MICHAEL BAKER CORP
Form 10-Q
August 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

Commission file number 1-6627

MICHAEL BAKER CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA	**25-0927646**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**

Airside Business Park, 100 Airside Drive,

Moon Township, PA	**15108**
(Address of principal executive offices)	**(Zip Code)**

(412) 269-6300

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

As of July 31, 2013:	
Common Stock	9,684,631 shares

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MICHAEL BAKER CORPORATION

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

MICHAEL BAKER CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - (Unaudited)

(In thousands, except per share amounts)	For the three months ended June 30, 2013	For the three months ended July 1, 2012	For the six months ended June 30, 2013	For the six months ended July 1, 2012
Revenue	**$ 146,089**	$ 155,297	**$ 290,057**	$ 306,956
Cost of work performed	**120,820**	129,789	**237,989**	257,631
Gross profit	**25,269**	25,508	**52,068**	49,325
Selling, general and administrative expenses	**17,860**	22,284	**36,951**	44,689
Operating income	**7,409**	3,224	**15,117**	4,636
Other income/(expense):				
Equity income from unconsolidated subsidiaries	**385**	1,274	**827**	1,479
Interest income	**62**	54	**103**	118
Interest (expense)/reversal, net	**(9)**	10	**301**	36
Other, net	**55**	4	**74**	33
Income before income taxes and noncontrolling interests	**7,902**	4,566	**16,422**	6,302
Provision for income taxes	**2,795**	1,659	**5,598**	2,253
Net income from continuing operations before noncontrolling interests	**5,107**	2,907	**10,824**	4,049
(Loss)/income from discontinued operations, net of tax		(236)		501
Net income before noncontrolling interests	**5,107**	2,671	**10,824**	4,550
Less: Income attributable to noncontrolling interests	**347**	223	**531**	406
Net income attributable to Michael Baker Corporation	**4,760**	2,448	**10,293**	4,144
Other comprehensive (loss)/income, net of tax:				
Unrealized (loss)/gain on investments, net of reclassification adjustments of $6, $18, $6 and $41, respectively	**(50)**	16	**(58)**	47
Foreign currency translation adjustments				43
Comprehensive income attributable to Michael Baker Corporation	**$ 4,710**	$ 2,464	**$ 10,235**	$ 4,234
Earnings per share (E.P.S.) attributable to Michael Baker Corporation				
Basic E.P.S. - Continuing operations	**$ 0.50**	$ 0.29	**$ 1.08**	$ 0.39
Diluted E.P.S. - Continuing operations	**0.49**	0.28	**1.06**	0.38
Basic E.P.S. - Net income	**0.50**	0.26	**1.08**	0.44
Diluted E.P.S. - Net income	**0.49**	0.25	**1.06**	0.43
Dividends declared per share	**$ 0.18**	$	**$ 0.34**	$

The accompanying notes are an integral part of the condensed consolidated financial statements.

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MICHAEL BAKER CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS - (Unaudited)

(In thousands, except share amounts)	As of June 30, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 70,046**	$ 77,367
Certificates of deposit	**1,500**	
Available-for-sale securities	**9,695**	
Receivables, net of allowances of $3,204 and $2,915, respectively	**96,869**	85,733
Unbilled revenues on contracts in progress	**72,726**	78,062
Prepaid expenses and other	**7,201**	7,630
Prepaid income taxes	**3,748**	3,731
Total current assets	**261,785**	252,523
Property, plant and equipment, net	**15,733**	17,286
Goodwill	**81,598**	81,598
Other intangible assets, net	**9,684**	12,765
Deferred income tax asset	**1,725**	3,125
Other long-term assets	**6,404**	6,112
Total assets	**$ 376,929**	$ 373,409
LIABILITIES AND SHAREHOLDERS INVESTMENT		
Current Liabilities		
Accounts payable	**$ 40,979**	$ 41,386
Accrued employee compensation	**23,725**	21,008
Accrued insurance	**9,211**	9,715
Billings in excess of revenues on contracts in progress	**17,974**	22,215
Deferred income tax liability	**17,707**	17,707
Other accrued expenses	**13,785**	13,513
Total current liabilities	**123,381**	125,544
Long-term Liabilities		
Deferred income tax liability	**10,126**	11,517
Other long-term liabilities	**9,970**	11,196
Total liabilities	**143,477**	148,257
Commitments and contingencies		
Shareholders Investment		
Common Stock, par value $1, authorized 44,000,000 shares, issued 10,199,521 and 10,171,664, respectively	**10,200**	10,172
Additional paid-in capital	**70,804**	69,514
Retained earnings	**157,095**	150,087
Accumulated other comprehensive loss - unrealized loss on investments	**(58)**	
Less - 525,315 and 513,227 shares of Common Stock in treasury, at cost, respectively	**(5,496)**	(5,173)
Total Michael Baker Corporation shareholders investment	**232,545**	224,600
Noncontrolling interests	**907**	552

