

BAKER MICHAEL CORP
Form 10-K
March 10, 2009

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2008

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)

Registrant's telephone number, including area code: (412) 269-6300

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, par value \$1 per share	NYSE Alternext US

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

(Do not check if a smaller
reporting company.)

Indicate by check mark if the registrant is a shell company of the Act (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of Common Stock held by non-affiliates as of June 30, 2008 (the last business day of the Company's most recently completed second fiscal quarter) was \$171.4 million. This amount is based on the closing price of the Company's Common Stock on the New York Stock Exchange Alternext US for that date. Shares of Common Stock held by executive officers and directors of the Company and by the Company's Employee Stock Ownership Plan are not included in the computation.

As of February 28, 2009, the Company had 8,859,298 outstanding shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts of Form 10-K into Which Document is Incorporated
Financial Section of Annual Report to Shareholders for the year ended December 31, 2008	I, II
Proxy Statement to be distributed in connection with the 2009 Annual Meeting of Shareholders	III

MICHAEL BAKER CORPORATION
FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

TABLE OF CONTENTS

		Page
<u>PART I</u>		
<u>Item 1.</u>	<u>Business</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	6
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	11
<u>Item 2.</u>	<u>Properties</u>	12
<u>Item 3.</u>	<u>Legal Proceedings</u>	12
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	12
<u>PART II</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	12
<u>Item 6.</u>	<u>Selected Financial Data</u>	13
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	14
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	14
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	14
<u>Item 9A.</u>	<u>Controls and Procedures</u>	14
<u>Item 9B.</u>	<u>Other Information</u>	18
<u>PART III</u>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	18
<u>Item 11.</u>	<u>Executive Compensation</u>	18
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	18
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	19
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	19
<u>PART IV</u>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	19
<u>EX-10.1</u>		
<u>EX-10.7(A)</u>		
<u>EX-10.9</u>		
<u>EX-31.1</u>		
<u>EX-21.1</u>		
<u>EX-23.1</u>		
<u>EX-31.1</u>		
<u>EX-31.2</u>		
<u>EX-32.1</u>		
<u>EX-99.1</u>		

Note with respect to Forward-Looking Statements:

This Annual Report on Form 10-K, and in particular the Management's Discussion and Analysis of Financial Condition and Results of Operations section of Exhibit 13.1 hereto, which is incorporated by reference into Item 7 of Part II, 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: the events described in the Risk Factors section of this Form 10-K; increased competition; increased costs; changes in general market conditions; changes in industry trends; changes in the regulatory environment; changes in our relationship and/or contracts with the Federal Emergency Management Agency (FEMA) and/or other U.S. Federal Government Departments and Agencies; changes in anticipated levels of government spending on infrastructure, including the Safe, Accountable, Flexible, Efficient Transportation Equity Act A Legacy for Users (SAFETEA-LU) and the American Recovery and Reinvestment Act of 2009; changes in loan relationships or sources of financing; changes in management; changes in information systems; and the restatement of financial results. Such forward-looking statements are made pursuant to the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995.

Table of Contents

PART I

Item 1. *Business.*

General

In this Form 10-K, the terms the Company, we, us, or our refer to Michael Baker Corporation and its subsidiaries collectively. We were founded in 1940 and organized as a Pennsylvania corporation in 1946. Today, through our operating subsidiaries, we provide engineering and energy expertise for public and private sector clients worldwide.

Information regarding the amounts of our revenues, income from operations before Corporate overhead allocations, total assets, capital expenditures, and depreciation and amortization expense, each attributable to our reportable segments, is contained in the Business Segments note to our consolidated financial statements, which are included within Exhibit 13.1 to this Form 10-K. Such information is incorporated herein by reference.

According to the annual listings published in 2007 and 2008 by *Engineering News Record* magazine (ENR) based on total engineering revenues for 2007, we ranked 40th among the top 500 U.S. design firms; 19th among pure design firms; 13th in water and 13th in water supply; 15th among transportation design firms, including 22nd in highways, 11th in bridges and 24th in airports; 28th among construction management-for-fee firms; 17th in pipelines (petroleum); and 61st among environmental firms. According to Building Design & Construction's report 2008 Giants: Top 300 AEC Firms based on 2007 market revenues, we ranked 24th among the Engineers/Architects and 21st among Top 100 Government Design Firms. In addition, we believe that we are one of the largest providers of outsourced operations and maintenance services to the energy industry in the Gulf of Mexico.

Strategy

Our strategy is based on three concepts growth, profitability and innovation.

Growth We seek to grow both organically and through strategic acquisitions. Organically, we will grow by securing larger and more complex projects and programs that correspond well with our existing knowledge and capabilities in the Engineering segment, primarily in the United States. For example, we have begun to expand beyond the Departments of Defense and Homeland Security and are now providing services to other federal departments and agencies such as the Departments of Energy and State. Furthermore, we will seek to provide additional and related services to existing clients; for example, offering construction management services to a State Department of Transportation for which we are currently providing only design services. With regard to acquisitions, we will seek opportunities that expand our skill sets or our geographical presence in our core Engineering business.

As part of the growth aspect of our strategy, we have engaged a financial advisor to assist our Board of Directors in pursuing a potential sale of our Energy segment. This activity commenced during July 2007. Discussions with several potential buyers were in process at December 31, 2007; however, all substantive discussions related to a possible sale ceased during the first quarter of 2008 due to our Energy segment's revenue-related restatement. We resumed our evaluation of strategic alternatives, including a potential sale of the Energy segment, during the third quarter of 2008. If we are able to consummate a sale of the Energy segment, any proceeds realized would be reinvested in our Engineering segment in order to continue to grow that business.

Profitability We seek to consistently improve the profitability of our businesses through long-term, performance-based contracting arrangements with our clients. This strategy is evident in our current mix of contracts,

including our FEMA contract for Engineering and our service contracts in the Energy segment. We will also be pursuing projects that utilize alternative delivery methods, such as design-build, which traditionally carry a higher margin as well as performance incentives.

-1-

Table of Contents

Innovation We strive to constantly and consistently innovate ways to deliver services to our clients. For example, in both our transportation and facilities service areas, we are partnering with preferred contractors and pursuing an increased level of design-build contracts, as opposed to the traditional design-bid-build method of project delivery. Additionally, we utilize mapping and geographic information technology in a number of innovative ways.

Business Segments

Our business segments have been determined based on how executive management makes resource decisions and assesses our performance. Our two reportable segments are Engineering and Energy. Information regarding these business segments is contained in our Management's Discussion and Analysis of Financial Condition and Results of Operations, which is included within Exhibit 13.1 to this Form 10-K. Such information is incorporated herein by reference.

