KIRBY CORP
Form 10-K
February 27, 2009

Table of Contents

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, 2008
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**	**77007**
(Address of principal executive offices)	*(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 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, 2008, based on the closing sales price of such stock on the New York Stock Exchange on June 30, 2008 was $2,464,875,000. 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 27, 2009, 53,774,000 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 28, 2009, to be filed with the Commission pursuant to Regulation 14A, is incorporated by reference into Part III of this report.

TABLE OF CONTENTS

PART I
- Item 1. Business

THE COMPANY
BUSINESS AND PROPERTY
MARINE TRANSPORTATION
DIESEL ENGINE SERVICES
- Item 1A. Risk Factors
- Item 1B. Unresolved Staff Comments
- Item 2. Properties
- Item 3. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders

PART II
- Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
- Item 6. Selected Financial Data
- Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations
- Item 7A. Quantitative and Qualitative Disclosures about Market Risk
- Item 8. Financial Statements and Supplementary Data
- Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
- Item 9A. Controls and Procedures

PART III
- Items 10 Through 14.

Report of Independent Registered Public Accounting Firm
Report of Independent Registered Public Accounting Firm
CONSOLIDATED BALANCE SHEETS
CONSOLIDATED STATEMENTS OF EARNINGS
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
CONSOLIDATED STATEMENTS OF CASH FLOWS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
PART IV
- Item 15. Exhibits and Financial Statement Schedules

SIGNATURES
EXHIBIT INDEX
EX-10.7
EX-21.1
EX-23.1
EX-31.1
EX-31.2
EX-32

Table of Contents

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 and are available in print to any stockholder on request to the Vice President Investor Relations, Kirby Corporation, 55 Waugh Drive, Suite 1000, Houston, Texas 77007:

- 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.

Table of Contents

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 3,100 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):

	2008	2007	2006
Revenues from unaffiliated customers:			
Marine transportation	$ 1,095,475	$ 928,834	$ 807,216
Diesel engine services	264,679	243,791	177,002
Consolidated revenues	$ 1,360,154	$ 1,172,625	$ 984,218
Operating profits:			
Marine transportation	$ 244,866	$ 196,112	$ 153,225
Diesel engine services	39,587	37,948	26,374
General corporate expenses	(14,099)	(12,889)	(11,665)
Gain (loss) on disposition of assets	142	(383)	1,436
	270,496	220,788	169,370
Equity in earnings of marine affiliates	134	266	707
Other expense	(649)	(221)	(116)
Minority interests	(1,305)	(717)	(558)
Interest expense	(14,064)	(20,284)	(15,201)
Earnings before taxes on income	$ 254,612	$ 199,832	$ 154,202
Identifiable assets:			
Marine transportation	$ 1,289,689	$ 1,199,869	$ 1,047,264
Diesel engine services	208,993	213,062	205,281
	1,498,682	1,412,931	1,252,545
Investment in marine affiliates	2,056	1,921	2,264
General corporate assets	25,360	15,623	16,310
Consolidated assets	$ 1,526,098	$ 1,430,475	$ 1,271,119

Table of Contents

MARINE TRANSPORTATION

The marine transportation segment is primarily a provider of transportation services by barge for the inland and offshore markets. As of February 27, 2009, the equipment owned or operated by the marine transportation segment consisted of 914 active inland tank barges, 234 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	407	27.1	4,742,000
Over 20,000 barrels	411	18.3	11,208,000
Specialty double hull	87	33.9	1,281,000
Single hull:			
Double side single bottom	2	27.6	36,000
20,000 barrels and under	2	47.6	34,000
Over 20,000 barrels	5	33.4	158,000
Total active inland tank barges	914	23.9	17,459,000
Inactive	73	35.4	1,284,000
Inland towboats:			
Active (owned and chartered):			
Less than 800 horsepower	1	40.0	
800 to 1300 horsepower	111	31.5	
1400 to 1900 horsepower	75	28.8	
2000 to 2400 horsepower	18	19.3	
2500 to 3200 horsepower	18	36.8	
3300 to 4900 horsepower	8	32.6	
Greater than 5000 horsepower	2	36.0	
Spot charters (chartered trip to trip)	1		
Total active inland towboats	234	30.3	
Inactive	4	26.2	

			Deadweight Tonnage
Offshore dry-cargo barges	4	28.9	70,000

Offshore tugboats and shifting tugboat	5	31.7

The 234 active inland towboats, four offshore tugboats and one offshore shifting tugboat provide the power source and the 914 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.

Table of Contents

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.

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 17.5 million barrels equates to approximately 29,200 railroad tank cars or approximately 91,200 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 St. Marks, 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. 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; 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 3,050 in 2008 primarily resulted from increased barge construction and deferred retirements due to strong demand and resulting capacity shortages.

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. The Company believes that 137 new tank barges in 2007 and 215 in 2008 were delivered and placed in service, with an estimated 80 tank barges in 2007 and 80 to 100 in 2008 retired. During 2007 and the 2008 first nine months, 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. With the deteriorating economic conditions, financing of the barges may be difficult for certain operators and certain equipment scheduled for major maintenance may be idled. 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 23 years, with 22% of the fleet built in the last 10 years. Single hull barges comprise approximately 4% of the nation s tank barge fleet, with an average age of 36 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 plans to retire all of its single hull tank barges in 2009, and market bias may also result in reduced lives for single hull tank barges industry wide. As of February 27, 2009, the Company owned and operated nine single hull and double side single bottom tank barges.

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), operator of a barge feeder service for cargo containers on the Gulf Intracoastal Waterway, as well as several ports located above Baton Rouge on the Mississippi River.

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 914 active tank barges as of February 27, 2009. It currently operates approximately 30% 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.

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.

On October 4, 2006, the Company signed agreements to purchase 11 inland tank barges from Midland Marine Corporation (Midland) and Shipyard Marketing, Inc. (Shipyard) for $10,600,000 in cash. The Company purchased four of the barges during 2006 for $3,300,000 and the remaining seven barges in 2007 for $7,300,000. The Company had been leasing the barges from Midland and Shipyard prior to their purchase.

On July 24, 2006, the Company signed an agreement to purchase the assets of Capital Towing Company (Capital), consisting of 11 towboats, for $15,000,000 in cash. The Company purchased nine of the towboats during 2006 for $13,299,000 and the remaining two towboats in 2007 for $1,701,000. The Company and Capital entered into a vessel operating agreement whereby Capital is contracted to crew and operate the towboats for the Company.

On March 1, 2006, the Company purchased from Progress Fuels Corporation (PFC) the remaining 65% interest in Dixie Fuels Limited (Dixie Fuels) for $15,818,000 in cash. The Dixie Fuels partnership, formed in 1977, was 65% owned by PFC and 35% owned by the Company. As part of the transaction, the Company extended the expiration date of its marine transportation contract with PFC from 2008 to 2010.

Effective January 1, 2006, the Company acquired an additional one-third interest in Osprey, increasing the Company s ownership to a two-thirds interest. Osprey, formed in 2000, operates a barge feeder service for cargo containers on the Gulf Intracoastal Waterway, as well as several ports located above Baton Rouge on the Mississippi River.

Products Transported

During 2008, the Company s marine transportation segment moved over 51 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 67% of the segment s 2008 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 18% of the segment s 2008 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 10% of the segment s 2008 revenues. Customers are oil and refining companies and marketers.

