KIRBY CORP
Form 10-K
February 26, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file no. 1-7615
Kirby Corporation
(Exact name of registrant as specified in its charter)

Nevada	**74-1884980**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
55 Waugh Drive, Suite 1000 **Houston, Texas** *(Address of principal executive offices)*	**77007** *(Zip Code)*

Registrant s telephone number, including area code:
(713) 435-1000

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock $.10 Par Value Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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 þ No o

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

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 the 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. o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of common stock held by nonaffiliates of the registrant as of June 30, 2009, based on the closing sales price of such stock on the New York Stock Exchange on June 30, 2009 was $1,624,291,000. For purposes of this computation, all executive officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such executive officers, directors and 10% beneficial owners are affiliates.

As of February 26, 2010, 54,011,000 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Company s definitive proxy statement in connection with the Annual Meeting of Stockholders to be held April 27, 2010, to be filed with the Commission pursuant to Regulation 14A, is incorporated by reference into Part III of this report.

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PART I

Item 1. *Business*

THE COMPANY

Kirby Corporation (the Company) was incorporated in Nevada on January 31, 1969 as a subsidiary of Kirby Industries, Inc. (Industries). The Company became publicly owned on September 30, 1976 when its common stock was distributed pro rata to the stockholders of Industries in connection with the liquidation of Industries. At that time, the Company was engaged in oil and gas exploration and production, marine transportation and property and casualty insurance. Since then, through a series of acquisitions and divestitures, the Company has become primarily a marine transportation and diesel engine services company and is no longer engaged in the oil and gas or the property and casualty insurance businesses. In 1990, the name of the Company was changed from Kirby Exploration Company, Inc. to Kirby Corporation because of the changing emphasis of its business.

Unless the context otherwise requires, all references herein to the Company include the Company and its subsidiaries.

The Company s principal executive office is located at 55 Waugh Drive, Suite 1000, Houston, Texas 77007, and its telephone number is (713) 435-1000. The Company s mailing address is P.O. Box 1745, Houston, Texas 77251-1745.

Documents and Information Available on Web Site

The Internet address of the Company s web site is www.kirbycorp.com. The Company makes available free of charge through its web site, all of its filings with the Securities and Exchange Commission (SEC), including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC.

The following documents are available on the Company s web site in the Investor Relations section under Corporate Governance:

Audit Committee Charter

Compensation Committee Charter

Governance Committee Charter

Business Ethics Guidelines

Corporate Governance Guidelines

The Company is required to make prompt disclosure of any amendment to or waiver of any provision of its Business Ethics Guidelines that applies to any director or executive officer or to its chief executive officer, chief financial officer, chief accounting officer or controller or persons performing similar functions. The Company will make any such disclosure that may be necessary by posting the disclosure on its web site in the Investor Relations section under Corporate Governance.

BUSINESS AND PROPERTY

The Company, through its subsidiaries, conducts operations in two business segments: marine transportation and diesel engine services.

The Company s marine transportation segment is engaged in the inland transportation of petrochemicals, black oil products, refined petroleum products and agricultural chemicals by tank barges, and, to a lesser extent, the offshore transportation of dry-bulk cargoes by barge. The segment is a provider of transportation services for its customers and, in almost all cases, does not assume ownership of the products that it transports. All of the segment s vessels operate under the United States flag and are qualified for domestic trade under the Jones Act.

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The Company s diesel engine services segment is engaged in the overhaul and repair of medium-speed and high-speed diesel engines and reduction gears, and related parts sales in three distinct markets: the marine market, providing aftermarket service for vessels powered by diesel engines utilized in the various inland and offshore marine industries; the power generation market, providing aftermarket service for diesel engines that provide standby, peak and base load power generation for users of industrial reduction gears and for standby generation components of the nuclear industry; and the railroad market, providing aftermarket service and parts for shortline, industrial, Class II and certain transit railroads.

The Company and its marine transportation and diesel engine services segments have approximately 2,675 employees, all of whom are in the United States.

The following table sets forth by segment the revenues, operating profits and identifiable assets attributable to the principal activities of the Company for the years indicated (in thousands):

	2009	2008	2007
Revenues from unaffiliated customers:			
Marine transportation	$ 881,298	$ 1,095,475	$ 928,834
Diesel engine services	200,860	264,679	243,791
Consolidated revenues	$ 1,082,158	$ 1,360,154	$ 1,172,625
Operating profits:			
Marine transportation	$ 208,086	$ 244,866	$ 196,112
Diesel engine services	21,005	39,587	37,948
General corporate expenses	(12,239)	(14,099)	(12,889)
Impairment of goodwill	(1,901)		
Gain (loss) on disposition of assets	1,079	142	(383)
	216,030	270,496	220,788
Equity in earnings of affiliates	874	134	266
Other expense	(266)	(649)	(221)
Interest expense	(11,080)	(14,064)	(20,284)
Earnings before taxes on income	$ 205,558	$ 255,917	$ 200,549
Identifiable assets:			
Marine transportation	$ 1,336,358	$ 1,289,689	$ 1,199,869
Diesel engine services	185,573	208,993	213,062
	1,521,931	1,498,682	1,412,931
Investment in affiliates	3,052	2,056	1,921
General corporate assets	110,980	25,360	15,623
Consolidated assets	$ 1,635,963	$ 1,526,098	$ 1,430,475

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MARINE TRANSPORTATION

The marine transportation segment is primarily a provider of transportation services by barge for the inland and offshore markets. As of February 26, 2010, the equipment owned or operated by the marine transportation segment consisted of 863 active inland tank barges, 213 active inland towboats, four offshore dry-cargo barges, four offshore tugboats and one offshore shifting tugboat with the following specifications and capacities:

Class of equipment	Number in class	Average age (in years)	Barrel capacities
Inland tank barges:			
Active:			
Regular double hull:			
20,000 barrels and under	373	25.6	4,327,000
Over 20,000 barrels	407	16.6	11,198,000
Specialty double hull	83	34.6	1,205,000
Total active inland tank barges	863	22.2	16,730,000
Inactive	4	43.8	64,000
Inland towboats:			
Active (owned and chartered):			
Less than 800 horsepower	1	41.0	
800 to 1300 horsepower	96	32.3	
1400 to 1900 horsepower	74	28.4	
2000 to 2400 horsepower	18	19.7	
2500 to 3200 horsepower	13	36.2	
3300 to 4900 horsepower	9	33.0	
Greater than 5000 horsepower	1	45.0	
Spot charters (chartered trip to trip)	1		
Total active inland towboats	213	30.3	
Inactive	15	31.2	

			Deadweight Tonnage
Offshore dry-cargo barges	4	29.9	70,000
Offshore tugboats and shifting tugboat	5	32.7	

The 213 active inland towboats, four offshore tugboats and one offshore shifting tugboat provide the power source and the 863 active inland tank barges and four offshore dry-cargo barges provide the freight capacity. When the power source and freight capacity are combined, the unit is called a tow. The Company s inland tows generally consist of one towboat and from one to 25 tank barges, depending upon the horsepower of the towboat, the river or canal capacity and conditions, and customer requirements. The Company s offshore tows consist of one tugboat and one dry-cargo barge.

Marine Transportation Industry Fundamentals

The United States inland waterway system, composed of a network of interconnected rivers and canals that serve the nation as water highways, is one of the world s most efficient transportation systems. The nation s waterways are vital to the United States distribution system, with over 1.1 billion short tons of cargo moved annually on United States shallow draft waterways. The inland waterway system extends approximately 26,000 miles, 12,000 miles of which are generally considered significant for domestic commerce, through 38 states, with 635 shallow draft ports. These navigable inland waterways link the United States heartland to the world.

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Based on cost and safety, inland barge transportation is often the most efficient and safest means of transporting bulk commodities compared with railroads and trucks. The cargo capacity of a 90,000 barrel three barge tow is the equivalent of 150 railroad tank cars or 470 tractor-trailer tank trucks. A typical Company lower Mississippi River linehaul tow of 15 barges has the carrying capacity of approximately 260 railroad tank cars or approximately 825 tractor-trailer tank trucks. The 260 railroad tank cars would require a freight train approximately 23/4 miles long and the 825 tractor-trailer tank trucks would stretch approximately 35 miles, assuming a safety margin of 150 feet between the trucks. The Company s active tank barge fleet capacity of 16.7 million barrels equates to approximately 27,900 railroad tank cars or approximately 87,400 tractor-trailer tank trucks. In addition, studies comparing inland water transportation to railroads and trucks have proven shallow draft water transportation to be the most energy efficient and environmentally friendly method of moving bulk materials. One ton of bulk product can be carried 576 miles by inland barge on one gallon of fuel, compared with 413 miles by railroad or 155 miles by truck.

Inland barge transportation is also one of the safest modes of transportation in the United States. It generally involves less urban exposure than railroad or truck. It operates on a system with few crossing junctures and in areas relatively remote from population centers. These factors generally reduce both the number and impact of waterway incidents.

Inland Tank Barge Industry

The Company s marine transportation segment operates within the United States inland tank barge industry, a diverse and independent mixture of large integrated transportation companies and small operators, as well as captive fleets owned by United States refining and petrochemical companies. The inland tank barge industry provides marine transportation of bulk liquid cargoes for customers and, in the case of captives, for their own account, along the Mississippi River and its tributaries and the Gulf Intracoastal Waterway. The most significant markets in this industry include the transportation of petrochemicals, black oil products, refined petroleum products and agricultural chemicals. The Company operates in each of these markets. The use of marine transportation by the petroleum and petrochemical industry is a major reason for the location of United States refineries and petrochemical facilities on navigable inland waterways. Texas and Louisiana currently account for approximately 80% of the United States production of petrochemicals. Much of the United States farm belt is likewise situated with access to the inland waterway system, relying on marine transportation of farm products, including agricultural chemicals. The Company s principal distribution system encompasses the Gulf Intracoastal Waterway from Brownsville, Texas, to Port St. Joe, Florida, the Mississippi River System and the Houston Ship Channel. The Mississippi River System includes the Arkansas, Illinois, Missouri, Ohio, Red, Tennessee, Yazoo, Ouachita and Black Warrior Rivers and the Tennessee-Tombigbee Waterway.

The number of tank barges that operate on the inland waterways of the United States declined from approximately 4,200 in 1982 to approximately 2,900 in 1993, remained relatively constant at 2,900 until 2002, decreased to 2,750 from 2002 through 2006 and increased to approximately 3,050 by the end of 2008 and an estimated 3,100 by the end of 2009. The Company believes the decrease from 4,200 in 1982 to 2,750 in 2006 primarily resulted from: the increasing age of the domestic tank barge fleet, resulting in scrapping; rates inadequate to justify new construction; a reduction in tax incentives, which previously encouraged speculative construction of new equipment; stringent operating standards to adequately cope with safety and environmental risk; the elimination of government regulations and programs supporting the many new small refineries and a proliferation of oil traders which created a strong demand for tank barge services; an increase in the average capacity per barge; and an increase in environmental regulations that mandate expensive equipment modification, which some owners were unwilling or unable to undertake given capital constraints and the age of their fleets. The cost of tank barge hull work for required periodic United States Coast Guard (USCG) certifications, as well as general safety and environmental concerns, force operators to periodically reassess their ability to recover maintenance costs. The increase from 2,750 in 2006 to an estimated 3,100 by the end of 2009 primarily resulted from increased barge construction and deferred retirements due to strong demand and resulting capacity shortages through the 2008 third quarter.

From 2003 through 2006, the Company believes that new tank barge construction approximated retirements. During 2007 and 2008, sustained favorable market conditions stimulated additional new capacity. During the first

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nine months of 2008 and prior to the deterioration of the marine transportation markets in the 2008 fourth quarter, the Company and many competitors signed tank barge construction contracts with shipyards for 2009 deliveries. During 2009, the Company estimated that between 180 to 200 new tank barges were delivered and placed in service, with an estimated 130 tank barges retired; however, the current reduction of petrochemical and refining production has resulted in excess barge capacity, lower utilization and the acceleration of the retirement of older barges. Weaker market conditions may constrain industry wide new barge orders for 2010 and the retirement of older barges may be further accelerated. Also decreasing the risk of an oversupply of barges is the fact that the tank barge industry has a mature fleet, with approximately 925 tank barges over 30 years old and 500 of those over 35 years old, which may lead to early retirement of some older tank barges.

The average age of the nation s tank barge fleet is 22 years, with 26% of the fleet built in the last 10 years. Single hull barges comprise approximately 2% of the nation s tank barge fleet, with an average age of 37 years. Single hull barges are being driven from the nation s tank barge fleet by market forces, stringent environmental regulations and rising maintenance costs. Single hull tank barges are required by current federal law to be retrofitted with double hulls or phased out of domestic service by 2015. Due to a market bias against single hull tank barges, the Company retired its nine remaining single hull tank barges in 2009. Market bias and current weak market conditions may also result in reduced lives for single hull tank barges industry wide.

The Company s marine transportation segment is also engaged in offshore dry-cargo barge operations transporting dry-bulk cargoes. Such cargoes are transported primarily between domestic ports along the Gulf of Mexico.

The Company s marine transportation segment also owns a two-thirds interest in Osprey Line, L.L.C. (Osprey), transporter of project cargoes and cargo containers by barge on the United States inland waterway system.

Competition in the Inland Tank Barge Industry

The inland tank barge industry remains very competitive. Competition in this business has historically been based primarily on price; however, the industry s customers, through an increased emphasis on safety, the environment, quality and a trend toward a single source supply of services, are more frequently requiring that their supplier of inland tank barge services have the capability to handle a variety of tank barge requirements, offer distribution capability throughout the inland waterway system, and offer flexibility, safety, environmental responsibility, financial responsibility, adequate insurance and quality of service consistent with the customer s own operational standards.