The following briefly describes our business segments:

Engineering

Our Engineering segment provides a variety of design and related consulting services, principally in the United States of America (U.S.). 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, and regulatory compliance. The Engineering segment has designed a wide range of projects, such as highways, bridges, airports, busways, corporate headquarters, data centers, correctional facilities and educational facilities. This segment also provides services in the water/wastewater, pipeline, emergency and consequence management, resource management, and telecommunications markets. This segment is susceptible to upward and downward fluctuations in federal and state government spending.

Our transportation services have benefited from the U.S. federal government's SAFETEA-LU legislation in recent years. Additionally, we have benefited from increased federal government spending in the Department of Defense and the Department of Homeland Security, including FEMA, US-VISIT and the Coast Guard. We partner with other contractors to pursue selected design-build contracts, which continue to be a growing project delivery method within the transportation and civil infrastructure markets. We also perform work through an unconsolidated joint venture operating in Iraq.

Energy

Our Energy segment provides a full range of services to operating energy production facilities worldwide. This segment's comprehensive 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. Our Energy segment serves both major and smaller independent oil and gas producing companies, but does not pursue exploration opportunities for its own account or own any oil or natural gas reserves.

One delivery method employed by this segment is managed services, an operating model that has broadened the Energy segment's service offerings in the offshore Gulf of Mexico and the onshore U.S. This model has the potential to enhance our operating margins as well as our clients' efficiencies and operating performance. Onshore, we have taken over full managerial and administrative responsibility for clients' producing properties. Offshore, the segment has organized a network of marine vessels, helicopters, shore bases, information technology, safety and compliance systems, specialists, and a leadership team that manages the sharing of resources, thereby resulting in improved

profitability for participants. Presently, we are working under managed services agreements with oil and gas producers in the Gulf of Mexico and in the Powder River Basin in Wyoming.

Table of Contents

This segment also operates in various foreign countries, with major projects in Venezuela, Thailand, Algeria and Nigeria. The local political environment in certain of these countries subjects our related trade receivables, due from subsidiaries of major oil companies, to lengthy collection delays. Based upon our experience with these clients, after giving effect to our related allowance for doubtful accounts balance at December 31, 2008, we believe that the majority of these receivable balances will be collectible within one year. This segment also has some exposure to currency-related gains and losses but a substantial amount of our foreign transactions are settled in the same currency, thereby greatly reducing our exposure to material currency transaction gains and losses.

Domestic and Foreign Operations

For the years ended December 31, 2008, 2007 and 2006, our percentages of total contract revenues derived from work performed for U.S.-based clients within the U.S. totaled 85%, 89% and 87%, respectively. The majority of our domestic revenues comprises engineering work performed in the mid-Atlantic region of the U.S. and operations and maintenance work performed by our Energy segment in Texas, Louisiana, Wyoming, and the Gulf of Mexico. Our foreign revenues are derived primarily from our Energy segment.

Contract Backlog

(In millions)	As of December 31,	
	2008	2007
Engineering		
Funded	\$ 449.5	\$ 425.6
Unfunded	534.7	696.6
<i>Total Engineering</i>	984.2	1,122.2
Energy	233.4	191.7
<i>Total</i>	\$ 1,217.6	\$ 1,313.9

Engineering

For our Engineering segment, funded backlog consists of that portion of uncompleted work represented by signed contracts and/or approved task orders, and for which the procuring agency has appropriated and allocated the funds to pay for the work. Total backlog incrementally includes that portion of contract value for which options have not yet been exercised or task orders have not been approved. We refer to this incremental contract value as unfunded backlog. U.S. government agencies and many state and local governmental agencies operate under annual fiscal appropriations and fund various contracts only on an incremental basis. In addition, our clients may terminate contracts at will or not exercise option years. Our ability to realize revenues from our backlog depends on the availability of funding for various federal, state and local government agencies; therefore, no assurance can be given that all backlog will be realized.

As of December 31, 2008 and 2007, approximately \$68 million and \$57 million of our funded backlog, respectively, related to the \$750 million FEMA Map Mod Program contract 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. This contract concludes March 10, 2009; however, FEMA has recently added a contract provision that enables FEMA to extend the ordering period for up to six months. While portions of the previous services have already begun to transition, we anticipate potential future authorizations to allow us to continue working on remaining portions of the previous services on a month-to-month basis. Although we expect to have additional funding authorizations for up to six months, we do not anticipate realizing a

Table of Contents

majority of the remaining unfunded backlog balance (\$213 million at December 31, 2008). We expect work and revenue related to authorizations prior to the end of the contract award period to continue for up to two years. In the future, we plan to adjust our reported FEMA unfunded backlog downward as updated information becomes available.

In 2009, BakerAECOM, LLC, a Delaware limited liability company of which we are the managing member, was informed by FEMA that it has been selected to negotiate an Indefinite-Delivery/Indefinite-Quantity (IDIQ) contract for the Risk MAP Program, which is intended to be the successor to the FEMA Map Mod Program. The resultant performance-based contract is currently expected to have a five-year term with a maximum contract value of up to \$600 million. This contract has not been included in our backlog as of December 31, 2008.

Energy

In the Energy segment, our managed services contracts typically have one to five-year terms and up to ninety-day cancellation provisions. Our labor services contracts in the Energy segment typically have one to three-year terms and up to thirty-day cancellation provisions. For these managed services and labor contracts, backlog includes our forecast of the next twelve months' revenues based on existing contract terms and operating conditions. For our managed services contracts, fixed management fees related to the contract term beyond twelve months are not included in backlog. Backlog related to fixed-price contracts within the Energy segment is based on the related contract value. On a periodic basis, backlog on fixed-price contracts is reduced as related revenue is recognized. Oil and gas industry merger, acquisition and divestiture transactions affecting our clients can result in increases and decreases in our Energy segment's backlog.

The increase in Energy's backlog for 2008 primarily resulted from the renewal of a contract in Nigeria, a new contract in Venezuela and increases related to our domestic off-shore labor clients in the Gulf of Mexico.

Significant Customers

Contracts with various branches, departments and agencies of the U.S. government accounted for 34%, 27% and 27% of our total contract revenues for the years ended December 31, 2008, 2007 and 2006, respectively. Our contracts with FEMA accounted for approximately 13%, 14% and 15% of our revenues in 2008, 2007 and 2006, respectively.

Competitive Conditions

Our business is highly competitive with respect to all principal services we offer. Our Engineering and Energy segments compete with numerous public and private firms that provide some or all of the services that we provide. In the Engineering segment, our competitors range from large national and international architectural, engineering and construction services firms to a vast number of smaller, more localized firms. Our Engineering competitors vary based on the type of the services being proposed. In the Energy segment, we compete with units of large oil and gas services firms, and smaller privately-held companies.

The competitive conditions in our businesses relate to the nature of the contracts being pursued. Public-sector contracts, consisting mostly of contracts with federal and state governmental entities, are generally awarded through a competitive process, subject to the contractors' qualifications and experience. Our business segments employ cost estimating, scheduling and other techniques for the preparation of these competitive bids. Private-sector contractors compete primarily on the basis of qualifications, quality of performance and price of services. Most private and public-sector contracts for professional services are awarded on a negotiated basis.