Agricultural Chemicals. Agricultural chemicals transported represented approximately 5% of the segment s 2008 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 in consumer goods, automobiles, housing and textiles. The other significant 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 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 914 active inland tank barges and 234 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

---

Table of Contents

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.

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 914 active tank barges currently operated, 716 are petrochemical and refined products barges, 118 are black oil barges, 65 are pressure barges, 10 are refrigerated anhydrous ammonia barges and five are specialty barges. Of the 914 active tank barges, 868 are owned by the Company and 46 are leased.

The fleet of 234 active inland towboats ranges from 600 to 6100 horsepower. Of the 234 active inland towboats, 172 are owned by the Company and 62 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 2008, approximately 80% of marine transportation revenues were derived from term contracts and 20% from spot market movements. This compares with the 2007 first and second halves when 75% and 80% of marine transportation revenues were from term contracts and 25% and 20% from spot market movements, respectively. The increase during 2008 and the 2007 second half when compared with the 2007 first half in the term contract percentage was attributable to heavier demand for marine transportation services by the Company s term contract customers.

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 2008, approximately 130 KLM tankermen conducted more than 26,000 barge transfers and provided more than 127 operators for in-plant services for petrochemical companies, refineries and terminal operators.

The Company owns a two-thirds interest in Osprey, which operates a barge feeder service for cargo containers on the Gulf Intracoastal Waterway, as well as several ports located above Baton Rouge on the Mississippi River.

Offshore Operations. The segment s offshore operations are conducted through a wholly owned subsidiary, Dixie Offshore Transportation Company (Dixie Offshore). Dixie Offshore owns and operates a fleet of four ocean-going dry-bulk barges, four ocean-going tugboats and one offshore shifting tugboat. On March 1, 2006, Dixie Offshore purchased from PFC the remaining 65% interest in Dixie Fuels. Dixie Fuels was owned 65% by PFC and 35% by the Company. Dixie Offshore operates primarily under term contracts of affreightment, including a contract that expires in 2010 with PFC to transport coal across the Gulf of Mexico to PFC s power generation facility at Crystal River, Florida.

Dixie Offshore 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 2010, provides cargo for a portion of the return voyage for the vessels that carry coal to PFC s Crystal River facility. Dixie Offshore 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 customers 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. 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 2008, approximately 80% of marine transportation revenues were derived from term contracts and 20% from spot market movements. This compares with the 2007 first and second halves when 75% and 80% of marine transportation revenues were from term contracts and 25% and 20% from spot market movements, respectively.

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 2008 and 2007, and 12% in 2006. Dow, with which the Company has a contract through 2016, including renewal options, accounted for 10% of the Company s revenues in 2007 and 11% in 2006.

Employees

The Company s marine transportation segment has approximately 2,350 employees, of which approximately 1,500 are vessel crew members. None of the segment s operations are subject to collective bargaining agreements.

Properties

The principal office of Kirby Inland Marine 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 in Corpus Christi, Texas. The Baton Rouge, New Orleans and Houston facilities are owned, and the Greenville and Corpus Christi facilities are leased. KLM s and Osprey s principal offices are located in facilities owned by Kirby Inland Marine in Houston, Texas, near the Houston Ship Channel. The principal office of Dixie Offshore is in Belle Chasse, Louisiana, in owned facilities.

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 corporations to qualify as United States citizens for the purpose of domestic trade,

Table of Contents

75% of the corporations 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 paid during 2008 and 2007 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 VSP and FSP were to be submitted for approval no later than December 31, 2003 and a company must be operating in compliance with the VSP and FSP by June 30, 2004. The Company timely submitted the required VSP and FSP for all vessels and facilities subject to the requirements, substantially the entire fleet of vessels operated by the Company and the terminal and barge fleeting facilities operated by the Company. The Company s VSP and FSP have been approved and the Company is operating in compliance with the plans.

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 (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. In September 2002, the USCG issued new regulations that required the installation of tank level monitoring devices on all single hull tank barges by October 17, 2007, a deadline later extended to July 21, 2008, although subsequent legislation granted the USCG discretion to modify or withdraw the requirement. On December 29, 2008, the USCG published a final rule removing its regulations requiring tank level monitoring devices.

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 uses double hull barges in the transportation of more hazardous chemical substances. 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

Table of Contents

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.

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 $1.2 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.

Table of Contents

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 2008, approximately 3,800 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.

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 2008, 2007 or 2006. The diesel engine services segment also provides service to the Company s marine transportation segment, which accounted for approximately 3% of the diesel engine services segment s 2008 and 2007 revenues and 2% for 2006. 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, 2008 (dollars in thousands):

	2008		2007		2006	
	Amounts	**%**	**Amounts**	**%**	**Amounts**	**%**
Overhaul and repairs	$ 167,196	63%	$ 158,599	65%	$ 113,870	64%
Direct parts sales	97,483	37	85,192	35	63,132	36
	$ 264,679	100%	$ 243,791	100%	$ 177,002	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

Table of Contents

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.

On July 21, 2006, the Company purchased the assets of Marine Engine Specialists, Inc. (MES) for $6,863,000 in cash. MES was a Gulf Coast high-speed diesel engine services provider, operating a factory-authorized full service marine dealership for John Deere, as well as a service provider for Detroit Diesel.

On June 7, 2006, the Company purchased the stock of Global Power Holding Company, a privately held company that owned all of the outstanding equity of Global Power Systems, L.L.C. (Global). The Company purchased Global for an aggregate consideration of $101,720,000, consisting of $98,657,000 in cash, the assumption of $2,625,000 of debt and $438,000 of merger costs. Global was a Gulf Coast high-speed diesel engine services provider, operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere high-speed diesel engines, and Allison transmissions, as well as an authorized marine dealer for Caterpillar in Louisiana.

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 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.

Table of Contents

The high-speed operations are located in Houma, Baton Rouge, Belle Chasse, Lake Charles, Morgan City, New Iberia and Vidalia, 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 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 and the exclusive worldwide

distributor of Cooper Energy Services, Inc. (Cooper) products to the nuclear industry. In February 2007, the Company purchased 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 major power generation customers are Miami-Dade County, Florida Water and Sewer Authority, Progress Energy, Duke Energy 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 86 years.

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 650 employees.

Properties

The principal offices of the diesel engine services segment are located in Houma, Louisiana. The Company operates 17 parts and service facilities, with four facilities located in Houma, Louisiana, and one facility each

Table of Contents

located in Baton Rouge, Belle Chasse, Lake Charles, New Iberia, Morgan City and Vidalia, 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	66	Chairman of the Board of Directors
Joseph H. Pyne	61	President, Director and Chief Executive Officer
Norman W. Nolen	66	Executive Vice President, Chief Financial Officer and Treasurer
Steven P. Valerius	54	Executive Vice President and Chief Administrative Officer
Gregory R. Binion	44	President Kirby Inland Marine
Dorman L. Strahan	52	President Kirby Engine Systems
Ronald A. Dragg	45	Vice President and Controller
G. Stephen Holcomb	63	Vice President Investor Relations and Assistant Secretary
Amy D. Husted	40	Vice President Legal
David R. Mosley	44	Vice President and Chief Information Officer
Jack M. Sims	66	Vice President Human Resources

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.

