BAKER MICHAEL CORP
Form 10-Q
May 11, 2001

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FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

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 incorporation or organization)	(I.R.S. Employer Identification No.)

Airport Office Park, Building 3, 420 Rouser Road, Coraopolis, 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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of May 01, 2001:

Common Stock	6,996,928 shares
Series B Common Stock	1,304,267 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The condensed consolidated financial statements which follow have been prepared by Michael Baker Corporation ("the Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Although certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, the Company believes that the disclosures are adequate to make the information presented not misleading. The statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods presented. All such adjustments are of a normal and recurring nature unless specified otherwise. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K.

This Quarterly Report on Form 10-Q, and in particular the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in Part I, contains forward looking statements concerning future operations and performance of the Company. Forward looking statements are subject to market, operating and economic risks and uncertainties that may cause the Company's actual results in future periods to be materially different from any future performance suggested herein. Factors that may cause such differences include, among others: increased competition, increased costs, changes in general market conditions, changes in anticipated levels of government spending on infrastructure, and changes in loan relationships or sources of financing. Such forward looking statements are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

MICHAEL BAKER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the three months ended	
	MARCH 31, 2001	March 31, 2000
	(In thousands)	
Total contract revenues	$92,623	$108,295
Cost of work performed	77,689	93,480

Gross profit	14,934	14,815
Selling, general and administrative expenses	10,521	10,928
Income from operations	4,413	3,887
Other income/(expense):		
Interest income	259	19
Interest expense	(174)	(400)
Other, net	26	(197)
Income before income taxes	4,524	3,309
Provision for income taxes	2,036	1,555
NET INCOME	$ 2,488	$ 1,754
BASIC AND DILUTED NET INCOME PER SHARE	$ 0.30	$ 0.21

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

MICHAEL BAKER CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	MARCH 31, 2001
	(In th
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 8,712
Short-term investments	--
Receivables	62,636
Cost of contracts in progress and estimated earnings, less billings	21,894
Prepaid expenses and other	6,685
Total current assets	99,927

PROPERTY, PLANT AND EQUIPMENT, NET	10,137
OTHER ASSETS	
Goodwill and other intangible assets, net	10,542
Litigation escrow	11,329
Other assets	4,305
Total other assets	26,176
TOTAL ASSETS	$ 136,240
LIABILITIES AND SHAREHOLDERS' INVESTMENT	
CURRENT LIABILITIES	
Current portion of long-term debt	$ 2,243
Accounts payable	22,559
Accrued employee compensation	10,695
Accrued insurance	4,777
Accrued litigation reserve	--
Income taxes payable	5,450
Other accrued expenses	21,910
Excess of billings on contracts in progress over cost and estimated earnings	1,548
Total current liabilities	69,182
OTHER LIABILITIES	
Long-term debt	47
Accrued litigation reserve	11,135
Other	2,785
Total liabilities	83,149
SHAREHOLDERS' INVESTMENT	
Common Stock, par value $1, authorized 44,000,000 shares, issued 7,288,989 and 7,265,149 shares at 3/31/01 and 12/31/00, respectively	7,289
Series B Common Stock, par value $1, authorized 6,000,000 shares, issued 1,304,385 and 1,304,927 shares at 3/31/01 and 12/31/00, respectively	1,304
Additional paid-in-capital	37,601
Retained earnings	9,147
Other comprehensive loss	(197)
Less 302,989 shares of Common Stock in treasury, at cost, at 3/31/01 and 12/31/00	(2,053)
Total shareholders' investment	53,091
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	$ 136,240

