

# Mossberg's Investor Digest

December 2012

Issue #54

## From the Editor...

2012 was a tough year for anyone who makes their living from the equity markets. Although the stock market increased about 12%, the flow of funds out of equities continued. U.S. equity outflows are approximately \$150 billion this year, up from \$130 billion last year. In the past five years, \$600 Billion has been taken out of U.S. equity Funds.

According to FINRA, the number of member firms that shut their doors through November '12 was 137, or approximately 3% of the total. This is the same pace of decline that has been experienced over the past five years. Anecdotally, we saw the reduction in staffs and even the closure of several sell side shops such as Rodman & Renshaw, Think Equity, Pritchard, Kaufman Brothers and many others.

The buy side has also been hurt. According Hedge Fund Research, during 1Q12, 232 hedge funds closed, which was the highest quarterly figure in two years. 424 funds were liquidated in 1H12, 14% more than in the same period in 2011.

Of course this years' overpriced Facebook IPO, LIBOR scandal, JP Morgan trading losses, etc. didn't do anything to restore investor trust in equity markets.

With a tough year behind us, I am looking forward to a better year in 2013. At some point, hopefully sooner rather than later, the flow of funds will reverse as investors realize they won't be able to meet their return objectives by investing in bond funds. While we will likely have to deal with the near-term volatility caused by our dysfunctional government officials, there has been many encouraging economic data points...modest improvement in employment, higher house prices, lower gas prices, low interest rates, and low inventory levels throughout the supply chain. If these positive data points continue, and equity market participants stop shooting themselves in the foot, hopefully we will see the turn of the tide in equity flows and everyone in the equity markets ecosystem will see some relief.

Thank you for your interest in Mossberg's Investor Digest. I welcome your feedback.

Dave Mossberg

## December 2012 Issue

**Sealed Air (NYSE: SEE) – \$16.13, December 16, 2012, Page 3** – Sealed Air offers proprietary total-systems solutions for providers of food safety and security, facility hygiene, and product protection. It operates in the U.S. and 61 countries through three major business lines. The stock has rebounded somewhat from its early August low. Price/Earnings ratio based on consensus 2013 estimate is under 13. The dividend yields approximately 3%, providing a cushion to investors willing to see how SEE delivers on its promises of growth.

**Westmoreland Coal (NASDAQ:WLB)– \$9.86, December 17, 2012, Page 4** – At over 150 years old, Westmoreland Coal is the oldest independent coal company in the U.S. The Company operates six surface mining complexes; all but one of which are located adjacent to, or only a short conveyor, truck, or rail haul from their primary customers. This provides significant transportation and logistical advantages to their principal customers. The sector has seen pressure resulting from uncertainty about many of the coal players' liquidity. Westmoreland is seen as one of the stronger participants and the stock should rise as fears are allayed.

**Regional Management (NYSE:RM) – \$16.43, December 18, 2012, Page 5** – Regional Management is a diversified and growing specialty consumer finance company specializing in offering loan products to customers with limited access to traditional credit such as banks, thrifts, and credit card companies. Regional Management went public in March 2012. It seems to have escaped the curse of many of the high-profile IPOs' early performances. Based on its revenue growth, earnings and its asset valuations, it appears to be an underpriced grower.

**Michael Baker Corporation (NYSE:BKR) - \$24.45, December 30, 2012, Page 6** – Management recently received a buyout offer at \$24.25 per share. The potential for a slower turnaround caused by economic and industry conditions, combined with the departure of the CEO in mid-December could encourage the Board the put the company up for auction. Although shares have had a recent run, the stock could be worth as high as \$30 per share (based on 7x normalized EBITDA for 2013).

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# Mossberg's Investor Digest

## Mossberg's Investor Digest Idea Performance

The table below shows the relative change in the value of the ideas published since December 2011 and the Russell 3000. **Performance data quoted represents past performance and does not guarantee future results.** Current performance of ideas may be lower or higher than the performance quoted.