Total shareholders investment	**233,452**		225,152
Total liabilities and shareholders investment	**$ 376,929**	$	373,409

The accompanying notes are an integral part of the condensed consolidated financial statements.

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MICHAEL BAKER CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)

(In thousands)	**For the six months ended June 30, 2013**	For the six months ended July 1, 2012
Cash Flows from Operating Activities		
Net income before noncontrolling interests	**$ 10,824**	$ 4,550
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:		
Net income from discontinued operations		(501)
Depreciation and amortization	**6,321**	8,934
Stock-based compensation	**717**	1,175
Changes in assets and liabilities:		
(Increase)/decrease in receivables	**(11,136)**	878
Decrease in unbilled revenues	**5,336**	5,166
Decrease in other net assets	**1,364**	710
(Decrease)/increase in accounts payable	**(407)**	399
Decrease in billings in excess of revenues	**(4,241)**	(2,562)
Decrease in accrued expenses and other	**(481)**	(1,571)
Net cash provided by continuing operations	**8,297**	17,178
Net cash used in discontinued operations		(25)
Net cash provided by operating activities	**8,297**	17,153
Cash Flows from Investing Activities		
Additions to property, plant and equipment	**(1,783)**	(1,427)
Cash portion of acquisitions		(1,000)
Purchase of certificates of deposit	**(2,000)**	
Purchase of available-for-sale securities	**(13,380)**	(801)
Sale of available-for-sale securities	**2,845**	13,130
Proceeds from sale of fixed assets	**147**	19
Net cash (used in)/provided by investing activities	**(14,171)**	9,921
Cash Flows from Financing Activities		
Dividends paid	**(1,545)**	
Proceeds from employee stock purchases and exercise of stock options	**555**	576
Treasury stock purchases	**(281)**	(272)
Noncontrolling interest distributions	**(176)**	(375)
Net cash used in financing activities	**(1,447)**	(71)
Net (decrease)/increase in cash and cash equivalents	**(7,321)**	27,003
Cash and cash equivalents, beginning of period	**77,367**	36,050
Cash and cash equivalents, end of period	**$ 70,046**	$ 63,053

The six months ended June 30, 2013 includes $1.7 million of non-cash financing activity for dividends payable.

The accompanying notes are an integral part of the condensed consolidated financial statements.

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MICHAEL BAKER CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

Michael Baker Corporation (the Company) was founded in 1940 and organized as a Pennsylvania corporation in 1946. Currently, through its operating subsidiaries, the Company provides engineering expertise for public and private sector clients worldwide. The Company s Transportation and Federal business segments provide a variety of services to the Company s markets. The Transportation segment provides services for Surface Transportation, Aviation and Rail & Transit markets and the Federal segment provides services for Defense, Environmental, Architecture, Geospatial Information Technology, Homeland Security, Municipal & Civil, Oil & Gas, Telecom & Utilities, Water and Urban Development markets. Among the services the Company provides to clients in these markets are program management, design-build (for which the Company provides only the design portion of services), construction management, consulting, planning, surveying, mapping, geographic information systems, architectural and interior design, construction inspection, constructability reviews, site assessment and restoration, strategic regulatory analysis and regulatory compliance.

The accompanying unaudited condensed consolidated financial statements and notes have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and with the Securities and Exchange Commission s (SEC) instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and related notes that would normally be required by GAAP for audited financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements in the Company s Annual Report on Form 10-K filed for the year ended December 31, 2012 (the Form 10-K).

The accompanying unaudited condensed consolidated financial statements include all adjustments (of a normal and recurring nature) that management considers necessary for a fair statement of financial information for the interim periods. Interim results are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2013. Activity related to the Company s former Energy segment (Baker Energy), which was divested in 2009 and previously classified as discontinued operations, is immaterial for separate disclosure and as such has been recorded as part of the Company s continuing operations, effective January 1, 2013.

