BAKER MICHAEL CORP
Form 10-Q
November 09, 2001

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 SEPTEMBER 30, 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 October 31, 2001:	
Common Stock	6,981,521 shares
Series B Common Stock	1,296,780 shares

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 the regulatory environment, 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
	Sept. 30, 2001
	(In thou per sha
Total contract revenues	$ 98,387
Cost of work performed	80,914
Gross profit	17,473
Selling, general and administrative expenses	11,865
Income from operations	5,608
Other income/(expense):	
Interest income	143

Interest expense	(276)
Other, net	26
Income before income taxes	5,501
Provision for income taxes	2,554
NET INCOME	$ 2,947
BASIC NET INCOME PER SHARE	$ 0.35
DILUTED NET INCOME PER SHARE	$ 0.35

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

MICHAEL BAKER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the nine
	Sept. 30, 2001
	(In thou per sha
Total contract revenues	$ 291,247
Cost of work performed	241,709
Gross profit	49,538
Selling, general and administrative expenses	33,829
Income from operations	15,709
Other income/(expense):	
Interest income	593
Interest expense	(688)
Other, net	33
Income before income taxes	15,647
Provision for income taxes	7,119
NET INCOME	$ 8,528
BASIC NET INCOME PER SHARE	$ 1.03
DILUTED NET INCOME PER SHARE	$ 1.01

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

MICHAEL BAKER CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS	Sept. 30, 2001
	(In
CURRENT ASSETS	
Cash and cash equivalents	$ 9,801
Short-term investments	-
Receivables	71,849
Cost of contracts in progress and estimated earnings, less billings	26,531
Litigation escrow	12,710
Prepaid expenses and other	4,107
Total current assets	124,998
PROPERTY, PLANT AND EQUIPMENT, NET	9,917
OTHER ASSETS	
Goodwill and other intangible assets, net	10,059
Other assets	3,838
Total other assets	13,897
TOTAL ASSETS	$148,812
LIABILITIES AND SHAREHOLDERS' INVESTMENT	
CURRENT LIABILITIES	
Current portion of long-term debt	$ 1
Accounts payable	22,119
Accrued employee compensation	13,277
Accrued insurance	4,730
Accrued litigation reserve	11,594
Income taxes payable	6,788
Other accrued expenses	23,677
Excess of billings on contracts in progress over cost and estimated earnings	4,878
Total current liabilities	87,064
OTHER LIABILITIES	
Long-term debt	38
Other	2,721
Total liabilities	89,823
SHAREHOLDERS' INVESTMENT	

Common Stock, par value $1, authorized 44,000,000 shares, issued 7,315,604 and 7,265,149 shares at 9/30/01 and 12/31/00, respectively	7,316
Series B Common Stock, par value $1, authorized 6,000,000 shares, issued 1,296,936 and 1,304,927 shares at 9/30/01 and 12/31/00, respectively	1,297
Additional paid-in-capital	37,727
Retained earnings	15,187
Other comprehensive loss	(195)
Less 327,289 and 302,989 shares of Common Stock in treasury, at cost, at 9/30/01 and 12/31/00, respectively	(2,343)
Total shareholders' investment	58,989
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	$148,812

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 nine m
	Sept. 30, 2001
	(In
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 8,528
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:	
Depreciation and amortization	3,893
Gain on sale of BSSI	-
Changes in assets and liabilities:	
Increase in receivables and contracts in progress	(10,022)
Increase/(decrease) in accounts payable and accrued expenses	4,840
Decrease in other net assets	2,485
Total adjustments	1,196
Net cash provided by/(used in) operating activities	9,724
CASH FLOWS FROM INVESTING ACTIVITIES	
Additions to property, plant and equipment	(3,077)
Proceeds from the sale of short-term investments	8,999
Funding of litigation escrow	(12,710)
Proceeds from the sale of certain construction assets	-
Proceeds from the sale of BSSI	-
Net cash (used in)/provided by investing activities	(6,788)

