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BAKER MICHAEL CORP
Form 10-Q/A
August 15, 2006

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

FORM 10-Q/A
(AMENDMENT NO. 1)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005

Commission file number 1-6627

MICHAEL BAKER CORPORATION
(Exact name of registrant as specified in its charter)

PENNSYLVANIA
(State or other jurisdiction of
incorporation or organization)

25-0927646
(I.R.S. Employer
Identification No.)

Airside Business Park, 100 Airside Drive, Moon Township, PA
(Address of principal executive offices)

15108
(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 No
--- ---

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act.)

Large accelerated filer --- Accelerated filer Non-accelerated filer ---

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.)

Yes --- No
--- ---

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

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As of April 30, 2005:

Common Stock 8,559,922 shares

EXPLANATORY NOTE

In this Form 10-Q/A, the terms "we," "us," or "our" refer to Michael Baker Corporation and its subsidiaries.

In connection with preparing our second quarter 2005 condensed consolidated financial statements, management identified errors in our accounting for income taxes in our Energy segment's Nigerian operations. We also concluded that we had not properly recorded an incurred but not reported ("IBNR") liability for certain self-insured professional liability losses. Subsequently, we identified additional errors related to underaccrued and underpaid international and state income, payroll and other indirect taxes, our improper accounting for a project claim settlement, and certain vehicle and equipment leases that should have been accounted for as capital leases, and stated that all errors would be corrected in our restated consolidated financial statements to be included in an amended Form 10-Q for the first quarter of 2005, our Form 10-Q filings for the second and third quarters of 2005, and our 2005 Form 10-K.

As discussed in Note 1 to the accompanying condensed consolidated financial statements, we are filing this Amendment No. 1 on Form 10-Q/A to our Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2005, which was originally filed with the Securities and Exchange Commission ("SEC") on May 10, 2005, to reflect the restatement of our condensed consolidated statements of income for the three months ended March 31, 2005 and 2004; our condensed consolidated balance sheets at March 31, 2005 and December 31, 2004 and our condensed consolidated statements of cash flows for the three months ended March 31, 2005 and 2004; and the related notes.

Although this Form 10-Q/A contains the Original Form 10-Q in its entirety, it amends and restates only Items 1, 2 and 4 of Part I and Exhibits 31.1, 31.2 and 32.1 referred to in Item 6 of Part II of the Original Form 10-Q. No other information in the Original Form 10-Q is hereby amended.

Except for the amended information referred above, this Form 10-Q/A continues to speak as of May 10, 2005 and we have not updated or modified the disclosures herein for events that occurred at a later date. Forward-looking statements made in the original filing have not been revised to reflect events, results or developments that have become known to us since the date of the original filing (other than the restatement) and should be read in their historical context. Events occurring after the date of the Original Form 10-Q, and other disclosures necessary to reflect subsequent events, will be addressed in our second and third quarter 2005 Forms 10-Q and our 2005 Form 10-K, which are being filed concurrently with this Form 10-Q/A; and/or in other reports filed with the SEC subsequent to the date of the Original Form 10-Q.

-1-

PART I. FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

In this Form 10-Q/A, the terms "we," "us," or "our" refer to Michael Baker Corporation and its subsidiaries.

We have prepared the condensed consolidated financial statements which follow, 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 accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, we believe 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, except those described in Note 1 resulting from the restatement. These condensed consolidated financial statements should be read in conjunction with our Reports on Form 8-K dated January 26, 2006 and June 1, 2006, as well as the consolidated financial statements and notes thereto included in our concurrent filings on Forms 10-Q for the second and third quarters of 2005 and our 2005 Annual Report on Form 10-K.

-2-

MICHAEL BAKER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the three months ended	
	MARCH 31, 2005 (AS RESTATED - SEE NOTE 1)	March 31, 2004 (As Restated - See Note 1)
	(In thousands, except per share amounts)	
Total contract revenues	\$144,195	\$125,328
Cost of work performed	121,820	104,550
	-----	-----
Gross profit	22,375	20,778
Selling, general and administrative expenses	15,520	16,231
	-----	-----
Income from operations	6,855	4,547
Other income/(expense):		
Interest income	45	5
Interest expense	(367)	(413)
Other, net	99	290
	-----	-----
Income before income taxes	6,632	4,429
Provision for income taxes	3,777	2,594
	-----	-----
NET INCOME	\$ 2,855	\$ 1,835
Other comprehensive loss, net of tax - Reclassification of accumulated unrealized gain on		

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sale of marketable securities included in net income	--	(109)
Foreign currency translation adjustments	(34)	(17)
	-----	-----
COMPREHENSIVE INCOME	\$ 2,821	\$ 1,709
	=====	=====
BASIC NET INCOME PER SHARE	\$ 0.33	\$ 0.22
DILUTED NET INCOME PER SHARE	\$ 0.33	\$ 0.22
	=====	=====

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

-3-

MICHAEL BAKER CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	MAR. 31, 2005 (AS RESTATED - SEE NOTE 1)	Dec. (As Re See
	-----	-----
	(In thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,283	\$ 1
Receivables, net	91,206	7
Unbilled revenues on contracts in progress	74,506	7
Prepaid expenses and other	8,261	1
	-----	-----
Total current assets	185,256	18
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET	18,837	1
OTHER ASSETS		
Goodwill and other intangible assets, net	8,876	
Other assets	6,856	
	-----	-----
Total other assets	15,732	1
	-----	-----
TOTAL ASSETS	\$219,825	\$21
	=====	=====
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Accounts payable	\$ 52,639	\$ 4
Accrued employee compensation	28,297	3
Accrued insurance	9,211	
Other accrued expenses	26,894	2
Billings in excess of revenues on contracts in progress	9,615	
Deferred tax liability	11,957	1
	-----	-----
Total current liabilities	138,613	13
	-----	-----
OTHER LIABILITIES		
Other liabilities	3,060	
Commitments and contingencies	--	

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Total liabilities	----- 141,673 -----	----- 14 -----
SHAREHOLDERS' INVESTMENT		
Common Stock, par value \$1, authorized 44,000,000 shares, issued 8,939,159 and 8,910,371 shares at 3/31/05 and 12/31/04, respectively	8,939	4
Additional paid-in-capital	41,233	4
Retained earnings	32,143	2
Accumulated other comprehensive loss	(1,163)	(
Unearned compensation expense	(47))
Less - 391,237 shares of Common Stock in treasury, at cost, at 3/31/05 and 12/31/04.	(2,953)	(
Total shareholders' investment	----- 78,152 -----	----- 7 -----
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$219,825 =====	\$21 =====