The Company utilizes a 4-4-5 calendar close methodology. Under this methodology, each quarter is comprised of 13 weeks, which includes two 4-week months and one 5-week month. The 4-4-5 close methodology changes the accounting periods to month-end dates that are different than the traditional last day of the standard month end, with the exception of adjusting the beginning of the year to be January 1^{st} and the end of the year to be December 31^{st} to maintain the traditional calendar year.

2. BUSINESS SEGMENT INFORMATION

The Company s Transportation and Federal business segments reflect how executive management makes resource decisions and assesses its performance. Each segment operates under a separate management group and produces discrete financial information which is reviewed by management. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies in the Company s Form 10-K.

The Transportation segment provides services for Surface Transportation, Aviation, and Rail & Transit markets, and the Federal segment provides services for Defense, Environmental, Architecture, Geospatial Information Technology, Homeland Security, Municipal & Civil, Oil & Gas, Telecom & Utilities, Water and Urban Development markets.

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The Company evaluates the performance of its segments primarily based on operating income. The majority of Selling, General & Administrative (SG&A) expenses are allocated between the Transportation and Federal segments based on that segment s percentage of total direct labor. A portion of Corporate income and expense is not allocated to the segments.

The following tables reflect disclosures for the Company s business segments:

(In millions)	For the three months ended June 30, 2013	For the three months ended July 1, 2012	For the six months ended June 30, 2013	For the six months ended July 1, 2012
Revenues				
Transportation	**$ 80.0**	$ 83.8	**$ 155.1**	$ 164.4
Federal	**66.1**	71.5	**135.0**	142.6
Total revenues	**$ 146.1**	$ 155.3	**$ 290.1**	$ 307.0
Gross Profit				
Transportation	**$ 13.7**	$ 14.5	**$ 29.1**	$ 27.9
Federal	**11.9**	11.0	**23.3**	22.3
Corporate	**(0.3)**		**(0.3)**	(0.9)
Total gross profit	**25.3**	25.5	**52.1**	49.3
Less: SG&A				
Transportation	**(10.2)**	(12.6)	**(20.7)**	(24.8)
Federal	**(7.7)**	(9.7)	**(16.3)**	(19.9)
Total SG&A	**(17.9)**	(22.3)	**(37.0)**	(44.7)
Operating income				
Transportation	**3.5**	1.9	**8.4**	3.1
Federal	**4.2**	1.3	**7.0**	2.4
Corporate	**(0.3)**		**(0.3)**	(0.9)
Total operating income	**$ 7.4**	$ 3.2	**$ 15.1**	$ 4.6

(In millions)	As of June 30, 2013	As of December 31, 2012
Segment assets:		
Transportation	**$ 178.8**	$ 172.9
Federal	**108.0**	111.2
Corporate	**90.1**	89.3
Total	**$ 376.9**	$ 373.4

The Transportation segment had income from its unconsolidated subsidiaries of $0.4 million and $1.3 million for the three months ended June 30, 2013 and July 1, 2012, respectively, and $0.8 million and $1.5 million for the six months ended June 30, 2013 and July 1, 2012, respectively. Income from unconsolidated subsidiaries for the Federal segment was nominal for both the three and six months ended June 30, 2013 and July 1, 2012.

The Company has determined that equity investments in unconsolidated subsidiaries, interest expense, interest income and intersegment revenues are immaterial for the business segment disclosure.

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3. EQUITY INCOME FROM UNCONSOLIDATED SUBSIDIARIES

Equity income from unconsolidated subsidiaries primarily reflects the Company s ownership of 33.33% of the members equity of Louisiana TIMED Managers (LTM). LTM is a joint venture formed in September 2002 between G.E.C. Inc., Parsons Brinckerhoff Quade & Douglas, Inc. and The LPA Group Incorporated, a subsidiary of the Company, to manage a Louisiana Department of Transportation and Development transportation construction contract. Equity income from LTM for the three months ended June 30, 2013 and July 1, 2012 was $0.4 million and $1.3 million, respectively and $0.8 million and $1.5 million for the six months ended June 30, 2013 and July 1, 2012, respectively.