CASH FLOWS FROM FINANCING ACTIVITIES	
Repayments of long-term debt	(2,256)
Payments to acquire treasury stock	(290)
Proceeds from exercise of stock options	289
Net cash used in financing activities	(2,257)
Net increase in cash and cash equivalents	679
Cash and cash equivalents, beginning of year	9,122
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 9,801
SUPPLEMENTAL DISCLOSURES OF CASH FLOW DATA	
Interest paid	$ 251
Income taxes paid	$ 1,820

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 PERIODS ENDED SEPTEMBER 30, 2001
(UNAUDITED)

NOTE 1 - EARNINGS PER SHARE

Basic net income per share computations are based upon weighted averages of 8,306,399 and 8,202,620 shares outstanding for the three-month periods, and 8,295,121 and 8,194,220 for the nine-month periods, ended September 30, 2001 and 2000, respectively. Diluted net income per share computations are based upon weighted averages of 8,490,638 and 8,257,712 shares outstanding for the three-month periods, and 8,405,159 and 8,235,761 for the nine-month periods, ended September 30, 2001 and 2000, respectively. The additional shares included in diluted shares outstanding are entirely attributable to stock options.

NOTE 2 - CAPITAL STOCK

During 1996, the Board of Directors authorized the repurchase of up to 500,000 shares of the Company's Common Stock in the open market. In the third quarter of 2001, the Company reactivated this share repurchase program and repurchased 24,300 treasury shares at market prices ranging from $11.00 to $12.35 per share, for a total price of $290,000. As of September 30, 2001, treasury shares totaling 327,289 had been repurchased since the 1996 authorization of this program.

NOTE 3 - BUSINESS SEGMENT INFORMATION

The Company has the following three reportable segments:

- 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, personnel recruitment, pre-operations engineering, maintenance management systems, field operations and maintenance, mechanical equipment maintenance and logistics management.
- 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 be finalized during 2001.

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

	For the three months ended		For the n
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2
Total contract revenues:			
Engineering	$ 60.6	$ 57.9	$ 178.8
Energy	37.8	31.8	111.9
Non-Core	-	2.6	0.5
Subtotal - segments	98.4	92.3	291.2
Corporate/Insurance	-	0.1	-
Total	$ 98.4	$ 92.4	$ 291.2

A reclassification was made to the prior year three- and nine-month segment revenues in order to conform to the current year presentation.

	For the three months ended		For the
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2
Income/(loss) from operations without corporate expenses			

allocated:			
Engineering	$ 5.1	$ 3.9	$ 14
Energy	4.1	2.3	10
Non-Core	(0.1)	(0.3)	0
Subtotal - segments	9.1	5.9	24
Corporate/Insurance	(3.5)	(1.9)	(9
Total	$ 5.6	$ 4.0	$ 15

	Sept. 30, 20
Segment assets:	
Engineering	$ 76
Energy	51
Non-Core	14
Subtotal - segments	142
Corporate/Insurance	6
Total	$ 148

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

NOTE 4 - LONG-TERM DEBT AND BORROWING ARRANGEMENTS

In September 2001, the Company entered into an unsecured credit agreement ("the Agreement") with a consortium of financial institutions. The Agreement provides for a commitment of $40 million through September 30, 2003. The commitment includes the sum of the principal amount of revolving credit loans outstanding and the aggregate face value of outstanding letters of credit. As of September 30,

2001, no borrowings were outstanding under the Agreement; however; letters of credit totaling $2.7 million were outstanding as of this date.

The Agreement provides 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. The Agreement also requires the Company to meet certain equity, leverage, interest and rent coverage, and current ratio requirements. Under the Agreement, the Company pays the bank commitment fees of 3/8% per year based on the unused portion of the commitment.

NOTE 5 - CONTINGENCIES

The Company has reviewed the status of contingencies outstanding at September 30, 2001. Except as noted below, 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.