The Company s direct competitors are primarily noncaptive inland tank barge operators. Captive fleets are owned by major oil and/or petrochemical companies which occasionally compete in the inland tank barge market, but primarily transport cargoes for their own account. The Company is the largest inland tank barge carrier, both in terms of number of barges and total fleet barrel capacity. The Company s inland tank barge fleet has grown from 71 tank barges in 1988 to 863 active tank barges as of February 26, 2010. It currently operates approximately 28% of the total number of domestic inland tank barges.

While the Company competes primarily with other tank barge companies, it also competes with companies who operate refined product and petrochemical pipelines, railroad tank cars and tractor-trailer tank trucks. As noted above, the Company believes that inland marine transportation of bulk liquid products of adequate volume enjoys a substantial cost advantage over railroad and truck transportation. The Company believes that refined product and petrochemical pipelines, although often a less expensive form of transportation than inland tank barges, are not as adaptable to diverse products and are generally limited to fixed point-to-point distribution of commodities in high volumes over extended periods of time.

Marine Transportation Acquisitions

On March 18, 2008, the Company purchased six inland tank barges from OFS Marine One, Inc. (ORIX) for $1,800,000 in cash. The Company had been leasing the barges from ORIX prior to their purchase.

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On October 1, 2007, the Company purchased nine inland tank barges from Siemens Financial, Inc. (Siemens) for $4,500,000 in cash. The Company had been leasing the barges since 1994 when the leases were assigned to the Company as part of the Company s purchase of the tank barge fleet of The Dow Chemical Company (Dow).

On January 3, 2007, the Company purchased the stock of Coastal Towing, Inc. (Coastal), the owner of 37 inland tank barges, for $19,474,000 in cash. The Company had been operating the Coastal tank barges since October 2002 under a barge management agreement.

On January 2, 2007, the Company purchased 21 inland tank barges from Cypress Barge Leasing, LLC (Cypress) for $14,965,000 in cash. The Company had been leasing the barges since 1994 when the leases were assigned to the Company as part of the Company s purchase of the tank barge fleet of Dow.

Products Transported

During 2009, the Company s marine transportation segment moved over 48 million tons of liquid cargo on the United States inland waterway system. Products transported for its customers comprised the following: petrochemicals, black oil products, refined petroleum products and agricultural chemicals.

Petrochemicals. Bulk liquid petrochemicals transported include such products as benzene, styrene, methanol, acrylonitrile, xylene and caustic soda, all consumed in the production of paper, fibers and plastics. Pressurized products, including butadiene, isobutane, propylene, butane and propane, all requiring pressurized conditions to remain in stable liquid form, are transported in pressure barges. The transportation of petrochemical products represented approximately 68% of the segment s 2009 revenues. Customers shipping these products are refining and petrochemical companies.

Black Oil Products. Black oil products transported include such products as asphalt, residual fuel oil, No. 6 fuel oil, coker feedstock, vacuum gas oil, carbon black feedstock, crude oil and ship bunkers (ship engine fuel). Such products represented approximately 19% of the segment s 2009 revenues. Black oil customers are refining companies, marketers and end users that require the transportation of black oil products between refineries and storage terminals. Ship bunkers customers are oil companies and oil traders in the bunkering business.

Refined Petroleum Products. Refined petroleum products transported include the various blends of finished gasoline, jet fuel, No. 2 oil, naphtha, heating oil and diesel fuel, and represented approximately 9% of the segment s 2009 revenues. Customers are oil and refining companies and marketers.

Agricultural Chemicals. Agricultural chemicals transported represented approximately 4% of the segment s 2009 revenues. They include anhydrous ammonia and nitrogen-based liquid fertilizer, as well as industrial ammonia. Agricultural chemical customers consist mainly of domestic and foreign producers of such products.

Demand Drivers in the Inland Tank Barge Industry

Demand for inland tank barge transportation services is driven by the production volumes of the bulk liquid commodities transported by barge. Demand for inland marine transportation of the segment s four primary commodity groups, petrochemicals, black oil products, refined petroleum products and agricultural chemicals, is based on differing circumstances. While the demand drivers of each commodity are different, the Company has the flexibility in many cases of re-allocating equipment between the petrochemical and refined products markets as needed.

Bulk petrochemical volumes generally track the general domestic economy and correlate to the United States Gross Domestic Product. Volumes also track the production volumes of United States petrochemical plants whose products

may also be exported. These products are used primarily in consumer durable and non-durable goods. The other component of petrochemical production consists of gasoline blending components, the demand for which closely parallels United States gasoline consumption.

The demand for black oil products, including ship bunkers, varies with the type of product transported. Demand for transportation of residual oil, a heavy by-product of refining operations, varies with refinery utilization. Asphalt shipments are generally seasonal, with higher volumes shipped during April through November, months when weather allows for efficient road construction. Carbon black feedstock shipments generally track the general

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domestic economy and are used in the production of automobiles and related parts, and in housing applications. Other black oil shipments are more constant and service the United States oil refineries.

Refined petroleum products volumes are driven by United States gasoline consumption, principally vehicle usage, air travel and weather conditions. Volumes also relate to gasoline inventory imbalances within the United States. Generally, gasoline and No. 2 oil are exported from the Gulf Coast where refining capacity exceeds demand. The Midwest is a net importer of such products. Demand for tank barge transportation from the Gulf Coast to the Midwest region can also be impacted by the gasoline price differential between the Gulf Coast and the Midwest.

Demand for marine transportation of agricultural fertilizer is directly related to domestic nitrogen-based liquid fertilizer consumption, driven by the production of corn, cotton and wheat. The manufacturing of nitrogen-based liquid fertilizer in the United States is curtailed significantly in periods of high natural gas prices. During these periods, imported products, which normally involve longer barge trips, replace the domestic products to meet Midwest and south Texas demands. Such products are delivered to the numerous small terminals and distributors throughout the United States farm belt.

Marine Transportation Operations

The marine transportation segment operates a fleet of 863 active inland tank barges and 213 active inland towboats. The segment also owns and operates four offshore dry-cargo barges, four offshore tugboats and one offshore shifting tugboat, and a small bulk liquid terminal.

Inland Operations. The segment s inland operations are conducted through a wholly owned subsidiary, Kirby Inland Marine, LP (Kirby Inland Marine). Kirby Inland Marine s operations consist of the Canal, Linehaul and River fleets, as well as barge fleeting services.

The Canal fleet transports petrochemical feedstocks, processed chemicals, pressurized products, black oil products and refined petroleum products along the Gulf Intracoastal Waterway, the Mississippi River below Baton Rouge, Louisiana, and the Houston Ship Channel. Petrochemical feedstocks and certain pressurized products are transported from one refinery to another refinery for further processing. Processed chemicals and certain pressurized products are moved to waterfront terminals and chemical plants. Certain black oil products are transported to waterfront terminals and products such as No. 6 fuel oil are transported directly to the end users. Refined petroleum products are transported to waterfront terminals along the Gulf Intracoastal Waterway for distribution.

The Linehaul fleet transports petrochemical feedstocks, processed chemicals, agricultural chemicals and lube oils along the Gulf Intracoastal Waterway, Mississippi River and the Illinois and Ohio Rivers. Loaded tank barges are staged in the Baton Rouge area from Gulf Coast refineries and petrochemical plants, and are transported from Baton Rouge to waterfront terminals and plants on the Mississippi, Illinois and Ohio Rivers, and along the Gulf Intracoastal Waterway, on regularly scheduled linehaul tows. Barges are dropped off and picked up going up and down river.

The River fleet transports petrochemical feedstocks, processed chemicals, refined petroleum products, agricultural chemicals and black oil products along the Mississippi River System above Baton Rouge. Petrochemical feedstocks and processed chemicals are transported to waterfront petrochemical and chemical plants, while black oil products, refined petroleum products and agricultural chemicals are transported to waterfront terminals. The River fleet operates unit tows, where a towboat and generally a dedicated group of barges operate on consecutive voyages between loading and discharge points.

The transportation of petrochemical feedstocks, processed chemicals and pressurized products is generally consistent throughout the year. Transportation of refined petroleum products, certain black oil products and agricultural

chemicals is generally more seasonal. Movements of black oil products, such as asphalt, generally increase in the spring through fall months. Movements of refined petroleum products, such as gasoline blends, generally increase during the summer driving season, while heating oil movements generally increase during the winter months. Movements of agricultural chemicals generally increase during the spring and fall planting seasons.

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The marine transportation segment moves and handles a broad range of sophisticated cargoes. To meet the specific requirements of the cargoes transported, the tank barges may be equipped with self-contained heating systems, high-capacity pumps, pressurized tanks, refrigeration units, stainless steel tanks, aluminum tanks or specialty coated tanks. Of the 863 active tank barges currently operated, 665 are petrochemical and refined products barges, 118 are black oil barges, 64 are pressure barges, 11 are refrigerated anhydrous ammonia barges and 5 are specialty barges. Of the 863 active tank barges, 814 are owned by the Company and 49 are leased.

The fleet of 213 active inland towboats ranges from 600 to 5,600 horsepower. Of the 213 active inland towboats, 164 are owned by the Company and 49 are chartered. Towboats in the 600 to 1900 horsepower classes provide power for barges used by the Canal and Linehaul fleets on the Gulf Intracoastal Waterway and the Houston Ship Channel. Towboats in the 1400 to 6000 horsepower classes provide power for both the River and Linehaul fleets on the Gulf Intracoastal Waterway and the Mississippi River System. Towboats above 3600 horsepower are typically used on the Mississippi River System to move River fleet unit tows and provide Linehaul fleet towing. Based on the capabilities of the individual towboats used in the Mississippi River System, the tows range in size from 10,000 to 30,000 tons.

Marine transportation services are conducted under long-term contracts, ranging from one to five years with renewal options, with customers with whom the Company has traditionally had long-standing relationships, as well as under spot contracts. During the first nine months of 2009 and the 2008 year, approximately 80% of marine transportation revenues were derived from term contracts and 20% from spot contracts. During the 2009 fourth quarter, approximately 75% of marine transportation revenues were from term contracts and 25% from spot contracts. This decrease in term contract revenue mix was due to certain customers switching to spot contracts when their term contracts expired.

Inland tank barges used in the transportation of petrochemicals are of double hull construction and, where applicable, are capable of controlling vapor emissions during loading and discharging operations in compliance with occupational health and safety regulations and air quality concerns.

The marine transportation segment is one of the few inland tank barge operators with the ability to offer to its customers distribution capabilities throughout the Mississippi River System and the Gulf Intracoastal Waterway. Such distribution capabilities offer economies of scale resulting from the ability to match tank barges, towboats, products and destinations more efficiently.

Through the Company s proprietary vessel management computer system, the fleet of barges and towboats is dispatched from centralized dispatch at the corporate office. The towboats are equipped with satellite positioning and communication systems that automatically transmit the location of the towboat to the Company s traffic department located in its corporate office. Electronic orders are communicated to the vessel personnel, with reports of towing activities communicated electronically back to the traffic department. The electronic interface between the traffic department and the vessel personnel enables more effective matching of customer needs to barge capabilities, thereby maximizing utilization of the tank barge and towboat fleet. The Company s customers are able to access information concerning the movement of their cargoes, including barge locations, through the Company s web site.

Kirby Inland Marine operates the largest commercial tank barge fleeting service (temporary barge storage facilities) in numerous ports, including Houston, Corpus Christi and Freeport, Texas, and in numerous ports on the Mississippi River, including Baton Rouge and New Orleans, Louisiana. Kirby Inland Marine provides service for its own barges, as well as outside customers, transferring barges within the areas noted, as well as fleeting barges.

Kirby Logistics Management Division (KLM) provides shore tankering services for barge transfers, marine dock operations, railroad tank car and tank truck loading and unloading, tank farm operations, and other ancillary functions, including railroad switching operations. KLM services the Company and third parties. KLM serves three regional

areas; the Gulf Coast region (Brownsville, Texas, to Pensacola, Florida); the Mississippi River region (Baton Rouge, Louisiana, to Memphis, Tennessee); and the Ohio Valley region (Paducah, Kentucky, to Pittsburgh, Pennsylvania). During 2009, approximately 120 KLM tankermen conducted more than 22,700 barge transfers and provided approximately 70 operators for in-plant services for petrochemical companies, refineries and terminal operators.

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The Company owns a two-thirds interest in Osprey, which transports project cargoes and cargo containers by barge on the United States inland waterway system.

Offshore Operations. The segment s offshore operations are conducted through a wholly owned subsidiary, Kirby Ocean Transport Company (Kirby Ocean Transport). Kirby Ocean Transport owns and operates a fleet of four ocean-going dry-bulk barges, four ocean-going tugboats and one offshore shifting tugboat. Kirby Ocean Transport operates primarily under term contracts of affreightment, including a contract that expires in 2015 with Progress Fuels Corporation (PFC) to transport coal across the Gulf of Mexico to PFC s power generation facility at Crystal River, Florida.

Kirby Ocean Transport also has a long-term contract with Holcim (US) Inc. (Holcim) to transport Holcim s limestone requirements from a facility adjacent to the PFC facility at Crystal River to Holcim s plant in Theodore, Alabama. The Holcim contract, which expires in 2012, provides cargo for a portion of the return voyage for the vessels that carry coal to PFC s Crystal River facility. Kirby Ocean Transport is also engaged in the transportation of coal, fertilizer and other bulk cargoes on a short-term basis between domestic ports and occasionally the transportation of grain from domestic ports to ports primarily in the Caribbean Basin.

Contracts and Customers

Marine transportation services are conducted under term contracts, ranging from one to five years with renewal options, with customers whom the Company has traditionally had long-standing relationships, as well as under spot contracts. The majority of the marine transportation contracts with its customers are for terms of one year. Most have been customers of the Company s marine transportation segment for several years and management anticipates continued relationships; however, there is no assurance that any individual contract will be renewed.