The following tables present summarized financial information for the Company s unconsolidated subsidiary, LTM:

	For the three months ended		For the six months ended	
(In millions)	**June 30, 2013**	July 1, 2012	**June 30, 2013**	July 1, 2012
Contract revenue earned	**$ 2.5**	$ 5.7	**$ 4.9**	$ 8.0
Gross profit	**1.3**	3.9	**2.6**	4.4
Net income	**1.3**	3.9	**2.6**	4.4

	As of	
(In millions)	**June 30, 2013**	December 31, 2012
Total assets	**$ 2.3**	$ 5.9
Total liabilities	**2.3**	5.3

As of June 30, 2013 and December 31, 2012, the Company reported no receivables or unbilled revenues on contracts in progress from LTM for work performed by the Company as a subcontractor to LTM. Revenue from LTM pursuant to such subcontract agreement was $0.1 million and $0.2 million for the three months ended June 30, 2013 and July 1, 2012, respectively, and was $0.1 million and $0.3 million for the six months ended June 30, 2013 and July 1, 2012, respectively.

4. INCOME TAXES

The Company bases its consolidated effective income tax rate for interim periods on its forecasted annual consolidated effective income tax rate, which includes estimates of the taxable income and revenue for jurisdictions in which the Company operates. Total tax expense is then allocated between continuing operations and discontinued operations for the three and six months ended July 1, 2012. The following table presents the components of the Company s provision for income taxes:

	For the three months ended		For the six months ended	
(In thousands)	**June 30, 2013**	July 1, 2012	**June 30, 2013**	July 1, 2012
Provision for/(benefit from) income taxes:				
Continuing operations	**$ 2,795**	$ 1,659	**$ 5,598**	$ 2,253
Discontinued operations		(220)		(86)
Provision for income taxes	**$ 2,795**	$ 1,439	**$ 5,598**	$ 2,167

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The Company s full-year forecasted effective income tax rate for continuing operations was 38% and 40.5% for the six months ended June 30, 2013 and July 1, 2012, respectively. The variances between the U.S. federal statutory rate of 35% and the Company s forecasted effective income tax rate for the six months ended June 30, 2013 and July 1, 2012 are primarily due to state income taxes and permanent items that are not deductible for U.S. tax purposes.

As of June 30, 2013 and December 31, 2012, the Company s reserve for uncertain tax positions totaled approximately $1.4 million and $2.3 million, respectively. The reduction of $0.9 million in reserves for uncertain tax positions resulted from a settlement with the Internal Revenue Service that occurred during the first quarter of 2013. This settlement resulted in cash payments totaling $0.6 million. Any additional changes in this reserve could impact the Company s effective tax rate in subsequent periods. The Company recognizes interest and penalties related to uncertain income tax positions in interest expense and SG&A expenses, respectively, in its unaudited Condensed Consolidated Statements of Comprehensive Income. As of June 30, 2013 and December 31, 2012, the Company s reserves for interest and penalties related to uncertain tax positions totaled approximately $0.2 million and $0.4 million, respectively.

5. AVAILABLE-FOR-SALE SECURITIES

The Company s available-for-sale securities are recorded at fair value and are primarily comprised of highly-rated U.S. Treasury, Corporate and Agency bonds and equity securities. As of June 30, 2013, the Company held available-for-sale securities of $10.5 million, which includes $0.8 million related to equity securities held in Rabbi Trusts, that are classified as long-term assets under the caption Other long-term assets in the unaudited Condensed Consolidated Balance Sheets. Interest income from the available-for-sale securities was nominal and $0.1 million for both the three and six months ended June 30, 2013 and July 1, 2012, respectively. As of December 31, 2012, the Company held no available-for-sale securities.

The following table presents the Company s debt and equity securities as of June 30, 2013:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013				
Debt securities	$ 9,749	$	$ (54)	$ 9,695
Equity securities held in Rabbi Trusts	776		(4)	772
Total	$ 10,525	$	$ (58)	$ 10,467

The following table presents the Company s maturities of available-for-sale debt securities:

(In thousands)	
Mature within one year	$ 1,049
Mature in one to five years	7,652
Mature in over five years	994
Total	**$ 9,695**

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6. FAIR VALUE MEASUREMENTS

The Financial Accounting Standards Board (FASB) guidance defines fair value as the exit price associated with the sale of an asset or transfer of a liability in an orderly transaction between market participants at the measurement date. Under this guidance, valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, this guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company s short-term and long-term investments in certificates of deposit are classified as Level 2 investments, which are valued with observable market parameters available from the financial institution that manages these securities.

