210
18	Rambus, Technology	\$7,686,544
19	Eastgroup Properties, Real Estate	\$7,551,905
20	Celgene, Biotechnology	\$7,350,731
21	Marvel Entertainment, Media	\$6,694,084
22	American Financial Realty, Real Estate	\$6,573,103
23	Maguire Properties, Real Estate	\$6,496,218
24	Comstock Resources, Oil and Gas	\$6,451,245
25	Pengrowth Energy Trust, Oil and Gas	\$6,426,289

Rank	Company/Industry	Knowledge Value Per Employee
26	Renaissance Re Holdings Ltd., Insurance	\$6,386,159
27	Qualcomm, Technology	\$6,364,149
28	Kilroy Realty, Real Estate	\$6,211,753
29	Weingarten Realty Investors, Real Estate	\$6,157,632
30	Boston Properties, Real Estate	\$5,912,382
31	EBay, Technology	\$5,905,145
32	EOG Resources, Oil and Gas	\$5,865,649
33	CNOOC Ltd., Oil and Gas	\$5,859,852
34	Novogen Ltd., Pharmaceuticals	\$5,839,552
35	Redwood Trust, Real Estate	\$5,568,253
36	XTO Energy, Oil and Gas	\$5,464,771
37	ViroPharma, Pharmaceuticals	\$5,445,390
38	Chicago Mercantile Exchange, Security and Commodity Brokers	\$5,305,843
39	Prologis, Real Estate	\$5,159,568
40	Moody's, Financial Services	\$5,118,103
41	Finova Group, Financial Services	\$5,094,468
42	SanDisk, Technology	\$5,077,225
43	Yahoo, Technology	\$4,984,789
44	Goodrich Petroleum, Oil and Gas	\$4,931,150
45	Marvell Technology Group Ltd., Technology	\$4,919,221
46	Gamco Investors, Financial Services	\$4,775,284
47	Student Loan Corp., Financial Services	\$4,759,899
48	Meridian Gold, Gold and Silver	\$4,754,282
49	Tejon Ranch, Agriculture	\$4,737,221
50	Intuitive Surgical, Medical Supplies	\$4,641,427

Rank	Company/Industry	Knowledge Value Per Employee
51	Quicksilver Resources , Oil and Gas	\$4,615,483
52	Medicines Co. , Pharmaceuticals	\$4,613,680
53	United Therapeutics , Pharmaceuticals	\$4,545,691
54	Amgen , Biotechnology	\$4,541,621
55	Federal Realty Investment Trust , Real Estate	\$4,472,317
56	Liberty Property Trust , Real Estate	\$4,409,203
57	CapitalSource , Financial Services	\$4,362,701
58	Pogo Producing , Oil and Gas	\$4,329,520
59	Red Hat , Technology	\$4,320,441
60	Regency Centers , Real Estate	\$4,297,145
61	Encore Acquisition , Oil and Gas	\$4,275,275
62	Endo Pharmaceuticals , Pharmaceuticals	\$4,151,450
63	Houston Exploration , Oil & Gas	\$4,147,435
64	Sonic , Restaurants	\$4,079,491
65	Hudson City Bancorp , Financial Services	\$4,023,808
66	Nuveen Investments , Financial Services	\$4,004,138
67	Eaton Vance , Financial Services	\$3,988,997
68	Berry Petroleum , Oil and Gas	\$3,949,042
69	Microsoft , Technology	\$3,933,251
70	American Capital Strategies , Financial Services	\$3,910,856
71	Avanir Pharmaceuticals , Pharmaceuticals	\$3,904,312
72	ImClone Systems , Biotechnology	\$3,891,859
73	Developers Diversified Realty , Real Estate	\$3,884,771
74	Columbia Laboratories , Pharmaceuticals	\$3,863,134
75	Healthcare Realty Trust , Real Estate	\$3,851,407

Rank	Company/Industry	Knowledge Value Per Employee
76	MGI Pharma, Pharmaceuticals	\$3,824,340
77	Newfield Exploration, Oil and Gas	\$3,813,646
78	Amylin Pharmaceuticals, Pharmaceuticals	\$3,775,354
79	Genta, Biotechnology	\$3,726,718
80	Transatlantic Holdings, Insurance	\$3,713,885
81	Neurocrine Biosciences, Biotechnology	\$3,687,115
82	Taser International, Electroshock Weapons	\$3,575,306
83	Reckson Associates, Real Estate	\$3,574,351
84	Opsware, Technology	\$3,565,106
85	Southwestern Energy, Natural Gas	\$3,526,069
86	Washington REIT, Real Estate	\$3,511,447
87	QLogic, Technology	\$3,494,522
88	Apache, Oil and Gas	\$3,451,740
89	National Retail Properties, Real Estate	\$3,450,574
90	Linear Technology, Technology	\$3,441,756
91	St. Mary Land & Exploration, Oil and Gas	\$3,329,445
92	American Tower, Communications Services	\$3,318,383
93	Penn Virginia, Oil and Gas	\$3,308,116
94	Abraxas Petroleum, Oil and Gas	\$3,283,375
95	Adobe Systems, Technology	\$3,278,022
96	Noble Energy, Oil and Gas	\$3,271,853
97	Thermogenesis, Laboratory Equipment	\$3,264,216
98	Tanox, Pharmaceuticals	\$3,263,841
99	First Marblehead, Financial Services	\$3,260,635
100	Mack-Cali Realty, Real Estate	\$3,239,313