A term contract is an agreement with a specific customer to transport cargo from a designated origin to a designated destination at a set rate (affreightment) or at a daily rate (time charter). The rate may or may not escalate during the term of the contract; however, the base rate generally remains constant and contracts often include escalation provisions to recover changes in specific costs such as fuel. Time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented approximately 56% of the revenue under term contracts during 2009 and 2008. A spot contract is an agreement with a customer to move cargo from a specific origin to a designated destination for a rate negotiated at the time the cargo movement takes place. Spot contract rates are at the current market rate and are subject to market volatility. The Company typically maintains a higher mix of term contracts to spot contracts to provide the Company with a predictable revenue stream while maintaining spot market exposure to take advantage of new business opportunities and existing customers peak demands. During the first nine months of 2009 and the 2008 year, approximately 80% of marine transportation revenues were derived from term contracts and 20% from spot contracts. During the 2009 fourth quarter, approximately 75% of marine transportation revenues were from term contracts and 25% from spot contracts. This decrease in term contract revenue mix was due to certain customers switching to spot contracts when their term contracts expired.

SeaRiver Maritime, Inc. (SeaRiver), the United States transportation affiliate of Exxon Mobil Corporation, with which the Company has a contract through 2013, including renewal options, accounted for 10% of the Company s revenues in 2009, 2008 and 2007. Dow, with which the Company has a contract through 2016, including renewal options, accounted for 11% of the Company s revenues in 2009, 9% in 2008 and 10% in 2007.

Employees

The Company s marine transportation segment has approximately 2,050 employees, of which approximately 1,400 are vessel crew members. None of the segment s operations are subject to collective bargaining agreements.

Properties

The principal office of Kirby Inland Marine, Kirby Ocean Transport and Osprey is located in Houston, Texas, in the Company s facilities under a lease that expires in December 2015. Kirby Inland Marine s operating locations are on the Mississippi River at Baton Rouge, Louisiana, New Orleans, Louisiana, and Greenville, Mississippi, two locations in Houston, Texas, on and near the Houston Ship Channel, and one in Corpus Christi, Texas. The New Orleans and Houston facilities are owned, and the Baton Rouge, Greenville and Corpus Christi facilities are leased.

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KLM s principal office is located in a facility owned by Kirby Inland Marine in Houston, Texas, near the Houston Ship Channel.

Governmental Regulations

General. The Company s marine transportation operations are subject to regulation by the USCG, federal laws, state laws and certain international conventions.

Most of the Company s inland tank barges are inspected by the USCG and carry certificates of inspection. The Company s inland and offshore towing vessels and offshore dry-bulk barges are not currently subject to USCG inspection requirements; however, regulations are currently under development that would subject inland and offshore towing vessels to USCG inspection requirements. The Company s offshore towing vessels and offshore dry-bulk barges are built to American Bureau of Shipping (ABS) classification standards and are inspected periodically by ABS to maintain the vessels in class. The crews employed by the Company aboard vessels, including captains, pilots, engineers, tankermen and ordinary seamen, are licensed by the USCG.

The Company is required by various governmental agencies to obtain licenses, certificates and permits for its vessels depending upon such factors as the cargo transported, the waters in which the vessels operate and other factors. The Company is of the opinion that the Company s vessels have obtained and can maintain all required licenses, certificates and permits required by such governmental agencies for the foreseeable future.

The Company believes that additional security and environmental related regulations may be imposed on the marine industry in the form of contingency planning requirements. Generally, the Company endorses the anticipated additional regulations and believes it is currently operating to standards at least the equal of such anticipated additional regulations.

Jones Act. The Jones Act is a federal cabotage law that restricts domestic marine transportation in the United States to vessels built and registered in the United States, manned by United States citizens, and owned and operated by United States citizens. For a corporation to qualify as United States citizens for the purpose of domestic trade, 75% of the corporation s beneficial stockholders must be United States citizens. The Company presently meets all of the requirements of the Jones Act for its owned vessels.

Compliance with United States ownership requirements of the Jones Act is important to the operations of the Company, and the loss of Jones Act status could have a significant negative effect on the Company. The Company monitors the citizenship requirements under the Jones Act of its employees and beneficial stockholders, and will take action as necessary to ensure compliance with the Jones Act requirements.

User Taxes. Federal legislation requires that inland marine transportation companies pay a user tax based on propulsion fuel used by vessels engaged in trade along the inland waterways that are maintained by the United States Army Corps of Engineers. Such user taxes are designed to help defray the costs associated with replacing major components of the inland waterway system, such as locks and dams. A significant portion of the inland waterways on which the Company s vessels operate is maintained by the Army Corps of Engineers.

The Company presently pays a federal fuel tax of 20.1 cents per gallon consisting of a .1 cent per gallon leaking underground storage tank tax and a 20 cents per gallon waterway user tax.

Security Requirements. The Maritime Transportation Security Act of 2002 requires, among other things, submission to and approval by the USCG of vessel and waterfront facility security plans (VSP and FSP , respectively). The Company s VSP and FSP have been approved and the Company is operating in compliance with the plans for all of its

vessels and facilities that are subject to the requirements.

Environmental Regulations

The Company s operations are affected by various regulations and legislation enacted for protection of the environment by the United States government, as well as many coastal and inland waterway states.

Water Pollution Regulations. The Federal Water Pollution Control Act of 1972, as amended by the Clean Water Act of 1977, the Comprehensive Environmental Response, Compensation and Liability Act of 1981

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(CERCLA) and the Oil Pollution Act of 1990 (OPA) impose strict prohibitions against the discharge of oil and its derivatives or hazardous substances into the navigable waters of the United States. These acts impose civil and criminal penalties for any prohibited discharges and impose substantial strict liability for cleanup of these discharges and any associated damages. Certain states also have water pollution laws that prohibit discharges into waters that traverse the state or adjoin the state, and impose civil and criminal penalties and liabilities similar in nature to those imposed under federal laws.

The OPA and various state laws of similar intent substantially increased over historic levels the statutory liability of owners and operators of vessels for oil spills, both in terms of limit of liability and scope of damages.

One of the most important requirements under the OPA is that all newly constructed tank barges engaged in the transportation of oil and petroleum in the United States be double hulled, and all existing single hull tank barges be retrofitted with double hulls or phased out of domestic service by 2015.

The Company manages its exposure to losses from potential discharges of pollutants through the use of well maintained and equipped vessels, the safety, training and environmental programs of the Company, and the Company s insurance program. In addition, the Company s fleet consists entirely of double hull barges. There can be no assurance, however, that any new regulations or requirements or any discharge of pollutants by the Company will not have an adverse effect on the Company.

Financial Responsibility Requirement. Commencing with the Federal Water Pollution Control Act of 1972, as amended, vessels over 300 gross tons operating in the Exclusive Economic Zone of the United States have been required to maintain evidence of financial ability to satisfy statutory liabilities for oil and hazardous substance water pollution. This evidence is in the form of a Certificate of Financial Responsibility (COFR) issued by the USCG. The majority of the Company s tank barges are subject to this COFR requirement, and the Company has fully complied with this requirement since its inception. The Company does not foresee any current or future difficulty in maintaining the COFR certificates under current rules.

Clean Air Regulations. The Federal Clean Air Act of 1979 requires states to draft State Implementation Plans (SIPs) designed to reduce atmospheric pollution to levels mandated by this act. Several SIPs provide for the regulation of barge loading and discharging emissions. The implementation of these regulations requires a reduction of hydrocarbon emissions released into the atmosphere during the loading of most petroleum products and the degassing and cleaning of barges for maintenance or change of cargo. These regulations require operators who operate in these states to install vapor control equipment on their barges. The Company expects that future emission regulations will be developed and will apply this same technology to many chemicals that are handled by barge. Most of the Company s barges engaged in the transportation of petrochemicals, chemicals and refined products are already equipped with vapor control systems. Although a risk exists that new regulations could require significant capital expenditures by the Company and otherwise increase the Company s costs, the Company believes that, based upon the regulations that have been proposed thus far, no material capital expenditures beyond those currently contemplated by the Company and no material increase in costs are likely to be required.

Contingency Plan Requirement. The OPA and several state statutes of similar intent require the majority of the vessels and terminals operated by the Company to maintain approved oil spill contingency plans as a condition of operation. The Company has approved plans that comply with these requirements. The OPA also requires development of regulations for hazardous substance spill contingency plans. The USCG has not yet promulgated these regulations; however, the Company anticipates that they will not be significantly more difficult to comply with than the oil spill plans.

Occupational Health Regulations. The Company s inspected vessel operations are primarily regulated by the USCG for occupational health standards. Uninspected vessel operations and the Company s shore personnel are subject to the United States Occupational Safety and Health Administration regulations. The Company believes that it is in compliance with the provisions of the regulations that have been adopted and does not believe that the adoption of any further regulations will impose additional material requirements on the Company. There can be no assurance, however, that claims will not be made against the Company for work related illness or injury, or that the further adoption of health regulations will not adversely affect the Company.

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Insurance. The Company s marine transportation operations are subject to the hazards associated with operating vessels carrying large volumes of bulk cargo in a marine environment. These hazards include the risk of loss of or damage to the Company s vessels, damage to third parties as a result of collision, fire or explosion, loss or contamination of cargo, personal injury of employees and third parties, and pollution and other environmental damages. The Company maintains insurance coverage against these hazards. Risk of loss of or damage to the Company s vessels is insured through hull insurance currently insuring approximately $1.3 billion in hull values. Liabilities such as collision, cargo, environmental, personal injury and general liability are insured up to $1 billion per occurrence.

Environmental Protection. The Company has a number of programs that were implemented to further its commitment to environmental responsibility in its operations. In addition to internal environmental audits, one such program is environmental audits of barge cleaning vendors principally directed at management of cargo residues and barge cleaning wastes. Others are the participation by the Company in the American Waterways Operators Responsible Carrier program and the American Chemistry Council Responsible Care program, both of which are oriented towards continuously reducing the barge industry s and chemical and petroleum industries impact on the environment, including the distribution services area.

Safety. The Company manages its exposure to the hazards associated with its business through safety, training and preventive maintenance efforts. The Company places considerable emphasis on safety through a program oriented toward extensive monitoring of safety performance for the purpose of identifying trends and initiating corrective action, and for the purpose of rewarding personnel achieving superior safety performance. The Company believes that its safety performance consistently places it among the industry leaders as evidenced by what it believes are lower injury frequency and pollution incident levels than many of its competitors.

Training. The Company believes that among the major elements of a successful and productive work force are effective training programs. The Company also believes that training in the proper performance of a job enhances both the safety and quality of the service provided. New technology, regulatory compliance, personnel safety, quality and environmental concerns create additional demands for training. The Company fully endorses the development and institution of effective training programs.

Centralized training is provided through the Operations Personnel and Training Department, which is charged with developing, conducting and maintaining training programs for the benefit of all of the Company s operating entities. It is also responsible for ensuring that training programs are both consistent and effective. The Company s training facility includes state-of-the-art equipment and instruction aids, including a working towboat, three tank barges and a tank barge simulator for tankermen training. During 2009, approximately 2,575 certificates were issued for the completion of courses at the training facility.

Quality. The Company has made a substantial commitment to the implementation, maintenance and improvement of Quality Assurance Systems in compliance with the International Quality Standard, ISO 9001. Currently, all of the Company s marine transportation units have been certified. These Quality Assurance Systems have enabled both shore and vessel personnel to effectively manage the changes which occur in the working environment. In addition, such Quality Assurance Systems have enhanced the Company s already excellent safety and environmental performance.

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DIESEL ENGINE SERVICES

The Company is engaged in the overhaul and repair of medium-speed and high-speed diesel engines and reduction gears, and related parts sales through Kirby Engine Systems, Inc. (Kirby Engine Systems), a wholly owned subsidiary of the Company, and its three wholly owned operating subsidiaries, Marine Systems, Inc. (Marine Systems), Engine Systems, Inc. (Engine Systems) and Rail Systems, Inc. (Rail Systems). Through these three operating subsidiaries, the Company sells Original Equipment Manufacturers (OEM) replacement parts, provides service mechanics to overhaul and repair engines and reduction gears, and maintains facilities to rebuild component parts or entire engines and entire reduction gears. The Company serves the marine market and standby power generation market throughout the United States and parts of the Caribbean, the shortline, industrial, Class II and certain transit railroad markets throughout the United States, components of the nuclear industry worldwide and to a lesser extent other industrial markets such as cement, paper and mining in the Midwest. No single customer of the diesel engine services segment accounted for more than 10% of the Company s revenues in 2009, 2008 or 2007. The diesel engine services segment also provides service to the Company s marine transportation segment, which accounted for approximately 5% of the diesel engine services segment s 2009 revenues and 3% for 2008 and 2007. Such revenues are eliminated in consolidation and not included in the table below.

The following table sets forth the revenues for the diesel engine services segment for the three years ended December 31, 2009 (dollars in thousands):

	2009		2008		2007	
	Amounts	%	Amounts	%	Amounts	%
Overhaul and repairs	$ 122,847	61%	$ 167,196	63%	$ 158,599	65%
Direct parts sales	78,013	39	97,483	37	85,192	35
	$ 200,860	100%	$ 264,679	100%	$ 243,791	100%

Diesel Engine Services Acquisitions

On June 30, 2008, the Company purchased substantially all of the assets of Lake Charles Diesel, Inc. (Lake Charles Diesel) for $3,680,000 in cash. Lake Charles Diesel was a Gulf Coast high-speed diesel engine services provider operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and Volvo engines, as well as an authorized marine dealer for Caterpillar engines in Louisiana.

On July 20, 2007, the Company purchased substantially all of the assets of Saunders Engine and Equipment Company, Inc. (Saunders) for $13,288,000 in cash and the assumption of $245,000 of debt. Saunders was a Gulf Coast high-speed diesel engine services provider operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere engines, as well as an authorized marine dealer for Caterpillar engines in Alabama.