We believe that the principal competitive factors (in various orders of importance) in the areas of services we offer are quality of service, reputation, experience, technical proficiency, local geographic presence and cost of service. We

believe that we are well positioned to compete effectively by

-4-

Table of Contents

emphasizing the quality of services we offer and our widely known reputation in providing professional engineering services in the Engineering segment and technical and operations and maintenance services in the Energy segment. We are also dependent upon the availability of staff and our ability to recruit qualified employees. A shortage of qualified technical professionals currently exists in the engineering industry in the U.S.

Seasonality

Based upon our experience, our Engineering segment's total contract revenues and income from operations have historically been slightly lower for our first fiscal quarter than for the remaining quarters due to the effect of winter weather conditions, particularly in the Mid-Atlantic and Midwest regions of the United States. Typically, these seasonal weather conditions unfavorably impact our performance of construction management services. Our Energy segment is not as directly impacted by seasonal weather conditions.

Personnel

At December 31, 2008, we had 4,903 total employees, of which our Engineering segment had 2,340 employees, our Energy segment had 2,502 employees, and our Corporate staff included 61 employees. Of our total employees, 4,606 were full-time and 297 were part-time. Certain employees of our 53%-owned Nigerian subsidiary are subject to an industry-based, in-country collective bargaining agreement. The remainder of our workforce is not subject to collective bargaining arrangements. We believe that our relations with employees are good.

Executive Officers

The following represents a listing of our executive officers as of February 28, 2009:

Bradley L. Mallory Age 56; President and Chief Executive Officer of Michael Baker Corporation since February 2008. Formerly Chief Operating Officer of Michael Baker Corporation from October 2007 to February 2008; President of Michael Baker Jr., Inc. from November 2003 to October 2007; Senior Vice President of Michael Baker Jr., Inc. from March 2003 to October 2003; and Secretary of Transportation of the Commonwealth of Pennsylvania from 1995 to 2003.

Craig O. Stuver Age 48; Acting Chief Financial Officer of Michael Baker Corporation since September 2007, and Senior Vice President and Treasurer since 2001. Mr. Stuver also served as Corporate Controller from 2001 to December 2008. Previously Mr. Stuver served as a vice president of finance for Marconi Communications from 2000 to 2001. Mr. Stuver was also employed by us from 1992 to 2000, serving in various capacities including Senior Vice President, Corporate Controller and Treasurer briefly in 2000 and as Vice President, Corporate Controller and Assistant Treasurer from 1997 to 2000.

H. James McKnight Age 64; Chief Legal Officer, Executive Vice President and Corporate Secretary since June 2000. Mr. McKnight has been employed by us since 1995, serving as Senior Vice President, General Counsel and Secretary from 1998 to 2000 and as Vice President, General Counsel and Secretary from 1995 to 1998.

Joseph R. Beck Age 64; Senior Vice President of Corporate Development since September 2008 and Director of Corporate Development since March 2008. Mr. Beck joined Michael Baker Corporation as an Operations Manager in June 2004. Prior to joining Michael Baker Corporation, Mr. Beck was a Senior Vice President with The IT Group from 1994 to 2002 and was a private consultant and an adjunct professor at the University of Pittsburgh from 2002 to 2004.

David G. Greenwood Age 57; Executive Vice President Marketing, Engineering Segment since April 2005. Mr. Greenwood previously served in various operational and marketing capacities with us since 1973, including Vice President and Senior Vice President of Michael Baker Jr., Inc. from 1994 to April 2005.

-5-

Table of Contents

David G. Higie Age 52; Vice President of Corporate Communications and Investor Relations for Michael Baker Corporation since 2006. Mr. Higie joined Michael Baker Corporation in 1996 as Director of Corporate Communications.

James R. Johnson Age 56; Senior Vice President Marketing, Energy Segment since August 2005. Mr. Johnson previously served as a Senior Regional Manager of Operations with Baker Hughes Inc. from 1991 to 2005.

James M. Kempton Age 34; Vice President and Corporate Controller of Michael Baker Corporation since December 2008 and Assistant Corporate Controller from January 2007 through November 2008. Mr. Kempton was previously employed with Ernst and Young from 1997 to 2007 in various positions, including Senior Manager in the Assurance and Advisory Business Services practice.

G. John Kurgan Age 59; Executive Vice President Engineering Segment since 2007. Mr. Kurgan was previously a Senior Vice President of Michael Baker Jr., Inc. from 1995 to 2007. Mr. Kurgan has held various positions since joining Michael Baker Jr., Inc. in 1974.

John D. Whiteford Age 49; Acting General Manager of our Energy Segment since July 2006. Formerly Executive Vice President of Michael Baker Jr., Inc., and Manager of our Engineering segment's North Region from 2000 to 2006. Mr. Whiteford previously served in various capacities with us since 1983, including Vice President of our Energy segment from 1997 to 2000.

Edward L. Wiley Age 65; Executive Vice President Engineering Segment since 2005. Mr. Wiley has also served as an Executive Vice President of Michael Baker Jr., Inc. Mr. Wiley has held various positions since joining Michael Baker Jr., Inc. in 1965.

Our executive officers serve at the discretion of the Board of Directors and are elected by the Board or appointed annually for a term of office extending through the election or appointment of their successors.

Available Information

Our Internet website address is www.mbakercorp.com. We post our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports to our website as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission (SEC). We make these reports available on our website free of charge. These reports and any amendments to them are also available at the SEC's website, www.sec.gov. We also post press releases, earnings releases, the Code of Ethics for Senior Officers and the Charters related to the Governance and Nominating Committee, Audit Committee and Compensation Committee to our website. The information contained on our website is not incorporated by reference into this Form 10-K and shall not be deemed filed under the Securities Exchange Act of 1934, as amended.

Item 1A. Risk Factors.

In addition to other information referenced in this report, we are subject to a number of specific risks outlined below. If any of these events or uncertainties actually occurs, our business, financial condition, results of operations and cash flows, and/or the market price of our common stock could be materially affected. You should carefully consider the following factors and other information contained in this Annual Report on Form 10-K before deciding to invest in our common stock.

Changes and fluctuations in the government spending priorities could materially affect our future revenue and growth prospects.

Our primary customers, which compose a substantial portion of our revenue and backlog, include agencies of the U.S. federal government and state and local governments and agencies that depend on funding or partial funding provided by the U.S. federal government. Consequently, any significant changes and fluctuations in the government's spending priorities as a result of policy changes or economic downturns may directly affect our future revenue streams. Legislatures may appropriate funds for a

-6-

Table of Contents

given project on a year-by-year basis, even though the project may take more than one year to perform. As a result, at the beginning of a project, the related contract may only be partially funded, and additional funding is committed only as appropriations are made in each subsequent year. These appropriations, and the timing of payment of appropriated amounts, may be influenced by, among other things, the state of the economy, competing political priorities, curtailments in the use of government contracting firms, increases in raw material costs, delays associated with a lack of a sufficient number of government staff to oversee contracts, budget constraints, the timing and amount of tax receipts, and the overall level of government expenditures. Additionally, reduced spending by the U.S. government may create competitive pressure within our industry which could result in lower revenues and margins in the future.