The Company's professional liability errors and omissions insurance coverage had been placed with Reliance Insurance Group ("Reliance") for the period July 1, 1994 through June 30, 1999. On May 29, 2001, the Pennsylvania Insurance Commissioner placed Reliance into rehabilitation; and on October 3, 2001, Reliance was placed into liquidation. The Company is uncertain at this time what effect these actions will have on any claim the Company may have for insurance coverage under policies issued by Reliance with respect to past years. Currently, the Company is subject to one substantial claim which, if decided adversely to the Company, would be within the scope of an insurance policy issued by Reliance. Although the plaintiff in this case claims damages of $10-11 million, the litigation is in progress and, at this time, it is uncertain whether the Company will have any liability with respect to this claim and, if so, whether any such liability will be funded by Reliance. Based on the uncertainty associated with the Company's liability for this claim, and with Reliance's ability to fund such liability, if any, the Company has not accrued any amounts for this matter in its financial statements as of September 30, 2001.

The Company previously reported that the Company and one of its wholly-owned subsidiaries were defendants in a lawsuit brought in 1987 in the Superior Court of the State of New York, Bronx County, by the Dormitory Authority of the State of New York, asserting breach of contract and alleging damages of $13 million. In September 2001, this litigation was settled for a net payment of $1.1 million. This settlement amount had been accrued in prior years' financial statements.

NOTE 6 - NON-CORE OPERATIONS

On January 10, 2001, Baker Mellon Stuart Construction, Inc. ("BMSCI"), a subsidiary of the Company, and Travelers Casualty and Surety Company of America, BMSCI's surety, filed an appeal of the previously reported judgment by the United States District Court for the Middle District of Florida (the "Court") in favor of ADF International, Inc. ("ADF"). 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 reflected the $10.0 million principal judgment against BMSCI and post-judgment interest expense of $1.3 million. The Company will continue recording 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.

On April 6, 2001, the Court entered a judgment on ADF's claim for attorney's fees and costs in connection with the foregoing action. The Court awarded ADF $1.1 million in attorney's fees and costs, but denied ADF's claim for an additional $0.4 million in expenses. BMSCI, Travelers and ADF subsequently appealed this judgment. As a result of this appeal, the Company was required by the appellate court to place $1.2 million into an escrow account. This escrow amount reflected the $1.1 million fee and cost judgment against BMSCI and post-judgment interest expense of $0.1 million. As stated above, the Company will also continue recording both interest income and interest expense on this escrow amount until settlement.

Pursuant to the terms of the preceding escrow arrangements, interest income on the escrowed amounts up to pre-established limits will be retained in the escrow accounts as security for attorney's fees incurred by ADF in pursuing the appeals. These amounts will be paid to ADF in the event that they prevail and are awarded such fees. These pre-established limits were met during the third quarter of 2001 and totaled approximately $0.2 million at September 30, 2001.

The Company's appeals of the principal and attorney's fees judgments were consolidated and argued on November 6, 2001. The appellate court's decision is pending. The Company's asset and liability balances related to the ADF judgments are reflected as current asset and liability accounts, since management believes that the appellate court's decision will be issued within 12 months.

NOTE 7 - NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

SFAS 141 requires all business combinations completed after June 30, 2001 to be accounted for under the purchase method. This standard also establishes specific criteria for the recognition of intangible assets separate from goodwill in conjunction with business combinations completed after June 30, 2001. The Company has accounted for all past acquisitions under the purchase method, and will account for all future business combinations in accordance with SFAS 141.

Under SFAS 142, goodwill amortization will no longer be recorded once the new standard is adopted. The new rules also require an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. The Company will be required to adopt this statement effective January 1, 2002. Once adopted, annual goodwill amortization expense of approximately $0.7 million will cease, resulting in additional earnings per share of approximately $0.04 to $0.05. The Company does not expect that any impairment charge will result from the adoption of this statement.

In August 2001 and October 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") and No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), respectively.

SFAS 143 requires obligations associated with the retirement of a tangible long-lived asset to be recorded as a liability when those obligations are incurred. The Company will be required to adopt this standard effective January 1, 2003. SFAS 144 requires that long-lived assets that are to be disposed of by sale must be measured at the lower of book value or fair value less cost to sell. Adoption of this new standard will be required effective January 1, 2002. The Company does not believe that adoption of these statements will have a material impact on its financial statements.