Level 3 Unobservable inputs (i.e. projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of June 30, 2013, the Company held cash equivalents as investments in money market funds totaling $1.3 million, short-term and long-term investments in certificates of deposit totaling $2.0 million and available-for-sale securities in highly-rated U.S. Treasury, Corporate and Agency bonds and equity securities of $10.5 million in accounts held by major financial institutions. A portion of the available-for-sale securities related to equity securities held in Rabbi Trusts totaling $0.8 million and a portion of the certificates of deposit totaling $0.5 million are classified as long-term assets under the caption Other long-term assets in the unaudited Condensed Consolidated Balance Sheets.

While the Company believes its valuation methods used to assess the classification of financial assets within the hierarchy are appropriate, the use of different methodologies or assumptions could result in a change in a financial assets fair value tier from period to period. In such instances, a transfer would be reported at the beginning of the reporting period. There were no transfers between levels for both the three and six months ended June 30, 2013 and July 1, 2012.

The following tables present the Company s fair value hierarchy for its financial assets measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012:

		Fair Value		
(In thousands)	**Carrying Amount**	**Quoted Market Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
June 30, 2013				
Cash equivalents	$ 1,267	$ 1,267	$	$
Certificates of Deposit	2,000		2,000	
Available-for-sale securities:				
Short-term debt securities	9,695	9,695		
Long-term equity securities held in a Rabbi Trust	772	772		

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(In thousands)	Carrying Amount	Fair Value Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2012				
Cash equivalents	$ 1,000	$ 1,000	$	$

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consist of the following:

(In thousands)

Other intangible assets, net	**Transportation**	**Federal**	**Total**
Balance, January 1, 2012	$ 11,243	$ 11,664	$ 22,907
Less: Amortization	(5,475)	(4,667)	(10,142)
Balance, December 31, 2012	5,768	6,997	12,765
Less: Amortization	(1,409)	(1,672)	(3,081)
Balance, June 30, 2013	**$ 4,359**	**$ 5,325**	**$ 9,684**

(In thousands)

Goodwill	**Transportation**	**Federal**	**Total**
Balance, January 1, 2012, December 31, 2012 and June 30, 2013	**$ 59,334**	**$ 22,264**	**$ 81,598**

The Company s goodwill balance is not being amortized and goodwill is assessed for impairment at least annually. The Company performed its annual assessment of the carrying value of its goodwill during the second quarter. Based on this assessment, the Company concluded that it is not more likely than not that the fair value of the reporting units is less than the carrying value.

The following tables summarize the Company s other intangible assets balance as of June 30, 2013 and December 31, 2012:

(In thousands)	Acquisition Date Fair Value	Accumulated Amortization	Carrying Value
June 30, 2013			
Project backlog	$ 16,459	$ (15,955)	$ 504
Customer contracts and related relationships	15,460	(6,588)	8,872
Non-compete agreements	3,671	(3,465)	206
Trademark/trade name	1,110	(1,008)	102
Total	**$ 36,700**	**$ (27,016)**	**$ 9,684**

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(In thousands)	**Acquisition Date Fair Value**	**Accumulated Amortization**	**Carrying Value**
December 31, 2012			
Project backlog	$ 16,459	$ (15,764)	$ 695
Customer contracts and related relationships	15,460	(4,030)	11,430
Non-compete agreements	3,671	(3,233)	438
Trademark/trade name	1,110	(908)	202
Total	**$ 36,700**	**$ (23,935)**	**$ 12,765**

These identifiable intangible assets with finite lives are being amortized on a basis approximating the economic value derived from these assets and will be fully amortized as disclosed in the following amortization table. Amortization expense recorded on the other intangible assets balance was $1.6 million and $3.1 million for the three and six months ended June 30, 2013, respectively, and $2.5 million and $5.3 million for the three and six months ended July 1, 2012, respectively.

Estimated future amortization expense for other intangible assets as of June 30, 2013 is as follows:

(In thousands)	
For the six months ending December 31, 2013	$ 3,054
Fiscal year 2014	3,936
Fiscal year 2015	1,244
Fiscal year 2016	701
Fiscal year 2017 and beyond	749
Total	**$ 9,684**

8. COMMITMENTS & CONTINGENCIES

Commitments

The Company has certain guarantees and indemnifications outstanding which could result in future payments to third parties. These guarantees generally result from the conduct of the Company s business in the normal course.