Unpredictable economic cycles or uncertain demand for our engineering capabilities and related services could cause our revenues to fluctuate or contribute to delays or the inability of customers to pay our fees.

Demand for our engineering and other services is affected by the general level of economic activity in the markets in which we operate, both in the U.S. and internationally. Our customers, particularly our private sector customers, and the markets in which we compete to provide services, are likely to experience periods of economic decline from time to time. Adverse economic conditions may decrease our customers' willingness to make capital expenditures or otherwise reduce their spending to purchase our services, which could result in diminished revenues and margins for our business. In addition, adverse economic conditions could alter the overall mix of services that our customers seek to purchase, and increased competition during a period of economic decline could result in us accepting contract terms that are less favorable to us than we might be able to negotiate under other circumstances. Changes in our mix of services or a less favorable contracting environment may cause our revenues and margins to decline. Moreover, our customers may experience difficult business climates from time to time that may decrease our clients' ability to obtain financing and could cause delays or failures to pay our fees as a result.

The current economic recession may impact our customers' access to capital and as a result may impact our cash flow and profitability. Due to the current economic recession, we anticipate that our customers' ability to access capital could impact project activity in 2009 and may impact certain clients' ability to compensate us for our services, most notably in our Energy segment. Those outcomes could have a significant impact on our cash flows and may impact our profitability in future periods.

Our ability to recruit, train, and retain professional personnel of the highest quality is a competitive advantage. Our future inability to do so would adversely affect our competitiveness.

Our contract obligations in our engineering and energy markets are performed by our staff of well-qualified engineers, technical professionals, and management personnel. A shortage of qualified technical professionals currently exists in the engineering industry in the U.S. Our future growth potential requires the effective recruiting, training, and retention of these employees. Our inability to retain these well-qualified personnel and recruit additional well-qualified personnel would adversely affect our business performance and limit our ability to perform new contracts.

If we are unable to accurately estimate and control our contract costs, then we may incur losses on our contracts, which could decrease our operating margins and significantly reduce or eliminate our profits.

It is important for us to control our contract costs so that we can maintain positive operating margins. Under our fixed-price contracts, we receive a fixed price regardless of what our actual costs will be. Consequently, we realize a profit on fixed-price contracts only if we control our costs and prevent cost over-runs on the contracts. Under our time-and-materials contracts, we are paid for labor at negotiated hourly billing rates and for other expenses. Profitability on our contracts is driven by billable headcount and our ability to manage costs. Under each type of contract, if we are unable to control costs, we may incur losses

Table of Contents

on our contracts, which could decrease our operating margins and significantly reduce or eliminate our profits.

Due to the nature of the work we perform to complete engineering and energy contracts, we are subject to potential liability claims and contract disputes.

Our engineering and energy contracts often involve projects where design, construction or systems failures, or accidents, could result in substantially large or punitive damages for which we could have liability. Our engineering practice involves professional judgments regarding the planning, design, development, construction, operations and management of facilities and public infrastructure projects. Although we have adopted a range of insurance, risk management, safety and risk avoidance programs designed to reduce potential liabilities, there can be no assurance that such programs will protect us fully from all risks and liabilities.

We may also experience a delay or withholding of payment for services due to performance disputes. If we are unable to resolve these disputes and collect these payments, we would incur profit reductions and reduced cash flows.

If we miss a required performance standard, fail to timely complete, or otherwise fail to adequately perform on a project, then we may incur a loss on that project, which may reduce or eliminate our overall profitability.

We may commit to a client that we will complete a project by a scheduled date. We may also commit that a project, when completed, will achieve specified performance standards. If the project is not completed by the scheduled date or fails to meet required performance standards, we may either incur significant additional costs or be held responsible for the costs incurred by the client to rectify damages due to late completion or failure to achieve the required performance standards. The uncertainty of the timing of a project can present difficulties in planning the amount of personnel needed for the project. If the project is delayed or canceled, we may bear the cost of an underutilized workforce that was dedicated to fulfilling the project. In addition, performance of projects can be affected by a number of factors beyond our control, including unavoidable delays from weather conditions, changes in the project scope of services requested by clients or labor or other disruptions. In some cases, should we fail to meet required performance standards, we may also be subject to agreed-upon financial damages, which are determined by the contract. To the extent that these events occur, the total costs of the project could exceed our estimates or, in some cases, incur a loss on a project, which may reduce or eliminate our overall profitability.

We are subject to procurement laws and regulations associated with our government contracts. If we do not comply with these laws and regulations, we may be prohibited from completing our existing government contracts or suspended from government contracting and subcontracting for some period of time.

Our compliance with the laws and regulations relating to the procurement, administration, and performance of our government contracts is dependent upon our ability to ensure that we properly design and execute compliant procedures.

Our termination from any of our larger government contracts or suspension from future government contracts for any reason would result in material declines in expected revenue. Because U.S. federal laws permit government agencies to terminate a contract for convenience, the U.S. federal government may terminate or decide not to renew our contracts with little or no prior notice.

Table of Contents

We are subject to routine U.S. federal, state and local government audits related to our government contracts. If audit findings are unfavorable, we could experience a reduction in our profitability.

Our government contracts are subject to audit. These audits may result in the determination that certain costs claimed as reimbursable are not allowable or have not been properly allocated to government contracts according to federal government regulations.

We are subject to audits for several years after payment for services has been received. Based on these audits, government entities may adjust or seek reimbursement for previously paid amounts. None of the audits performed to date on our government contracts have resulted in any significant adjustments to our financial statements. It is possible, however, that an audit in the future could have an adverse effect on our revenue, profits and cash flow.

Our inability to continue to win or renew government contracts could result in material reductions in our revenues and profits.

We have increased our contract activity with the U.S. federal, state and local governments in recent years. Our ability to earn revenues from our existing and future government projects will depend upon the availability of funding by our served and targeted government agencies. We cannot control whether those clients will fund or continue funding our outstanding projects.

If our relationship or reputation with government clients deteriorates for any reason and affects our ability to win new contracts or renew existing ones, we could experience a material revenue decline.

Our involvement in partnerships, joint ventures, and use of subcontractors exposes us to additional legal and market reputation damages.

Our methods of service delivery include the use of partnerships, subcontractors, joint ventures and other ventures. If our partners or subcontractors fail to satisfactorily perform their obligations as a result of financial or other difficulties, we may be unable to adequately perform or deliver our contracted services. Under these circumstances, we may be required to make additional investments and provide additional services to ensure the adequate performance and delivery of the contracted services. Additionally, we may be exposed to claims for damages that are a result of a partner's or subcontractor's performance. We could also suffer contract termination and damage to our reputation as a result of a partner's or subcontractor's performance.