NOTE 8 - RECLASSIFICATIONS

Certain reclassifications have been made to prior year balance sheet amounts in order to conform to the current year presentation.

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

RESULTS OF OPERATIONS

The following tables reflect a summary of the Company's operating results (excluding intercompany transactions) for ongoing operations and non-core businesses for the periods ended September 30, 2001 and 2000 (in millions):

	For the three months ended		For the nin
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001
Total contract revenues:			
Engineering	$ 60.6	$ 57.9	$ 178.8
Energy	37.8	31.8	111.9
Non-Core*	-	2.6	0.5
Subtotal - segments	98.4	92.3	291.2
Corporate/Insurance	-	0.1	-
Total	$ 98.4	$ 92.4	$ 291.2

A reclassification was made to the prior year three- and nine-month segment revenues in order to conform to the current year presentation.

	For the three months ended		For the nin
	Sept. 30, 2001	Sept. 30, 2000	Sept. 30, 2001
Income/(loss) from operations with corporate expenses allocated:			
Engineering	$ 3.6	$ 2.8	$ 9.9
Energy	3.4	1.9	8.4
Non-Core*	(1.1)	(0.3)	(1.8)
Subtotal - segments	5.9	4.4	16.5
Corporate/Insurance	(0.3)	(0.4)	(0.8)
Total	$ 5.6	$ 4.0	$ 15.7

* Non-Core operations are defined as the construction operations that are being wound down within the Buildings and Transportation units, and the Civil-BSSI 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 10% in the third quarter of 2001 over the third quarter of 2000. Energy revenues increased 19% in the third quarter of 2001 as compared to the third quarter of 2000. This increase was driven by OPCO(SM), Baker Energy's Operations Consolidation Model, which contributed 33% and 29% of Baker Energy's total contract revenues for the third quarter of 2001 and 2000, respectively, and higher revenues associated with new work in Energy's operations engineering business. Engineering revenues increased 5% in the third quarter of 2001 as a result of growth within the civil, transportation and architectural markets. The absence of revenues for the Company's non-core operations during the third quarter of 2001 again reflects the wind-down of the former Buildings and Transportation construction divisions and the sale of Baker Support Services, Inc. ("BSSI") effective June 1, 2000.

For the first nine months of 2001, total contract revenues from the Company's ongoing operations increased 13% over the corresponding period in 2000. Energy revenues increased 30% for the first nine months of 2001 as compared to the first nine months of 2000. This increase is again primarily attributable to OPCO, which contributed 32% and 25% of Baker Energy's total contract revenues for the first nine months of 2001 and 2000, respectively, and new work in Energy's operations engineering business. In the Engineering segment, revenues increased 4% during the first nine months of 2001 due primarily to growth in the civil, transportation and architectural markets, as partially offset by a decline in environmental revenues due to lower funding levels associated with the Navy CLEAN program. In addition, delays in client funding slowed the initiation of certain Engineering projects and lowered revenues for the first nine months of 2001.

GROSS PROFIT

For the Company's ongoing operations, gross profit expressed as a percentage of revenues increased to 17.9% in the third quarter of 2001 from 15.3% in the third quarter of 2000. The Energy segment's gross profit percentage increased to 20.4% in the third quarter of 2001 from 18.6% in the third quarter of 2000. OPCO contracts posted a gross profit percentage of 31% in the third quarter of 2001 as compared to 12% in the comparable period of 2000. This increased profitability resulted from improved cost efficiencies in the OPCO operations, and was further enhanced by improved profitability on operations engineering projects within the Energy segment during the third quarter of 2001. The Engineering segment posted a gross profit percentage of 16.8% in the third quarter of 2001, up from 14.0% in the comparable period of 2000. This increased profitability primarily resulted from telecommunications projects which commenced during the third quarter of 2000, an annual project award fee which was recognized during the third quarter for 2001 but during the fourth quarter for 2000, and an overall performance improvement on existing projects for 2001. Gross profit for the Company's non-core operations was a loss of $0.1 million for the third quarter of 2001 versus a loss of $0.2 million for the comparable period of 2000. Both periods' results for non-core operations included only the two former construction divisions, as the former BSSI division was sold effective June 1, 2000.