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

MICHAEL BAKER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the three months en	
	MARCH 31, 2001	March 31
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,488	$
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	1,355	
Changes in assets and liabilities:		
(Increase)/decrease in receivables and contracts in progress	(383)	
Decrease in accounts payable and accrued expenses	(268)	
Increase/(decrease) in advance billings	393	
Increase in other net assets	(658)	
Total adjustments	439	
Net cash provided by/(used in) operating activities	2,927	
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(1,129)	
Proceeds from sale of short-term investments	8,999	
Funding of litigation escrow	(11,329)	
Proceeds from sale of certain construction assets	--	
Net cash provided by/(used in) investing activities	(3,459)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	--	
Repayments of long-term debt	(5)	
Proceeds from exercise of stock options	127	
Net cash provided by financing activities	122	
Net decrease in cash and cash equivalents	(410)	
Cash and cash equivalents, beginning of year	9,122	
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 8,712	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW DATA		
Interest paid	$ 15	$
Income taxes paid	$ 1,138	$

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

MICHAEL BAKER CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE PERIOD ENDED MARCH 31, 2001
(UNAUDITED)

NOTE 1 - EARNINGS PER SHARE

Basic net income per share computations are based upon weighted averages of 8,277,281 and 8,188,789 shares outstanding for the three-month periods ended March 31, 2001 and 2000, respectively. Diluted net income per share computations are based upon weighted averages of 8,328,965 and 8,210,817 shares outstanding for the three-month periods ended March 31, 2001 and 2000, respectively. The additional shares included in diluted shares outstanding are entirely attributable to stock options.

NOTE 2 - BUSINESS SEGMENT INFORMATION

The Company changed its reportable business segments effective January 1, 2001. The three new reportable business segments are as follows:

- The Engineering segment provides a variety of services including design-build, construction management, consulting, planning, program management, surveying, mapping, geographic information systems, architectural and interior design, construction inspection, constructability reviews and software development capabilities.

- The Energy segment offers services that include training services for energy producers, operations and maintenance, turbine overhauls, mechanical services including major equipment outages, and in-shop and onsite mechanical reconditioning.

- The Non-Core segment consists of the former Buildings and Transportation construction divisions, which are currently in the process of being wound down, and the former Baker Support Services, Inc. division, which was sold effective June 1, 2000. All remaining construction activity within this segment is expected to cease during 2001.

The following tables reflect the required disclosures for the Company's segments (in millions):

	For the three months ended	
	MARCH 31, 2001	March 31, 2000
Total contract revenues:		
Engineering	$ 57.0	$ 57.6
Energy	35.1	25.6
Non-Core	0.5	25.0
Subtotal - segments	92.6	108.2
Corporate	--	0.1
Total	$ 92.6	$ 108.3

	For the three months ended	
	MARCH 31, 2001	March 31, 2000
Income/(loss) from operations without Corporate overhead allocated:		
Engineering	$ 3.6	$ 3.7
Energy	2.7	1.5
Non-Core	0.4	0.5
Subtotal - segments	6.7	5.7
Corporate/Insurance	(2.3)	(1.8)
Total	$ 4.4	$ 3.9

	MARCH 31, 2001	Dec. 31, 2000
Segment assets:		
Engineering	$ 67.7	$ 62.4
Energy	42.9	43.2
Non-Core	12.8	2.8
Subtotal - segments	123.4	108.4
Corporate/Insurance	12.8	25.0
Total	$ 136.2	$133.4

A reclassification was made to the segment asset balances as of December 31, 2000 in order to conform to the current year presentation.

NOTE 3 - LONG-TERM DEBT AND BORROWING ARRANGEMENTS

The Company has a secured credit agreement (the "Agreement") with its bank which provides for a commitment of $20 million through May 31, 2001. The commitment includes the sum of the principal amount of revolving credit loans outstanding and the aggregate face value of outstanding letters of credit. For the period June 1, 2000 through March 31, 2001, no borrowings were outstanding under the Agreement; however; letters of credit totaling $2.6 million were outstanding as of March 31, 2001.

The Agreement includes a provision that related borrowings shall be limited to 80% of eligible receivables, as therein defined. The Agreement also provides for the Company to borrow at the bank's prime interest rate or LIBOR plus 2.25%, and requires the Company to meet certain cash flow, leverage, interest coverage and tangible net worth requirements. Under the Agreement, the Company pays the bank commitment fees of 3/8% per year based on the unused portion of the commitment.