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

-4-

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

	For the three months en	
	MARCH 31, 2005 (AS RESTATED - SEE NOTE 1)	March 31, (As Resta See Not
	-----	-----
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,855	\$ 1,8
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:		
Depreciation and amortization	1,251	1,2
Changes in assets and liabilities:		
Increase in receivables and contracts in progress	(12,400)	(4,4
(Decrease)/increase in accounts payable and accrued expenses	(705)	11,3
Decrease in other net assets	3,449	2,3
Total adjustments	----- (8,405) -----	----- 10,4 -----
Net cash (used in)/provided by operating activities	(5,550)	12,2
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(715)	(4
Net cash used in investing activities	----- (715) -----	----- (4 -----
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase/(decrease) in cash overdrafts	2,086	(1,1

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Payments for capital lease obligations	(150)	(
Repayments of long-term debt	--	(9,6
Proceeds from the exercise of stock options	141	
	-----	-----
Net cash provided by/(used in) financing activities	2,077	(10,7
	-----	-----
Net (decrease)/increase in cash and cash equivalents	(4,188)	1,0
Cash and cash equivalents, beginning of year	15,471	9,1
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,283	\$ 10,1
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW DATA		
Interest paid	\$ 30	\$ 1
Income taxes paid	\$ --	\$ 3
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Vehicles and equipment acquired through capital lease obligations	\$ 297	\$
Equipment acquired on credit	\$ 13	\$
	=====	=====

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

-5-

MICHAEL BAKER CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE PERIOD ENDED MARCH 31, 2005
(UNAUDITED)

NOTE 1 - RESTATEMENT OF FINANCIAL STATEMENTS

We have restated the accompanying condensed consolidated financial statements to correct the accounting errors described below. The following table presents the impact of the restatement on our net income and diluted earnings per share for the three-month periods ended March 31, 2005 and 2004 (amounts in thousands, except earnings per share). For ease of comparison, the items in the below table are presented in the order in which they will appear in our 2005 consolidated financial statements.

	Three months ended March 31			
	2005		2004	
	Amount	Diluted EPS	Amount	Diluted EPS
	-----	-----	-----	-----
Net income as originally reported	\$ 3,456	\$0.40	\$ 3,098	\$0.37
Restatement items, pre-tax:				
Penalties and interest on taxes (1)	(435)		(404)	
Domestic sales and use taxes (2)	(393)		(335)	
International payroll taxes (3)	(276)		(484)	
International value added taxes (4)	(145)		(231)	
Minority interest adjustments (5)	(102)		(138)	
Sale of marketable securities (6)	--		(145)	

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Unrecorded capital leases (7)	(4)		(2)	
Revenue for reimbursable taxes (8)	232		323	
Incentive compensation adjustment (9)	2,295		--	
Project claim settlement (10)	(499)		--	
	-----		-----	
Subtotal pre-tax adjustments	673		(1,416)	
	-----		-----	
International income taxes (11)	(155)		(353)	
Income tax effects on the above (12)	(1,119)		506	
	-----	-----	-----	-----
Net income as restated	\$ 2,855	\$0.33	\$ 1,835	\$0.22
	=====	=====	=====	=====

Our accompanying condensed consolidated financial statements for the first quarter of 2005 and 2004 are being restated to correct the following errors:

- (1) The underaccrual of estimated penalties and interest related to the underpayment of international income, payroll, and value added taxes and domestic sales and use taxes by certain wholly-owned Energy segment subsidiaries, as noted in items (2)-(4) and (11) below.
 - (2) The underaccrual of domestic sales and use taxes by one of our wholly-owned Energy segment subsidiaries.
 - (3) The underaccrual of international payroll taxes by a wholly-owned Energy subsidiary related to employees working on international projects.
 - (4) The underaccrual of international value added taxes by certain wholly-owned Energy segment subsidiaries.
 - (5) Adjustments related to minority interest balances recorded by our majority-owned Nigerian subsidiary. These adjustments are related to valuation allowances recorded against prepaid income tax asset balances that are referred to in item (11) below.
- 6-
- (6) Failure to record an adjustment related to the demutualization of an insurance company (which had previously provided us with coverage), from which shares of stock were received and subsequently sold. The shares were not valued and recorded as an asset when received in 2000, unrealized gains and losses were not recorded as other comprehensive income during the holding period, and the entire amount of sale proceeds was improperly recorded as a gain when sold in the first quarter of 2004.
 - (7) Unrecorded capital lease assets and obligations related to leased equipment and vehicles. These adjustments also resulted in additional capital lease assets and related capital lease obligations totaling \$1.3 million being recorded as of March 31, 2005.
 - (8) Adjustments to record additional revenue related to certain income, payroll and value added taxes (as discussed in items (3) and (4) above and item (11) below) which are reimbursable by a customer pursuant to terms of the related contract.
 - (9) An adjustment to reduce our long-term incentive compensation plan expense for the impact the restatement had on reducing net income. Because a key element of our plan is our financial results, these incentive compensation amounts were not subsequently paid.

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- (10) Failure to properly record a non-routine accounting adjustment related to a self-insured project claim settlement.
- (11) The underaccrual of international income taxes by certain wholly-owned Energy segment subsidiaries. Additionally, we recorded valuation allowances against the prepaid income tax asset balances recorded in prior periods by a majority-owned Nigerian subsidiary, which valuation allowances should have been previously recorded based on our inability to realize these assets.
- (12) The incremental effects of all foregoing restatement adjustments on the provision for income taxes in our Consolidated Statements of Income, as well as certain other adjustments that we determined to be necessary when the restated income tax provisions were prepared, such as the balance sheet effect on paid-in capital of the windfall tax benefits associated with stock option exercises.