For the Company's ongoing operations, gross profit expressed as a percentage of revenues increased to 16.9% for the first nine months of 2001 from 15.2% in the comparable period of 2000. The Energy segment's gross profit percentage increased to 18.4% in the first nine months of 2001 from 17.9% in the comparable period of 2000. Over these same periods, Energy's OPCO-related gross profit percentage was 23% for the first nine months of 2001 as compared to 19% for the comparable period of 2000. The Engineering segment's gross profit percentage improved to 16.4% for the first nine months of 2001 from 14.3% in the same period of 2000. The reasons for these segments' year-to-date profitability improvements are consistent with those discussed in the preceding paragraph. For the first nine months of 2001, the Company's non-core operations posted gross profit of $0.4 million versus $3.4 million for the comparable period of 2000.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

For the Company's ongoing operations, selling, general and administrative expenses expressed as a percentage of total contract revenues increased to 11.1% in the third quarter of 2001 from 10.5% in the third quarter of 2000. In the Energy segment, selling, general and administrative expenses expressed as a percentage of total revenues decreased to 11.4% in the third quarter of 2001 from 12.6% in 2000. This decrease is attributable to the addition of O&M services to several OPCO contracts during the second half of 2000, which resulted in a 2001 revenue increase without a corresponding increase in overhead costs. This percentage decrease was partially offset by the combination of higher compensation-related expenses and higher corporate overhead allocations to both the Engineering and Energy segments due to the wind-down of the construction divisions. In the Engineering segment, selling, general and administrative expenses expressed as a percentage of total revenues increased to 10.9% in the third quarter of 2001 from 9.2% in 2000. This percentage increase is primarily attributable to the above mentioned increase in compensation-related expenses and corporate overhead allocations. For the non-core operations, selling, general and administrative expenses increased from $0.1 million in the third quarter of 2000 to $0.9 million in the third quarter of 2001. The 2001 amount entirely reflects construction-related legal spending in connection with the Company's ADF appeal and its claim against HOK, both of which are related to the Universal project. These 2001 legal costs were included in corporate overhead and allocated entirely to non-core operations.

For the first nine months of 2001, selling, general and administrative expenses for the Company's ongoing operations expressed as a percentage of related total contract revenues increased only slightly to 10.9% in the first nine months of 2001 from 10.6% in the first nine months of 2000. In the Energy segment, selling, general and administrative expenses expressed as a percentage of total revenues decreased to 10.9% in the first nine months of 2001 from 13.0% in 2000. The Engineering segment's selling, general and administrative expenses expressed as a percentage of total revenues increased to 10.8% for the first nine months of 2001 from 9.3% in the corresponding period of 2000. The reasons for both segments' percentage variances are discussed in the preceding paragraph. For the non-core operations, selling, general and administrative expenses decreased from $3.5 million in the first nine months of 2000 to $2.2 million in the first nine months of 2001, due to the sale of BSSI and wind-down of the two former construction divisions. As discussed in the preceding paragraph, these 2001 selling, general and administrative expenses relate entirely to legal costs included as corporate overhead and allocated to non-core operations.

OTHER INCOME

Interest income was slightly higher for the third quarter of 2001 as compared to the third quarter of 2000 due primarily to interest earned on the money placed in escrow for the appeal of the ADF judgments. Interest expense was higher for the third quarter of 2001 as compared to the third quarter of 2000 due to the Company's recording of interest expense associated with the ADF escrow. Other income was negligible for the third quarter of 2001, compared to other income of $0.2 million for the third quarter of 2000. The 2000 amount primarily reflected a non-core gain associated with the sale of certain construction equipment.

Interest income was higher and interest expense was lower for the first nine months of 2001 as compared to the first nine months of 2000 for the same reasons as discussed in the preceding paragraph. In addition, during the first five months of 2000 (i.e., prior to the sale of BSSI), the Company was in a net borrowed position which resulted in higher interest expense under its credit agreement during that period. Other income was again negligible for the first nine months of 2001 versus $1.0 million for the first nine months of 2000. The more significant components of other income for the first nine months of 2000 were a gain of $2.2 million from the sale of BSSI, as offset by non-core charges totaling $1.0 million related to the above mentioned sale of certain construction equipment.