Company	Pub. Date	Original Price	Recent Price	Change	Russell 3000 Change Since Pub. Date	Relative Perf. vs. Russell 3000
Headwaters, Inc. (NYSE: HW)	9-Dec-11	2.74	8.36	205.1%	11.3%	193.9%
3D Systems Corp. (NYSE: DDD)	23-Dec-11	14.95	51.08	241.7%	11.3%	230.4%
Wilbros Group, Inc. (NYSE: WG)	23-Dec-11	3.71	5.31	43.1%	12.0%	31.1%
Antares Energy (ASX: AZZ.AX)	31-Dec-11	0.43	0.51	18.6%	8.5%	10.1%
Rentech Nitrogen Partners L.P. (NYSE:RNF)	12-Jan-12	18.51	37.68	103.6%	6.8%	96.8%
Points International, Ltd. (NASDAQ:PCOM)	23-Jan-12	7.96	10.99	38.1%	6.8%	31.3%
Conn's Inc. (NASDAQ:CONN)	24-Jan-12	11.95	29.79	149.3%	6.4%	142.9%
Trinity Industries, Inc. (NYSE:TRN)	26-Jan-12	31.30	35.14	12.3%	2.7%	9.6%
Top Image Systems (Nasdaq: TISA)	18-Feb-12	2.92	3.42	17.1%	2.4%	14.7%
DGSE Companies (Nasdaq: DGSE)	27-Feb-12	7.72	5.14	-33.4%	2.4%	-35.9%
Doral Financial (NYSE: DRL)	27-Feb-27	1.49	0.67	-55.0%	2.4%	-57.5%
Essex Rental Corporation (Nasdaq: ESSX)	27-Feb-12	3.60	3.47	-3.6%	-0.5%	-3.2%
Plug Power, Inc. (NASDAQ:PLUG)	19-Mar-12	1.77	0.54	-69.5%	-0.1%	-69.4%
Salem Communications (NASDAQ:SALM)	28-Mar-12	4.52	5.23	15.7%	0.1%	15.7%
21st Century Holding (NASDAQ:TCHC)	29-Mar-12	4.43	5.23	18.1%	-0.2%	18.3%
HFF, Inc. (NYSE: HF)	30-Mar-12	16.47	14.35	-12.9%	0.4%	-13.2%
Hecla Mining, Inc. (NYSE:HL)	26-Apr-12	4.25	5.63	32.5%	0.4%	32.1%
The Cash Store Financial Services, Inc. (NYSE:CSFS)	26-Apr-12	5.37	3.69	-31.3%	0.0%	-31.3%
Silicon Image, Inc. (NASDAQ:SIMG)	29-Apr-12	5.95	4.91	-17.5%	0.0%	-17.5%
GSE Systems Inc. (Amex: GVP)	29-Apr-12	2.87	2.14	-25.4%	3.8%	-29.3%
GSI Group (Nasdaq: GSIG)	13-May-12	12.36	8.21	-33.6%	6.7%	-40.3%
Standard Parking Corp. (NASDAQ:STAN)	25-May-12	18.42	21.80	18.3%	6.7%	11.6%
Ionnodata Isoqen (Nasdaq: INOD)	28-May-12	5.41	3.74	-30.9%	7.2%	-38.0%
Acme United (Amex: ACU)	30-May-12	10.17	11.00	8.2%	10.3%	-2.1%
Spectrum Pharmaceuticals, Inc. (Nasdaq: SPPI)	3-Jun-12	11.01	11.28	2.5%	6.3%	-3.9%
Matrix Service Co. (Nasdaq: MTRX)	8-Jun-12	10.46	11.35	8.5%	7.5%	1.0%
Orbital Sciences Corp.(NYSE: ORB)	13-Jun-12	12.02	13.26	10.3%	5.0%	5.3%
Landec Corp.(Nasdaq: LNDC)	18-Jun-12	7.55	9.24	22.4%	3.9%	18.5%
Compass Diversified Holdings (NYSE: CODI)	7-Jul-12	14.24	14.40	1.1%	2.0%	-0.9%
Codexis (NASDAQ:CDXS)	29-Jul-12	3.23	2.13	-34.1%	2.0%	-36.1%
Silicon Motion Technology Corp. (NASDAQ:SIMO)	29-Jul-12	15.33	13.92	-9.2%	2.0%	-11.2%
Franklin Covey Co. (NYSE:FC)	29-Jul-12	10.27	12.26	19.4%	-0.3%	19.7%
Deere and Company (NYSE: DE)	13-Aug-12	79.31	84.55	6.6%	-0.3%	6.9%
Power Solutions International (OTC BB:PSIX)	16-Aug-12	16.99	16.01	-5.8%	0.2%	-6.0%
U.S. Concrete, Inc. (NASDAQ: USCR)	26-Aug-12	6.24	9.04	44.9%	0.9%	44.0%
Ikanos Communications, Inc. (NASDAQ: IKAN)	30-Aug-12	0.92	1.67	81.5%	-3.6%	85.1%
Zale Corporation (ZLC)	17-Sep-12	5.87	4.06	-30.8%	-3.2%	-27.7%
Air Transport Services Group, Inc. (ATSG)	24-Sep-12	4.67	3.89	-16.7%	-2.5%	-14.2%
Northern Technologies International Corp. (NTIC)	27-Sep-12	10.95	11.37	3.8%	-2.0%	5.9%
KEMET Corp. (KEM)	28-Sep-12	4.40	4.92	11.8%	-3.4%	15.2%
GameStop Corp. (NYSE: GME)	4-Oct-12	22.16	24.53	10.7%	-1.5%	12.2%
Sycamore Networks, Inc. (NASDAQ:SCMR)	11-Oct-12	3.01	2.20	-26.9%	-0.2%	-26.7%
RPX Corp. (NASDAQ:RPXC)	25-Oct-12	9.69	9.14	-5.7%	-0.2%	-5.5%
Prospect Global Resources, Inc. (NASDAQ:PGRX)	31-Oct-12	2.76	1.51	-45.3%	1.0%	-46.3%
Gaiam Inc. (GAIA)	7-Nov-12	2.94	3.13	6.5%	0.1%	6.3%
Green Dot Corporation (NASDAQ:GDOT)	26-Nov-12	11.71	12.00	2.5%	0.6%	1.9%
JTH Holdings, Inc. (NASDAQ:TAX)	27-Nov-12	13.92	13.52	-2.9%	-0.2%	-2.7%
Elephant Talk Communications, Corp. (NASDAQ:ETAK)	28-Nov-12	1.06	1.02	-3.8%	-0.2%	-3.6%
				<b>13.7%</b>	<b>2.5%</b>	<b>11.2%</b>