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.

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.

Steven P. Valerius holds a J.D. degree from South Texas College of Law and a degree in business administration from the University of Texas. He has served the Company as Executive Vice President and Chief Administrative Officer since October 2008 and served as President of Kirby Inland Marine from 1999 to October 2008. Prior to joining the Company in October 1999, he served as Executive Vice President of Hollywood Marine. Prior to joining Hollywood Marine in 1979, he was employed by KPMG LLP.

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.

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.

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 American Recovery and Reinvestment Act of 2009 was signed on February 17, 2009 and included $4.6 billion for the Army Corps of Engineers, which is responsible for construction and maintenance of the United States inland waterways infrastructure. The funds will be split among construction, operations and maintenance and other budget areas. To the extent the funds are spent on inland navigation construction projects, there is no requirement for fund matching from the fuel tax supported inland waterway trust fund. Congress did not specify how the funds should be split among the various business lines of the Army Corps of Engineers, so it is uncertain how much of these funds will be directed to inland waterways projects. Additionally, Congress designated $142,000,000 for the Truman Hobbs program, which funds the alteration or replacement of bridges that have been found to be an unreasonable obstruction to navigation. This is a significant increase over the normal annual funding for this program and should allow a number of bridges that have been ongoing impediments to navigation to be replaced. The USCG, which administers this program, has been directed to provide a plan to Congress within 45 days detailing how these funds are to be spent.

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 2008, 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 compared with unusually favorable weather conditions and water levels during 2006, with delays resulting from weather conditions and water levels for all four 2007 year quarters at higher levels than in 2006. The Company s operations for 2007 and 2006 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 transportation is the safest means of transporting bulk commodities, accidents do occur, both involving Company equipment and equipment owned by other inland marine carriers. For example, in July 2008, an accident on the lower Mississippi River involving a tanker and a towboat and tank barges owned by another company resulted in the closure of the river in the New Orleans area for numerous days, preventing any movements of marine equipment through the impacted area of the river.

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 vessels, 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.

During 2006 and 2007, high United States employment, coupled with 2005 third quarter Hurricanes Katrina and Rita that displaced labor and created reconstruction job opportunities in the oil service and construction

Table of Contents

industries along the Gulf Coast, made for a tight Gulf Coast labor market. As a result, the Company during 2006 and 2007, as well as the Company s charter boat operators, experienced vessel personnel shortages. During 2006 and 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. The Company s crewing levels returned to pre-hurricane levels during the 2007 third quarter and remained adequate during 2008.

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 $1.095 billion in 2008. Diesel engine services revenue in 1987 was $7.1 million compared with $264.7 million in 2008. 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 could have an adverse effect on the Company.

The Company s marine transportation segment is subject to volatility in the United States production of petrochemicals. For 2008, 67% of 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. A weaker United States and global economy during 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. During the 2008 fourth quarter, the Company increased its allowance for doubtful accounts by $6,000,000 before taxes, or $.07 per share.

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 approximately 3,050 inland tank barges in the United States, of which the Company operates 914, or 30%. 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 approximately 3,050 in late 2008. The Company believes that 137 new tank barges in 2007 and 215 in 2008 were delivered and placed in service, with an estimated 80 tank barges in 2007 and 80 to 100 in 2008 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. With the deteriorating economic conditions, financing of the barges may be difficult for certain operators and certain equipment scheduled for major maintenance may be idled. 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.

Higher fuel prices could increase operating expenses. The cost of fuel during 2008 was approximately 15% of marine transportation revenue, as 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 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, account for approximately 19% of the Company s 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 43-year relationship with EMD, the 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 4% 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.

The construction cost of inland tank barges and towboats has increased significantly over the last few years primarily due to the escalating price of steel. The price of steel has increased significantly over the last few years, thereby increasing the construction cost of new tank barges and towboats. The Company s average construction price of a new 30,000 barrel capacity inland tank barge in 2009 is expected to be approximately 90% higher than in 2000, primarily due to the increase in steel prices. While the price of steel declined in late 2008 and early 2009 due to the deteriorating United States and global economic environment, an increase in steel prices may limit the Company s ability to earn an

adequate return on its investment in new tank barges and towboats.

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

Not applicable.

Table of Contents

Item 2. ***Properties***

The information appearing in Item 1 is incorporated herein by reference. The Company and Kirby Inland Marine 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.

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 United States Environmental Protection Agency (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 participated in a preliminary meeting with the EPA and the United States Department of Justice to discuss the nature of the 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 adjusted to reflect the stock split for the periods indicated:

	Sales Price	
	High	**Low**
2009		
First Quarter (through February 26, 2009)	$ 31.16	$ 21.15
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
2007		
First Quarter	38.20	33.06
Second Quarter	40.02	34.85
Third Quarter	44.90	35.68
Fourth Quarter	50.72	42.00

Table of Contents

As of February 27, 2009, the Company had 53,774,000 outstanding shares held by approximately 870 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.

During the 2008 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
October 1, 2008	194,400	$ 7,476,000	$ 38.46

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, 2008. 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,				
	2008	**2007**	**2006**	**2005**	**2004**
Revenues:					
Marine transportation	$ 1,095,475	$ 928,834	$ 807,216	$ 685,999	$ 588,828
Diesel engine services	264,679	243,791	177,002	109,723	86,491
	$ 1,360,154	$ 1,172,625	$ 984,218	$ 795,722	$ 675,319
Net earnings	$ 157,168	$ 123,341	$ 95,451	$ 68,781	$ 49,544
Earnings per share of common stock:					
Basic	$ 2.94	$ 2.33	$ 1.82	$ 1.37	$ 1.01
Diluted	$ 2.91	$ 2.29	$ 1.79	$ 1.33	$ .98
Weighted average shares outstanding:					
Basic	53,397	52,978	52,476	50,224	49,010
Diluted	54,020	53,764	53,304	51,562	50,314

	December 31,				
	2008	**2007**	**2006**	**2005**	**2004**
Property and equipment, net	$ 990,932	$ 906,098	$ 766,606	$ 642,381	$ 574,211

Total assets	$	1,526,098	$	1,430,475	$	1,271,119	$	1,025,548	$	904,675
Long-term debt, including current portion	$	247,307	$	297,383	$	310,362	$	200,036	$	218,740
Stockholders equity	$	890,053	$	769,830	$	631,995	$	537,542	$	435,235

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 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 earnings per share are diluted earnings per share. The weighted average number of common shares applicable to diluted earnings per share for 2008, 2007 and 2006 were 54,020,000, 53,764,000 and 53,304,000, respectively. The increase in the weighted average number of common shares for each year reflected the issuance of restricted stock and the exercise of stock options, partially offset in 2008 by common stock repurchases.

Overview

The Company is the nation s largest domestic inland tank barge operator with a fleet of 914 active tank barges and 234 towing vessels. 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 2008, the Company reported record revenue, net earnings and earnings per share for the fifth straight year. The Company reported net earnings of $157,168,000, or $2.91 per share, on revenues of $1,360,154,000, a significant improvement over the 2007 net earnings of $123,341,000, or $2.29 per share, on revenues of $1,172,625,000 and 2006 net earnings of $95,451,000, or $1.79 per share, on revenues of $984,218,000. The 2008 results included an estimated $.09 per share negative impact from Hurricanes Gustav and Ike.