In addition, we may participate in partnerships, joint ventures or other ventures in which we do not hold the controlling interest. To the extent the partner with the controlling interest in such an arrangement makes decisions that negatively impact that entity, our business, financial condition and results of operations could be negatively impacted.

We are engaged in highly competitive markets that pose challenges to continued revenue growth.

Our business is characterized by competition for contracts within the government and private sectors in which service contracts are typically awarded through competitive bidding processes. We compete with a large number of other service providers who offer the principal services we offer. In this competitive environment, we must provide technical proficiency, quality of service, and experience to ensure future contract awards and revenue and profit growth.

Our international business operations are subject to unique risks and challenges that create increased uncertainty in these markets.

Our international operations are subject to unique risks. These risks can include: potentially dynamic social, political and economic environments; civil disturbances, unrest, or violence; volatile labor conditions due to strikes and general difficulties in staffing international operations with highly qualified personnel; and logistical and communication challenges. Unexpected changes in regulatory requirements in foreign countries as well as inconsistent regulations, diverse licensing, and legal and tax requirements

Table of Contents

that differ from one country to another could also adversely affect our international projects. Additionally, there may be limitations on our ability to repatriate foreign earnings in certain jurisdictions. We also could be subject to exposure to liability due to the Foreign Corrupt Practices Act.

Our goodwill or other intangible assets could become impaired and result in a material reduction in our profits.

We have made acquisitions which have resulted in the recording of goodwill and intangible assets within our organization, and we plan to make additional Engineering acquisitions going forward. Our goodwill balance of each reporting unit, as defined by SFAS 142, is evaluated for potential impairment during the second quarter of each year and in certain other circumstances. Reporting units for purposes of this test are identical to our operating segments. The evaluation of impairment involves comparing the current fair value of the business to the recorded value, including goodwill. To determine the fair value of the business, we utilize both the Income Approach, which is based on estimates of future net cash flows and the Market Approach, which observes transactional evidence involving similar businesses. If these assets become impaired, a material write-off in the required amount could lead to reductions in our profits.

We use percentage-of-completion accounting methods for many of our projects. This method may result in volatility in stated revenues and profits.

Our revenues and profits for many of our contracts are recognized ratably as those contracts are performed. This rate is based primarily on the proportion of labor costs incurred to date to total labor costs projected to be incurred for the entire project. This method of accounting requires us to calculate revenues and profit to be recognized in each reporting period for each project based on our predictions of future outcomes, including our estimates of the total cost to complete the project, project schedule and completion date, the percentage of the project that is completed and the amounts of any probable unapproved change orders. Our failure to accurately estimate these often subjective factors could result in reduced profits or losses for certain contracts.

Our government contracts may give the government the right to modify, delay, curtail or terminate our contracts at their convenience at any time prior to their completion. Therefore, our backlog is subject to unexpected adjustments, delays and cancellations.

We cannot assure that our funded or unfunded backlog will be realized as revenues or that, if realized, it will result in profits. For example, we currently expect to adjust our unfunded backlog for FEMA downward as new information becomes available in the future. Projects may remain in our backlog for an extended period of time prior to project execution and, once project execution begins, revenues may occur unevenly over current and future periods. Our ability to earn revenues from our backlog depends on the availability of funding for various U.S. federal, state, local and foreign government agencies. In addition, most of our domestic and international industrial clients have termination for convenience provisions in their contracts. Therefore, project terminations, suspensions or reductions in scope may occur from time to time with respect to contracts reflected in our backlog. Project cancellations, delays and scope adjustments could further reduce the dollar amount of our backlog and the revenues and profits that we actually earn.

We are not insured for a significant portion of our claims exposure, which could materially and adversely affect our operating income and profitability.

We are self-insured or carry deductibles for most of our insurance coverages. Because of these deductibles and self-insured retention amounts, we have significant exposure to fluctuations in the number and severity of claims. As a result, our insurance and claims expense could increase in the future. Under certain conditions, we may elect or be required to increase our self-insured or deductible amounts, which would increase our already significant exposure to

expense from claims. If any claim exceeds our coverage, we would bear the excess expense, in addition to our other self-insured amounts. If the frequency or severity of claims or our expenses increase, our operating income and profitability could be materially adversely affected.

-10-

Table of Contents

Foreign governmental regulations could adversely affect our business.

Many aspects of our foreign operations are subject to governmental regulations in the countries in which we operate, including regulations relating to currency conversion, repatriation of earnings, taxation of our earnings and the earnings of our personnel, and the increasing requirement in some countries to make greater use of local employees and suppliers, including, in some jurisdictions, mandates that provide for greater local participation in the ownership and control of certain local business assets.

Our operations are also subject to the risk of changes in laws and policies which may impose restrictions on our business, including trade restrictions, and could have a material adverse effect on our operations. Our future operations and earnings may be adversely affected by new legislation, new regulations or changes in, or new interpretations of, existing regulations, and the impact of these changes could be material.

Our inability to achieve the Credit Agreement's financial covenants, after a cure period, amend/replace the commitment beyond 2011 or the inability of one or more financial institutions in the consortium to meet its commitment under our Credit Agreement could impact our liquidity for working capital needs or our growth strategy.

Our Unsecured Credit Agreement (Credit Agreement) is with a consortium of financial institutions and provides for a commitment of \$60 million through October 1, 2011. The commitment includes the sum of the principal amount of revolving credit loans outstanding and the aggregate face value of outstanding standby letters of credit. The Credit 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 is not achieved, under certain circumstances, after a cure period, the banks may demand the repayment of all borrowings outstanding and/or require deposits to cover the outstanding letters of credit. In addition, in future periods we may leverage our Credit Agreement for working capital needs or to facilitate our growth strategy, specifically utilizing our available credit to fund strategic acquisitions. Our inability to achieve the Credit Agreement's financial covenants, after a cure period, amend/replace the commitment beyond 2011 or the inability of one or more financial institutions in the consortium to meet its commitment under our Credit Agreement could impact our liquidity for working capital needs or our growth strategy.

A part of our business strategy is to grow the Engineering business through acquisitions. This strategy of growth through acquisitions may subject us to certain risks and uncertainties.

As part of our strategy, we seek to grow both organically and through strategic acquisitions. Acquisitions present a myriad of risks, including failure to realize anticipated synergies, difficulties with the integration of the acquired business and/or with the retention of key management personnel from the acquired company, cultural differences with the acquired company, significant transaction costs associated with the purchase and assimilation of the business, the risk of subjecting our company to unknown liabilities associated with the acquired business, and the potential impairment of goodwill associated with the transaction. In addition, there is a risk that we may not be able to identify suitable targets at appropriate valuations that will enable us to execute on our growth strategy. Furthermore, the current credit markets may impact our ability to finance certain opportunities or may unfavorably impact the cost of capital in such a transaction. Also, as part of executing an acquisition, we may utilize equity in the Company to partially fund the transaction, which could dilute share ownership. In the event we use our cash or borrowings under our Credit Agreement as consideration for certain acquisitions we may make, we could significantly reduce our liquidity.