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## Best Idea Profile:

## Sealed Air Corporation (NYSE:SEE)

### DESCRIPTION:

Sealed Air offers proprietary total-systems solutions for providers of food safety and security, facility hygiene, and product protection. It operates in the U.S. and 61 countries through three major business lines. Representing half of revenues, Food and Beverage focuses on food safety, shelf life extension and operational efficiency. Institutional and Laundry, with 28% of revenues, provides efficient cleaning methods for building service, food service and health care customers through its Diversey product line. Product Protection, with 21% of revenue, efficiently sends customers' products from the factory floor to their customers, using branded products such as Bubblewrap. Founded in 1960, the company is headquartered in Elmwood Park, New Jersey, and employs more than 26,000 people.

### KEY INVESTMENT CONSIDERATIONS:

**Diversified Revenue and Dominant Industry Positioning** – Sealed Air is the number one or two player in most of its markets and is not dependent on any particular industry or customer for its income. It sells into many more than 400 SIC codes. It also has good geographic reach with one-third of revenues in North America, one-third in Europe and the remainder throughout the rest of the world.

**New Management** – The new president joined the company this Fall in a planned succession. He will add the title of CEO in March 2013. He brings many operational achievements, including spearheading the integration of Dow Chemical's largest acquisition.

**Gaining Financial Momentum** – Although there is no 2013 guidance, management has indicated a focus on profitability improvements that would allow for significant improvement in the 12% EBITDA margin experienced over the trailing twelve months. Combined with anticipated growth in volumes through exploiting its current businesses, there should be visible improvement in next year's results.

**Diversey on Positive Track** – Sealed Air purchased Diversey in 2011 (the second largest acquisition in the Company's history), expanding its presence beyond specialty packaging solutions. The Company announced the sale of its Diversey operation in Japan, which will give it greater flexibility to reinvest in other higher growth regions.