-7-

MICHAEL BAKER CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the three months ended			
	March 31, 2005		March 31, 2004	
	As Originally Reported	As Restated	As Originally Reported	As Restated
Total contract revenues	\$143,963	\$144,195	\$125,005	\$125,328
Cost of work performed	121,046	121,820	104,064	104,550
Gross profit	22,917	22,375	20,941	20,778
Selling, general and administrative expenses	17,194	15,520	15,556	16,231
Income from operations	5,723	6,855	5,385	4,547
Other income/(expense):				
Interest income	45	45	5	5
Interest expense	(10)	(367)	(118)	(413)
Other, net	201	99	573	290
Income before income taxes	5,959	6,632	5,845	4,429
Provision for income taxes	2,503	3,777	2,747	2,594
NET INCOME	\$ 3,456	\$ 2,855	\$ 3,098	\$ 1,835
Other comprehensive loss, net of tax -				
Reclassification of accumulated unrealized gain on sale of marketable securities included in net income	--	--	--	(109)
Foreign currency translation adjustments	(19)	(34)	(9)	(17)

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COMPREHENSIVE INCOME	\$ 3,437	\$ 2,821	\$ 3,089	\$ 1,709
BASIC NET INCOME PER SHARE	\$ 0.41	\$ 0.33	\$ 0.37	\$ 0.22
DILUTED NET INCOME PER SHARE	\$ 0.40	\$ 0.33	\$ 0.37	\$ 0.22

-8-

MICHAEL BAKER CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2005		December
	As Originally Reported	As Restated	As Originall Reported
	(In thousands)		
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 11,283	\$ 11,283	\$ 15,471
Receivables, net	91,206	91,206	79,559
Unbilled revenues on contracts in progress	72,200	74,506	71,280
Prepaid expenses and other	9,322	8,261	12,941
Total current assets	184,011	185,256	179,251
PROPERTY, PLANT AND EQUIPMENT, NET	17,528	18,837	17,879
OTHER ASSETS			
Goodwill and other intangible assets, net	8,876	8,876	8,947
Other assets	6,244	6,856	5,667
Total other assets	15,120	15,732	14,614
TOTAL ASSETS	\$216,659	\$219,825	\$211,744
LIABILITIES AND SHAREHOLDERS' INVESTMENT			
CURRENT LIABILITIES			
Accounts payable	\$ 52,162	\$ 52,639	\$ 48,326
Accrued employee compensation	26,251	28,297	27,278
Accrued insurance	8,633	9,211	9,180
Other accrued expenses	23,872	26,894	13,484
Billings in excess of revenues on contracts in progress	9,615	9,615	9,705
Deferred tax liability	--	11,957	11,145
Total current liabilities	120,533	138,613	119,118
OTHER LIABILITIES			
Other liabilities	5,621	3,060	6,094
Commitments and contingencies	--	--	--
Total liabilities	126,154	141,673	125,212
SHAREHOLDERS' INVESTMENT			

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Common stock	8,939	8,939	8,910
Additional paid-in-capital	40,503	41,233	40,000
Retained earnings	45,225	32,143	41,769
Unearned compensation	(46)	(47)	(65)
Accumulated other comprehensive loss	(1,163)	(1,163)	(1,129)
Less - Treasury stock	(2,953)	(2,953)	(2,953)
	-----	-----	-----
Total shareholders' investment	90,505	78,152	86,532
	-----	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$216,659	\$219,825	\$211,744
	=====	=====	=====

-9-

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

	For the three months ended		
	March 31, 2005		March
	(In thousands)		
	As Originally Reported	As Restated	As Originall Reported
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 3,456	\$ 2,855	\$ 3,098
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:			
Depreciation and amortization	1,129	1,251	1,160
Changes in assets and liabilities:			
Increase in receivables and contracts in progress	(12,667)	(12,400)	(4,172)
(Decrease)/increase in accounts payable and accrued expenses	(1,045)	(705)	9,976
Decrease in other net assets	3,440	3,449	2,172
	-----	-----	-----
Total adjustments	(9,143)	(8,405)	9,136
	-----	-----	-----
Net cash (used in)/provided by operating activities	(5,687)	(5,550)	12,234
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	(728)	(715)	(455)
	-----	-----	-----
Net cash used in investing activities	(728)	(715)	(455)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(decrease) in book overdrafts	2,086	2,086	(1,122)
Repayments of long-term debt	--	--	(9,622)
Payments for capital lease obligations	--	(150)	--
Proceeds from the exercise of stock options	141	141	16
	-----	-----	-----
Net cash provided by/(used in) financing activities	2,227	2,077	(10,728)

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Net (decrease)/increase in cash and cash equivalents	(4,188)	(4,188)	1,051
Cash and cash equivalents, beginning of year	15,471	15,471	9,126
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,283	\$ 11,283	\$ 10,177

-10-

These restatement adjustments had the following effects on our opening balances within shareholders' investment as of January 1, 2004:

	As Previously Reported	Adjustments	As Restated
Additional paid-in capital	\$38,298	\$ 236	\$38,534
Retained earnings	\$29,477	\$ (8,583)	\$20,894
Accumulated other comprehensive loss	\$ (912)	\$ 109	\$ (803)
Total shareholders' investment	\$72,581	\$ (8,238)	\$64,343

NOTE 2 - EARNINGS PER SHARE

The following table summarizes our weighted average shares outstanding for the quarters ended March 31, 2005 and 2004. The additional shares included in diluted shares outstanding are entirely attributable to stock options.

	2005	2004
Weighted average shares outstanding		
Basic	8,524,149	8,320,417
Diluted	8,726,788	8,444,460

As of March 31, 2005, we did not have stock options which were not included in the computations of diluted shares outstanding because the option exercise prices were less than the average market prices of our common shares. In comparison, we had 194,096 stock options outstanding as of March 31, 2004, which were not included in the computation of diluted shares outstanding for the three-month period then ended because the option exercise prices were greater than the average market prices of the common shares.

NOTE 3 - BUSINESS SEGMENT INFORMATION

Our business segments reflect how management makes resource decisions and assesses its performance. Our Non-Core segment is considered to be fully wound down. Accordingly, we reclassified the 2004 activity (in the table which follows) to Corporate/Insurance expense to reflect this change. Effective January 1, 2005, we have the following two reportable segments:

- Our Engineering segment provides a variety of design and related consulting

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services. Such services include program management, design-build, construction management, consulting, planning, surveying, mapping, geographic information systems, architectural and interior design, construction inspection, constructability reviews, site assessment and restoration, strategic regulatory analysis, regulatory compliance, and advanced management systems.

- Our Energy segment provides a full range of services for operating energy production facilities worldwide. These services range from complete outsourcing solutions to specific services such as training, personnel recruitment, pre-operations engineering, maintenance management systems, field operations and maintenance, procurement, and supply chain management. Many of these service offerings are enhanced by the utilization of this segment's Managed Services operating model as a service delivery method. Our Energy segment serves both major and smaller independent oil and gas producing companies, but does not pursue exploration opportunities for our own account or own any oil or natural gas reserves.