Indeed, the effective use of technology—either internally or as a product or service—accounts for the appearance of many of the companies on our list. Chicago Mercantile Exchange Holdings, the 38th-ranked company, has become a huge success as the rise of electronic trading has prompted investment banks and hedge funds to speculate in pork bellies and other contracts that were once the exclusive domain of floor traders shouting out buy and sell orders in crowded pits. The company has a \$90 million capital budget that it uses partly to support 3,500 Linux servers, 12 Hewlett-Packard Itanium systems and more than a half-dozen optical communications hubs in cities such as London, Singapore and New York. "We compete on our ability to bring a lot of customers together," says chief information officer James Krause. "It sounds fairly simple, but the two most important things for customer satisfaction are speed and reliability."

Like the Merc, the two Internet companies on our list, eBay (No. 31) and Yahoo (No. 43), have found ways of making money from other people's interactions. EBay and Yahoo have turned data and software into online locations that have become second homes to many users. These companies have no warehouses to speak of, no inventory, no manufacturing processes—they're platforms. But they've reaped billions in profits as consumers have flocked to them for entertainment or to transact business. (Google doesn't appear on our list because it does not yet have three years of history as a publicly traded company. If it were, based on available data, it would be in the Top 10.)

It isn't only Web companies that enjoy the benefits of leverage. Stun-gun manufacturer Taser International (No. 82 on our list) is evidence that some non-digital products can be developed on the cheap. Taser spent a mere \$1 million to develop the Taser X26, a product that has produced about \$150 million in sales with profit margins of 80%. "With a fairly small investment, you can get a huge return," says Rick Smith, Taser's chief executive. "But there's a high risk of a lot of these things failing completely."

Indeed, Taser has at least one dog—a shock-delivering steering wheel intended to discourage car thieves (consumers balked, perhaps out of fear that the device might malfunction).

And its line of stun guns has brought Taser headaches. It has been named in more than 50 lawsuits, alleging wrongful death or personal injury incidents involving Taser devices. Some lawsuits are ongoing, but many have been dismissed.

"We pride ourselves as [a] company that is dynamically turning the corner on controversy and committed to defending the company from unwarranted and baseless attacks," Steve Tuttle, vice president of communications at Taser, wrote in an e-mail to Baseline. "None of the litigants have been able to prove any defect in the Taser system or that it was the proximate cause of any injury or death."

In 2005, the SEC investigated Taser's representations of product safety; the company's sales fell 30% that year. The SEC dropped its investigation last year without recommending any enforcement action, and since then sales have rebounded. Among the company's next possible hit products: a remote-area denial weapon that soldiers could detonate from a distance, stopping suspected suicide bombers with an electrical shock instead of lethal force.

R&D efforts with high risks—and commensurately high returns—are common in the drug sector, which has a high representation in our list. Companies like the biotechnology giants Genentech (No. 17) and Amgen (No. 54) and the cancer-fighter Celgene (No. 20) have been exceptionally good at analyzing data and information to ease serious medical problems.

Taking Stock

One of the drug companies on our list, the pain-killer specialist Endo Pharmaceuticals (No. 62), says it has not been particularly smart about using technology. "Are we smart or are we lucky?" says Daniel Carbery, the company's senior vice president of operations. "We hope both. But you can't institutionalize luck." The \$1 billion company will be investing upward of \$20 million this year in a series of technology initiatives designed to support its growth.

One sobering fact about this Baseline list is that people who own stock in the smartest companies may not have much to show for it—at least not lately. This is especially true for people with investments in technology sellers like the software giant Microsoft (No. 69) and the wireless-provider Qualcomm (No. 27). The companies have brilliant technical workers who keep the money rolling in, but investors have been skeptical about the firms' future prospects; both are trading at about half the level of their all-time highs. The aforementioned Yahoo is in a similar position. Things are even worse for Linux-seller Red Hat (No. 59), whose shares trade at about one-seventh of their record seven years ago.

The graphics software company Adobe Systems (No. 95) has bucked the depressed tech-stock trend. With its recent price near \$40 a share, Adobe is close to where it was seven years ago. An investor who has held Adobe's shares since then may not feel very smart, but at least he can take some solace in knowing that he has not been going backward.