**Focus on Safely Reducing Customers' Costs** – Cost reduction in the corporate environment should continue to resonate with customers and investors. Each business' goal is to create systems that responsibly and efficiently drive costs out of the customer's operations. This is done by optimizing productivity, decreasing waste, cutting energy use, increasing automation, and reducing needless chemical, packaging and food waste.

**Recurring Revenue Stream** – 90% of what the Company's sales are consumables.

### VALUATION:

The stock has rebounded somewhat from its early August low. Price/Earnings ratio based on consensus 2013 estimate is under 13. The dividend yields approximately 3%, providing a cushion to investors willing to see how SEE delivers on its promises of growth.

#### Sealed Air Corp. (NYSE:SEE)

Investment Data (as of 12/16/12)

<b>Recent Price</b>	<b>\$16.13</b>
52-Week Range	\$11.51 - \$21.50
Fiscal Year End	Dec
Dividend	\$0.52
Yield	3.1%
Shares Outstanding	194.5 M
Average Trading Volume (3 mos)	2.9 M
Market Capitalization	\$3.1 B
Cash	\$541 M
Long-term Debt	\$4.9 B
Enterprise Value (EV)	\$7.5 B
Book Value	\$8.74
TTM Revenue	\$7.7 B
P/ Revenue	0.4x
TTM EPS	\$(6.77)
P/ EPS	NA
TTM EBITDA	\$949 M
EV/ EBITDA	8.0

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# Mossberg's Investor Digest

## Best Idea Profile:

## Westmoreland Coal Company (NASDAQ:WLB)

### DESCRIPTION:

At over 150 years old, Westmoreland Coal is the oldest independent coal company in the U.S. The company operates six surface mining complexes; all but one of which are located adjacent to, or only a short conveyor, truck, or rail haul from their primary customers. This provides significant transportation and logistical advantages to their principal customers. Its coal operations include coal mining in the Powder River Basin in Montana, sub-bituminous mining in Wyoming, and lignite mining operations in Montana, North Dakota and Texas. Its power operations include ownership of the two-unit ROVA coal-fired power plant in North Carolina. The majority of the company's coal production is sold under long-term contracts of one year or greater. Westmoreland Coal Company was founded in 1854 and is headquartered in Englewood, Colorado.

### KEY INVESTMENT CONSIDERATIONS:

#### Excellent Results From January 2012 Acquisition –

Westmoreland acquired the Kemmerer mine from Chevron Mining Inc. in January 2012. The integration of the Wyoming mine continues to go very well, with a new six-year labor agreement, high morale and improving operational and safety performance. The purchase appears to have been executed at a very reasonable multiple and the outstanding productivity there is “jumpstarting” the company's ability to deleverage.

#### Defending the Treasury and Maintaining Flexibility

– This appears to be Westmoreland's mantra. The company took on extensive debt to acquire Kemmerer in 2012. However, it is making steady progress in increasing its cash position in order to pay off debt. Third-quarter cash increased to over \$53 million, an increase of \$23 million. However, management has emphasized that as long as opportunities exist for growth, it is comfortable with debt in order to be able to take advantage of prudent acquisition opportunities. The Kemmerer acquisition has exceeded expectations and is making a big impact on revenue. Management is looking at many potential acquisitions, but notes that it will not overpay.

**Record Third Quarter** – Adjusted EBITDA and earnings set a record in the third quarter, driven largely by Kemmerer operations. Year-to-date EBITDA is more than \$77 million, which is an increase of over 25% compared with 2011 and is actually more than full-year 2011. The third quarter is historically the best for the

Company as it tends to be a good time of year for coal power generation. Management has indicated it expects the 4Q12 to be its second best quarter of the year.

**Long term fundamentals are attractive** – While short term remains weak, long term demand for coal in developing markets like China and India should continue. The US Energy Information Administration (EIA) projects US coal exports to grow by 30% by 2030.

**Near term weakness in demand has led to higher inventory levels and weak prices.** – Coal prices have hit a two year low recently, dropping from \$130/ tonne to approximately \$60 per tonne. Nothing cures over supply like weak prices. Some Coal companies have already begun to shut mines and close regional offices.