-11-

We evaluate the performance of our segments primarily based on operating income before Corporate overhead allocations. Corporate overhead includes functional unit costs related to finance, legal, human resources, information technology and communications, and is allocated between our Engineering and Energy segments based on a three-part formula comprising revenues, assets and payroll.

The following table reflects the required disclosures for our reportable segments (in millions):

TOTAL CONTRACT REVENUES/INCOME FROM OPERATIONS

	For the three months ended	
	RESTATED MARCH 31, 2005	Restated March 31, 2004
ENGINEERING		
Revenues	\$ 93.9	\$ 74.9
Income from operations before Corporate overhead	11.3	7.1
Less: Corporate overhead	(2.8)	(2.7)
	-----	-----
Income from operations	\$ 8.5	\$ 4.4
	-----	-----
ENERGY		
Revenues	\$ 50.3	\$ 50.4
Income from operations before Corporate overhead	--	1.6
Less: Corporate overhead	(1.1)	(1.2)
	-----	-----
(Loss)/income from operations	(1.1)	0.4
	-----	-----
TOTAL REPORTABLE SEGMENTS		
Revenues	144.2	125.3
Income from operations before Corporate overhead	11.3	8.7
Less: Corporate overhead	(3.9)	(3.9)
	-----	-----
Income from operations	7.4	4.8

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Other Corporate/Insurance expense	----- (0.5)	----- (0.3)
TOTAL COMPANY - INCOME FROM OPERATIONS	----- \$ 6.9 =====	----- \$ 4.5 =====

	RESTATED MARCH 31, 2005 -----	Restated Dec. 31, 2004 -----
Segment assets:		
Engineering	\$123.8	\$113.7
Energy	81.6	71.8
	-----	-----
Subtotal - segments	205.4	185.5
Corporate/Insurance	14.4	29.5
	-----	-----
Total	\$219.8	\$215.0
	=====	=====

-12-

NOTE 4 - LONG-TERM DEBT AND BORROWING ARRANGEMENTS

We have an unsecured credit agreement ("the Agreement") with a consortium of financial institutions. The Agreement provides for a commitment of \$60 million through September 17, 2008. 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 March 31, 2005, no borrowings were outstanding under the Agreement; however, outstanding letters of credit totaled \$7.1 million as of this date.

NOTE 5 - CONTINGENCIES

We currently believe that amounts recorded for certain tax exposures identified through our restatement process may ultimately either be recoverable from clients or may otherwise be reduced. Actual payments could differ from amounts estimated due to the assessment of certain indirect tax obligations by tax authorities to our clients in situations where we had the obligation to charge the client for these taxes, collect the tax and remit it to the tax authorities, or our successful negotiation of tax penalties and interest at less than full statutory rates in situations where such penalty and interest obligations have been estimated and accrued at full statutory rates based on the best information currently available. Based on information currently available, these exposures have been determined to reflect probable liabilities. However, depending on the outcome of future negotiations and discussions with clients and tax authorities, subsequent conclusions may be reached which indicate that portions of these additional tax exposures may not require payment and therefore changes in our estimates could be necessary in future periods. This could result in favorable effects on our income statements in future periods.

Insurance coverage is obtained for catastrophic exposures as well as those risks required to be insured by law or contract. We require our 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. We are insured with respect to

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

We are self-insured for our 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.

Our 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. We remain uncertain at this time what effect this action will have on any claim we or our subsidiaries may have for insurance coverage under policies issued by Reliance with respect to past years. A wholly-owned subsidiary of ours was subject to one substantial claim which fell within the Reliance coverage period. This claim was settled in the amount of \$2.5 million and payment was made by us in 2003. Due to the liquidation of Reliance, we are currently uncertain what amounts paid to settle this claim will be recoverable under the insurance policy with Reliance. We are pursuing a claim in the Reliance liquidation and believe that some recovery will result from the liquidation, but the amount of such recovery cannot currently be estimated. We had no related receivables recorded from Reliance as of March 31, 2005.

-13-

In July 2001, we announced that we had become aware that certain activities related to the operations of a 53% owned Nigerian subsidiary acquired in 1993 were the subject of an inquiry by the U.S. Department of Justice. There has been no activity in this matter since 2002. At this time, we do not expect that any remaining costs associated with this matter will have a material impact on our consolidated financial statements.

We have been named as a defendant or co-defendant in other legal proceedings wherein substantial damages are claimed. Such proceedings are not uncommon to our business. After consultations with counsel, management believes that we have 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 our consolidated financial position or annual results of operations.

At March 31, 2005, we had certain guarantees and indemnifications outstanding which could result in future payments to third parties. These guarantees generally result from the conduct of our business in the normal course. Our outstanding guarantees were as follows at March 31, 2005:

Maximum undiscounted future payments	Related liability balance recorded at 3/31/05
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(Dollars in millions)

Standby letters of credit:

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Insurance related	\$	6.8	\$6.8
Other		0.3	--
Performance and payment bonds		0.1	--
Sale of certain construction assets		Unlimited	--

Our banks issue standby letters of credit ("LOCs") on our behalf under the Agreement discussed in Note 4. As of March 31, 2005, most of these LOCs had been issued to insurance companies to serve as collateral for payments the insurers are required to make under our self-insurance programs. These LOCs may be drawn upon in the event that we do not reimburse the insurance companies for claims payments made on our behalf. Such LOCs renew automatically on an annual basis unless either the LOCs are returned to the bank by the beneficiary or our banks elect not to renew them.

The liability associated with the insurance-related letters of credit reflects the claims payments for which we expect to reimburse the insurance company (subsequent to their payments of these claims) in order to avoid the insurance company's need to draw on the letter of credit. This liability is included as accrued insurance in our Condensed Consolidated Balance Sheet.

Bonds are provided on behalf of us by Travelers Casualty and Surety Company of America ("Travelers"). The beneficiaries under these performance and payment bonds may request payment from Travelers in the event that we do not perform under the project or if subcontractors are not paid. We do not currently expect any amounts to be paid by Travelers under our bonds outstanding at March 31, 2005.

-14-

During 2000, we sold certain assets associated with our former heavy & highway construction business to A&L, Inc. This sale agreement provided indemnifications to the buyer for breaches of certain obligations by us. There was no dollar limit on these indemnifications, and the terms of the indemnifications vary but will ultimately be governed by the applicable statutes of limitations. In October 2003, A&L filed a lawsuit against us and one of our subsidiaries alleging misrepresentation and breach of warranty in connection with the asset sale. We believe that A&L's claims are without merit and are vigorously contesting this lawsuit.