Item 1B. Unresolved Staff Comments.

Not applicable.

Table of Contents

Item 2. *Properties.*

Our headquarters office is located in Moon Township, Pennsylvania. This building, which we lease, has approximately 117,000 square feet of office space and is used by our Corporate and Engineering staff. Our Engineering and Energy segments primarily occupy leased office space in stand-alone or multi-tenant buildings at costs based on prevailing market prices at lease inception. In addition to our Moon Township offices, our Engineering segment also has leased office space totaling approximately 504,000 square feet in the U.S. and Mexico as of December 31, 2008, which includes a major leased office in Alexandria, VA. Likewise, our Energy segment has its principal offices in Houston, TX, and leases office space totaling approximately 126,000 square feet in the U.S. and abroad. These leases expire at various dates through the year 2018.

We also own a 75,000 square foot office building located in Beaver, Pennsylvania, which is situated on approximately 230 acres and is utilized by our Engineering segment. We believe that our current facilities will be adequate for the operation of our business during the next year, and that suitable additional office space is readily available to accommodate any needs that may arise.

Item 3. *Legal Proceedings.*

We have been named as a defendant or co-defendant in legal proceedings wherein damages are claimed. Such proceedings are not uncommon to our business. We believe 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 or cash flows.

Class Action Complaints. On December 15, 2008, we filed a Motion to Dismiss, along with a supporting memorandum and associated exhibits, in respect to the previously disclosed class action lawsuit which arose following our February 2008 announcement of our intent to restate our financial statements for the first three quarters of 2007. In early January 2009, the parties agreed to mediate the case. During the mediation, the parties reached an agreement in principle to settle the case, subject to Court approval and notice to shareholders, for an amount which will be covered in full by our insurance.

Item 4. *Submission of Matters to a Vote of Security Holders.*

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.*

Market Information

Information relating to the market for our Common Stock and other matters related to the holders thereof is set forth in the Supplemental Financial Information section of Exhibit 13.1 to this Form 10-K. Such information is incorporated herein by reference.

Holders

As of February 28, 2009, we had 1,056 holders of our Common Stock.

Dividends

Our present policy is to retain any earnings to fund our operations and growth. We have not paid any cash dividends since 1983 and have no plans to do so in the foreseeable future. Our Credit Agreement with our banks places certain limitations on dividend payments.

-12-

Table of Contents

Sales of Unregistered Securities

We did not sell any unregistered securities during the year ended December 31, 2008.

Purchases of Equity Securities

Neither we nor any affiliated purchaser bought any Michael Baker Corporation equity securities during the fourth quarter of 2008.

Performance Graph

The following graph shows the changes over the past five-year period in the value of \$100 invested in (1) the Common Stock of Michael Baker Corporation, (2) the PHLX Oil Service Sector, (3) the Russell 2000 Index, and (4) our peer group (consisting of URS Corporation and Tetra Tech, Inc.). The values of each investment are based on share price appreciation, with reinvestment of all dividends, assuming any were paid. For each graph, the investments are assumed to have occurred at the beginning of each period presented.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Michael Baker Corporation, The Russell 2000 Index,
The PHLX Oil Service Sector Index and a Peer Group

Item 6. *Selected Financial Data.*

A summary of selected financial data for the five years ended December 31, 2008 is set forth in the Selected Financial Data section of Exhibit 13.1 to this Form 10-K. Such summary is incorporated herein by reference.

Table of Contents

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

A discussion and analysis of our results of operations, cash flow and financial condition is set forth in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of Exhibit 13.1 to this Form 10-K. This discussion is incorporated herein by reference.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

As of December 31, 2008, we had highly liquid investments included in our cash and cash equivalents (variable-rate investments), which totaled \$41.5 million as of December 31, 2008. The majority of the Company's funds were held in U.S. Treasury-backed money market funds as of December 31, 2008. Our Credit Agreement provides for a commitment of \$60 million through October 1, 2011. As of December 31, 2008, there were no borrowings (variable-rate debt) outstanding under the Credit Agreement. Based on the amounts of our investments and borrowings, we have no material exposure to interest rate risk.

We have several foreign subsidiaries that transact portions of their local activities in currencies other than the U.S. Dollar. At December 31, 2008, such currencies included the British Pound, Mexican Peso, Nigerian Naira, Thai Baht and Venezuelan Bolivar. These subsidiaries composed 7.6% of our consolidated total assets at December 31, 2008, and 5.4% of our consolidated revenues for the year then ended. In assessing our exposure to foreign currency exchange rate risk, we recognize that the majority of our foreign subsidiaries' assets and liabilities reflect ordinary course accounts receivable and accounts 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. Accordingly, assuming that foreign currency exchange rates could change unfavorably by 10%, we have no material exposure to foreign currency 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 8. *Financial Statements and Supplementary Data.*

Our consolidated financial statements as of December 31, 2008 and 2007 and for the three years ended December 31, 2008, together with the report thereon of our independent registered public accounting firm (Deloitte & Touche LLP), and supplementary financial information are set forth within Exhibit 13.1 to this Form 10-K. Such financial statements, the report thereon, and the supplementary financial information are incorporated herein by reference.

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.*

Not applicable.

Item 9A. *Controls and Procedures.*

Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with participation of our management, including our Chief Executive Officer and Acting Chief Financial Officer, we evaluated our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of December 31, 2008. This evaluation considered various procedures designed to ensure that information we disclose in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated

and communicated to management, including our Chief Executive Officer and Acting Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Acting Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2008.

Table of Contents

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with GAAP. Our internal control over financial reporting includes policies and procedures that:

- (i) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;
- (ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and our directors; and
- (iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of company assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Acting Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2008. The assessment was based on criteria established in the framework *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this evaluation, the Company's Chief Executive Officer and Acting Chief Financial Officer have concluded that the Company's internal control over financial reporting was effective at December 31, 2008.

Changes in Internal Control Over Financial Reporting

There were changes, as discussed below, 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 December 31, 2008, and that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Status of Remediation of Prior Year Material Weaknesses

We have implemented several changes to our internal control over financial reporting in response to the deficiencies identified in our 2007 Form 10-K. To address the material weaknesses, we have implemented the following procedures:

- (1) We improved our manual journal entry process within our Energy segment by requiring representatives from Finance and Project Accounting to review manual revenue-related journal entries, thus further segregating the review and approval functions; updating and then re-communicating our revised policies and procedures; and training personnel on manual revenue-related journal entry requirements (began in the first quarter of

2008). In the second half of 2008, management implemented procedures to monitor, evaluate and validate the operating effectiveness of the enhanced controls.