Hurricane Gustav made landfall between Houma and Morgan City, Louisiana on September 1, creating disruptions to the Company s Gulf Coast diesel engine services operations, the Company s four Gulf Coast based offshore barge and tug units, and the inland marine transportation operations in Louisiana. Hurricane Ike made landfall on September 13 in the Houston/Galveston area as a strong Category 2 hurricane. Because of Ike s size and its unpredictable course, much of the Gulf Coast petrochemical and refining capacity was shut down prior to landfall. Strong winds and a 15 to 20 foot storm surge significantly affected petrochemical and refining plants in the Houston and Port Arthur/Beaumont area, some of which are still not back in operation or are operating at reduced levels. Additionally, an eight mile stretch of the Gulf Intracoastal Waterway just east of Houston was closed due to obstructions for 11 days after Ike s landfall, completely stopping movements to and from the Houston area. Hurricanes Ike and Gustav caused no material damage to the Company s active tank barge and towboat fleet, but the marine transportation and diesel engine services facilities did incur some damage.

During the 2008 fourth quarter, in response to the deteriorating United States and global economic environment, petrochemical and refining companies announced a number of plant closures and volume reductions in order to reduce inventories, which reduced upriver movements of more finished petrochemical products to the end users. In addition, the Company increased its general reserve for doubtful accounts in the 2008 fourth quarter by $6,000,000 before taxes, or $.07 per share, due to the deteriorating economic environment.

Marine Transportation

For 2008, approximately 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.

Table of Contents

The following table shows the marine transportation markets serviced by the Company, the marine transportation revenue distribution for 2008, products moved and the drivers of the demand for the products the Company transports:

Markets Serviced	2008 Revenue Distribution	Products Moved	Drivers
Petrochemicals	67%	Benzene, Styrene, Methanol, Acrylonitrile, Xylene, Caustic Soda, Butadiene, Propylene	Consumer Goods, Automobiles, Housing, Textiles
Black Oil Products	18%	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	10%	Gasoline, No. 2 Oil, Jet Fuel, Heating Oil, Diesel Fuel, Naphtha	Vehicle Usage, Air Travel, Weather Conditions, Refinery Utilization
Agricultural Chemicals	5%	Anhydrous Ammonia, Nitrogen-Based Liquid Fertilizer, Industrial Ammonia	Corn, Cotton, Wheat Production, Chemical Feedstock Usage

Marine transportation revenue and operating income for 2008 increased 18% and 25%, respectively, compared with 2007. The higher results reflected continued strong demand for the movement of petrochemical products as term contract customers continued to operate their plants and facilities at high utilization rates until the September hurricanes, thereby 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 market remained strong, despite some lower refinery utilization. The refined products market experienced continued softness in the movement of products from the Gulf Coast to the Midwest as a result of lower gasoline demand due to higher gasoline prices. The agricultural chemical market was strong during the first quarter and a portion 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.

Marine transportation revenues for 2008 benefited from the recovery of higher diesel fuel costs through contract fuel escalation clauses on all term affreightment contracts and time charter contracts. Fuel escalation clauses are 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 the contracts are adjusted.

During 2008, approximately 80% of marine transportation revenues were under term contracts and 20% were spot market revenues. 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. Rates on term contract renewals, net of fuel, increased during 2008 in the 8% to 11% average range, with some contracts increasing by a higher percentage and some by a lower percentage, compared with 2007. Effective January 1, 2008, annual escalators for labor and the producer price index on a number of multi-year contracts resulted

in rate increases on those contracts by 5% to 6%, excluding fuel. For 2008, spot market rates, which include the cost of fuel, increased in the 8% to 15% average range when compared with 2007.

The marine transportation operating margin for 2008 was 22.4% compared with 21.1% for 2007. Strong demand in the majority of the segment s markets through the first nine months of 2008, higher term contract and spot market pricing, the January 1, 2008 escalators on numerous multi-year contracts, operating efficiencies from continued improvement in vessel crewing and the increased percentage of time charters which protects revenues from navigational and weather delays and temporary market declines, had a positive impact on the operating income and operating margin. Partially offsetting these positive factors was the loss of revenue and additional operating expenses associated with Hurricanes Gustav and Ike. During the 2008 fourth quarter, the demand for

Table of Contents

upriver movements of petrochemicals weakened and the allowance for doubtful accounts was increased, partially offset by a reduction in the number of charter boats operated and lower diesel fuel prices.

Diesel Engine Services

During 2008, approximately 19% of the Company s revenue was generated by its diesel engine services segment, of which 63% was generated through service and 37% 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 2008, and the customers for each market:

Markets Serviced	2008 Revenue Distribution	Customers
Marine	79%	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	13%	Standby Power Generation, Pumping Stations
Railroad	8%	Passenger (Transit Systems), Class II, Shortline, Industrial

The diesel engine services segment s 2008 revenue and operating income increased 9% and 4%, respectively, compared with 2007. The results were positively impacted by strong engine overhaul and field repair activity and direct parts sales in the majority of its medium-speed markets through the first nine months of 2008. During the 2008 fourth quarter, the medium-speed market saw service levels and direct parts sales weaken as its customers activities slowed, particularly in the power generation and railroad markets, and from seasonal fluctuations in the marine markets. The high-speed market, including the acquisition of Saunders in July 2007 and Lake Charles Diesel in June 2008, experienced continued softness in the Gulf Coast oil services market during 2008, but did reflect some modest improvement in the fourth quarter, primarily the result of repairs to customers equipment damaged by Hurricanes Gustav and Ike. In addition, the segment benefited from higher service rates and parts pricing implemented in both its medium-speed and high-speed markets during 2007 and 2008. The segment was negatively impacted by Hurricane Gustav in early September 2008, which resulted in the closure of the segment s Gulf Coast facilities for several days, as well as customer facilities and operations in the path of the hurricane. Operating income for the diesel engine services segment for 2008 increased 4% compared with 2007, primarily reflecting strong medium-speed service activity and direct parts sales in the majority of its markets and high labor utilization through the 2008 first nine months, and higher service rates and parts pricing implemented during 2008, partially offset by softness in its medium-speed market in the 2008 fourth quarter and continued softness throughout 2008 in its Gulf Coast high-speed market, primarily the Gulf Coast oil services market, and the negative impact of Hurricane Gustav as noted above.

The diesel engine services operating margin for 2008 was 15.0%, a slight decrease when compared with 15.6% for 2007. The decrease reflected softness throughout 2008 in the oil services sector of the high-speed market and resulting lower labor utilization, partially offset by continued strong demand, high labor utilization and stronger pricing for the first nine months of 2008 in the medium-speed markets. The medium-speed market did slow in the 2008 fourth quarter, primarily in the power generation and railroad markets, and a higher percentage of its revenues were from lower margin engine and equipment sales.