Other amounts totaling $2.3 million at March 31, 2001, and included in current portion of long-term debt and long-term debt in the accompanying Consolidated Balance Sheet, represent $2.2 million associated with the Steen acquisition, in addition to amounts due for certain equipment financed.

NOTE 4 - CONTINGENCIES

The Company has reviewed the status of contingencies outstanding at March 31, 2001. Management believes that there have been no significant changes to the information disclosed in its Annual Report on Form 10-K for the year ended December 31, 2000.

NOTE 5 - NON-CORE OPERATIONS

On January 10, 2001, the Company filed an appeal of the ADF judgment against its subsidiary, Baker Mellon Stuart Construction, Inc. ("BMSCI"), and its surety, Travelers Casualty and Surety Company of America. As a result of this appeal, the Company was required by the appellate court to place $11.3 million into an escrow account (see Note 2 of the Company's consolidated financial statements for the year ended December 31, 2000). This escrow amount reflects the $10.0 million preliminary judgment against BMSCI and post-judgment interest expense (based on an estimated 24-month appeal period) of $1.3 million. The Company will record both interest income (at a fluctuating market investment rate) and interest expense (at a rate of 6.052%, as stipulated by the appellate court) on the escrow amount until settlement.

During the first quarter of 2001, as a result of making the escrow payment, the Company recorded a long-term asset in the amount of this payment, and has also reclassified its estimated liability for the ADF judgment from other accrued expenses to long-term liabilities as of March 31, 2001. The Company currently expects its appeal of the ADF judgment to take in excess of 12 months.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

As stated in Note 2 to the accompanying financial statements, the Company changed its reportable business segments effective January 1, 2001. The following tables reflect a summary of the Company's operating results for ongoing operations and non-core businesses for the quarters ended March 31, 2001 and 2000 (in millions):

	For the Three Months Ended	
	MARCH 31, 2001	March 31, 2000
Total Contract Revenues:		
Engineering	$ 57.0	$ 57.6
Energy	35.1	25.6
Non-Core*	0.5	25.0
Subtotal - segments	92.6	108.2
Corporate	--	0.1
Total	$ 92.6	$ 108.3

	For the Three Months Ended	
	MARCH 31, 2001	March 31, 2000
Income/(Loss) from Operations:		
Engineering	$ 2.3	$ 2.8
Energy	2.2	1.2
Non-Core*	0.1	-
Subtotal - segments	4.6	4.0
Corporate/Insurance	(0.2)	(0.1)
Total	$ 4.4	$ 3.9

* The Non-Core segment consists of the former Buildings and Transportation construction divisions, which are currently in the process of being wound down, and the former Baker Support Services, Inc. division, which was sold effective June 1, 2000.

TOTAL CONTRACT REVENUES

Total contract revenues from the Company's ongoing operations (consolidated revenues less non-core) increased 11% in the first quarter of 2001 over the first quarter of 2000. Engineering revenues decreased slightly in the first quarter of 2001 as a result of weather-related delays in the initiation of certain projects. In the Energy segment, revenues increased 37% in the first quarter of 2001 as compared to the first quarter of 2000. This increase was driven by OPCO(SM), Baker Energy's Operations Consolidation Model, which contributed 34% and 18% of Baker Energy's total contract revenues for the first quarter of 2001 and 2000, respectively. The 98% reduction in total contract revenues for the Company's non-core operations reflects the wind-down of the former Buildings and Transportation construction divisions as well as the sale of Baker Support Services, Inc. ("BSSI") effective June 1, 2000.