The Company s outstanding guarantees as of June 30, 2013 were as follows:

	Maximum undiscounted future payments
Performance and payment bonds*	$ 6.1
Standby letters of credit*:	
Insurance related	4.9
Other	0.8

* *These instruments require no associated liability on the Company s Condensed Consolidated Balance Sheet.*

The Company s banks issue standby letters of credit (LOCs) on the Company s behalf under the Unsecured Credit Agreement (the Credit Agreement) as discussed more fully in the Long-Term Debt and Borrowing Agreements note. As of June 30, 2013, the majority of the balance of the Company s outstanding LOCs was issued to insurance companies to serve as collateral for the Company s deductibles. These LOCs may be drawn upon in the event that the Company does not reimburse the insurance companies for the Company s deductibles. These LOCs renew automatically on an annual basis unless either the LOCs are returned to the bank by the beneficiaries or the banks elect not to renew them.

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Bonds are provided on the Company s behalf by certain insurance carriers. The beneficiaries under these performance and payment bonds may request payment from the Company s insurance carriers in the event that the Company does not perform under the project or if subcontractors are not paid. The Company does not expect any amounts to be paid under its outstanding bonds as of June 30, 2013. In addition, the Company believes that its bonding lines will be sufficient to meet its bid and performance bonding needs for at least the next year.

In the fourth quarter of 2009, the Company divested Baker Energy and indemnified the buyer for certain legacy costs, including insurance and taxes, in excess of amounts accrued as of the transaction date. As part of the sale of Baker Energy, the buyer agreed to assume workers compensation insurance liabilities, subject to certain indemnifications, as of September 30, 2009. However, corresponding liabilities representing the reserves associated with this insurance are included in the unaudited Condensed Consolidated Balance Sheets as this insurance was written to the Company, rather than to a Baker Energy entity. As the buyer assumed the liabilities associated with this insurance as of the closing balance sheet, the Company has also recorded a corresponding receivable from the buyer representing the amount of the aggregate insurance liabilities as of September 30, 2009 for Baker Energy, less reimbursements made to the Company through June 30, 2013. As of June 30, 2013 and December 31, 2012, there were approximately $2.4 million and $2.7 million, respectively, of Baker Energy insurance liabilities primarily related to workers compensation recorded in the Company s unaudited Condensed Consolidated Balance Sheets, with corresponding receivables of approximately $1.5 million and $1.7 million as of June 30, 2013 and December 31, 2012, respectively.

Contingencies

Legal Proceedings. The Company has been named as a defendant or co-defendant in certain legal proceedings wherein damages are claimed. Such proceedings are not uncommon to the Company s business. After consultations with counsel, management believes that it has recognized adequate provisions for probable and reasonably estimable liabilities associated with these proceedings, and that their ultimate resolutions will not have a material impact on the Company s consolidated financial statements.

Defense Contract Audit Agency (DCAA) or applicable state agencies. The Company s federal and state government contracts are subject to the U.S. Federal Acquisition Regulations (FAR). All contracts with federal, state and local public agencies are subject to periodic routine audits, which generally are performed by the DCAA or applicable state or local agencies. These agencies audits typically apply to the Company s overhead rates, cost proposals, incurred government contract costs and internal control systems. During the course of its audits, the auditors may question incurred costs if it believes the Company has accounted for such costs in a manner inconsistent with the requirements of the FAR or the U.S. Cost Accounting Standards, and may recommend that certain costs be disallowed. Historically, the Company has not experienced significant disallowed costs as a result of these audits; however, management cannot provide assurance that future audits will not result in material disallowances of incurred costs. For certain cost-plus type contracts, the Company will invoice based on preliminary overhead rates; such rates are then adjusted to actual overhead rates through the audit process. The Company provides reserves for contracts for which it believes its preliminary overhead rates are in excess of its actual overhead rates. In cases where the actual overhead rates are in excess of its preliminary overhead rates, the Company does not record any amounts associated with this incremental reimbursable amount until realized, as these types of contracts frequently have clauses that cast some doubt upon ultimate realization, such as funding limitations.

Self-Insurance. Insurance coverage is obtained for catastrophic exposures, as well as those risks required to be insured by law or contract. The Company requires its insurers to meet certain minimum financial ratings at the time the coverages are placed; however, insurance recoveries remain subject to the risk that the insurer will be financially able to pay the claims as they arise. The Company is insured with respect

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to its workers compensation and general liability exposures subject to certain deductibles or self-insured retentions. Loss provisions for these exposures are recorded based upon the Company s estimates of the total liability for claims incurred. Such estimates utilize certain actuarial assumptions followed in the insurance industry.