Cash Flow and Capital Expenditures

The Company continued to generate strong operating cash flow during 2008, with net cash provided by operating activities of $245,947,000, a 4% increase compared with $235,746,000 in 2007. In addition, during 2008, the Company generated cash from the exercise of stock options of $12,888,000 and from the disposition of assets of $1,978,000. Cash and borrowings under the Company s revolving credit facility were used for capital expenditures of $173,019,000, including $89,181,000 for new tank barge and towboat construction and $83,838,000 primarily for upgrading the existing marine transportation fleet, $5,480,000 for the acquisitions of ORIX and Lake Charles Diesel, and for purchases of the Company s common stock of $33,377,000. The Company s debt-to-capitalization ratio decreased to 21.7% at December 31, 2008 from 27.9% at December 31, 2007, primarily due to the increase in

stockholders equity attributable to net earnings for 2008 of $157,168,000, the exercise of stock options, issuance of restricted stock and lower outstanding debt, partially offset by common stock repurchases.

The Company projects that capital expenditures for 2009 will be in the $185,000,000 to $195,000,000 range, including approximately $140,000,000 for new tank barge and towboat construction. The 2009 new construction presently consists of 48 barges with a total capacity of 1,133,000 barrels and five 1800 horsepower towboats. Delivery is anticipated to be throughout 2009. The Company anticipates that in 2009 seven new barges under a seven year charter with a total capacity of 74,000 barrels will be placed in service. The Company also anticipates that new capacity for 2009 will likely approximate capacity to be retired. For 2010, new construction commitments include one barge with a total capacity of 10,000 barrels and two 1800 horsepower towboats, all of which are from 2009 orders.

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 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.

The Company s visibility for 2009 is not clear, as the United States and global recession has resulted in petrochemical and refining plant closures, reduced production and employee layoffs in response to the deteriorating economic conditions. During 2008, approximately 80% of marine transportation revenues were under term contracts, of which approximately 50% are up for renewal during 2009. Based on current market conditions and limited visibility, the Company anticipates that renewals of term contracts during 2009 will be at or near 2008 rate levels. Spot market rates for 2009 will be driven by volumes and equipment utilization. In 2007 and 2008, some incremental capacity was added to the industry fleet and absorbed due to the strong market conditions. The Company anticipates some additional capacity will be added during 2009 based on current orders; however, recent reductions in petrochemical and refining output have resulted in excess tank barge capacity and lower utilization. Weaker market conditions and limited financing availability may constrain new barge orders for 2010 and the retirement of older barges may be accelerated. Additionally, the Company anticipates that the diesel engine services segment will perform below 2008 levels.

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.

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 customer s 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 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 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.

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.

On October 4, 2006, the Company signed agreements to purchase 11 inland tank barges from Midland and Shipyard for $10,600,000 in cash. The Company purchased four of the barges during 2006 for $3,300,000 and the remaining seven barges in 2007 for $7,300,000. The Company had been leasing the barges from Midland and Shipyard prior to their purchase. Financing of the equipment acquisition was through the Company s revolving credit facility.

On July 24, 2006, the Company signed an agreement to purchase the assets of Capital, consisting of 11 towboats, for $15,000,000 in cash. The Company purchased nine of the towboats during 2006 for $13,299,000 and the remaining two towboats in 2007 for $1,701,000. The Company and Capital entered into a vessel operating agreement whereby Capital is contracted to crew and operate the towboats for the Company. Financing of the equipment acquisition was through the Company s revolving credit facility.

On July 21, 2006, the Company purchased the assets of MES for $6,863,000 in cash. MES was a Gulf Coast high-speed diesel engine services provider, operating a factory-authorized full service marine dealership for John Deere, as well as a service provider for Detroit Diesel. Financing of the acquisition was through the Company s revolving credit facility.

On June 7, 2006, the Company purchased the stock of Global for an aggregate consideration of $101,720,000, consisting of $98,657,000 in cash, the assumption of $2,625,000 of debt and $438,000 of merger costs. Global was a Gulf Coast high-speed diesel engine services provider, operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere high-speed diesel engines, and Allison transmissions, as well as an

authorized marine dealer for Caterpillar in Louisiana. Financing of the cash portion of the acquisition was through a combination of existing cash and the Company s revolving credit facility.

On March 1, 2006, the Company purchased from PFC the remaining 65% interest in Dixie Fuels for $15,818,000 in cash. The Dixie Fuels partnership, formed in 1977, was 65% owned by PFC and 35% owned by the Company. As part of the transaction, the Company extended the expiration date of its marine transportation contract with PFC from 2008 to 2010. Financing of the acquisition was through the Company s operating cash flows.

Table of Contents

Effective January 1, 2006, the Company acquired an additional one-third interest in Osprey, increasing the Company s ownership to a two-thirds interest. Osprey, formed in 2000, operates a barge feeder service for cargo containers on the Gulf Intracoastal Waterway, as well as several ports located above Baton Rouge on the Mississippi River.

Results of Operations

The Company reported 2008 net earnings of $157,168,000, or $2.91 per share, on revenues of $1,360,154,000, compared with 2007 net earnings of $123,341,000, or $2.29 per share, on revenues of $1,172,625,000, and 2006 net earnings of $95,451,000, or $1.79 per share, on revenues of $984,218,000.

Marine transportation revenues for 2008 were $1,095,475,000, or 81% of total revenues, compared with $928,834,000, or 79% of total revenues for 2007 and $807,216,000, or 82% of total revenues for 2006. Diesel engine services revenues for 2008 were $264,679,000, or 19% of total revenues, compared with $243,791,000, or 21% of total revenues for 2007 and $177,002,000, or 18% of total revenues for 2006.

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, 2008, the Company operated 914 active inland tank barges, with a total capacity of 17.5 million barrels, compared with 913 active inland tank barges at December 31, 2007, with a total capacity of 17.3 million barrels. The Company operated 234 active inland towing vessels at February 27, 2009, an average of 256 during 2008 and 253 during 2007. 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, operator of a barge feeder service for cargo containers on the Gulf Intracoastal Waterway, as well as several ports located above Baton Rouge on the Mississippi River.

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, 2008 (dollars in thousands):

	2008	2007	% Change 2007 to 2008	2006	% Change 2006 to 2007
Marine transportation revenues	$ 1,095,475	$ 928,834	18%	$ 807,216	15%
Costs and expenses:					
Costs of sales and operating expenses	657,078	562,769	17	506,353	11
Selling, general and administrative	96,960	82,454	18	75,326	9
Taxes, other than on income	12,034	12,188	(1)	12,003	2
Depreciation and amortization	84,537	75,311	12	60,309	25
	850,609	732,722	16	653,991	12
Operating income	$ 244,866	$ 196,112	25%	$ 153,225	28%
Operating margins	22.4%	21.1%		19.0%	

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 contract and spot market 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.

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. As of December 31, 2008, the Company operated 73 chartered towboats and as of February 27, 2009, the Company operated 62 chartered towboats.

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 market revenues, compared with a 75% term contract and 25% spot market mix for the 2007 first half and 80% contract and 20% spot market mix for the 2007 second half. Time charters, which insulate the Company from revenue fluctuations caused by winter 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% contract and 20% spot market mix provides the Company with a predictable revenue stream while maintaining spot market 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 market 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.

Costs of sales and operating expenses for 2008 increased 17% compared with 2007, reflecting increased salaries and related expenses, additional expenses associated with the increased demand, additional towboats being operated during the 2008 first nine months, higher maintenance expenditures, increased rates for chartered towboats and the costs and damages of Hurricanes Gustav and Ike. The significantly higher price of diesel fuel consumed, as noted below, resulted in higher fuel costs during the 2008 first nine months.