NOTE 6 - STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. ("SFAS") 148, "Accounting for Stock-Based Compensation--Transition and Disclosure," which amended SFAS 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for companies that voluntarily change to the fair value based method of accounting for stock-based employee compensation. Under the prospective method, we began expensing the fair value of all stock options granted, modified or settled effective January 1, 2003. There were no stock options granted during the first quarter of 2005.

Prior to January 1, 2003, we utilized the intrinsic value method of accounting for stock-based compensation, as originally promulgated by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and as permitted under SFAS 123. Accordingly, no compensation cost was recognized for stock options granted prior to January 1, 2003. If compensation costs for our stock incentive plans had been determined based on the fair value at the grant dates for awards under those plans, consistent with the method prescribed by

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SFAS 123, our pro forma net income and net income per share amounts would have been as follows:

	For the three months ended	
	RESTATED MARCH 31, 2005	Restated March 31, 2004
(In thousands)		
Net income, as reported	\$2,855	\$1,835
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	53	4
Deduct: Total stock-based employee compensation expense determined under fair value method, net of related tax effects	(66)	(45)
Pro forma net income	\$2,842	\$1,794

	For the three months ended	
	RESTATED MARCH 31, 2005	Restated March 31, 2004
Reported earnings per share:		
Basic	\$0.33	\$0.22
Diluted	0.33	0.22
Pro forma earnings per share:		
Basic	0.33	0.22
Diluted	\$0.33	\$0.21

-15-

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consist of the following (in thousands):

	MARCH 31, 2005	Dec. 31, 2004
Goodwill:		
Engineering	\$1,006	\$1,006
Energy	7,465	7,465
Total goodwill	8,471	8,471
Other intangible assets, net of accumulated amortization of \$1,595 and \$1,524, respectively	405	476
Goodwill and other intangible assets, net	\$8,876	\$8,947

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Under SFAS 142, our goodwill balance is not being amortized and goodwill impairment tests are being performed at least annually. We completed our most recent annual impairment review during the second quarter of 2004, and no impairment charge was required.

Our other intangible assets balance solely comprises a non-compete agreement from our 1998 purchase of Steen Production Services, Inc. Amortization expense on the other intangible assets balance is currently estimated to be \$286,000 for the year ending December 31, 2005 with the remaining balance of \$190,000 being amortized in 2006.

NOTE 8 - RECENT ACCOUNTING PRONOUNCEMENTS

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 clarifies that the term "conditional asset retirement obligation" as used in SFAS 143, "Accounting for Asset Retirement Obligations," refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the fair value of the liability can be reasonably estimated. This statement is effective for the year ending December 31, 2005. We will adopt this statement as of December 31, 2005 and do not expect any impact on our financial statements.

In March 2005, the Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 107 ("SAB 107") which expresses the views of the staff regarding the interaction between SFAS 123R, "Share-Based Payment," and certain SEC rules and regulations, and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. We are currently evaluating the views expressed in SAB 107 and do not expect there will be any material impact on our financial statements.

In December 2004, the FASB issued SFAS 123R, which replaces SFAS 123 and supersedes APB 25, "Accounting for Stock Issued to Employees." The SEC subsequently amended the effective date of SFAS 123R to be effective for the first interim period after December 31, 2005 for calendar year companies. SFAS 123R requires that the expense resulting from all share-based payment transactions be recognized in the financial statements. This statement applies to all awards granted after the required effective date, and shall not apply to awards granted in periods before the required effective date, except if prior awards are modified, repurchased or cancelled after the effective date. Effective January 1, 2006, we will adopt the provisions of SFAS 123R and do not expect there will be any material impact on our financial statements.

-16-

In December 2004, the FASB issued SFAS 153 "Exchanges of Nonmonetary Assets—an Amendment of APB No. 29." APB 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of assets exchanged. The guidance in APB 29, however, included certain exceptions to that principle. SFAS 153 amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions of this statement are

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effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect the provision of this statement will have any impact on our financial statements.

In December 2004, the FASB issued Staff Position No. ("FSP") 109-1, "Application of FASB Statement 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004," and 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004." FSP 109-1 provides guidance on the application of SFAS 109, "Accounting for Income Taxes," to the provision within the American Jobs Creation Act of 2004 ("the Act") that provides a tax deduction on qualified production activities. FSP 109-2 provides for a special one-time tax benefit on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. We are currently evaluating both provisions of the Act, and the related FASB guidance, to determine their potential impact on our future financial statements.

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

RESTATEMENT

As discussed more fully in the Explanatory Note of this Form 10-Q/A and in Note 1 to the condensed consolidated financial statements in Item 1, Part I, we have restated our condensed consolidated financial statements in this Form 10-Q/A as a result of certain accounting errors that were determined subsequent to the issuance of our condensed consolidated financial statements for the quarter ended March 31, 2005. All amounts and commentary in this Management's Discussion and Analysis of Financial Condition and Results of Operations section give effect to the restatement.

RESULTS OF OPERATIONS

BUSINESS OVERVIEW

We provide engineering and energy expertise for public and private sector clients worldwide. Our primary services include engineering design for the transportation and civil infrastructure markets, operation and maintenance of oil and gas production facilities, architectural and environmental services, and construction management services for buildings and transportation projects. We view our short and long-term liquidity as being dependent upon our results of operations, changes in working capital and our borrowing capacity.

BUSINESS ENVIRONMENT

Our operations are affected by appropriations of public funds for infrastructure and other government-funded projects, capital spending levels in the private sector, and the demand for our services in the engineering and energy markets. We could also be affected by additional external factors such as price fluctuations and capital expenditures in the energy industry.