The Company is self-insured for its primary layer of professional liability insurance through a wholly-owned captive insurance subsidiary. The secondary layer of the professional liability insurance continues to be provided, consistent with industry practice, under a claims-made insurance policy placed with an independent insurance company. Under claims-made policies, coverage must be in effect when a claim is made. This insurance is subject to standard exclusions.

The Company is self-insured with respect to its primary medical benefits program subject to individual retention limits. As part of the medical benefits program, the Company contracts with national service providers to provide benefits to its employees for medical and prescription drug services. The Company reimburses these service providers as claims related to the Company s employees are paid by the service providers.

The Company establishes reserves for insurance-related claims that are known and have been asserted against the Company, as well as for insurance-related claims that are believed to have been incurred but have not yet been reported to the Company s claims administrators as of the respective balance sheet dates. The Company includes any adjustments to such insurance reserves in its consolidated results of operations.

Reliance Liquidation. The Company s professional liability insurance coverage had been placed on a claims-made basis with Reliance Insurance Group (Reliance) for the period July 1, 1994 through June 30, 1999. In 2001, the Pennsylvania Insurance Commissioner placed Reliance into liquidation. Due to the subsequent liquidation of Reliance, the Company is currently uncertain what amounts paid by the Company to settle certain claims totaling in excess of $2.5 million will be recoverable under the insurance policy with Reliance. During the first quarter of 2012, the Company received a $1.1 million distribution from Reliance related to these claims, which is included in Cost of work performed in the unaudited Condensed Consolidated Statements of Comprehensive Income for the six months ended July 1, 2012. This distribution was not the final settlement and the Company may recover additional amounts in future periods. The Company continues to pursue a claim in the Reliance liquidation and believes that some additional recovery will result from the liquidation, but the amount of such recovery cannot currently be estimated. The Company had no related receivables recorded from Reliance as of both June 30, 2013 and December 31, 2012.

9. LONG-TERM DEBT AND BORROWING AGREEMENTS

The Company s Credit Agreement with a consortium of financial institutions provides for a revolving credit facility with an aggregate commitment of $50.0 million and a $50.0 million accordion option through September 30, 2015. The Credit Agreement includes a $5.0 million swing line facility and a $20.0 million sub-facility for the issuance of LOCs. As of June 30, 2013 and December 31, 2012, there were no borrowings outstanding under the Credit Agreement and outstanding LOCs were $5.7 million and $5.8 million, respectively.

Under the Credit Agreement, the Company pays bank commitment fees on the unused portion of the commitment, ranging from 0.20% to 0.35% per year based on the Company s leverage ratio. There were no borrowings during both the six months ended June 30, 2013 and July 1, 2012.

The Credit Agreement provides pricing options for the Company to borrow at the bank s prime interest rate or at LIBOR plus an applicable margin determined by the Company s leverage ratio based on a measure of indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA). The Credit Agreement also contains usual and customary negative covenants for a credit facility and

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requires the Company to meet minimum leverage and interest and rent coverage ratio covenants. The Credit Agreement also contains usual and customary provisions regarding acceleration. In the event of certain defaults by the Company under the Credit Agreement, the lenders will have no further obligation to extend credit and, in some cases, any amounts owed by the Company under the Credit Agreement will automatically become immediately due and payable.

10. EARNINGS PER COMMON SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

	For the three months ended		For the six months ended	
(In thousands, except per share amounts)	**June 30, 2013**	July 1, 2012	**June 30, 2013**	July 1, 2012
Net income from continuing operations before noncontrolling interests	**$ 5,107**	$ 2,907	**$ 10,824**	$ 4,049
Less: Net income attributable to noncontrolling interests	**347**	223	**531**	406
Net income from continuing operations attributable to Michael Baker Corporation	**4,760**	2,684	**10,293**	3,643
Net (loss)/income from discontinued operations, net of tax		(236)		501
Net income attributable to Michael Baker Corporation	**$ 4,760**	$ 2,448	**$ 10,293**	$ 4,144
Basic:				
Weighted average shares outstanding	**9,545**	9,373	**9,535**	9,368
Earnings per share:				
Continuing operations	**$ 0.50**	$ 0.29	**$ 1.08**	$ 0.39
Discontinued operations		(0.03)		0.05
Total	**$ 0.50**	$ 0.26	**$ 1.08**	$ 0.44
Diluted:				
Effect of dilutive securities - contingently issuable shares and stock options	**130**	250	**136**	231
Weighted average shares outstanding	**9,675**	9,623	**9,671**	9,599
Earnings per share:				
Continuing operations	**$ 0.49**	$ 0.28	**$ 1.06**	$ 0.38
Discontinued operations		(0.03)		0.05
Total	**$ 0.49**	$ 0.25	**$ 1.06**	$ 0.43

Company stock options totaling 53,890 and 54,939 for the three and six months ended June 30, 2013, respectively, and Company stock options totaling 72,000 for both the three and six months ended July 1, 2012, were excluded from the computations of diluted shares outstanding because the option exercise prices were more than the average market price of the Company s common shares.