On February 23, 2007, the Company purchased the assets of P&S Diesel Service, Inc. (P&S) for $1,622,000 in cash. P&S was a Gulf Coast high-speed diesel engine services provider operating as a factory-authorized marine dealer for Caterpillar in Louisiana.

On February 13, 2007, the Company purchased from NAK Engineering, Inc. (NAK Engineering) for a net $3,540,000 in cash, the assets and technology necessary to support the Nordberg medium-speed diesel engines used in nuclear applications. As part of the transaction, Progress Energy Carolinas, Inc. (Progress Energy) and Duke Energy Carolinas, LLC (Duke Energy) made payments to the Company for non-exclusive rights to the technology and entered into ten-year exclusive parts and service agreements with the Company. Nordberg engines are used to power emergency diesel generators used in nuclear power plants owned by Progress Energy and Duke Energy.

Marine Operations

The Company is engaged in the overhaul and repair of medium-speed and high-speed diesel engines and reduction gears, line boring, block welding services and related parts sales for customers in the marine industry. Medium-speed diesel engines have an engine speed of 400 to 1,000 revolutions per minute (RPM) with a

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horsepower range of 800 to 32,000. High-speed diesel engines have an engine speed of over 1,000 RPM and a horsepower range of 50 to 8,375. The Company services medium-speed and high-speed diesel engines utilized in the inland and offshore barge industries. It also services marine equipment and offshore drilling equipment used in the offshore petroleum exploration and oil service industry, marine equipment used in the offshore commercial fishing industry and vessels owned by the United States government.

The Company has marine operations throughout the United States providing in-house and in-field repair capabilities and related parts sales. The Company s emphasis is on service to its customers, and it sends its crews from any of its locations to service customers equipment anywhere in the world. The medium-speed operations are located in Houma, Louisiana, Chesapeake, Virginia, Paducah, Kentucky, Seattle, Washington and Tampa, Florida. The operations based in Chesapeake, Virginia and Tampa, Florida are authorized distributors for 17 eastern states and the Caribbean for Electro-Motive Diesel, Inc. (EMD). The marine operations based in Houma, Louisiana, Paducah, Kentucky and Seattle, Washington are nonexclusive authorized service centers for EMD providing service and related parts sales. All of the marine locations are authorized distributors for Falk Corporation (Falk) reduction gears, Oil States Industries, Inc. clutches and Alco engines. The Chesapeake, Virginia operation concentrates on East Coast inland and offshore dry-bulk, tank barge and harbor docking operators, the USCG and United States Navy (Navy). The Houma, Louisiana operation concentrates on the inland and offshore barge and oil services industries. The Tampa, Florida operation concentrates on Gulf of Mexico offshore dry-bulk, tank barge and harbor docking operators. The Paducah, Kentucky operation concentrates on the inland river towboat and barge operators and the Great Lakes carriers. The Seattle, Washington operation concentrates on the offshore commercial fishing industry, tugboat and barge industry, the USCG and Navy, and other customers in Alaska, Hawaii and the Pacific Rim.

The high-speed operations are located in Houma, Baton Rouge, Belle Chasse, Lake Charles, Morgan City and New Iberia, Louisiana, Paducah, Kentucky, Mobile, Alabama and Houston, Texas. The Company serves as a factory-authorized marine dealer for Caterpillar diesel engines in Alabama, Kentucky and Louisiana. The Company also operates factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere diesel engines, as well as Allison and Twin Disk transmissions. High-speed diesel engines provide the main propulsion for approximately 75% of the United States flag commercial vessels and other marine applications, including engines for power generators and barge pumps.

Marine Customers

The Company s major marine customers include inland and offshore barge operators, oil service companies, offshore fishing companies, other marine transportation entities, and the USCG and Navy.

Since the marine business is linked to the relative health of the diesel power tugboat and towboat industry, the offshore supply boat industry, the oil and gas drilling industry, the military and the offshore commercial fishing industry, there is no assurance that its present gross revenues can be maintained in the future. The results of the diesel engine services industry are largely tied to the industries it serves and, therefore, are influenced by the cycles of such industries.

Marine Competitive Conditions

The Company s primary competitors are independent diesel engine services companies and other factory-authorized distributors, authorized service centers and authorized marine dealers. Certain operators of diesel powered marine equipment also elect to maintain in-house service capabilities. While price is a major determinant in the competitive process, reputation, consistent quality, expeditious service, experienced personnel, access to parts inventories and market presence are significant factors. A substantial portion of the Company s business is obtained by competitive bids. However, the Company has entered into preferential service agreements with certain large operators of diesel

powered marine equipment, providing such operators with one source of support and service for all of their requirements at pre-negotiated prices.

Many of the parts sold by the Company are generally available from other service providers, but the Company is one of a limited number of authorized resellers of EMD, Caterpillar, Cummins, Detroit Diesel and John Deere

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parts. The Company is also the only marine distributor for Falk reduction gears and the only marine distributor for Alco engines throughout the United States.

Power Generation Operations

The Company is engaged in the overhaul and repair of diesel engines and reduction gears, line boring, block welding service and related parts sales for power generation customers. The Company is also engaged in the sale and distribution of parts for diesel engines and governors to the nuclear industry. The Company services users of diesel engines that provide standby, peak and base load power generation, as well as users of industrial reduction gears such as the cement, paper and mining industries.

The Company provides in-house and in-field repair capabilities and safety-related products to power generation operators from its Rocky Mount, North Carolina, Paducah, Kentucky and Seattle, Washington locations. The operation based in Rocky Mount, North Carolina is an EMD authorized distributor for 17 eastern states and the Caribbean for power generation applications, and provides in-house and in-field service. The Rocky Mount operation is also the exclusive worldwide distributor of EMD products to the nuclear industry, the exclusive worldwide distributor for Woodward Governor (Woodward) products to the nuclear industry, the exclusive worldwide distributor of Cooper Energy Services, Inc. (Cooper) products to the nuclear industry, and owns the assets and technology necessary to support the Nordberg medium-speed diesel engines used in nuclear applications. In addition, the Rocky Mount operation is a non-exclusive distributor for Honeywell International Incorporated (Honeywell) industrial measurement and control products to the nuclear industry, an exclusive distributor for Norlake Manufacturing Company (Norlake) transformer products to the nuclear industry and a non-exclusive distributor of analog Weschler Instruments (Weschler) metering products and an exclusive distributor of digital Weschler metering products to the nuclear industry. The Paducah, Kentucky operation provides in-house and in-field repair services for Falk industrial reduction gears in the Midwest. The Seattle, Washington operation provides in-house and in-field repair services for Alco engines located on the West Coast and the Pacific Rim.

Power Generation Customers

The Company s power generation customers are primarily domestic utilities and the worldwide nuclear power industry.

Power Generation Competitive Conditions

The Company s primary competitors are other independent diesel services companies and industrial reduction gear repair companies and manufacturers. While price is a major determinant in the competitive process, reputation, consistent quality, expeditious service, experienced personnel, access to parts inventories and market presence are significant factors. A substantial portion of the Company s business is obtained by competitive bids. However, the Company has entered into preferential service agreements with certain large operators of diesel powered generation equipment, providing such operators with one source of support and service for all of their requirements at pre-negotiated prices.

As noted under Power Generation Operations above, the Company is the exclusive worldwide distributor of EMD, Cooper, Woodward, Nordberg and Norlake parts for the nuclear industry, and non-exclusive distributor for Honeywell and Weschler parts for the nuclear industry. Specific regulations relating to equipment used in nuclear power generation require extensive testing and certification of replacement parts. Non-genuine parts and parts not properly tested and certified cannot be used in nuclear applications.

Railroad Operations

The Company is engaged in the overhaul and repair of locomotive diesel engines and the sale of replacement parts for locomotives serving shortline, industrial, Class II and certain transit railroads within the continental United States. The Company serves as an exclusive distributor for EMD providing replacement parts, service and support to these markets. EMD is one of the world s largest manufacturers of diesel-electric locomotives, a position it has held for over 87 years.

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Railroad Customers

The Company s railroad customers are United States shortline, industrial, Class II and transit operators. The shortline and industrial operators are located throughout the United States, and are primarily branch or spur railroad lines that provide the final connection between plants or mines and the major railroad operators. The shortline railroads are independent operators. The plants and mines own the industrial railroads. The Class II railroads are larger regionally operated railroads. The transit railroads are primarily located in larger cities in the Northeast and West Coast of the United States. Transit railroads are operated by cities, states and Amtrak.

Railroad Competitive Conditions

As an exclusive United States distributor for EMD parts, the Company provides EMD parts sales to the shortline, industrial, Class II and certain transit railroads, as well as providing rebuilt parts and service work. There are several other companies providing service for shortline and industrial locomotives. In addition, the industrial companies, in some cases, provide their own service.

Employees

Marine Systems, Engine Systems and Rail Systems together have approximately 525 employees.

Properties

The principal offices of the diesel engine services segment are located in Houma, Louisiana. The Company operates 16 parts and service facilities, with four facilities located in Houma, Louisiana, and one facility each located in Baton Rouge, Belle Chasse, Lake Charles, New Iberia and Morgan City, Louisiana, Mobile, Alabama, Houston, Texas, Chesapeake, Virginia, Rocky Mount, North Carolina, Paducah, Kentucky, Tampa, Florida and Seattle, Washington. All of these facilities are leased except the Houma, Belle Chasse, New Iberia and Morgan City, Louisiana facilities, which are owned by the Company.

Executive Officers of the Registrant

The executive officers of the Company are as follows:

Name	Age	Positions and Offices
C. Berdon Lawrence	67	Chairman of the Board of Directors
Joseph H. Pyne	62	President, Director and Chief Executive Officer
Norman W. Nolen(1)	67	Executive Vice President, Chief Financial Officer and Treasurer
David W. Grzebinski(1)	48	Executive Vice President - Finance
Gregory R. Binion	45	President Kirby Inland Marine
Dorman L. Strahan	53	President Kirby Engine Systems
Ronald A. Dragg	46	Vice President and Controller
G. Stephen Holcomb	64	Vice President Investor Relations and Assistant Secretary
Amy D. Husted	41	Vice President Legal
David R. Mosley	45	Vice President and Chief Information Officer
Jack M. Sims	67	Vice President Human Resources

Renato A. Castro(1)	38	Treasurer

(1) On January 19, 2010, the Company announced the retirement of Mr. Nolen effective March 31, 2010. Mr. Grzebinski will assume the role of Chief Financial Officer of the Company after the filing of the Company s 2009 Form 10-K. Mr. Castro will succeed Mr. Nolen as Treasurer.

No family relationship exists among the executive officers or among the executive officers and the directors. Officers are elected to hold office until the annual meeting of directors, which immediately follows the annual meeting of stockholders, or until their respective successors are elected and have qualified.

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C. Berdon Lawrence holds an M.B.A. degree and a B.B.A. degree in business administration from Tulane University. He has served the Company as Chairman of the Board since October 1999. Prior to joining the Company in October 1999, he served for 30 years as President of Hollywood Marine, an inland tank barge company of which he was the founder and principal shareholder and which was acquired by the Company in October 1999. On October 12, 2009, the Company announced the retirement of Mr. Lawrence effective April 27, 2010.

Joseph H. Pyne holds a degree in liberal arts from the University of North Carolina and has served as President and Chief Executive Officer of the Company since April 1995. He has served the Company as a Director since 1988. He served as Executive Vice President of the Company from 1992 to April 1995 and as President of Kirby Inland Marine from 1984 to November 1999. He also served in various operating and administrative capacities with Kirby Inland Marine from 1978 to 1984, including Executive Vice President from January to June 1984. Prior to joining the Company, he was employed by Northrop Services, Inc. and served as an officer in the Navy.

Norman W. Nolen is a Certified Public Accountant and holds an M.B.A. degree from the University of Texas and a degree in electrical engineering from the University of Houston. He has served the Company as Executive Vice President, Chief Financial Officer and Treasurer since October 1999 and served as Senior Vice President, Chief Financial Officer and Treasurer from February 1999 to October 1999. Prior to joining the Company, he served as Senior Vice President, Treasurer and Chief Financial Officer of Weatherford International, Inc. from 1991 to 1998. He served as Corporate Treasurer of Cameron Iron Works from 1980 to 1990 and as a corporate banker with Texas Commerce Bank from 1968 to 1980.

David W. Grzebinski is a Chartered Financial Analyst and holds an M.B.A. degree from Tulane University and a degree in chemical engineering from the University of South Florida. He has served as Executive Vice President Finance since February 2010. Prior to joining the Company, he served in various administrative positions since 1988 with FMC Technologies Inc. (FMC), including Controller, Energy Services, Treasurer, and Director of Global SAP and Industry Relations. Prior to joining FMC, he was employed by The Dow Chemical Company.

Gregory R. Binion holds a degree in business administration from the University of Texas. He has served the Company as President of Kirby Inland Marine since October 2008, as Vice President of Corporate Development and Strategy from September 2007 to October 2008, and previously as Kirby Inland Marine s Vice President Sales from 2003 to 2007 and Vice President Canal Operations from 1999 to 2003. Prior to joining the Company in October of 1999, he served Hollywood Marine for 11 years in a variety of sales and operational roles.

Dorman L. Strahan attended Nicholls State University and has served the Company as President of Kirby Engine Systems since May 1999, President of Marine Systems since 1986, President of Rail Systems since 1993 and President of Engine Systems since 1996. After joining the Company in 1982 in connection with the acquisition of Marine Systems, he served as Vice President of Marine Systems until 1985.

Ronald A. Dragg is a Certified Public Accountant and holds a Master of Science in Accountancy degree from the University of Houston and a degree in finance from Texas A&M University. He has served the Company as Vice President and Controller since January 2007. He also served as Controller from November 2002 to January 2007, Controller Financial Reporting from January 1999 to October 2002, and Assistant Controller Financial Reporting from October 1996 to December 1998. Prior to joining the Company, he was employed by Baker Hughes Incorporated.