-17-

The Federal government's TEA-21 legislation has made significant transportation infrastructure funding available to the various state agencies since its approval in 1998. Since the expiration of TEA-21 on September 30, 2003, the U.S. Congress and President Bush have signed several extensions of the program at current funding levels. The most recent extension, which occurred on September 30, 2004, renewed the same previously extended funding levels through the end of

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May 2005. During the current extension period, the House of Representatives has approved a five-year, \$285 billion reauthorization measure, and the Senate is currently considering its version of the bill. Although further delays in the reauthorization of TEA-21 could impact our transportation design business activity for 2005 and beyond, we are seeing funding of selected new transportation projects in certain states. From 2002 through 2004, we have observed increased Federal spending activity on Departments of Defense and Homeland Security activities, including the Federal Emergency Management Agency ("FEMA"). To mitigate the effect of the state transportation budget constraints on our business, management has focused more marketing and sales activity on these agencies of the Federal government. Additional government spending in these areas, or on transportation infrastructure, could result in profitability and liquidity improvements for us. Significant contractions in any of these areas could unfavorably impact our profitability and liquidity. In March 2004, we announced that we had been awarded a five-year contract with FEMA for up to \$750 million to serve as the Program Manager to develop, plan, manage, implement, and monitor the Multi-Hazard Flood Map Modernization Program for flood hazard mitigation across the United States and its territories. Approximately \$644 million of this contract value was included in the Company's backlog as of March 31, 2005. In addition, during 2004, we were selected for several indefinite delivery/indefinite quantity task order contracts by the U.S. Army Corps of Engineers, U.S. Air Force and the U.S. National Guard. During 2004, we were also selected for several contracts with the Mineral Management Service, agencies within the U.S. Departments of Transportation and Homeland Security (which includes FEMA, US-VISIT and the U.S. Coast Guard), the Department of Energy, and the Federal Bureau of Investigation. In the first quarter of 2005, we were selected for a five-year indefinite delivery/indefinite quantity contract with a potential maximum value of \$30 million by the U.S. Army Corp of Engineers, Transatlantic Programs Center.

In 2003, our Energy business refocused its offshore Managed Services offering to include onshore U.S. oil and gas producers, as demonstrated by two new four-year contracts totaling \$144 million received during 2003 from Huber Energy. During the first quarter of 2005, we received an additional \$1.0 million per year onshore Managed Services contract in the Powder River Basin of Wyoming from Storm Cat Energy, to operate and maintain its coal bed methane production facilities, which are adjacent to the Huber properties. With regard to offshore Managed Services, during the third quarter of 2004, we executed a long-term, multi-million dollar Managed Services contract with Anglo-Suisse Offshore Partners, LLC ("ASOP") to operate, maintain and optimize the performance of ASOP's offshore oil and gas producing properties in the Gulf of Mexico. We have also increased our penetration into the deepwater Gulf of Mexico and international markets, where oil and gas producers are currently investing significant amounts of capital for new projects.

RESULTS OF OPERATIONS

The following table reflects a summary of our operating results (excluding intercompany transactions) for ongoing operations for the periods ended March 31, 2005 and 2004 (dollars in millions). Our Non-Core segment is considered to be fully wound down. Accordingly, we reclassified the 2004 activity (in the table which follows) to Corporate/Insurance expense to reflect this change. We evaluate the performance of our segments primarily based on income from operations before Corporate overhead allocations.

-18-

TOTAL CONTRACT REVENUES/INCOME FROM OPERATIONS

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	For the three months ended	
	RESTATED MARCH 31, 2005	Restated March 31, 2004
ENGINEERING		
Revenues	\$ 93.9	\$ 74.9
Income from operations before Corporate overhead	11.3	7.1
Percentage of Engineering revenues	12.0%	9.5%
Less: Corporate overhead	(2.8)	(2.7)
Percentage of Engineering revenues	(3.0)%	(3.6)%
	-----	-----
Income from operations	8.5	4.4
Percentage of Engineering revenues	9.1%	5.9%
	-----	-----
ENERGY		
Revenues	50.3	50.4
Income from operations before Corporate overhead	--	1.6
Percentage of Energy revenues	--%	3.2%
Less: Corporate overhead	(1.1)	(1.2)
Percentage of Energy revenues	(2.2)%	(2.4)%
	-----	-----
(Loss)/income from operations	\$ (1.1)	\$ 0.4
Percentage of Energy revenues	(2.2)%	0.8%
	-----	-----
TOTAL REPORTABLE SEGMENTS		
Revenues	\$144.2	\$125.3
Income from operations before Corporate overhead	11.3	8.7
Percentage of total reportable segment revenues	7.8%	6.9%
Less: Corporate overhead	(3.9)	(3.9)
Percentage of total reportable segment revenues	(2.7)%	(3.1)%
	-----	-----
Income from operations	7.4	4.8
Percentage of total reportable segment revenues	5.1%	3.8%
	-----	-----
Other Corporate/Insurance expense	(0.5)	(0.3)
	-----	-----
TOTAL COMPANY - INCOME FROM OPERATIONS	\$ 6.9	\$ 4.5
Percentage of total Company revenues	4.8%	3.6%
	=====	=====

TOTAL CONTRACT REVENUES

Total contract revenues increased 15% in the first quarter of 2005 relative to the first quarter of 2004. Engineering revenues for the first quarter of 2005 increased 25% from the first quarter of 2004. Engineering's revenues were positively impacted by the previously mentioned map modernization program management project with FEMA, which commenced near the end of the first quarter of 2004. In addition, as a result of achieving certain performance levels on this FEMA project during the third quarter of 2004, the Engineering

segment received notification of an incentive award payment and recognized revenue totaling \$2.2 million during the first quarter of 2005. In the Energy segment, revenues for the first quarter of 2005 decreased slightly from the

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first quarter of 2004. Revenue increases primarily associated with the ASOP Managed Services contract were offset by lower revenues on certain contracts in Energy's Applied Technology business to assist in implementation of computerized maintenance management systems. The lower first quarter 2005 revenues associated with these contracts were due to delays in the commencement of work on certain projects and the cancellation of one contract.

GROSS PROFIT

Gross profit expressed as a percentage of revenues decreased to 15.5% for the first quarter of 2005 from 16.6% in the first quarter of 2004. The Engineering segment's gross profit percentage remained unchanged at 20.5% for the first quarter of 2005 and 2004. The Energy segment's gross profit percentage decreased to 7.3% in the first quarter of 2005 from 11.2% in the first quarter of 2004. This decrease in gross profit as a percentage of revenues is the direct result of the aforementioned delays in or cancellation of contracts in Energy's Applied Technology business. Our cost structure related to our computerized maintenance management systems contracts business was reduced through a headcount reduction in the second quarter of 2005, and will continue to be closely monitored by management.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses, including Corporate overhead, expressed as a percentage of total contract revenues decreased to 10.8% in the first quarter of 2005 from 13.0% in the first quarter of 2004. This overall decrease in SG&A expenses expressed as a percentage of revenues reflects comparable Corporate overhead costs in both quarters in combination with a 15% increase in revenues for the first quarter of 2005 and, to a larger extent, a reduction in incentive compensation expense for the first quarter of 2005. The unchanged Corporate overhead costs reflect a decrease in external costs incurred in connection with our compliance with Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX"), as partially offset by an increase in compensation costs. In the Engineering segment, SG&A expenses expressed as a percentage of revenues decreased to 11.4% in the first quarter of 2005 from 14.6% in the first quarter of 2004. In addition to the unchanged Corporate overhead costs and reduced incentive compensation expense, the significant increase in Engineering's revenues contributed to this percentage improvement. In the Energy segment, SG&A expenses expressed as a percentage of revenues decreased to 9.5% in the first quarter of 2005 from 10.4% in the first quarter of 2004. This decrease is also associated with slightly lower allocated corporate overhead and reduced incentive compensation expense coupled with a slight decrease in revenue in the first quarter of 2005.