11. STOCK-BASED COMPENSATION

As of June 30, 2013, the Company has two active equity incentive plans under which stock awards can be issued. Under the Michael Baker Corporation Long-Term Incentive Plan approved by the Company s shareholders in 2010 (the Long-Term Plan), the Company is authorized to grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance share units and other stock-based awards for an aggregate of 500,000 shares of Common Stock to employees through April 8, 2020. Under the Long-Term Plan, outstanding restricted stock awards vest in equal annual increments over three years. Under the amended 1996 Non-employee Directors Stock Incentive Plan (the Directors Plan), the Company is authorized to grant options and restricted shares for an aggregate of 400,000 shares of Common Stock to non-employee board members through February 18, 2014. The options under the Directors Plan become fully vested on the date of grant and become exercisable six months after the date of grant. The restrictions on the restricted shares under the Directors Plan lapse after two years. Under the Directors Plan, the exercise price of each option equals the average market price of the Company s stock on the date of grant. Under the Long-Term Plan and the Directors Plan, the restricted shares awarded are based on the closing price of the Company s stock on the date of the grant. Vested options remain exercisable for a period of ten years from the grant date under the plans. From the date a restricted share award is effective, the awardee will be a shareholder and have all the rights of a shareholder, including the right to vote such shares. Restricted shares may not be sold or assigned during the restriction period commencing on the date of the award.

As of June 30, 2013 and December 31, 2012, the restrictions had not lapsed on 10,500 shares and 22,500 shares, respectively, of the Company s restricted stock awarded under the Directors Plan. As of June 30, 2013 and December 31, 2012, the restrictions had not lapsed on 27,933 shares and 71,514 shares, respectively, of the Company s restricted stock awarded under the Long-Term Plan. As of both June 30, 2013 and December 31, 2012, all outstanding options were fully vested under the Directors Plan. There were 102,000 and 116,000 exercisable options under the Directors Plan as of June 30, 2013 and December 31, 2012, respectively. Unearned compensation related to restricted stock awards was approximately $0.6 million and $1.3 million as of June 30, 2013 and December 31, 2012, respectively.

The following table summarizes all restricted stock issued:

	Restricted shares	Weighted average issuance price per share
Balance at December 31, 2012	94,014	$ 26.26
Restricted shares granted	157	24.00
Restricted shares vested	(54,255)	27.65
Restricted shares forfeited	(1,483)	28.01
Balance at June 30, 2013	**38,433**	**$ 24.21**

Under the Long-Term Plan, participants may elect to withhold shares to satisfy their tax obligations related to vesting shares. Shares withheld are reflected as treasury share purchases in the accompanying unaudited Condensed Consolidated Balance Sheets. The Company purchased 10,899 and 11,611 shares aggregating to $281,000 and $272,000 related to the elections to withhold shares to satisfy the tax obligations for vested shares for the six months ended June 30, 2013 and July 1, 2012, respectively.

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The following table summarizes all stock options outstanding:

	Shares subject to option	Weighted average exercise price per share	Aggregate intrinsic value	Weighted average contractual remaining life in years
Balance at December 31, 2012	116,000	$ 28.27	$ 279,150	6.0
Exercised	(6,000)	8.55		
Forfeited	(8,000)	35.10		
Balance at June 30, 2013	**102,000**	**$ 28.89**	**$ 292,730**	**5.7**

As of June 30, 2013, 321,231 shares were available for future grants under the Long-Term Plan and 47,000 shares were available for future grants under the Directors Plan.

The following table summarizes information about stock options outstanding as of June 30, 2013:

	Options outstanding			Options exercisable	
Range of exercise prices	**Number of options**	**Average life [1]**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
$12.63	6,000	0.8	$ 12.63	6,000	$ 12.63
$20.16 - $22.95	32,000	5.8	21.59	32,000	21.59
$25.18 - $26.86	22,000	6.4	25.79	22,000	25.79
$37.23 - $40.46	42,000	6.0	38.40	42,000	38.40