#### Management Transition Won't Affect Progress –

The Company named a new president and COO earlier this year with the intent to name him as CEO in April 2013. The current CEO will maintain strategic importance and has stated that the company's outlook and strategic vision will remain unchanged.

### VALUATION:

The sector has seen pressure resulting from uncertainty about many of the coal players' liquidity. Westmoreland is seen as one of the stronger participants and the stock should rise as fears are allayed.

#### Westmoreland Coal (NASDAQ:WLB)

Investment Data (as of 12/17/12)

<b>Recent Price</b>	<b>\$9.86</b>
52-Week Range	\$6.94 - \$13.47
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	14.2 M
Average Trading Volume (3 mos)	32 k
Market Capitalization	\$140 M
Cash	\$54 M
Long-term Debt	388 M
Enterprise Value (EV)	\$480 M
Book Value	N/A
TTM Revenue	\$571 M
P/ Revenue	0.26
TTM EPS	\$(1.14)
P/ EPS	NA
TTM EBITDA	\$81 M
EV/ EBITDA	5.9

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## Best Idea Profile:

## Regional Management Corp. (NYSE:RM)

### DESCRIPTION:

Regional Management Corp. is a diversified and growing specialty consumer finance company specializing in offering flexible and attractive loan products to customers with limited access to traditional credit such as banks, thrifts, and credit card companies. Regional Management was founded in 1987 with four branches in Greenville, South Carolina. It now has 216 branches in seven states: Alabama, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee, and Texas. It operates under the brand names of Regional Finance, RMC Financial Services, Anchor Finance, Superior Financial Services, First Community Credit, and Sun Finance. It also originates loans through over 2,100 independent auto dealerships, 800 franchise auto dealerships, 450 furniture and appliance retailers, and direct mail.

### KEY INVESTMENT CONSIDERATIONS:

**Strong Financial Results** – Net income in the third-quarter 2012 increased 34.8% over the same period of 2011 and was ahead of expectations. Net income rose 29% in 2011 over 2010, capping a compound annual growth rate of 61.7% from 2007 to 2011. Revenues grew at a 16.8% compound annual growth rate for the same period.

**Proven Branch Model Designed to Grow** – New branches typically achieve positive operating income in fewer than 12 months, and the company has only closed one branch in 25 years. Opening a branch requires minimal investment, but pays off quickly. Same-store revenue growth averaged 14.7% from 2007 to 2011 and the most recently reported quarter's growth was 18.3%. 55% of the company's branches have been open less than five years and will provide a large part of the expected growth. The Company is also looking to expand into six new states in the Southeast and Midwest. Regional has also benefited from acquisitions, such as the Superior acquisition in January 2012, and will continue to look for small to mid-sized acquisitions.

**Resistant to Economic Cycle** – Regional's diverse product offering has helped it resist economic vagaries. Loan volumes grew as the Company was able to maintain low charge-off ratios especially during the last recession.

**Attractive Lending Environment** – Regional's focus on the non-traditional lending market is paying off as it takes advantage of the \$1.4 billion contraction of the consumer credit market since 2008. Its flexible and diverse products target a large and unbanked or underbanked population. Regional's broader product offerings and lower rates benefit the consumer, and its diverse product offerings provide a competitive advantage versus monoline lenders. Its "virtual" outlets, such as those for retail and auto loans, is growing rapidly and broadens Regional's reach while still receiving support from the regional branches. These retail loans provide opportunities to cross-sell other loans to this lower-risk customer category.

**Quiet on the Regulatory Front** – Regional believes that regulators remain focused on the payday, credit card and student loan markets. There have been no signs of increased concern about installment loans.

### VALUATION:

Regional Management went public in March 2012. It seems to have escaped the curse of many of the high-profile IPOs' early performances. Based on its revenue growth, earnings and its asset valuations, it appears to be an underpriced grower.