OTHER INCOME

Interest income was negligible for both the first quarter of 2005 and 2004 and interest expense was \$0.4 million for both the first quarter of 2005 and 2004. Interest expense consists primarily of accruals related to the underpayment of income, payroll, value added, and sales and use taxes in our Energy segment. In addition, during the first quarter of 2005, we had minimal net investments as opposed to minimal net borrowings for the first quarter of 2004, which resulted in \$0.1 million of interest expense in the first quarter of 2004. Other income for the first quarter of 2005 primarily related to equity earnings from two unconsolidated minority-owned ventures and minority interest related to a consolidated subsidiary, as partially offset by the write-off of an investment. Other income for the first quarter of 2004 primarily resulted from the sale of an investment that resulted in a gain of \$0.2 million.

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INCOME TAXES

We had a provision for income taxes of 57% for the first quarter of 2005, which reflects our forecasted effective tax rate for the year ending December 31, 2005. For the first quarter of 2004, we had a provision for income taxes of 59%. The variance between the United States ("U.S.") federal statutory rate and the effective rate for these periods is due primarily to taxes on foreign income which we are not able to offset with U.S. foreign tax credits. Our effective rate is also negatively impacted by state income taxes, permanent items that are not deductible for U.S. tax purposes and Nigerian income taxes that are levied on a deemed income basis.

CONTRACT BACKLOG

	MARCH 31, 2005	Dec. 31, 2004
	-----	-----
(In millions)		
Engineering	\$1,164.1	\$1,115.2
Energy	256.5	284.3
	-----	-----
Total	\$1,420.6	\$1,399.5
	=====	=====

Backlog consists of that portion of uncompleted work that is represented by signed or executed contracts. Certain of our 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.

A significant portion of our backlog relates to a \$750 million contract in the Engineering segment to assist FEMA in conducting a large-scale overhaul of the nation's flood hazard maps, which commenced late in the first quarter of 2004. This contract includes data collection and analysis, map production, product delivery, and effective program management; and seeks to produce digital flood hazard data, provide access to flood hazard data and maps via the Internet, and implement a nationwide state-of-the-art infrastructure that enables all-hazard mapping. For Year 1 program objectives, FEMA awarded us Core Task Order 001 with a total cost-plus-award fee value of \$107 million and a performance period of March 11, 2004 to April 1, 2005. We have submitted both: (1) a Core Task Order 001 modification to provide additional funding and extend the performance period to September 30, 2005 and (2) our CPAF proposal for a new Core Task Order for Year 2 program objectives (Core Task Order 2.) Pending definitization, FEMA has authorized us to incur pre-contract costs to continue performance on Core Task Order 001 and begin work on Core Task Order 2 during the period of April 1, 2005 to May 31, 2005. Due to the task order structure of the contract, realization of the timing and amount of the original contract value of \$750 million remains difficult to predict. Among the more significant new work added in the Engineering segment, during the first quarter of 2005, were two new contracts to provide transportation related engineering services totaling approximately \$57 million.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was \$5.6 million for the first quarter of 2005, as compared to net cash provided by operating activities of \$12.2 million for the same period in 2004. The first quarter 2005 increase in cash used in

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operating activities resulted from increases in our Engineering and Energy receivable balances due to slower customer payments. Subsequently, in April 2005, we experienced an increase in the amount of monthly cash collected.

Net cash used in investing activities was \$0.7 million and \$0.4 million for the first quarters of 2005 and 2004, respectively. These amounts reflect only capital expenditures for both periods. The 2005 and 2004 amounts primarily relate to computer software and equipment purchases totaling \$0.5 and \$0.3 million, respectively. During the first quarter of 2005 and 2004, we procured additional computer software and equipment under the

-21-

terms of operating leases. We utilize operating leases to acquire assets used in our daily business activities. These assets include office space, computer and related equipment, and motor vehicles.

Net cash provided by financing activities was \$2.1 million for the first quarter of 2005 while net cash used in financing activities was \$10.8 million for the first quarter of 2004. The cash provided by financing activities for the first quarter of 2005 relates to our being in a book overdraft position with our bank in an amount of \$2.1 million and proceeds from the exercise of stock options of \$0.1 million offset by payments for capital lease obligations of \$0.1 million. The cash usage in the first quarter of 2004 results almost entirely from the repayment of long-term debt of \$9.6 million and a reduction in our book overdraft position of \$1.1 million.

Working capital increased to \$46.6 million at March 31, 2005 from \$43.6 million at December 31, 2004. Our current ratios were 1.34:1 at the end of the first quarter of 2005 and 1.32:1 as of year-end 2004.

We have an unsecured credit agreement (the "Agreement") with a consortium of financial institutions. The Agreement provides for a commitment of \$60 million through September 17, 2008. 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 March 31, 2005, only letters of credit totaling \$7.1 million were outstanding under the Agreement. The Agreement requires us to meet minimum equity, leverage, interest and rent coverage, and current ratio covenants. If any of these financial covenants or certain other conditions of borrowing are not achieved, under certain circumstances, the banks may demand the repayment of all borrowings outstanding and/or require deposits to cover the outstanding letters of credit.

In connection with the restatement of our consolidated financial statements through March 31, 2005, we did not timely file our quarterly reports on Form 10-Q for the second and third quarters of 2005 and the first quarter of 2006, or our annual report on Form 10-K for the year ended December 31, 2005. As a result, several covenant violations related to the timing of our financial reporting occurred under the Agreement. The lenders have waived these violations by allowing us to file our Forms 10-Q for the quarters ended June 30, 2005 and September 30, 2005, our Form 10-K for the year ended December 31, 2005, and our Form 10-Q for the quarter ended March 31, 2006, with the SEC by August 15, 2006. We currently expect to complete all of these past due filings by August 15, 2006.