GROSS PROFIT

Gross profit expressed as a percentage of revenues for the Company's ongoing operations increased to 15.8% in the first quarter of 2001 from 15.1% in the first quarter of 2000. Both the Engineering and Energy segments posted gross profit percentage improvements, with the Engineering segment's gross profit percentage increasing slightly to 14.6% in the first quarter of 2001 from 14.4% in the comparable period of 2000. The Energy segment's gross profit percentage increased to 18.3% in the first quarter of 2001 from 17.1% in the first quarter of 2000, primarily due to the aforementioned growth in Energy's OPCO revenues. OPCO posted a gross profit margin percentage of 21% in the first quarter of 2001 as compared to 19% in the comparable period of 2000. For the first quarter of 2000, the Company's non-core operations posted gross profit of $2.3 million (or 9.0% of the segment's total revenues) versus $0.4 million (or 86.8% of total revenues) for the comparable period of 2001. The 2000 results for non-core operations included the two former construction divisions and BSSI, while the related 2001 results reflected only the substantially completed operations of a few projects still being wound down by the two construction divisions.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses expressed as a percentage of total contract revenues for the Company's ongoing operations increased to 11.2% in the first quarter of 2001 from 10.4% in the first quarter of 2000. In the Engineering segment, selling, general and administrative expenses expressed as a percentage of total revenues increased to 10.6% in the first quarter of 2001 from 9.5% in 2000. This percentage increase is attributable to the relatively flat Engineering revenues and the combination of higher compensation-related expenses, and higher corporate overhead allocations to the Engineering (and Energy) segments due to the wind-down of the construction divisions. In the Energy segment, selling, general and administrative expenses expressed as a percentage of total revenues decreased to 12.1% in the first quarter of 2001 from 12.4% in 2000. This decrease resulted from several OPCO related contracts progressing into later stages of the OPCO model which results in an increase in revenue without a corresponding increase in overhead costs. For the non-core operations, selling, general and administrative expenses decreased significantly from $2.3 million in the first quarter of 2000 to $0.2 million in the first quarter of 2001, due to the sale of BSSI and wind-down of the two former construction divisions.

OTHER INCOME

Interest income was higher and interest expense was lower for the first quarter of 2001 as compared to the first quarter of 2000 due primarily to the Company's investment of excess cash with its bank in 2001. In addition, during the first quarter of 2000, the Company was in a net borrowed position which resulted in higher interest expense during that period. Other income was negligible for the first quarter of 2001, compared to other expense of $0.2 million for the first quarter of 2000. Unfavorably affecting the first quarter 2000 other expense amount were lower profitability associated with unconsolidated joint ventures and higher expense associated with the minority interest in the income of a consolidated Energy unit venture.

INCOME TAXES

The Company had provisions for income taxes of 45% and 47% for the first quarters of 2001 and 2000, respectively. The lower rate for 2001 reflects the Company's expectation of higher income before taxes for 2001, with most of the domestic growth coming from lower tax rate jurisdictions in the United States.

CONTRACT BACKLOG

Backlog consists of that portion of uncompleted work that is represented by signed or executed contracts. Certain of the Company's contracts with the Federal Government and other clients may be terminated at will, therefore no assurance can be given that all backlog will be realized. The Company's backlog was $507 million and $502 million at March 31, 2001 and December 31, 2000, respectively. In the Engineering segment backlog increased to $338 million from $319 million at March 31, 2001 and December 31, 2000, respectively. This

Engineering increase is primarily attributable to three new

transportation contracts awarded during the first quarter of 2001 and totaling nearly $16 million. In the Energy segment, backlog decreased to $169 million at March 31, 2001 from $183 million at December 31, 2000. The decrease in the Energy segment's backlog results from the loss of a lower margin operations and maintenance contract, changes in the scope of two other contracts and a client's sale of certain properties. With the addition of two new contracts already awarded during the second quarter, the Energy segment's backlog is currently expected to increase during the second quarter of 2001.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities improved to $2.9 million for the first quarter of 2001 from cash used in operating activities of $0.5 million for the same period in 2000. Operating cash flow for the first quarter of 2000 was abnormally and unfavorably impacted by the wind-down of the former construction divisions and the sale of certain heavy and highway construction assets and contracts.