As discussed in Note 6 to the accompanying financial statements, 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 ADF escrow amount until settlement. If investment rates continue to fall during 2001, the Company's net interest expense on the escrow funds will continue to increase.

INCOME TAXES

During the third quarter of 2001, the Company increased its year-to-date effective rate for income taxes from 45% to 45.5%. This increase reflects a slightly less favorable mix of estimated domestic and foreign taxable income for the year ending December 31, 2001. During the third quarter of 2000, the Company reduced its year-to-date effective tax rate from 47% to 46%. This adjustment reflected a more favorable domestic mix of the estimated 2000 taxable income for the Company's subsidiaries. The slightly lower year-to-date effective rate of 45.5% for 2001 (versus 46% in 2000) primarily results from the Company's expectation of higher domestic income before taxes for 2001.

CONTRACT BACKLOG

	September 30, 2001

Engineering	$ 382.1
Energy	157.7
Non-Core	-
Total	$ 539.8

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, or option years may not be exercised; therefore, no assurance can be given that all backlog will be realized.

Among the more significant new work added during the third quarter of 2001 was a contract to provide environmental master planning and engineering services for $25 million in the Engineering segment. The overall decrease in the Energy segment's backlog results from the loss of a lower margin operations and maintenance contract and an international manpower contract, changes in the scope of two other contracts, a client's sale of certain properties, and a reduction associated with a West African operations and maintenance contract.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities improved to $9.7 million for the first nine months of 2001 from net cash used in operating activities of $2.2 million for the same period in 2000. Operating cash flow for the first nine months 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 $6.8 million for the first nine months of 2001, compared to net cash provided by investing activities of $12.5 million for the first nine months of 2000. The net cash used in investing activities for the first nine months of 2001 reflects the funding of $12.7 million into an escrow account stipulated in connection with the Company's appeal of the ADF judgment (see Note 6 to the accompanying financial statements) and capital expenditures of $3.1 million, as partially offset by proceeds from the sale of short-term investments totaling $9.0 million. The net cash provided by investing activities for the first nine months of 2000 included proceeds from the sale of BSSI and certain heavy and highway construction assets totaling $13.9 million and $0.7 million, respectively, as offset by capital expenditures of $2.2 million. The increase in capital expenditures resulted primarily from the Company's expansion of certain offices and its related purchases of office equipment during the first nine months of 2001. In addition, the Company purchased computer equipment during 2001, but acquired similar computer equipment under operating leases during 2000.

Net cash used in financing activities totaled $2.3 million for the first nine months of 2001, compared to net cash used in financing activities of $9.9 million for the same period in 2000. The net cash used in financing activities for the first nine months of 2001 primarily reflects a final payment of $2.2 million on a seller note associated with the 1999 Steen acquisition. Pursuant to the Company's stock repurchase program, the Company paid $0.3 million to acquire 24,300 additional treasury shares during the third quarter of 2001. The net cash used in financing activities for the first nine months of 2000 resulted from the Company's repayment of its outstanding borrowings under its credit agreement.

Working capital increased to $37.9 million at September 30, 2001 from $29.4 million at December 31, 2000. The current ratio was 1.44:1 at the end of the third quarter of 2001, compared to 1.35:1 at year-end 2000. These changes are principally attributable to an increase in unbilled revenues in both the Engineering and Energy segments. In addition to the Company's higher volumes in 2001, this increase also reflects situations where the Company's Engineering and Energy segments have provided services and recognized costs, but the contract execution is pending and/or the contract revenue recognition has been delayed until the related contracts and change orders have been fully documented with the clients. The other factor impacting working capital and the current ratio for the first nine months of 2001 was the reclassification of the Company's litigation escrow and reserve accounts from long-term to current assets and liabilities, as discussed in Note 6 to the accompanying financial statements. This reclassification had the effect of increasing working capital while slightly reducing the current ratio.