- (2) We enhanced our reviews of project profitability and unbilled revenue realizability on all Energy segment domestic onshore managed services projects by improving and then re-communicating

-15-

Table of Contents

our policies and procedures. Improvements included, but were not limited to, standardizing the processes for gathering, reporting and reviewing project financials; requiring the appropriate operations and financial personnel review of this financial information; and requiring documentation and distribution of the project profitability analyses to Corporate Finance (began in the first quarter of 2008). In addition, in the first quarter of 2008, we conducted training on revenue recognition requirements. In the second half of 2008, management implemented procedures to monitor, evaluate and validate the operating effectiveness of the enhanced controls.

- (3) We re-emphasized to our Energy segment senior management the need to focus on effective operations and financial personnel collaboration as a means of mitigating significant risks and strengthening our control environment. In this regard, we have stressed the importance of operations and financial personnel collaborating and interacting during the monthly accounting close and financial reporting processes (began in the first quarter of 2008). Throughout 2008, operating and financial management collaborated and interacted more closely during our monthly accounting close and financial reporting processes.
- (4) We continue to review staff competencies within our Energy segment and have used the results of that review in our overall financial statement risk assessment process. This process included an assessment of the knowledge and experience of management and supervisory personnel within the Energy segment's Finance Department (began in the second quarter of 2008). During the third quarter and into the fourth quarter of 2008, reviews of staff competencies were performed within the Energy segment's Finance Department and actions were taken to mitigate identified risks.
- (5) We made personnel changes that strengthen the control environment within the Energy segment's Finance Department. Specifically, we hired a Vice President, Controller and Chief Accounting Officer and a Project Accountant for the Energy Segment, and terminated the Energy segment's CFO and Manager of Project Accounting in the second quarter of 2008. With assistance from the new Vice President, Controller and Chief Accounting Officer, we hired a new Manager of Project Accounting, a new Manager of Financial Reporting and focused on additional personnel decisions throughout the second half of 2008 in order to strengthen the control environment and mitigate risks identified with the competencies assessment.

Management believes that the material weaknesses have been fully remediated. The remediation efforts are fully implemented, have operated for a period of time, have been tested, and we have concluded that such procedures are operating effectively.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Michael Baker Corporation

We have audited the internal control over financial reporting of Michael Baker Corporation and subsidiaries (the Company) as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated March 9, 2009 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP
Pittsburgh, Pennsylvania
March 9, 2009

-17-

Table of Contents

Item 9B. *Other Information.*

Not applicable.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance.*

Information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K appears in our definitive Proxy Statement, which will be distributed in connection with the 2009 Annual Meeting of Shareholders and which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A, or in Part I of this Form 10-K under the caption Executive Officers. This information is incorporated herein by reference.

Code of Ethics for Senior Officers

We have adopted a Code of Ethics for Senior Officers that includes the provisions required under applicable Securities and Exchange Commission regulations for a code of ethics. A copy of the Code of Ethics for Senior Officers is posted on our website at <http://www.mbakercorp.com> and is available in print to any shareholder who requests it. In the event that we make any amendments to or waivers from this Code, we will discuss the amendment or waiver and the reasons for such on our website.

The obligations of the Code of Ethics for Senior Officers supplement, but do not replace, the Code of Business Conduct applicable to our directors, officers and employees. A copy of the Code of Business Conduct is posted on our website at <http://www.mbakercorp.com> and is available in print to any shareholder who requests it.

Item 11. *Executive Compensation.*

Information required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K appears in our definitive Proxy Statement, which will be distributed in connection with the 2009 Annual Meeting of Shareholders and which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A. This information is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

Information required by Item 403 of Regulation S-K appears in our definitive Proxy Statement, which will be distributed in connection with the 2009 Annual Meeting of Shareholders and which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A. This information is incorporated herein by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2008 about equity awards under our equity compensation plans and arrangements in the aggregate:

(a) Number of Securities to	(b) Weighted-Average	(c) Number of Securities Remaining Available for Future Issuance Under
-----------------------------------	-------------------------	---

Plan Category	be Issued upon Exercise of Outstanding Options, Warrants and Rights	Exercise Price of Outstanding Options, Warrants and Rights	Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by shareholders Equity compensation plans not approved by shareholders	128,463	\$ 18.48	173,500
<i>Total</i>	128,463	\$ 18.48	173,500

-18-

Table of Contents**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

Information required by Items 404 and 407(a) of Regulation S-K appears in our definitive Proxy Statement, which will be distributed in connection with the 2009 Annual Meeting of Shareholders and which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A. This information is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services.*

Information required by Item 9(e) of Schedule 14A appears in our definitive Proxy Statement, which will be distributed in connection with the 2009 Annual Meeting of Shareholders and which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A. This information is incorporated herein by reference.

PART IV**Item 15. *Exhibits and Financial Statement Schedules.***

(a)(1) The following financial statements are incorporated in Item 8 of Part II of this Report by reference to the consolidated financial statements within Exhibit 13.1 to this Form 10-K:

<u>Consolidated Statements of Income for each of the three years in the period ended December 31, 2008</u>	20
<u>Consolidated Balance Sheets as of December 31, 2008 and 2007</u>	21
<u>Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2008</u>	22
<u>Consolidated Statements of Shareholders' Investment for each of the three years in the period ended December 31, 2008</u>	23
<u>Notes to Consolidated Financial Statements</u>	24
<u>Management's Report to Shareholders on Its Responsibility for Financial Statements</u>	47
<u>Report of Independent Registered Public Accounting Firm (Deloitte & Touche LLP)</u>	48

(a)(2) Financial statement schedule for the year ended December 31, 2008:

Schedule II Valuation and Qualifying Accounts

(In thousands)					
Description	Beginning Balance	Additions Charged to Expense	Other Accounts	Deductions	Ending Balance
For the year ended December 31, 2008:					
Income tax valuation allowance	\$ 6,245	\$	\$	\$ (1,160) ⁽¹⁾	\$ 5,085
Nigerian prepaid tax allowance	1,799	152 ⁽²⁾		(282) ⁽³⁾	1,669
Allowance for doubtful accounts	1,463	3,436		(2,134) ⁽⁴⁾	2,765
For the year ended December 31, 2007:					
Income tax valuation allowance	\$ 7,792	\$	\$	\$ (1,547) ⁽¹⁾	\$ 6,245
Nigerian prepaid tax allowance	2,173	505 ⁽²⁾		(879) ⁽³⁾	1,799
Allowance for doubtful accounts	767	1,272		(576) ⁽⁴⁾	1,463

For the year ended December 31, 2006:

Income tax valuation allowance	\$	6,150	\$	1,642 ⁽⁵⁾	\$		\$	7,792
Nigerian prepaid tax allowance		1,560		1,006 ⁽²⁾		(393) ⁽³⁾		2,173
Allowance for doubtful accounts		746		110		(89) ⁽⁴⁾		767

Table of Contents

- (1) Relates to a reduction in federal, state, and foreign net operating losses and related valuation allowances.
- (2) Relates to the inability to realize Nigerian prepaid income tax assets.
- (3) The deduction amount primarily reflects recoveries of prepaid tax amounts previously expensed.
- (4) The deduction amount primarily reflects accounts receivable balances written off during the year as well as recoveries of allowances previously expensed.
- (5) Primarily relates to valuation of federal, state, and foreign net operating losses.