G. Stephen Holcomb holds a degree in business administration from Stephen F. Austin State University and has served the Company as Vice President Investor Relations and Assistant Secretary since November 2002. He also served as Vice President, Controller and Assistant Secretary from 1989 to November 2002, Controller from 1987 through 1988 and as Assistant Controller from 1976 through 1986. Prior to that, he was Assistant Controller of Kirby

Industries from 1973 to 1976. Prior to joining the Company in 1973, he was employed by Cooper Industries, Inc.

Amy D. Husted holds a doctorate of jurisprudence from South Texas College of Law and a degree in political science from the University of Houston. She has served the Company as Vice President Legal since January 2008 and served as Corporate Counsel from November 1999 through December 2007. Prior to joining the Company, she served as Corporate Counsel of Hollywood Marine from 1996 to 1999 after joining Hollywood Marine in 1994.

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David R. Mosley holds a degree in computer science from Texas A&M University and has served the Company as Vice President and Chief Information Officer since May 2007. Prior to joining the Company in 2007, he served as Vice President and Chief Information Officer for Prudential Real Estate Services Company from 2005 to May 2007, Vice President Service Delivery for Iconixx Corporation from 1999 to 2005, Vice President Product Development and Services for ADP Dealer Services from 1995 to 1999 and in various information technology development and management positions from 1987 to 1995.

Jack M. Sims holds a degree in business administration from the University of Miami and has served the Company, or one of its subsidiaries, as Vice President Human Resources since 1993. Prior to joining the Company in March 1993, he served as Vice President Human Resources for Virginia Indonesia Company from 1982 through 1992, Manager Employee Relations for Houston Oil and Minerals Corporation from 1977 through 1981 and in various professional and managerial positions with Shell Oil Company from 1967 through 1977. On February 25, 2010, Mr. Sims announced his retirement effective March 31, 2010.

Renato A. Castro is a Certified Public Accountant and holds an M.B.A. degree from Tulane University and a degree in civil engineering from the National Autonomous University of Honduras. He has served the Company as Manager of Financial Analysis since 2007. He also served as Financial Analyst from 2005 through 2006 and Assistant Controller of Kirby Inland Marine from 2001 through 2004. Prior to joining the Company, he was employed by a subsidiary of Astaldi S.p.A. in their transport infrastructure division.

Item 1A. *Risk Factors*

The following risk factors should be considered carefully when evaluating the Company, as its businesses, results of operations, or financial condition could be materially adversely affected by any of these risks. The following discussion does not attempt to cover factors, such as trends in the United States and global economies or the level of interest rates among others, that are likely to affect most businesses.

The Inland Waterway infrastructure is aging and may result in increased costs and disruptions to the Company s marine transportation segment. Maintenance of the United States inland waterway system is vital to the Company s operations. The system is composed of over 12,000 miles of commercially navigable waterway, supported by over 240 locks and dams designed to provide flood control, maintain pool levels of water in certain areas of the country and facilitate navigation on the inland river system. The United States inland waterway infrastructure is aging, with more than half of the locks over 50 years old. As a result, due to the age of the locks, scheduled and unscheduled maintenance outages may be more frequent in nature, resulting in delays and additional operating expenses. One-half of the cost of new construction and major rehabilitation of locks and dams is paid by marine transportation companies through a 20 cent per gallon diesel fuel tax and the remaining 50% is paid from general federal tax revenue. Failure of the federal government to adequately fund infrastructure maintenance and improvements in the future would have a negative impact on the Company s ability to deliver products for its customers on a timely basis. In addition, any additional user taxes that may be imposed in the future to fund infrastructure improvements would increase the Company s operating expenses.

The Company is subject to adverse weather conditions in its marine transportation business. The Company s marine transportation segment is subject to weather conditions on a daily basis. Adverse weather conditions such as high water, low water, fog and ice, tropical storms and hurricanes can impair the operating efficiencies of the marine fleet. Such adverse weather conditions can cause a delay, diversion or postponement of shipments of products and are totally beyond the control of the Company. In addition, adverse water conditions can negatively affect towboat speed, tow size, loading drafts, fleet efficiency, place limitations on night passages and dictate horsepower requirements. During 2009, the Company experienced more favorable weather conditions and water levels than in 2008, when the Company experienced high water conditions throughout the Mississippi River System during the majority of the

second quarter and Hurricanes Gustav and Ike negatively impacted the 2008 third quarter by an estimated $.09 per share. The Company experienced normal weather conditions and water levels during 2007. The Company s operations for 2009 and 2007 were not materially affected by Gulf Coast hurricanes and tropical storms.

The Company could be adversely impacted by a marine accident or spill event. A marine accident or spill event could close a portion of the inland waterway system for a period of time. Although statistically marine

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transportation is the safest means of transporting bulk commodities, accidents do occur, both involving Company equipment and equipment owned by other inland marine carriers.

The Company transports a wide variety of petrochemicals, black oil products, refined petroleum products and agricultural chemicals throughout the Mississippi River System and along the Gulf Intracoastal Waterway. The Company manages its exposure to losses from potential discharges of pollutants through the use of well maintained and equipped double hull tank barges and towboats, through safety, training and environmental programs, and the Company s insurance program, but a discharge of pollutants by the Company could have an adverse effect on the Company.

The Company s marine transportation segment is dependent on its ability to adequately crew its towboats. The Company s towboats are crewed with employees who are licensed or certified by the USCG, including its captains, pilots, engineers and tankermen. The success of the Company s marine transportation segment is dependent on the Company s ability to adequately crew its towboats. As a result, the Company invests significant resources in training its crews and providing each crew member an opportunity to advance from a deckhand to the captain of a Company towboat. Lifestyle issues are a deterrent for employment as crew members are required to work a 20 days on, 10 days off rotation, or a 30 days on, 15 days off rotation. The success of the Company s marine transportation segment will depend on its ability to adequately crew its towboats.

With the rising unemployment rates during 2008 and 2009, associated with the economic recession, crewing levels have remained adequate. During 2007, high United States employment made for a tight Gulf Coast labor market. As a result, the Company, as well as the Company s charter boat operators, experienced vessel personnel shortages. During 2007, the Company stepped up its recruiting and training of vessel personnel and addressed the vessel personnel pay scales in an effort to recruit new vessel personnel, and retain and promote existing vessel personnel.

Reduction in the number of acquisitions made by the Company may curtail future growth. Since 1987, the Company has been successful in the integration of 25 acquisitions in its marine transportation segment and 15 acquisitions in its diesel engine services segment. Acquisitions have played a significant part in the growth of the Company. The Company s marine transportation revenue in 1987 was $40.2 million compared with $881.3 million in 2009. Diesel engine services revenue in 1987 was $7.1 million compared with $200.9 million in 2009. While the Company is of the opinion that future acquisition opportunities exist in both its marine transportation and diesel engine services segments, the Company may not be able to continue to grow through acquisitions to the extent that it has in the past.

The Company s marine transportation segment is subject to the Jones Act. The Company s marine transportation segment competes principally in markets subject to the Jones Act, a federal cabotage law that restricts domestic marine transportation in the United States to vessels built and registered in the United States, and manned and owned by United States citizens. The Company presently meets all of the requirements of the Jones Act for its owned vessels. The loss of Jones Act status could have a significant negative effect on the Company. The requirements that the Company s vessels be United States built and manned by United States citizens, the crewing requirements and material requirements of the USCG, and the application of United States labor and tax laws significantly increase the cost of United States flag vessels when compared with comparable foreign flag vessels. The Company s business could be adversely affected if the Jones Act were to be modified so as to permit foreign competition that is not subject to the same United States government imposed burdens. Since the events of September 11, 2001, the United States government has taken steps to increase security of United States ports, coastal waters and inland waterways. The Company feels that it is unlikely that the current cabotage provisions of the Jones Act would be modified or eliminated in the foreseeable future.

The Company s marine transportation segment is subject to regulation by the USCG, federal laws, state laws and certain international conventions, as well as numerous environmental regulations. The majority of the Company s

vessels are subject to inspection by the USCG and carry certificates of inspection. The crews employed by the Company aboard vessels are licensed or certified by the USCG. The Company is required by various governmental agencies to obtain licenses, certificates and permits for its vessels. The Company s operations are also affected by various United States and state regulations and legislation enacted for protection of the environment. The Company incurs significant expenses to comply with applicable laws and regulations and any significant new regulation or legislation, including climate change laws or regulations, could have an adverse effect on the Company.

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The Company is subject to risks associated with possible climate change legislation, regulation and international accords. Greenhouse gas emissions have increasingly become the subject of a large amount of international, national, regional, state and local attention. On December 7, 2009 the United States Environmental Protection Agency (EPA) furthered its focus on greenhouse gas emissions when it issued its endangerment finding in response to a decision of the Supreme Court of the United States. The EPA found that the emission of six greenhouse gases, including carbon dioxide (which is emitted from the combustion of fossil fuels), may reasonably be anticipated to endanger public health and welfare. Based on this finding, the EPA defined the mix of these six greenhouse gases to be air pollution subject to regulation under the Clean Air Act. Although the EPA has stated a preference that greenhouse gas regulation be based on new federal legislation rather than the existing Clean Air Act, many sources of greenhouse gas emissions may be regulated without the need for further legislation.

The United States Congress is considering legislation that would create an economy-wide cap-and-trade system that would establish a limit (or cap) on overall greenhouse gas emissions and create a market for the purchase and sale of emissions permits or allowances. Proposed cap-and-trade legislation would likely affect the chemical industry due to anticipated increases in energy costs as fuel providers pass on the cost of the emissions allowances, which they would be required to obtain under cap and trade to cover the emissions from fuel production and the eventual use of fuel by the Company or its energy suppliers. In addition, cap-and-trade proposals would likely increase the cost of energy, including purchases of diesel fuel, steam and electricity, and certain raw materials used or transported by the Company. Proposed domestic and international cap-and-trade systems could materially increase raw material and operating costs of the Company s customer base. Future environmental regulatory developments related to climate change in the United States that restrict emissions of greenhouse gases could entail financial impacts on the Company s operations that cannot be predicted with certainty at this time.

The Company s marine transportation segment is subject to volatility in the United States production of petrochemicals. For 2009, 68% of the marine transportation segment s revenues were from the movement of petrochemicals, including the movement of raw materials and feedstocks from one refinery and petrochemical plant to another, as well as the movement of more finished products to end users. During 2009, petrochemical volumes declined when compared with the first nine months of 2008, mirroring the general downward performance trend of the United States economy. A weaker United States and global economy during 2009 and 2008 resulted in lower worldwide consumer spending, as well as lower exports of petrochemicals which reduced the volumes of petrochemicals transported by the Company.

A weaker economy could also impact the Company s collectability of certain customers trade receivables which could have a negative effect on the Company s results of operations.

The Company s marine transportation segment could be adversely impacted by the construction of inland tank barges by its competitors. At the present time, there are an estimated 3,100 inland tank barges in the United States, of which the Company operates 863, or 28%. The number of tank barges peaked at approximately 4,200 in early 1980s, slowly declined to approximately 2,750 in 2003 and with the favorable market conditions over recent years has gradually increased to an estimated 3,100 in late 2009. The Company believes that approximately 180 to 200 new tank barges were delivered and placed in service in 2009, with an estimated 130 tank barges retired. During 2007 and the first nine months of 2008, strong tank barge transportation markets absorbed the additional capacity built by the industry. During the first nine months of 2008 and prior to the deterioration of the marine transportation markets in the 2008 fourth quarter, the Company and many competitors signed tank barge construction contracts with shipyards for 2009 deliveries. The Company believes that the large increase in new tank barge construction in 2008 and 2009, coupled with the decrease in demand in 2009 caused by the economic downturn, has resulted in an oversupply of tank barge capacity in the industry. However, approximately 30% of the industry fleet is over 30 years old and approximately 16% is over 35 years old. The Company believes that the high cost of maintaining the USCG certification requirements for older tank barges and the current low term contract and spot contract rate environment limiting

recovery of maintenance costs will result in the retirement of sufficient tank barges to lessen the impact of overcapacity.

Higher fuel prices could increase operating expenses. The cost of fuel during 2009 was approximately 9% of marine transportation revenue, as the Company consumed 41.8 million gallons of diesel fuel at an average price of $1.72 per gallon. This compares with 2008 when the cost of fuel was approximately 15% of marine transportation

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revenue, and the Company consumed 48.5 million gallons of diesel fuel at an average price of $3.21 per gallon. All marine transportation term contracts contain fuel escalation clauses. However, there is generally a 30 to 90 day delay before contracts are adjusted depending on the specific contract. In general, the fuel escalation clauses are effective over the long-term in allowing the Company to recover changes in fuel costs due to fuel price changes; however, the short-term effectiveness of the fuel escalation clauses can be affected by a number of factors including, but not limited to, specific terms of the fuel escalation formulas, fuel price volatility, navigating conditions, tow sizes, trip routing, and the location of loading and discharge ports that may result in the Company over or under recovering its fuel costs. Spot contract rates generally reflect current fuel prices at the time the contract is signed but do not have escalators for fuel.

Loss of a large customer or other significant business relationship could adversely affect the Company. Two marine transportation customers, SeaRiver and Dow, accounted for approximately 21% of the Company s 2009 revenue and 19% of 2008 revenue. Although the Company considers its relationships with SeaRiver and Dow to be strong, the loss of either customer could have an adverse effect on the Company. The Company s diesel engine services segment has a 44-year relationship with EMD, the largest manufacturer of medium-speed diesel engines. The Company serves as both an EMD distributor and service center for select markets and locations for both service and parts. Sales and service of EMD products account for approximately 5% of the Company s revenue. Although the Company considers its relationship with EMD to be strong, the loss of the EMD distributorship and service rights, or a disruption of the supply of EMD parts, could have a negative impact on the Company s ability to service its customers.