During 2008, the Company consumed 48.5 million gallons of diesel fuel compared with 53.5 million gallons consumed during 2007. The lower fuel consumption was a reflection of the use of more fuel efficient engines in the towboats, less petrochemical, refined products and agricultural chemical movements into the Midwest from the Gulf Coast, as discussed above, and less activity along the Gulf Coast in preparation for, during and after Hurricanes Gustav and Ike. The average price per gallon of diesel fuel consumed during 2008 was $3.21, an increase of 53% compared with $2.10 per gallon for 2007. Fuel escalation clauses are 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 the contracts are adjusted. Spot market contracts do not have escalators for fuel.

Selling, general and administrative expenses for 2008 increased 18% compared with 2007. The increase was primarily the result of higher employee incentive compensation accruals and January 1, 2008 salary increases and related expenses. The 2008 year also included a $7,800,000 increase in the allowance for doubtful accounts, $6,000,000 of which was recorded in the fourth quarter, the result of the deteriorating United States and global economic environment.

Taxes, other than on income, for 2008 decreased 1% compared with 2007, primarily the reflection of lower waterway user taxes, partially offset by higher state franchise taxes and property taxes.

Depreciation and amortization for 2008 increased 12% compared with 2007. The increases were primarily attributable to increased capital expenditures, including new tank barges and towboats, and the acquisitions in 2007 and 2008 of marine equipment that was previously leased.

Marine Transportation Operating Income and Operating Margins

The marine transportation operating income for 2008 increased 25% compared with 2007. The marine transportation operating margin for 2008 was 22.4% compared with 21.1% for 2007. Strong demand in the majority of the segment s markets through the first nine months of 2008, higher term contract and spot market pricing, the January 1, 2008 escalators on numerous multi-year contracts, operating efficiencies from continued improvement in vessel crewing and the increased percentage of time charters which protects revenues from navigational and weather delays and temporary market declines, had a positive impact on the operating income and operating margin. Partially offsetting these positive factors was the loss of revenue and additional operating expenses associated with Hurricanes Gustav and Ike. During the 2008 fourth quarter, demand for upriver movements of petrochemicals weakened and the allowance for doubtful accounts was increased, partially offset by a reduction in the number of charter boats operated and lower diesel fuel prices.

2007 Compared with 2006

Marine Transportation Revenues

Marine transportation revenues for 2007 increased 15% compared with 2006, reflecting continued strong petrochemical, black oil products and refined products demand, 2007 contract and spot market rate increases, labor and producer price index escalators effective January 1, 2007 on multi-year contracts, operating efficiencies from operating additional towboats and typical weather conditions. The 2007 year also benefited from strong agricultural chemical demand.

The demand for marine transportation of petrochemicals and gasoline blending components remained strong throughout 2007 as term contract customers, mainly large United States petrochemical and refining companies,

continued to operate their plants and facilities at high utilization rates, resulting in continued high barge utilization for most products and trade lanes.

Black oil products demand during 2007 remained strong as refineries continued to operate at close to full capacity, which generated heavy demand for waterborne transportation of heavier residual oil by-products by barge. Refined petroleum products demand for transportation into the Midwest during 2007 was stronger than normal. Agricultural chemical demand was seasonally strong during 2007, benefiting from high demand for the movement of liquid fertilizer into the Midwest, partially the result of record United States corn production.

The Company acquired an additional one-third interest in Osprey in January 2006, increasing the Company s ownership to 67%, and purchased in March 2006 the remaining 65% of the Dixie Fuels partnership, bringing the Company s ownership to 100%. As a result of the acquisitions, the Company began consolidating the results of both entities in the marine transportation segment beginning on their acquisition dates. During 2007, the acquired entities contributed a combined $40,148,000 of marine transportation revenues.

For 2007, the marine transportation segment incurred 8,157 delay days, 9% more than the 7,489 delay days for 2006. The 2007 delay days were the result of more typical weather conditions and water levels compared with 2006 which had unusually favorable weather conditions and water levels.

During the 2007 second half, approximately 80% of marine transportation revenues were under term contracts and 20% were spot market movements, compared with a 75% term contract and 25% spot market mix for the 2007 first half, and a 70% term contract and 30% spot market mix for 2006. The increase during 2007 in the term contract percentage was attributable to heavier demand for marine transportation services by the Company s term contract customers. The 80% contract and 20% spot market mix provides the Company with a predictable revenue stream while maintaining spot market exposure to take advantage of new business opportunities and existing customers peak demands. Rates on term contract renewals, net of fuel, increased during 2007 in the 6% to 10% average range, primarily the result of continued strong industry demand and high utilization of tank barges. Spot market rates, which include fuel, for 2007 increased 12% to 13% compared with 2006. Effective January 1, 2007, 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 2007 increased 12% compared with 2006, primarily the result of higher costs and expenses associated with the increased marine transportation demand noted above.

Costs of sales and operating expenses for 2007 increased 11% compared with 2006, reflecting increased salaries and related expenses, additional expenses associated with the increased demand, higher maintenance expenditures, and increased rates for chartered towboats. The higher price of diesel fuel consumed, as noted below, resulted in higher fuel costs during 2007. During 2007, the Company operated an average of 253 towboats compared with 241 during 2006.

During 2007, the Company consumed 53.5 million gallons of diesel fuel compared with 53.1 million gallons consumed during 2006. The average price per gallon of diesel fuel consumed during 2007 was $2.10 per gallon compared with $1.93 per gallon for 2006. Fuel escalation clauses are 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 the contracts are adjusted. Spot market contracts do not have escalators for fuel.

Selling, general and administrative expenses for 2007 increased 9% compared with 2006, primarily reflecting the January 1, 2007 salary increases and related expenses, higher legal and professional fees and higher employee

incentive compensation accruals.

Taxes, other than on income, for 2007 increased 2% compared with 2006, primarily reflecting higher property taxes, partially offset by a 2.3 cent per gallon reduction in the waterway user tax on propulsion fuel used by vessels engaged in trade along the inland waterways that are maintained by the United States Army Corps of Engineers. The rate reduction in the waterway user tax resulted from the elimination on January 1, 2007 of a 2.3 cent per gallon transportation fuel tax for deficit reduction.

Table of Contents

Depreciation and amortization for 2007 increased 25% compared with 2006. The increase was primarily attributable to increased capital expenditures, including new tank barges and towboats, as well as increased depreciation and amortization from the purchases of the Coastal, Cypress, Midland, Siemens and Shipyard tank barges and the Capital towboats.

Marine Transportation Operating Income and Operating Margins

The marine transportation operating income for 2007 increased 28% compared with 2006. The marine transportation operating margin for 2007 increased to 21.1% compared with 19.0% for 2006. Continued strong demand, higher contract and spot market pricing, the January 1, 2007 escalators on numerous multi-year contracts and operating efficiencies from operating additional towboats positively impacted the operating income and operating margin.

Diesel Engine Services

The Company, through its diesel engine services segment, sells genuine replacement parts, provides service mechanics to overhaul and repair medium-speed and high-speed diesel engines and reduction gears, and maintains facilities to rebuild component parts or entire medium-speed and high-speed diesel engines, and entire reduction gears. The Company services the marine, power generation and railroad markets.