Report of Independent Registered Public Accounting Firm (Deloitte & Touche LLP) on Financial Statement Schedule for the years ended December 31, 2008 and 2007 (included as Exhibit 99.1 to this Form 10-K).

All other schedules are omitted because they are either not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3)The following exhibits are included herewith as a part of this Report:

Exhibit No.	Description
3.1	Articles of Incorporation, as amended, filed as Exhibit 3.1 to our Annual Report on Form 10-K for the year ended December 31, 1993, and incorporated herein by reference.
3.2	By-laws, as amended, filed as Exhibit 3.1 to our Report on Form 8-K dated November 28, 2007, and incorporated herein by reference.
4.1	Rights Agreement dated November 16, 1999, between us and American Stock Transfer and Trust Company, as Rights Agent, filed as Exhibit 4.1 to our Report on Form 8-K dated November 16, 1999, and incorporated herein by reference.
10.1	2008 Incentive Compensation Plan (attachments excluded), filed herewith.*
10.2	Consulting Agreement dated April 25, 2001, by and between us and Richard L. Shaw, filed as Exhibit 10.2(c) to our Quarterly Report on Form 10-Q for the period ended June 30, 2001, and incorporated herein by reference.*
10.2(a)	First Amendment to Consulting Agreement effective April 26, 2003, by and between us and Richard L. Shaw, filed as Exhibit 10.2(a) to our Annual Report on Form 10-K for the year ended December 31, 2003, and incorporated herein by reference.*
10.2(b)	Second Amendment to Consulting Agreement effective April 26, 2005, by and between us and Richard L. Shaw, filed as Exhibit 10.2(a) to our Quarterly Report on Form 10-Q for the period ended June 30, 2005, and incorporated herein by reference.*
10.2(c)	Third Amendment to Consulting Agreement effective April 26, 2006, by and between us and Richard L. Shaw, filed as Exhibit 10.2(c) to our Annual Report on Form 10-K for the year ended

Edgar Filing: BAKER MICHAEL CORP - Form 10-K

December 31, 2006, and incorporated herein by reference.*

- 10.2(d) Fourth Amendment to Consulting Agreement effective April 26, 2007, by and between us and Richard L. Shaw, filed as Exhibit 10.2(d) to our Annual Report on Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.*
- 10.2(e) Fifth Amendment to Consulting Agreement effective April 26, 2008, by and between us and Richard L. Shaw, filed as Exhibit 10.2(e) to our Annual Report on Form 10-K for the year ended December 31, 2007, and incorporated herein by reference.*
- 10.3 First Amended and Restated Loan Agreement dated September 17, 2004, by and between us and Citizens Bank of Pennsylvania, PNC Bank, National Association and Fifth Third Bank, filed as Exhibit 10.4(a) to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, and incorporated herein by reference.

Table of Contents

Exhibit No.	Description
10.3(a)	First Amendment to the First Amended and Restated Loan Agreement dated September 1, 2007, by and between us and Citizens Bank of Pennsylvania, PNC Bank, National Association and Fifth Third Bank, filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2007, and incorporated herein by reference.
10.4	1995 Stock Incentive Plan amended effective April 23, 1998, filed as Exhibit 10.4 to our Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated herein by reference.*
10.5	1996 Nonemployee Directors Stock Incentive Plan, filed as Exhibit A to our definitive Proxy Statement with respect to our 1996 Annual Meeting of Shareholders, and incorporated herein by reference.*
10.6	Office Sublease Agreement dated August 6, 2001, by and between us and Airside Business Park, L.P., filed as Exhibit 10.7 to our Annual Report on Form 10-K for the year ended December 31, 2002 (exhibits omitted), and incorporated herein by reference.
10.6(a)	Third Amendment to Office Sublease Agreement dated February 19, 2003, by and between us and Airside Business Park, L.P., filed as Exhibit 10.7(a) to our Annual Report on Form 10-K for the year ended December 31, 2002, and incorporated herein by reference.
10.7	Retention Agreement between us and John D. Whiteford, dated June 12, 2007, filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the period ended June 30, 2007, and incorporated herein by reference.
10.7(a)	First Amendment to the Retention Agreement between us and John D. Whiteford, dated December 17, 2008, filed herewith.*
10.8	Employment Agreement between us and Bradley L. Mallory, dated June 17, 2008, filed as Exhibit 10.1 to our Report on Form 8-K dated June 17, 2008, and incorporated herein by reference.
10.9	Retention Agreement between us and Craig O. Stuver, dated September 18, 2008, filed herewith.*
13.1	Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations, Consolidated Financial Statements as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, Report of Independent Registered Public Accounting Firm (Deloitte & Touche LLP), and Supplemental Financial Information, filed herewith and to be included as the Financial Section of the Annual Report to Shareholders for the year ended December 31, 2008.
21.1	Subsidiaries, filed herewith.
23.1	Consent of Independent Registered Public Accounting Firm (Deloitte & Touche LLP), filed herewith.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a), filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a), filed herewith.

32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

99.1 Report of Independent Registered Public Accounting Firm (Deloitte & Touche LLP) on financial statement schedule for the years ended December 31, 2008, 2007 and 2006, filed herewith.

* Management contract or compensatory plan.

-21-

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, we have duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

MICHAEL BAKER CORPORATION

Dated: March 10, 2009

By: /s/ Bradley L. Mallory
Bradley L. Mallory President, Chief Executive Officer
and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on our behalf and in the capacities indicated as of March 10, 2009:

Signature	Title
/s/ Bradley L. Mallory Bradley L. Mallory	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Craig O. Stuver Craig O. Stuver	Senior Vice President, Acting Chief Financial Officer and Treasurer (Principal Financial Officer)
/s/ James M. Kempton James M. Kempton	Vice President and Corporate Controller (Principal Accounting Officer)
/s/ Richard L. Shaw Richard L. Shaw	Chairman of the Board
/s/ Robert N. Bontempo Robert N. Bontempo	Director
/s/ Nicholas P. Constantakis Nicholas P. Constantakis	Director
/s/ Robert H. Foglesong Robert H. Foglesong	Director
/s/ Mark E. Kaplan Mark E. Kaplan	Director

Mark E. Kaplan

/s/ John E. Murray, Jr.

Director

John E. Murray, Jr.

/s/ Pamela S. Pierce

Director

Pamela S. Pierce

/s/ David N. Wormley

Director

David N. Wormley

-22-