The Company is subject to competition in both its marine transportation and diesel engine services businesses. The inland tank barge industry remains very competitive despite continued consolidation. The Company s primary competitors are noncaptive inland tank barge operators. The Company also competes with companies who operate refined product and petrochemical pipelines, railroad tank cars and tractor-trailer tank trucks. Increased competition from any significant expansion of or additions to facilities or equipment by the Company s competitors could have a negative impact on the Company s results of operations.

The diesel engine services industry is also very competitive. The segment s primary marine competitors are independent diesel services companies and other factory-authorized distributors, authorized service centers and authorized marine dealers. Certain operators of diesel powered marine equipment also elect to maintain in-house service capabilities. In the power generation and railroad markets, the primary competitors are other independent service companies. Increased competition in the diesel engine services industry could result in lower rates for service and parts pricing and result in less service and repair opportunities and parts sales.

Significant increases in the construction cost of inland tank barges and towboats may limit the Company s ability to earn an adequate return on its investment in new tank barges and towboats. The price of steel increased significantly over the last few years, thereby increasing the construction cost of new tank barges and towboats. The Company s average construction price for a new 30,000 barrel capacity inland tank barge ordered in 2008 for 2009 delivery was approximately 90% higher than in 2000, primarily due to the increase in steel prices. During 2009, the United States and global recession negatively impacted demand levels for inland tank barges. The construction price of inland tank barges for 2010 delivery fell significantly, primarily due to a significant decrease in steel prices, as well as a decrease in the number of tank barges ordered. In addition, the likelihood of increased costs for new tank barges in the near future has abated because the economic downturn has had a significant negative impact on the demand for new tank barge construction, which should place downward pressure on the cost of new tank barges until excess capacity in the industry has been absorbed.

Item 1B. ***Unresolved Staff Comments***

Not applicable.

Item 2. ***Properties***

The information appearing in Item 1 is incorporated herein by reference. The Company, Kirby Inland Marine, Kirby Ocean Transport and Osprey currently occupy leased office space at 55 Waugh Drive, Suite 1000, Houston, Texas, under a lease that expires in December 2015. The Company believes that its facilities at 55 Waugh Drive are adequate for its needs and additional facilities would be available if required.

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Item 3. ***Legal Proceedings***

In 2000, the Company and a group of approximately 45 other companies were notified that they are Potentially Responsible Parties (PRPs) under CERCLA with respect to a Superfund site, the Palmer Barge Line Site (Palmer), located in Port Arthur, Texas. In prior years, Palmer had provided tank barge cleaning services to various subsidiaries of the Company. The Company and three other PRPs entered into an agreement with the EPA to perform a remedial investigation and feasibility study and, subsequently, a limited remediation was performed and is now complete. During the 2007 third quarter, five new PRP s entered into an agreement with the EPA in regard to the Palmer Site. In July 2008, the EPA sent a letter to approximately 30 PRPs for the Palmer site, including the Company, indicating that it intends to pursue recovery of $2,949,000 of costs it incurred in relation to the site. The Company and the other PRPs have participated in meetings with the EPA and the United States Department of Justice and suggested pro rata allocations to the PRPs of the EPA s incurred costs. Based on these initial discussions, the Company is unable to estimate its potential liability, if any, for any portion of such costs.

In addition, the Company is involved in various legal and other proceedings which are incidental to the conduct of its business, none of which in the opinion of management will have a material effect on the Company s financial condition, results of operations or cash flows. Management believes that it has recorded adequate reserves and believes that it has adequate insurance coverage or has meritorious defenses for these other claims and contingencies.

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***

The Company s common stock is traded on the New York Stock Exchange under the symbol KEX. The following table sets forth the high and low sales prices per share for the common stock for the periods indicated:

	Sales Price	
	High	**Low**
2010		
First Quarter (through February 26, 2010)	$ 36.04	$ 30.83
2009		
First Quarter	31.16	19.46
Second Quarter	36.32	25.93
Third Quarter	39.16	28.71
Fourth Quarter	37.28	32.30
2008		
First Quarter	58.10	37.72
Second Quarter	61.65	47.45
Third Quarter	51.09	34.13
Fourth Quarter	39.87	19.54

As of February 26, 2010, the Company had 54,011,000 outstanding shares held by approximately 850 stockholders of record; however, the Company believes the number of beneficial owners of common stock exceeds this number.

The Company does not have an established dividend policy. Decisions regarding the payment of future dividends will be made by the Board of Directors based on the facts and circumstances that exist at that time. Since 1989, the Company has not paid any dividends on its common stock.

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During the 2009 fourth quarter, the Company purchased in the open market the following shares of its common stock:

Date of Purchase	Shares	Purchase Price	Average Price per Share
November 2, 2009	20,000	$ 657,000	$ 32.83

Item 6. ***Selected Financial Data***

The comparative selected financial data of the Company and consolidated subsidiaries is presented for the five years ended December 31, 2009. The information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of the Company in Item 7 and the Financial Statements included under Item 8 (selected financial data in thousands, except per share amounts).

	December 31,				
	2009	2008	2007	2006	2005
Revenues:					
Marine transportation	$ 881,298	$ 1,095,475	$ 928,834	$ 807,216	$ 685,999
Diesel engine services	200,860	264,679	243,791	177,002	109,723
	$ 1,082,158	$ 1,360,154	$ 1,172,625	$ 984,218	$ 795,722
Net earnings attributable to Kirby	$ 125,941	$ 157,168	$ 123,341	$ 95,451	$ 68,781
Net earnings per share attributable to Kirby common stockholders:					
Basic	$ 2.34	$ 2.92	$ 2.31	$ 1.81	$ 1.36
Diluted	$ 2.34	$ 2.91	$ 2.29	$ 1.79	$ 1.33
Common stock outstanding:					
Basic	53,192	53,238	52,831	52,351	50,115
Diluted	53,313	53,513	53,263	52,855	51,214

	December 31,				
	2009	2008	2007	2006	2005
Property and equipment, net	$ 1,085,057	$ 990,932	$ 906,098	$ 766,606	$ 642,381
Total assets	$ 1,635,963	$ 1,526,098	$ 1,430,475	$ 1,271,119	$ 1,025,548
Long-term debt, including current portion	$ 200,239	$ 247,307	$ 297,383	$ 310,362	$ 200,036
Total equity	$ 1,056,095	$ 893,555	$ 772,807	$ 635,013	$ 540,630

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

Statements contained in this Form 10-K that are not historical facts, including, but not limited to, any projections contained herein, are forward-looking statements and involve a number of risks and uncertainties. Such statements can be identified by the use of forward-looking terminology such as may, will, expect, anticipate, estimate or conti the negative thereof or other variations thereon or comparable terminology. The actual results of the future events described in such forward-looking statements in this Form 10-K could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are: adverse economic conditions, industry competition and other competitive factors, adverse weather conditions such as high water, low water, tropical storms, hurricanes, fog and ice, marine accidents, lock delays, fuel costs, interest rates, construction of new equipment by competitors, government and environmental laws and regulations, and the timing, magnitude and number of acquisitions made by the Company. For a more detailed discussion of factors that could cause actual results to differ from those presented in forward-looking

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statements, see Item 1A-Risk Factors. Forward-looking statements are based on currently available information and the Company assumes no obligation to update any such statements.

For purposes of Management s Discussion, all net earnings per share attributable to Kirby common stockholders are diluted earnings per share. The weighted average number of common shares applicable to diluted earnings per share for 2009, 2008 and 2007 were 53,313,000, 53,513,000 and 53,263,000, respectively. The decrease in the weighted average number of common shares for 2009 compared with 2008 primarily reflected common stock repurchases during 2009 and 2008, partially offset by the issuance of restricted stock and the exercise of stock options.

Overview

The Company is the nation s largest domestic inland tank barge operator with a fleet of 863 active tank barges, including 49 leased barges, and 16.7 million barrels of capacity as of December 31, 2009. The Company operated an average of 220 towing vessels during 2009, of which an average of 56 were chartered. The Company uses the United States inland waterway system to transport bulk liquids including petrochemicals, black oil products, refined petroleum products and agricultural chemicals. The Company also owns and operates four ocean-going barge and tug units transporting dry-bulk commodities in United States coastwise trade. Through its diesel engine services segment, the Company provides after-market services for medium-speed and high-speed diesel engines used in marine, power generation and railroad applications.

For 2009, net earnings attributable to Kirby were $125,941,000, or $2.34 per share, on revenues of $1,082,158,000, compared with 2008 net earnings attributable to Kirby of $157,168,000, or $2.91 per share, on revenues of $1,360,154,000. The 2009 performance reflected lower demand in both its marine transportation and diesel engine services segments, driven by the United States and global economic recession. The decline in volumes in all four marine transportation markets resulted in lower tank barge utilization levels industry wide that led to increased downward pressure on term contract and spot contract pricing throughout 2009. The diesel engine services marine and railroad markets service levels and direct parts sales were below 2008 levels due to weak marine transportation, offshore oil services and railroad markets, that resulted in deferred maintenance on customers idled equipment.

Results for 2008 were negatively impacted by two major Gulf Coast hurricanes, Gustav on September 1 and Ike on September 13. Hurricane Gustav disrupted marine transportation and diesel engine services operations in Louisiana for several days. Hurricane Ike struck Houston/Galveston, significantly affecting the petrochemical and refining facilities in the path of the storm. The 2008 results included an estimated $.09 per share negative impact from Hurricanes Gustav and Ike.

As a result of the lower demand in both the marine transportation and diesel engine services segments, the Company took specific steps to reduce overhead and lower expenditures during the 2009 first and fourth quarters and 2010 first quarter. During the 2009 first quarter, the shore staffs of the marine transportation and diesel engine services segments were reduced by approximately 6% through early retirement incentives and staff reductions and this resulted in a charge of $3,953,000 before taxes, or $.05 per share. This staff reduction is expected to achieve an annual savings of approximately $7,000,000.

A charge of $4,800,000 before taxes, or $.05 per share, was taken in the 2009 fourth quarter and an estimated charge of $3,900,000 before taxes, or $.04 per share will be taken in the 2010 first quarter for additional shore staff reductions. The 2009 fourth quarter and 2010 first quarter charges will result in an additional reduction of 7% in the shore staffs of the marine transportation and diesel engine services segments. This is expected to result in an annual savings of approximately $8,700,000. As of January 31, 2010, the shore staffs of the marine transportation segment, including shore tankering services, and the diesel engine services segment were down 21% compared with the Company s peak headcount in October 2008 due to early retirement incentives, staff reductions and employee attrition.

Employee attrition since October 2008 is expected to result in an annual savings of approximately $11,200,000.

The marine transportation segment operated an average of 220 towboats during 2009 compared with an average of 256 during 2008. As demand softened during the 2008 fourth quarter and throughout 2009, the Company

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released chartered towboats and laid up Company owned towboats in an effort to balance horsepower needs with current requirements. Going forward, the Company will continue to monitor towboat requirements and downsize or increase the towboat fleet as market changes warrant.

Marine Transportation

For 2009, 81% of the Company s revenue was generated by its marine transportation segment. The segment s customers include many of the major petrochemical and refining companies that operate in the United States. Products transported include raw materials for many of the end products used widely by businesses and consumers every day plastics, fiber, paints, detergents, oil additives and paper, among others. Consequently, the Company s business tends to mirror the general performance of the United States economy and volumes produced by the Company s customer base, enhanced by the inherent efficiencies of barge transportation which is generally the lowest cost mode of surface transportation.

The following table shows the marine transportation markets serviced by the Company, the marine transportation revenue distribution for 2009, products moved and the drivers of the demand for the products the Company transports:

Markets Serviced	2009 Revenue Distribution	Products Moved	Drivers
Petrochemicals	68%	Benzene, Styrene, Methanol, Acrylonitrile, Xylene, Caustic Soda, Butadiene, Propylene	Consumer non-durables 70% Consumer durables 30%
Black Oil Products	19%	Residual Fuel Oil, Coker Feedstock, Vacuum Gas Oil, Asphalt, Carbon Black Feedstock, Crude Oil, Ship Bunkers	Fuel for Power Plants and Ships, Feedstock for Refineries, Road Construction
Refined Petroleum Products	9%	Gasoline, No. 2 Oil, Jet Fuel, Heating Oil, Diesel Fuel, Naphtha	Vehicle Usage, Air Travel, Weather Conditions, Refinery Utilization
Agricultural Chemicals	4%	Anhydrous Ammonia, Nitrogen-Based Liquid Fertilizer, Industrial Ammonia	Corn, Cotton and Wheat Production, Chemical Feedstock Usage

Marine transportation revenue and operating income for 2009 decreased 20% and 15%, respectively, when compared with 2008. All four marine transportation markets, petrochemicals, black oil products, refined products and agricultural chemicals, saw demand for the movement of products soften, driven by the current economic recession. Term contract and spot contract pricing declined throughout 2009 as overall industry demand declined. Favorable operating conditions during 2009 offset to some degree the impact of the lower demand, but also drove down barge utilization due to faster trip times. In addition, lower diesel fuel prices resulted in lower 2009 revenues associated with the pass through of diesel fuel to customers through fuel escalation and de-escalation clauses in term contracts when compared with 2008. During the 2009 second and third quarters, petrochemical demand of more finished products into the Midwest improved modestly and demand along the Gulf Coast stabilized when compared with the 2009 first quarter. Black oil products and refined products demand stabilized during the 2009 third quarter, but remained well below prior year levels. Fourth quarter demand levels in the petrochemical, black oil products and refined products

were slightly weaker when compared with the 2009 third quarter. Agricultural chemical demand was weak throughout 2009 due to high Midwest inventory levels.