#### Regional Management Corp. (NYSE:RM) Investment Data (as of 12/18/12)

<b>Recent Price</b>	<b>\$16.43</b>
52-Week Range	\$12.8 - \$18.27
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	12.5 M
Average Trading Volume (3 mos)	26k
Market Capitalization	\$209 M
Cash	\$4.4 M
Long-term Debt	\$260 M
Enterprise Value (EV)	\$464 M
Book Value	\$9.91
TTM Revenue	\$95.2 M
P/ Revenue	2.2x
TTM EPS	\$2.04
P/ EPS	8.21
TTM EBITDA	NA
EV/ EBITDA	NA

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## Best Idea Profile:

## Michael Baker Corporation (NYSE:BKR)

### DESCRIPTION:

Michael Baker Corporation provides engineering, design, planning and construction services for clients worldwide. It works with clients throughout the complete life cycle of infrastructure and managed asset projects. The firm's primary business areas are architecture, aviation, defense, environmental, geospatial, homeland security, municipal and civil, oil and gas, rail and transit, telecommunications and utilities, transportation, urban development and water. The Trans-Alaska Pipeline was one of Baker's signature projects. With more than 3,000 employees in over 100 offices across the United States, Baker is focused on creating value by delivering innovative and sustainable solutions for infrastructure and the environment. The Company was founded in 1940 and is located in Moon Township, Pennsylvania.

### KEY INVESTMENT CONSIDERATIONS:

**Stock is in Play** – Just days ago, management received a letter from a major shareholder urging them to accept a recent buyout offer. The stock is down more than 40% in the last five years, operating results have been substandard and the proposed turnaround may be slowed by economic and industry conditions, as well as by the departure of the CEO in mid-December. The fact that the stock has essentially already been put in play, it may prove difficult to attract a CEO that can implement the cost-cutting program the company has proposed. Although the stock has had a recent run, the stock could be worth as high as \$30 per share based on 7x normalized EBITDA for 2013.

**Big Dividend Yield and Share Repurchase Plan** – Baker recently initiated a quarterly dividend of \$0.14 per share. This would indicate a yearly dividend of \$0.58 per share and a yield of 2.3%. This amounts to \$5.4 million in annual cash dividends paid out. The board has also authorized a share repurchase program of up to \$10 million in the open market, or otherwise.

**Aggressive Cost Cutting** – Baker is already well along the way to fulfilling an aggressive plan for cutting costs. Its goal is \$18 to \$20 million in 2013. It has already replaced management and reduced head count. It created an Office of the Chief Executive, composed of the chief financial officer and the chief legal officer, to lead the Company on an interim basis. There are plans for reductions in occupancy costs, transportation expenses and other SG&A expenses.

**Focus on Organic Growth** – Management indicates it will focus on organic growth as it gets its house in order, and is not currently looking at acquisition opportunities. It believes it has addressed its strategic expansion needs through previous acquisitions and is positioned to take advantage of internal growth.

**Solid Balance Sheet** – The Company has a solid balance sheet with no long-term debt and cash of \$67 million.

### VALUATION:

Despite the stock's recent rise, the ongoing efforts by management to turn around operations will improve financial results and return value to shareholders. In addition, there is upside for shares based on the expectation that there will be continued and expanded interest in the company as an acquisition. There is already one offer on the table of \$24.25, and the likelihood of a lively auction process should the board decide that selling the Company is the best alternative for its investors. The Company generates substantial cash and has wide-ranging operations that would be attractive to an array of potential buyers.

### Michael Baker Corporation (NYSE:BKR)

Investment Data (as of 12/30/12)

<b>Recent Price</b>	<b>\$24.45</b>
52-Week Range	\$17.84 - \$27.43
Fiscal Year End	Dec
Dividend	\$0.56
Yield	2.3%
Shares Outstanding	9.65 M
Average Trading Volume (3 mos)	21k
Market Capitalization	\$233 M
Cash	\$67 M
Long-term Debt	N/A
Enterprise Value (EV)	\$165 M
Book Value	\$23.57
TTM Revenue	\$608 M
P/ Revenue	0.4x
TTM EPS	\$1.00
P/ EPS	24.3
TTM EBITDA	\$32.8 M
EV/ EBITDA	5.0x

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The goal of the Best Idea Profiles in this newsletter is to describe all of relevant investment merits and risks of a company in one page. It is not intended to be an exhaustive report including every detail of a company. With limited space available, I am forced to include only those data points that I feel are most important for subscribers to know before they begin their own due diligence. Thank you for your interest in Mossberg's Investor Digest.

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