Net cash used in investing activities was $3.5 million for the first quarter of 2001, compared to essentially a break-even for the first quarter of 2000. The net cash used in investing activities for the first quarter of 2001 reflects the funding of $11.3 million into an escrow account stipulated in connection with the Company's appeal of the ADF judgment (see Note 5 to the accompanying financial statements) and capital expenditures of $1.1 million, as partially offset by proceeds from the sale of short-term investments totaling $9.0 million. The minor amount of net cash provided by investing activities for the first quarter of 2000 included proceeds from the sale of certain heavy and highway construction assets totaling $0.7 million, as offset by capital expenditures of $0.7 million. The increase in capital expenditures resulted from the Company's purchase of computer equipment in the first quarter of 2001; such equipment was acquired under operating leases during the first quarter of 2000.

Net cash provided by financing activities totaled $0.1 million for the first quarter of 2001, compared to $0.3 million for the same period in 2000. The net cash provided by financing activities for the first quarter of 2001 resulted from the proceeds of stock option exercises, while the first quarter 2000 amount was the result of borrowings under the Company's credit agreement.

Working capital increased to $30.7 million at March 31, 2001 from $29.4 million at December 31, 2000. The current ratio was 1.44:1 at the end of the first quarter of 2001, compared to 1.37:1 at year-end 2000. The Company's current ratio improvement was primarily the result of the escrow payment and reclassification referred to in Note 5 of the accompanying financial statements.

The Company currently has a secured credit agreement with its bank, which provides for a commitment of $20 million through May 31, 2001. The commitment includes the sum of the principal amount of revolving credit loans outstanding and the aggregate face value of outstanding letters of credit. No borrowings have been outstanding since June 1, 2000; however, letters of credit totaling $2.6 million were outstanding under the agreement as of March 31, 2001.

The Company is currently in negotiations with a syndicate of banks to finalize a new credit agreement that is expected to provide up to $40 million of working capital loans. The increased facility is expected

to better position the Company for growth within its stated core businesses. While the Company currently expects to have its new credit agreement in place during the second quarter of 2001, management has also requested its current bank to extend the term of the existing credit agreement until June 30, 2001.

Short- and long-term liquidity is dependent upon appropriations of public funds for infrastructure and other government-funded projects, capital spending levels in the private sector, and the demand for the Company's services in the oil and gas markets. Additional external factors such as price fluctuations in the energy industry could affect the Company. The current federal transportation legislation (TEA-21 and AIR-21) will provide significant increases in funding for transportation infrastructure projects during the remainder of 2001 and beyond. At this time, management believes that its funds generated from operations and its pending new credit facility will be sufficient to meet its operating and capital expenditure requirements for at least the next year.

As a result of its 1999 restructuring, the Company will become increasingly less reliant on its bonding line during 2001. Management believes that its bonding line will be sufficient to meet its bid and performance needs for at least the next year. The Company has historically been required to provide bid and performance bonding on certain construction contracts, and has a $500 million bonding line available through Travelers Casualty & Surety Company of America.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary interest rate risk relates to its variable rate debt obligations, which totaled $2.2 million as of March 31, 2001. If interest rates were to change unfavorably by 10%, the Company would have no material exposure to interest rate risk. The Company has no interest rate swap or exchange agreements.

Less than 1% of the Company's total assets and total contract revenues as of and for the period ended March 31, 2001 were denominated in currencies other than the U.S. Dollar. If foreign currency exchange rates were to change unfavorably by 10%, the Company would have no material exposure to foreign currency exchange risk. The Company has no foreign currency exchange contracts.

Based on the nature of the Company's business, it has no direct exposure to commodity price risk.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(b) Reports on Form 8-K

During the quarter ended March 31, 2001, the Company filed no reports on Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MICHAEL BAKER CORPORATION

/s/ William P. Mooney   Dated: May 11, 2001

William P. Mooney
Executive Vice President and
Chief Financial Officer