During 2009, approximately 80% of the marine transportation revenues were under term contracts and 20% were spot contract revenues. With the decline in industry-wide demand, excess equipment throughout the industry was moved into the spot market, placing downward pressure on spot contract pricing, as well as on contract renewals. Time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented approximately 56% of marine transportation revenues

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under term contracts during 2009 and 2008. Rates on term contracts, net of fuel, renewed during the 2009 first quarter were generally renewed at existing rates and in some cases rates were traded for longer terms, while 2009 second, third and fourth quarter contract renewals declined in the zero to 8%, 7% to 15% and 7% to 15% range, respectively, when compared with the corresponding quarters of 2008. Spot contract rates for 2009, which include the cost of fuel, decreased an average of 3% to 4% in the first quarter, 10% to 15% in second quarter, 10% to 20% in the third quarter and 20% to 30% in the fourth quarter when compared with the corresponding quarters of 2008. In 2009, the Company estimates that approximately 40% to 50% of the spot contract rate decreases were fuel related. Effective January 1, 2009, annual escalators for labor and the producer price index on a number of multi-year contracts resulted in rate increases on those contracts by 4% to 5%, excluding fuel.

The marine transportation operating margin for 2009 was 23.6% compared with 22.4% for 2008, reflecting lower fuel costs, lower shoreside headcount, reduction of towboats operated, reduced maintenance on laid up equipment, ongoing cost reduction initiatives, more efficient operations at lower utilization levels and more favorable operating conditions, partially offset by the marine transportation s portion of the 2009 first and fourth quarters early retirement and staff reduction charges of $6,050,000. The 2008 operating margin included the loss of revenue and additional operating expenses associated with Hurricanes Gustav and Ike.

Diesel Engine Services

During 2009, 19% of the Company s revenue was generated by its diesel engine services segment, of which 61% was generated through service and 39% from direct parts sales. The results of the diesel engine services segment are largely influenced by the economic cycles of the industries it serves.

The following table shows the markets serviced by the Company, the revenue distribution for 2009, and the customers for each market:

Markets Serviced	2009 Revenue Distribution	Customers
Marine	73%	Inland River Carriers Dry and Liquid, Offshore Towing Dry and Liquid, Offshore Oilfield Services Drilling Rigs & Supply Boats, Harbor Towing, Dredging, Great Lakes Ore Carriers
Power Generation	19%	Standby Power Generation, Pumping Stations
Railroad	8%	Passenger (Transit Systems), Class II, Shortline, Industrial

Diesel engine services revenue and operating income for 2009 decreased 24% and 47%, respectively, compared with 2008. Demand levels for service and direct parts sales across all segments of the inland and offshore marine markets and offshore oil services markets remained weak as customers deferred maintenance on equipment in response to the economic slowdown. The medium-speed railroad parts and service market was also weak as industrial and shortline railroad customers deferred maintenance in response to lower railroad traffic. The medium-speed power generation market benefited from favorable service and parts sales in the 2009 first half but revenues declined in the 2009 second half. The 2008 results were negatively impacted by Hurricane Gustav, as noted above, which resulted in the closure of the segment s facilities for several days, as well as customers facilities and operations.

The diesel engine services segment s operating margin for 2009 was 10.5% compared with 15.0% for 2008. The lower operating margin for 2009 reflected lower service levels and direct parts sales and resulting lower labor utilization. The 2009 first and fourth quarters charges for early retirements and staff reductions of $2,342,000 also lowered the

operating margin.

Cash Flow and Capital Expenditures

The Company continued to generate strong operating cash flow during 2009 with net cash provided by operating activities of $319,885,000 compared with net cash provided by operating activities for 2008 of $245,947,000. The 30% increase was aided by a decline in accounts receivable caused by lower business activity levels during 2009. In addition during 2009, the Company generated cash of $2,774,000 from the exercise of stock options and $7,388,000 from proceeds from the disposition of assets. During 2009, cash and borrowings under the

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Company s revolving credit facility were used for capital expenditures of $192,660,000, including $142,384,000 for new tank barge and towboat construction and $50,276,000 primarily for upgrading the existing marine transportation fleet. The Company s debt-to-capitalization ratio decreased to 15.9% at December 31, 2009 from 21.7% at December 31, 2008, primarily due to the increase in equity from net earnings attributable to Kirby for 2009 of $125,941,000, the exercise of stock options, issuance of restricted stock and lower outstanding debt. As of December 31, 2009, the Company had no outstanding balance under its $250,000,000 revolving credit facility and had $97,836,000 of cash and cash equivalents.

During 2009, the Company took delivery of 43 new barges and seven new chartered barges with a total capacity of 1,125,000 barrels, and four 1800 horsepower towboats. The Company projects that capital expenditures for 2010 will be in the $125,000,000 to $135,000,000 range, including approximately $60,000,000 for new tank barge and towboat construction. For 2010, new construction commitments from 2007 and 2008 orders include six barges with a total capacity of 116,000 barrels and three 1800 horsepower towboats. New construction for 2010 will also include 55 barges, with a total capacity of 665,000 barrels, ordered in late 2009 for delivery throughout 2010.

The Company s strong cash flow and unutilized loan facilities position the Company to take advantage of internal and external growth opportunities in its marine transportation and diesel engine services segments. The marine transportation segment s external growth opportunities include potential acquisitions of independent inland tank barge operators and captive fleet owners seeking to outsource tank barge requirements. Increasing the fleet size through external growth opportunities would allow the Company to improve asset utilization through more backhaul opportunities, faster barge turnarounds, more efficient use of horsepower, barges positioned closer to cargoes, less cleaning due to operating more barges with compatible prior cargoes, lower incremental costs due to enhanced purchasing power and minimal incremental administrative staff. The diesel engine services segment s external growth opportunities include further consolidation of strategically located diesel service providers, and expanded service capability for other engine and marine gear related products.

As a result of the global recession, petrochemical and refining production during 2009 was well below 2008 levels. Petrochemical demand of more finished products into the Midwest improved modestly as the 2009 year progressed and demand along the Gulf Coast stabilized when compared with the 2009 first half; however, the United States economy will have to start expanding before the Company sees any significant improvement in demand. During the first nine months of 2009, 80% of marine transportation revenues were under term contracts. During the 2009 fourth quarter, the term contract portion of marine transportation revenues declined to 75% as certain customers switched to spot contracts when their term contracts expired. Based on current market conditions, the Company anticipates that term contracts will continue to be renewed during 2010 at lower rates until utilization improves. Spot contract rates for 2010 will be driven by volumes and equipment utilization. The Company believes that during 2008 and 2009, some incremental capacity was likely added to the industry fleet and that the current reduction of petrochemical and refining production has resulted in excess barge capacity and lower utilization. During 2009, the Company retired 101 older tank barges. With the weak market conditions, the age of the industry fleet and the high cost of maintaining older barges, industry tank barge capacity may decline in 2010 as fewer new barges are anticipated to be built and the retirement of older barges may be accelerated. The Company anticipates that the diesel engine services segment may see some improvement in 2010, as the segment likely reached the bottom of its business cycle in late 2009.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates its estimates and assumptions on an ongoing basis based on a combination of historical information and various other assumptions that are believed to be reasonable under the particular circumstances.

Actual results may differ from these estimates based on different assumptions or conditions. The Company believes the critical accounting policies that most impact the consolidated financial statements are described below. It is also suggested that the Company s significant accounting policies, as described in the Company s financial statements in Note 1, Summary of Significant Accounting Policies, be read in conjunction with this Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Accounts Receivable. The Company extends credit to its customers in the normal course of business. The Company regularly reviews its accounts and estimates the amount of uncollectible receivables each period and establishes an allowance for uncollectible amounts. The amount of the allowance is based on the age of unpaid amounts, information about the current financial strength of customers, and other relevant information. Estimates of uncollectible amounts are revised each period, and changes are recorded in the period they become known. Historically, credit risk with respect to these trade receivables has generally been considered minimal because of the financial strength of the Company s customers; however, the current United States and global recession could impact the collectability of certain customers trade receivables which could have a material effect on the Company s results of operations.

Property, Maintenance and Repairs. Property is recorded at cost. Improvements and betterments are capitalized as incurred. Depreciation is recorded on the straight-line method over the estimated useful lives of the individual assets. When property items are retired, sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts with any gain or loss on the disposition included in the statement of earnings. Maintenance and repairs are charged to operating expense as incurred. The Company reviews long-lived assets for impairment by vessel class whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability of the assets is measured by a comparison of the carrying amount of the assets to future net cash expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There are many assumptions and estimates underlying the determination of an impairment event or loss, if any. The assumptions and estimates include, but are not limited to, estimated fair market value of the assets and estimated future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service the asset will be used, and estimated salvage values. Although the Company believes its assumptions and estimates are reasonable, deviations from the assumptions and estimates could produce a materially different result.

Goodwill. The excess of the purchase price over the fair value of identifiable net assets acquired in transactions accounted for as a purchase are included in goodwill. Management monitors the recoverability of goodwill on an annual basis, or whenever events or circumstances indicate that interim impairment testing is necessary. The amount of goodwill impairment, if any, is typically measured based on projected discounted future operating cash flows using a discount rate reflecting the Company s average weighted cost of capital. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved. There are many assumptions and estimates underlying the determination of an impairment event or loss, if any. Although the Company believes its assumptions and estimates are reasonable, deviations from the assumptions and estimates could produce a materially different result.

Accrued Insurance. The Company is subject to property damage and casualty risks associated with operating vessels carrying large volumes of bulk liquid and dry cargo in a marine environment. The Company maintains insurance coverage against these risks subject to a deductible, below which the Company is liable. In addition to expensing claims below the deductible amount as incurred, the Company also maintains a reserve for losses that may have occurred but have not been reported to the Company, or are not yet fully developed. The Company uses historic experience and actuarial analysis by outside consultants to estimate an appropriate level of reserves. If the actual number of claims and magnitude were substantially greater than assumed, the required level of reserves for claims incurred but not reported or fully developed could be materially understated. The Company records receivables from its insurers for incurred claims above the Company s deductible. If the solvency of the insurers became impaired, there could be an adverse impact on the accrued receivables and the availability of insurance.

Acquisitions

On June 30, 2008, the Company purchased substantially all of the assets of Lake Charles Diesel for $3,680,000 in cash. Lake Charles Diesel was a Gulf Coast high-speed diesel engine services provider operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and Volvo engines, as well as an authorized marine dealer for Caterpillar engines in Louisiana. Financing of the acquisition was through the Company s revolving credit facility.

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On March 18, 2008, the Company purchased six inland tank barges from ORIX for $1,800,000 in cash. The Company had been leasing the barges from ORIX prior to their purchase. Financing of the equipment acquisition was through the Company s revolving credit facility.

On October 1, 2007, the Company purchased nine inland tank barges from Siemens for $4,500,000 in cash. The Company had been leasing the barges since 1994 when the leases were assigned to the Company as part of the Company s purchase of the tank barge fleet of Dow. Financing of the equipment acquisition was through the Company s revolving credit facility.

On July 20, 2007, the Company purchased substantially all of the assets of Saunders for $13,288,000 in cash and the assumption of $245,000 of debt. Saunders was a Gulf Coast high-speed diesel engine services provider operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere engines, as well as an authorized marine dealer for Caterpillar engines in Alabama. Financing of the cash portion of the acquisition was through the Company s revolving credit facility.

On February 23, 2007, the Company purchased the assets of P&S for $1,622,000 in cash. P&S was a Gulf Coast high-speed diesel engine services provider operating as a factory-authorized marine dealer for Caterpillar in Louisiana. Financing of the acquisition was through the Company s revolving credit facility.

On February 13, 2007, the Company purchased from NAK Engineering for a net $3,540,000 in cash, the assets and technology necessary to support the Nordberg medium-speed diesel engines used in nuclear applications. As part of the transaction, Progress Energy and Duke Energy made payments to the Company for non-exclusive rights to the technology and entered into ten-year exclusive parts and service agreements with the Company. Nordberg engines are used to power emergency diesel generators used in nuclear power plants owned by Progress Energy and Duke Energy. Financing of the acquisition was through the Company s revolving credit facility.

On January 3, 2007, the Company purchased the stock of Coastal, the owner of 37 inland tank barges, for $19,474,000 in cash. The Company had been operating the Coastal tank barges since October 2002 under a barge management agreement. Financing of the acquisition was through the Company s revolving credit facility.

On January 2, 2007, the Company purchased 21 inland tank barges from Cypress for $14,965,000 in cash. The Company had been leasing the barges since 1994 when the leases were assigned to the Company as part of the Company s purchase of the tank barge fleet of Dow. Financing of the equipment acquisition was through the Company s revolving credit facility.

Results of Operations

The Company reported 2009 net earnings attributable to Kirby of $125,941,000, or $2.34 per share, on revenues of $1,082,158,000, compared with 2008 net earnings attributable to Kirby of $157,168,000, or $2.91 per share, on revenues of $1,360,154,000, and 2007 net earnings attributable to Kirby of $123,341,000, or $2.29 per share, on revenues of $1,172,625,000.

Marine transportation revenues for 2009 were $881,298,000, or 81% of total revenues, compared with $1,095,475,000, or 81% of total revenues for 2008 and $928,834,000, or 79% of total revenues for 2007. Diesel engine services revenues for 2009 were $200,860,000, or 19% of total revenues, compared with $264,679,000, or 19% of total revenues for 2008 and $243,791,000, or 21% of total revenues for 2007.

As a result of the lower demand in both the marine transportation and diesel engine services segments, the Company took specific steps to reduce overhead and lower expenditures during the 2009 first and fourth quarters and 2010 first

quarter. During the 2009 first quarter, the shore staffs of the marine transportation and diesel engine services segments were reduced by approximately 6% through early retirement incentives and staff reductions and this resulted in a charge of $3,953,000 before taxes, or $.05 per share. This staff reduction is expected to achieve an annual savings of approximately $7,000,000.