Furthermore, we did not meet the SEC's filing deadline related to our Form 10-Q for the second quarter of 2006. Accordingly, our lenders have also waived our resulting covenant violation related to the timing of this filing by allowing us to file such Form 10-Q by September 30, 2006. We currently expect to be able to

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file our Form 10-Q for the second quarter of 2006 by September 30, 2006. Beginning with our Form 10-Q filing for the third quarter of 2006, we currently expect to complete our quarterly and annual SEC filings within the SEC's filing deadlines.

We plan to utilize our borrowing capacity under the Agreement for short-term working capital needs, to support strategic opportunities that management identifies, and to make our past due tax payments. Our strategy is to better position ourselves for growth in our Engineering and Energy segments through selected opportunistic acquisitions that compliment our experience, skill and geographic presence. We consider acquisitions and investments as components of our growth strategy and intend to use both existing cash and the Agreement to fund such endeavors. If we commit to funding future acquisitions, we may need to adjust our financing strategies by seeking alternative debt instruments.

-22-

After giving effect to the foregoing, management believes that the combination of cash generated from operations and our existing credit facility will be sufficient to meet our operating and capital expenditure requirements for at least the next year.

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" section contains forward-looking statements concerning our future operations and performance. Forward-looking statements are subject to market, operating and economic risks and uncertainties that may cause our 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 industry trends, changes in the regulatory environment, changes in our relationships and/or contracts with FEMA, changes in anticipated levels of government spending on infrastructure, including TEA-21, changes in loan relationships or sources of financing, changes in management, changes in information systems, and costs to comply with the requirements of the Sarbanes-Oxley Act of 2002. Such forward-looking statements are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Currently, our primary interest rate risk relates to our variable-rate investments, which totaled \$9.1 million as of March 31, 2005. Assuming a 10% decrease in interest rates on these variable-rate investments (i.e., a decrease from the actual weighted average interest rate of 1.70% as of March 31, 2005, to a weighted average interest rate of 1.53%), annual interest income would be approximately \$16,000 lower in 2005 based on the outstanding balance of variable-rate investments as of March 31, 2005. Accordingly, we have no material exposure to interest rate risk, nor do we have any interest rate swap or exchange agreements.

We have several foreign subsidiaries that transact portions of their local activities in currencies other than the U.S. Dollar. In assessing our exposure to foreign currency exchange rate risk, we recognize that the majority of our foreign subsidiaries' assets and liabilities reflect ordinary accounts receivable and payable balances. These receivable and payable balances are substantially settled in the same currencies as the functional currencies of the related foreign subsidiaries, thereby not exposing us to material transaction gains and losses. Assuming that foreign currency exchange rates could change unfavorably by 10%, we would have no material exposure to foreign currency

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exchange rate risk. We have no foreign currency exchange contracts.

Based on the nature of our business, we have no direct exposure to commodity price risk.

ITEM 4. CONTROLS AND PROCEDURES

CONCLUSIONS REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of March 31, 2005. This evaluation considered our various procedures designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. At the time of the filing of our Quarterly Report on Form 10-Q for the quarterly

-23-

period ended March 31, 2005, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2005. Subsequent to that evaluation, our CEO and CFO concluded that, our disclosure controls and procedures were not effective at a reasonable level of assurance, as of March 31, 2005, because of the material weaknesses described below. Notwithstanding these material weaknesses, our management has concluded that the financial statements included in this Form 10-Q/A fairly present in all material respects our financial position, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles in the United States ("GAAP").

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of a company's annual or interim financial statements would not be prevented or detected. The following material weaknesses were identified by management as of March 31, 2005:

1. We did not maintain effective controls, including monitoring, over the accounting for and disclosure of our income tax and other tax related accounts. Specifically, we did not maintain a sufficient complement of personnel within our tax accounting function with the appropriate level of knowledge, experience and training in the application of GAAP related to income and other taxes, resulting in us not maintaining effective controls over the completeness, valuation, existence and presentation of our deferred income tax assets and liabilities, including the related valuation allowance; foreign income taxes payable, foreign payroll and value added taxes payable; state sales taxes payable; prepaid tax accounts and the related income tax provision and various tax expense accounts. This control deficiency resulted in the restatement of our consolidated financial statements for fiscal years 2001, 2002, 2003 and 2004, and our related interim consolidated financial statements for each of the quarters of 2004 and the first quarter of fiscal year 2005. Additionally, this control deficiency could result in a misstatement in the aforementioned accounts that would result in a material misstatement to the annual or interim

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consolidated financial statements that would not be prevented or detected. Accordingly, we have determined that this control deficiency constitutes a material weakness.

2. We did not maintain effective controls over the accounting for our contract revenue and related unbilled revenue, other accrued expenses and cost of work performed accounts. Specifically, we did not maintain effective controls to ensure the completeness and accuracy of change orders related to a specific contract. This control deficiency resulted in immaterial misstatements to our consolidated financial statements for the fourth quarter of fiscal year 2004, and the first quarter of fiscal year 2005. Additionally, this control deficiency could result in a misstatement in the aforementioned accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, we have determined that this control deficiency constitutes a material weakness.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our "internal control over financial reporting" (as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2005, and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PLAN FOR REMEDIATION

We believe the steps described below, some of which we have already taken as noted herein, together with others that are ongoing or that we plan to take, will remediate the material weaknesses discussed above:

-24-

- (1) We established a tax function with a qualified tax director supported by internal and external resources (began in July 2005).
- (2) We have supplemented our existing accounting and finance staff with additional internal and external resources as appropriate. We will continue to add financial personnel as necessary to provide adequate resources with appropriate levels of experience and knowledge of GAAP (began in July 2005).
- (3) We have enhanced our review and documentation of accounting estimates. This includes but is not limited to estimates of realizability of tax assets and potential loss contracts (commenced in October 2005).

In addition, we have implemented the following procedures to improve our internal control over financial reporting:

- (1) We have emphasized certain key controls in an effort to mitigate significant risks and strengthen our control environment. In this regard, we have elevated within the company the awareness and communication of tax-related contingencies and financial reporting risks associated with contract accounting and insurance reserves (began in June 2005).
- (2) We have enhanced our monitoring of accounts by deploying account reconciliation software that facilitates access and review of reconciliations (deployment began in August 2005).

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See discussion in Note 5 to the accompanying financial statements.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
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31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

-25-

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: August 15, 2006

William P. Mooney
Executive Vice President and
Chief Financial Officer

/s/ Craig O. Stuver

Dated: August 15, 2006

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

-26-