The following table sets forth the Company s diesel engine services segment s revenues, costs and expenses, operating income and operating margins for the three years ended December 31, 2008 (dollars in thousands):

	2008	2007	% Change 2007 to 2008	2006	% Change 2006 to 2007
Diesel engine services revenues	$ 264,679	$ 243,791	9%	$ 177,002	38%
Costs and expenses:					
Costs of sales and operating expenses	186,232	172,658	8	124,971	38
Selling, general and administrative	33,014	28,196	17	22,665	24
Taxes, other than on income	1,016	856	19	513	67
Depreciation and amortization	4,830	4,133	17	2,479	67
	225,092	205,843	9	150,628	37
Operating income	$ 39,587	$ 37,948	4%	$ 26,374	44%
Operating margins	15.0%	15.6%		14.9%	

2008 Compared with 2007

Diesel Engine Services Revenues

Diesel engine services revenues for 2008 increased 9% compared with 2007. The results were positively impacted by strong engine overhaul and field repair activity and direct parts sales in its medium-speed market, benefiting from a

seasonally higher first quarter volume of work for Midwest and Great Lakes marine customers, strong demand from Gulf Coast and Midwest marine customers in the second and third quarters and several large power generation modification projects during the 2008 third quarter and first nine months. For the 2008 fourth quarter, the medium-speed market saw service levels and direct parts sales weaken as its customers activities slowed, particularly in the power generation and railroad markets, and from seasonal fluctuations in the marine markets. The high-speed market, including the acquisition of Saunders in July 2007 and Lake Charles Diesel in June 2008, experienced continued softness in the Gulf Coast oil services market during 2008, but did reflect some modest improvement in the fourth quarter, primarily the result of repairs to customers equipment damaged by Hurricanes Gustav and Ike. In addition, the segment benefited from higher service rates and parts pricing implemented in both its medium-speed and high-speed markets during 2007 and 2008. The segment was negatively impacted by

Hurricane Gustav in early September 2008, which resulted in the closure of the segment s Gulf Coast facilities for several days, as well as customer facilities and operations in the path of the hurricane.

Diesel Engine Services Costs and Expenses

Costs and expenses for 2008 increased 9% compared with 2007. The increase in costs of sales and operating expenses reflected the higher service and direct parts sales activity noted above, as well as increases in salaries and other related benefit expenses effective January 1, 2008. Selling, general and administrative expenses also reflected increased salaries and related benefit expenses effective January 1, 2008. The increase in each cost and expense category was also attributable to the Saunders acquisition in July 2007 and Lake Charles Diesel in June 2008.

Diesel Engine Services Operating Income and Operating Margins

Operating income for the diesel engine services segment for 2008 increased 4% compared with 2007, primarily reflecting strong medium-speed service activity and direct parts sales in the majority of its markets and high labor utilization in its medium-speed market through the 2008 first nine months, and higher service rates and parts pricing implemented during 2008, partially offset by softness in its medium-speed market in the 2008 fourth quarter and continued softness throughout 2008 in its Gulf Coast high-speed market, primarily the Gulf Coast oil services market, and the negative impact of Hurricane Gustav as noted above. The diesel engine services operating margin for 2008 was 15.0%, a slight decrease when compared with 15.6% for 2007. The decrease reflected softness throughout 2008 in the oil services sector of the high-speed market and resulting lower labor utilization, partially offset by continued strong demand, high labor utilization and stronger pricing for the first nine months of 2008 in the medium-speed markets. The medium-speed market slowed in the 2008 fourth quarter, primarily in the power generation and railroad markets, and a higher percentage of its revenues were from lower margin engine and equipment sales.

2007 Compared with 2006

Diesel Engine Services Revenues

Diesel engine services revenues for 2007 increased 38% compared with 2006, positively impacted by the acquisitions of Global, MES, P&S and Saunders, all high-speed Gulf Coast service companies, purchased in June 2006, July 2006, February 2007 and July 2007, respectively. Service activity and direct parts sales remained strong in the medium-speed marine and power generation markets, and the high-speed marine market. The segment also benefited from higher service rates and parts pricing implemented in both its medium-speed and high-speed markets during 2006 and 2007.

Diesel Engine Services Costs and Expenses

Costs and expenses for 2007 increased 37% compared with 2006. The significant increase in each cost and expense category was primarily attributable to the Global, MES, P&S and Saunders acquisitions. In addition, increases in costs of sales and operating expenses reflected the higher service and direct parts sales activity noted above, as well as increases in salaries and other related benefit expenses effective January 1, 2007. Selling, general and administrative expenses also reflected an increase in salaries and related benefit expenses effective January 1, 2007, and higher professional fees.

Diesel Engine Services Operating Income and Operating Margins

Operating income for the diesel engine services segment for 2007 increased 44% compared with 2006. The significant improvement reflected the acquisitions noted above, continued strong in-house and in-field service activity and direct

parts sales in the majority of its markets, continued high labor utilization and higher service rates and parts pricing during 2006 and 2007. The operating margin for 2007 was 15.6% compared with 14.9% for 2006. The improvement resulted from higher service rates and parts pricing implemented during 2006 and 2007, coupled with favorable labor utilization from combining medium-speed and high-speed capabilities.

Table of Contents

General Corporate Expenses

General corporate expenses for 2008, 2007 and 2006 were $14,099,000, $12,889,000 and $11,665,000, respectively. The 9% increase for 2008 compared with 2007 and 10% increase for 2007 compared with 2006 reflected increases in salaries and related expenses effective January 1, 2008 and 2007, respectively, higher legal and professional fees and higher employee incentive compensation accruals.

Gain (Loss) on Disposition of Assets

The Company reported a net gain on disposition of assets of $142,000 in 2008, a net loss on disposition of assets of $383,000 in 2007 and a net gain on disposition of assets of $1,436,000 in 2006. The net gains and loss were predominantly from the sale of inland tank barges and towboats.

Other Income and Expenses

The following table sets forth equity in earnings of marine affiliates, other expense, minority interests and interest expense for the three years ended December 31, 2008 (dollars in thousands):

	2008	2007	% Change 2007 to 2008	2006	% Change 2006 to 2007
Equity in earnings of marine affiliates	$ 134	$ 266	(50)%	$ 707	(62)%
Other expense	(649)	(221)	194%	(116)	91%
Minority interests	(1,305)	(717)	82%	(558)	28%
Interest expense	(14,064)	(20,284)	(31)%	(15,201)	33%

Equity in Earnings of Marine Affiliates

Equity in earnings of marine affiliates for 2008 and 2007 was $134,000 and $266,000, respectively, consisting primarily of the Company s 50% ownership of a barge fleeting operation. For 2006, equity in earnings of marine affiliates was $707,000, consisting primarily of the Company s portion of the January and February 2006 earnings from the 35% ownership of Dixie Fuels. On March 1, 2006, the Company purchased the remaining 65% interest in Dixie Fuels and the March through December 2006 results were consolidated.

Interest Expense

Interest expense for 2008 decreased 31% compared with 2007, primarily the result of lower average debt levels and a lower average interest rate. Interest expense for 2007 increased 33% compared with 2006, primarily the result of higher average debt due to additional borrowings under the Company s revolving credit facility to fund the 2006 and 2007 acquisitions totaling $143,911,000 and $67,185,000, respectively. During 2008, 2007 and 2006, the average debt and average interest rate, including the effect of interest rate collar and swaps, were $278,843,000 and 5.0%, $344,296,000 and 5.9% and $258,810,000 and 6.0%, respectively.