A charge of $4,800,000 before taxes, or $.05 per share, was taken in the 2009 fourth quarter and an estimated charge of $3,900,000 before taxes, or $.04 per share will be taken in the 2010 first quarter for additional shore staff reductions. The 2009 fourth quarter and 2010 first quarter charges will result in an additional reduction of 7% in the shore staffs of the marine transportation and diesel engine services segments. This is expected to result in an annual

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savings of approximately $8,700,000. As of January 31, 2010, the shore staffs of the marine transportation segment, including shore tankering services, and the diesel engine services segment were down 21% compared with the Company s peak headcount in October 2008 due to early retirement incentives, staff reductions and employee attrition. Employee attrition since October 2008 is expected to result in an annual savings of approximately $11,200,000.

Marine Transportation

The Company, through its marine transportation segment, is a provider of marine transportation services, operating inland tank barges and towing vessels, transporting petrochemicals, black oil products, refined petroleum products and agricultural chemicals along the United States inland waterways. As of December 31, 2009, the Company operated 863 active inland tank barges, with a total capacity of 16.7 million barrels, compared with 914 active inland tank barges at December 31, 2008, with a total capacity of 17.5 million barrels. The Company operated 213 active inland towing vessels at February 26, 2010, an average of 220 during 2009 and 256 during 2008. The Company owns and operates four offshore dry-bulk barge and tug units engaged in the offshore transportation of dry-bulk cargoes. The Company also owns a two-thirds interest in Osprey, which transports cargo containers and project cargoes by barge on the United States inland waterway system.

The following table sets forth the Company s marine transportation segment s revenues, costs and expenses, operating income and operating margins for the three years ended December 31, 2009 (dollars in thousands):

	2009	2008	% Change 2008 to 2009	2007	% Change 2007 to 2008
Marine transportation revenues	$ 881,298	$ 1,095,475	(20)%	$ 928,834	18%
Costs and expenses:					
Costs of sales and operating expenses	494,139	657,078	(25)	562,769	17
Selling, general and administrative	80,897	96,960	(17)	82,454	18
Taxes, other than on income	10,587	12,034	(12)	12,188	(1)
Depreciation and amortization	87,589	84,537	4	75,311	12
	673,212	850,609	(21)	732,722	16
Operating income	$ 208,086	$ 244,866	(15)%	$ 196,112	25%
Operating margins	23.6%	22.4%		21.1%	

2009 Compared with 2008

Marine Transportation Revenues

Marine transportation revenues for 2009 decreased 20% compared with 2008, reflecting lower petrochemical, black oil products, refined petroleum products and agricultural chemical demand, driven by the current United States and global economic recession. The lower demand levels in all four marine transportation markets resulted in lower tank barge utilization levels industry wide that led to increased downward pressure on term contract and spot contract

pricing over the last nine months of 2009. In addition, approximately 37% of the decrease in marine transportation revenues in 2009 compared with 2008 was due to negative term contract diesel fuel price escalation adjustments associated with the pass through of diesel fuel to customers through fuel escalation and de-escalation clauses in term contracts.

The petrochemical market, the Company s largest market, contributed 68% of the marine transportation revenue for 2009. During 2009, petrochemical transportation demand was soft, driven by the deteriorating economic environment, with demand levels well below 2008 levels. Movements of more finished petrochemical products to the Midwest improved modestly during the 2009 second and third quarters compared with the 2009 first and 2008 fourth quarters, when significant destocking of inventories occurred. The Gulf Intracoastal Waterway petrochemical demand for the 2009 second and third quarters stabilized when compared with the 2009 first quarter. The black oil products market, which contributed 19% of 2009 marine transportation revenue, and the refined

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products market, which contributed 9% of 2009 marine transportation revenue, also stabilized during the 2009 second and third quarters but remained well below prior year levels. Fourth quarter demand levels in the petrochemical, black oil products and refined products markets were slightly weaker when compared with the 2009 third quarter. The agricultural chemical market, which contributed 4% of 2009 marine transportation revenue, was weak throughout the year due to high Midwest inventory levels, fueled by heavy rain events which reduced the farmer s ability to apply fertilizer.

For 2009, the marine transportation segment incurred 5,201 delay days, 37% less than 2008 delay days of 8,267. Delay days measure the lost time incurred by a tow (towboat and one or more tank barges) during transit when the tow is stopped due to weather, lock conditions and other navigational factors. The 2009 delay days reflected milder winter weather conditions and more normal water levels compared with 2008 that experienced ice and high water conditions in the Midwest throughout the 2008 first quarter, high water conditions throughout the Mississippi River System during the majority of the 2008 second quarter and Hurricanes Gustav and Ike during the 2008 third quarter. The lower 2009 delay days led to a reduction of operating expenses compared with 2008 and helped offset some of the financial impact of the lower demand levels.

During the 2009 first nine months, approximately 80% of marine transportation revenues were under term contracts and 20% were spot contract revenues. During the 2009 fourth quarter, the term contract portion of marine transportation revenues declined to 75% as certain customers switched to spot contracts when their term contracts expired. Time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented approximately 56% of the revenues under term contracts during 2009 and 2008. The 75% to 80% term contract and 20% to 25% spot contract mix provides the Company with a predictable revenue stream. Rates on term contracts, net of fuel, renewed during the 2009 first quarter were generally renewed at existing rates and in some cases rates were traded for longer terms, while 2009 second, third and fourth quarter contract renewals declined in the zero to 8%, 7% to 15% and 7% to 15% range, respectively, when compared with the corresponding quarters of 2008. Spot contract rates for 2009, which include the cost of fuel, decreased an average of 3% to 4% in the first quarter, 10% to 15% in second quarter, 10% to 20% in the third quarter and 20% to 30% in the fourth quarter when compared with the corresponding quarters of 2008. In 2009, the Company estimates that approximately 40% to 50% of the spot contract rate decreases were fuel related. All marine transportation term contracts contain fuel escalation clauses designed to recover additional fuel costs when fuel prices rise and rebate fuel costs when prices decline. However, there is generally a 30 to 90 day delay before contracts are adjusted. Spot contracts do not have escalators for fuel. Effective January 1, 2009, escalators for labor and the producer price index on a number of multi-year contracts increased rates on those contracts by 4% to 5%.

Marine Transportation Costs and Expenses

Costs and expenses for 2009 decreased 21% compared with 2008, primarily reflecting the lower costs and expenses associated with decreased marine transportation demand, lower towboat requirements and lower diesel fuel prices. The 2009 year included a $2,527,000 charge applicable to the marine transportation segment for early retirements and staff reductions in the first quarter and a $3,523,000 charge for staff reductions in the fourth quarter. More favorable weather and operating conditions during 2009 compared with 2008 also reduced operating expenses.

Costs of sales and operating expenses for 2009 decreased 25% compared with 2008, reflecting lower expenses associated with the decreased demand and more favorable weather operating conditions, fewer towboats operated, lower insurance claims losses and the positive impact of enhanced cost saving and efficiency initiatives. The significantly lower price of diesel fuel and less consumption, resulted in lower fuel costs during 2009.

The marine transportation segment operated an average of 220 towboats during 2009, of which an average of 56 were chartered, compared with 256 during 2008, of which an average of 84 were chartered. Since the fourth quarter of 2008

and continuing throughout 2009, as demand weakened the Company released chartered towboats and laid up Company owned towboats in an effort to balance horsepower needs with volume demand. The Company has historically used chartered towboats for approximately one-third of its horsepower requirements.

During 2009, the Company consumed 41.8 million gallons of diesel fuel compared to 48.5 million gallons consumed during 2008. The lower fuel consumption was a reflection of weaker demand in all four of the segment s

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marine transportation markets and the use of more fuel efficient engines in the towboats. The average price per gallon of diesel fuel consumed during 2009 was $1.72, a decrease of 46% compared with $3.21 per gallon for 2008. Fuel escalation clauses are designed to rebate fuel costs when prices decline and recover additional fuel costs when fuel prices rise; however, there is generally a 30 to 90 day delay before the contracts are adjusted. Spot contracts do not have escalators for fuel.

Selling, general and administrative expenses for 2009 decreased 17% compared with 2008. The decrease primarily reflected lower employee incentive compensation accruals, the cost savings of the 2009 first quarter early retirements and staff reductions, and a lower provision for doubtful accounts, partially offset by the 2009 first and fourth quarter charges for early retirements and staff reductions.

Taxes, other than on income, for 2009 decreased 12% compared with 2008, primarily the reflection of lower waterway user taxes from reduced mileage associated with the weaker demand on taxable waterways and lower property taxes.

Depreciation and amortization for 2009 increased 4% compared with 2008. The increase was primarily attributable to increased capital expenditures, including new tank barges and towboats.

Marine Transportation Operating Income and Operating Margins

The marine transportation operating income for 2009 decreased 15% compared with 2008, reflecting lower demand in all four of the marine transportation segment s markets and the 2009 first and fourth quarters charge for early retirements and staff reductions. In addition, 2008 included the loss of revenue and additional operating expenses associated with Hurricanes Gustav and Ike. Despite the lower demand and first and fourth quarter charges, the operating margin increased to 23.6% for 2009 compared with 22.4% for 2008. The higher margin for 2009 reflected lower fuel costs, lower shoreside headcount, reduction of towboats operated, reduced maintenance on laid up equipment, lower insurance claims losses, more efficient operations at lower utilization rates, the January 1, 2009 escalators on numerous multi-year contracts, a lower provision for doubtful accounts, ongoing cost reduction and efficiency initiatives and favorable 2009 operating conditions.

2008 Compared with 2007

Marine Transportation Revenues

Marine transportation revenues for 2008 increased 18% compared with 2007, reflecting continued strong demand in the majority of its markets through the first nine months, the recovery of higher diesel fuel costs, the increased equipment on time charters, 2007 and 2008 term contract and spot contract rate increases, and labor and producer price index escalators effective January 1, 2008 on multi-year contracts. Demand for the upriver movements of petrochemicals weakened during the 2008 fourth quarter. The 2008 third quarter was negatively impacted by Hurricanes Gustav and Ike, more fully described above.

The petrochemical market, the Company s largest market, contributed 67% of the marine transportation revenue for 2008. During the first nine months of 2008, the demand for the movement of petrochemical products remained strong, with term contract customers continuing to operate their plants and facilities at high utilization rates until the September hurricanes, resulting in high tank barge utilization. With the deteriorating economic environment during the 2008 fourth quarter, petrochemical customers responded with numerous plant closures and volume reductions in order to reduce inventories, thereby reducing upriver movements of more finished petrochemical products to the end users. The black oil products market contributed 18% of 2008 marine transportation revenue reflecting relatively strong demand throughout 2008. Refined petroleum products contributed 10% of 2008 marine transportation revenue, experiencing softness in the movement of products from the Gulf Coast to the Midwest, driven by higher gasoline

prices and resulting lower gasoline demand, but benefiting from more Gulf Intracoastal Waterway movements. The agricultural chemical market, which contributed 5% of 2008 marine transportation revenue, was unseasonably strong during the first quarter in advance of the traditional spring planting season, remained strong during the first two months of the second quarter until upper Mississippi River flooding in June and July curtailed the traditional spring planting season. High Midwest inventory levels negatively impacted the second half of 2008.

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The marine transportation segment operated an average of 256 towboats during 2008 compared with 253 during 2007. The Company continued to make progress in the crewing of its towboats as essentially all Company owned towboats were fully crewed during 2008. The Company operated an average of 258 during the 2008 first nine months and operated an average of 250 towboats in the 2008 fourth quarter. The Company has historically used chartered towboats for approximately one-third of its horsepower requirements. During the 2008 fourth quarter, the Company began releasing chartered towboats as demand softened, thereby balancing horsepower needs with current requirements.

For 2008, the marine transportation segment incurred 8,267 delay days, in line with the 8,157 delay days for 2007. Delay days measure the lost time incurred by a tow (towboat and one or more tank barges) during transit when the tow is stopped due to weather, lock congestion and other navigational factors. The 2008 delay days do not reflect the lost time incurred during Hurricane Ike as the Houston and Port Arthur/Beaumont area petrochemical and refining facilities closed in advance of the hurricane and, due to lack of power or facility damage, did not reopen until several days after the hurricane and in some cases did not reopen or operated at reduced levels. Excluding the hurricanes, delay days for 2008 reflected ice and high water conditions in the Midwest and frontal systems along the Gulf Coast in the first quarter, high water conditions throughout the Mississippi River System during the majority of the 2008 second quarter and favorable operating conditions during July and August 2008 and the 2008 fourth quarter. This compares with 2007 which reflected milder winter weather conditions and more normal water levels. The delay days recorded in the 2008 second quarter did not reflect the slower transit times caused by weather issues and high water conditions, which in some cases, resulted in the deployment of additional towboats in order to meet customer delivery schedules.

During 2008, approximately 80% of marine transportation revenues were under term contracts and 20% were spot contract revenues, compared with a 75% term contract and 25% spot contract mix for the 2007 first half and 80% contract and 20% spot contract mix for the 2007 second half. Time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, averaged 56% of the revenues under term contracts during 2008. The increase during 2008 in the term contract percentage was attributable to heavier demand for marine transportation services by the Company s term contract customers. The 80% term contract and 20% spot contract mix provides the Company with a predictable revenue stream while maintaining spot contract exposure to take advantage of new business opportunities and existing customers peak demands. Rates on term contract renewals, net of fuel, increased during 2008 in the 8% to 11% average range, primarily the result of continued strong industry demand and high utilization of tank barges, when compared with 2007. Spot contract rates, which include fuel, increased in the 8% to 15% range for 2008 when compared with 2007. Effective January 1, 2008, escalators for labor and the producer price index on a number of multi-year contracts increased rates on those contracts by 5% to 6%.

Marine Transportation Costs and Expenses

Costs and expenses for the 2008 increased 16% compared with 2007, primarily reflecting the higher costs and expenses associated with increased marine transportation demand noted above.