In September 2001, the Company entered into an unsecured credit agreement with a consortium of financial institutions. The Agreement provides for a commitment of $40 million through September 30, 2003. The commitment includes the sum of the principal amount of revolving credit loans outstanding and the aggregate face value of outstanding letters of credit. As of September 30, 2001, no borrowings

were outstanding under the agreement; however; letters of credit totaling $2.7 million were outstanding as of this date.

The Company's professional liability errors and omissions insurance coverage had been placed with Reliance Insurance Group ("Reliance") for the period July 1, 1994 through June 30, 1999. On May 29, 2001, the Pennsylvania Insurance Commissioner placed Reliance into rehabilitation; and on October 3, 2001, Reliance was placed into liquidation. The Company is uncertain at this time what effect these actions will have on any claim the Company may have for insurance coverage under policies issued by Reliance with respect to past years. Currently, the Company is subject to one substantial claim which, if decided adversely to the Company, would be within the scope of an insurance policy issued by Reliance. Although the plaintiff in this case claims damages of $10-11 million, the litigation is in progress and, at this time, it is uncertain whether the Company will have any liability with respect to this claim and, if so, whether any such liability will be funded by Reliance. Based on the uncertainty associated with the Company's liability for this claim, and with Reliance's ability to fund such liability, if any, the Company has not accrued any amounts for this matter in its financial statements as of September 30, 2001.

Short- and long-term liquidity is dependent upon appropriations of public funds for infrastructure and other government-funded projects, the demand for the Company's services in the oil and gas markets, and capital spending levels in the private sector. 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 continue to 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 new credit facility will be sufficient to meet its operating and capital expenditure requirements for at least the next year.

The Company has a $500 million bonding line available through Travelers Casualty & Surety Company of America. Management believes that this line will be sufficient to meet its bid and performance bonding needs for at least the next year.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statements of

Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"), and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142").

SFAS 141 requires all business combinations completed after June 30, 2001 to be accounted for under the purchase method. This standard also establishes specific criteria for the recognition of intangible assets separate from goodwill in conjunction with business combinations completed after June 30, 2001. The Company has accounted for all past acquisitions under the purchase method, and will account for all future business combinations in accordance with SFAS 141.

Under SFAS 142, goodwill amortization will no longer be recorded once the new standard is adopted. The new rules also require an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. The Company will be required to adopt this statement effective January 1, 2002. Once adopted, annual goodwill amortization expense of approximately $0.7 million will cease,

resulting in additional earnings per share of approximately $0.04 to $0.05. The Company does not expect that any impairment charge will result from the adoption of this statement.

In August 2001 and October 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143") and No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), respectively.

SFAS 143 requires obligations associated with the retirement of a tangible long-lived asset to be recorded as a liability when those obligations are incurred. The Company will be required to adopt this standard effective January 1, 2003. SFAS 144 requires that long-lived assets that are to be disposed of by sale must be measured at the lower of book value or fair value less cost to sell. Adoption of this new standard will be required effective January 1, 2002. The Company does not believe that adoption of these statements will have a material impact on its financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary interest rate risk relates to its variable-rate investments and debt obligations. While its variable-rate debt obligations were negligible as of September 30, 2001, the Company's litigation escrow (investment) balance totaled $12.7 million as of this date. If interest rates on investments or borrowings 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 periods ended September 30, 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

(a) The following exhibits are included herewith as a part of this Report:

Exhibit No.	Description
10.3	Loan Agreement dated September 5, 2001, by and between the Registrant and Mellon Bank, N.A., National City Bank of Pennsylvania, and Fifth Third Bank (schedules and exhibits omitted), filed herewith.

(b) Reports on Form 8-K

During the quarter ended September 30, 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: November 9, 2001

William P. Mooney
Executive Vice President and
Chief Financial Officer

/s/ Craig O. Stuver Dated: November 9, 2001

Craig O. Stuver
Senior Vice President, Corporate Controller
and Treasurer (Principal Accounting Officer)