Table of Contents

Financial Condition, Capital Resources and Liquidity

Balance Sheet

Total assets as of December 31, 2008 were $1,526,098,000 compared with $1,430,475,000 at December 31, 2007 and $1,271,119,000 as of December 31, 2006. The following table sets forth the significant components of the balance sheet as of December 31, 2008 compared with 2007 and 2007 compared with 2006 (dollars in thousands):

	2008	2007	% Change 2007 to 2008	2006	% Change 2006 to 2007
Assets:					
Current assets	$ 279,511	$ 267,343	5%	$ 249,592	7%
Property and equipment, net	990,932	906,098	9	766,606	18
Investment in marine affiliates	2,056	1,921	7	2,264	(15)
Goodwill, net	230,774	229,292	1	223,432	3
Other assets	22,825	25,821	(12)	29,225	(12)
	$ 1,526,098	$ 1,430,475	7%	$ 1,271,119	13%
Liabilities and stockholders equity:					
Current liabilities	$ 173,066	$ 191,420	(10)%	$ 166,867	15%
Long-term debt-less current portion	246,064	296,015	(17)	309,518	(4)
Deferred income taxes	145,568	130,899	11	125,943	4
Minority interests and other long-term liabilities	71,347	42,311	69	36,796	15
Stockholders equity	890,053	769,830	16	631,995	22
	$ 1,526,098	$ 1,430,475	7%	$ 1,271,119	13%

2008 Compared with 2007

Current assets as of December 31, 2008 increased 5% compared with December 31, 2007, primarily reflecting a 6% increase in trade accounts receivable due to higher marine transportation and diesel engine services revenues, less a $6,000,000 increase in allowance for doubtful accounts in the 2008 fourth quarter due to the deteriorating United States and global economic environment. Other accounts receivable increased 68%, primarily due to a higher federal income tax receivable related to the timing of estimated federal income tax payments and an increase in insurance claims receivable, including claims associated with Hurricanes Gustav and Ike. These increases were partially offset by a 9% decrease in inventory-finished goods as increased inventory purchases in the 2007 fourth quarter were utilized in 2008 first quarter service projects and from lower activities in both the medium-speed and high-speed services markets in the 2008 fourth quarter. Prepaid expenses and other current assets decreased 35%, primarily a reflection of lower prepaid fuel due to lower fuel prices.

Property and equipment, net of accumulated depreciation, at December 31, 2008 increased 9% compared with December 31, 2007. The increase reflected $173,019,000 of capital expenditures for 2008, more fully described under

Capital Expenditures below, the fair value of the equipment and property acquired in the Lake Charles Diesel and ORIX acquisitions of $1,922,000, less $88,034,000 of depreciation expense for 2008 and $2,073,000 of property disposals during 2008.

Current liabilities as of December 31, 2008 decreased 10% compared with December 31, 2007. Accounts payable decreased 23%, a reflection of the declining business activity levels in late 2008 in both the marine transportation and diesel engine services segments. Income taxes payable decreased 48%, principally due to timing of estimated federal income tax payments. Accrued liabilities increased 12%, primarily from higher employee

incentive compensation accruals during 2008 and higher accrued marine insurance claims, including claims associated with Hurricanes Gustav and Ike.

Long-term debt, less current portion, as of December 31, 2008 decreased 17% compared with December 31, 2007. During 2008, the Company had net cash provided by operating activities of $245,947,000, proceeds from the exercise of stock options of $12,888,000, proceeds from the disposition of assets of $1,978,000, partially offset by capital expenditures of $173,019,000. The Company also spent $5,480,000 on the Lake Charles Diesel and ORIX acquisitions and $33,377,000 on common stock repurchases.

Deferred income taxes as of December 31, 2008 increased 11% compared with December 31, 2007. The increase was primarily due to the 2008 deferred tax provision of $34,280,000, partially offset by deferred tax benefits on unrecognized losses related to the Company s defined benefit plans. The deferred tax provision was primarily due to bonus tax depreciation on qualifying expenditures due to the Economic Stimulus Act of 2008.

Minority interests and other long-term liabilities as of December 31, 2008 increased 69% compared with December 31, 2007, primarily reflecting increased pension plan accruals and the recording of a $14,204,000 increase in the fair value of the interest rate swap agreements, more fully described under Long-Term Financing below.

Stockholders equity as of December 31, 2008 increased 16% compared with December 31, 2007. The increase was the result of $157,168,000 of net earnings for 2008, an increase in additional paid-in capital of $13,735,000, a decrease of $32,525,000 in accumulated other comprehensive income, partially offset by an increase in treasury stock of $17,720,000. The increase in additional paid-in capital was attributable to the exercise of stock options and the issuance of restricted stock. The decrease in accumulated other comprehensive income primarily resulted from the net change in fair value of interest rate collar and swap agreements, net of taxes, more fully described under Long-Term Financing below, and the increase in unrecognized losses related to the Company s defined benefit plans. The increase in treasury stock was attributable to the purchase during 2008 of $33,377,000 of Company common stock, partially offset by the exercise of stock options and the issuance of restricted stock during 2008.

2007 Compared with 2006

Current assets as of December 31, 2007 increased 7% compared with December 31, 2006, primarily reflecting an 8% increase in trade accounts receivable due to increased marine transportation and diesel engine services revenues related to higher business activity levels. Other accounts receivable decreased 63% reflecting the release of $7,000,000 escrowed in the Global acquisition to secure the obligations of the sellers of Global under the purchase agreement. The release of the $7,000,000 from escrow was offset by a corresponding $7,000,000 reduction in accrued liabilities. The 28% increase in inventory finished goods for the diesel engine services segment reflected inventory acquired with the P&S and Saunders acquisitions and higher inventory levels in support of service projects to be delivered in the 2008 first quarter.

Property and equipment, net of accumulated depreciation, at December 31, 2007 increased 18% compared with December 31, 2006. The increase reflected $164,083,000 of capital expenditures for 2007, more fully described under Capital Expenditures below, the fair value of the property and equipment acquired in the Global, MES, Cypress, Coastal, P&S, Shipyard, Saunders and Siemens acquisitions of $49,993,000, the purchase of three towboats for $2,496,000, less $75,045,000 of depreciation expense for 2007, reclassification of $676,000 of property held for sale to other current assets, and $1,359,000 of property disposals during 2007.

Goodwill, net as of December 31, 2007 increased 3% compared with December 31, 2006, reflecting the goodwill recorded in the Global, P&S and Saunders acquisitions.

Current liabilities as of December 31, 2007 increased 15% compared with December 31, 2006. Income taxes payable increased 204% due to the timing of estimated federal tax payments, accounts payable increased 14% due to higher business levels and higher shipyard accruals, and employee compensation increased 30% primarily due to higher employee incentive compensation accruals. Accrued liabilities decreased 5%, primarily from the elimination of the liability associated with the $7,000,000 Global escrow that was released during the 2007 second quarter. The liability recorded for the $7,000,000 escrow was offset by a corresponding receivable as discussed above.

Long-term debt, less current portion, as of December 31, 2007 decreased 4% compared with December 31, 2006. During 2007, the Company had net cash provided by operating activities of $235,746,000, proceeds from the exercise of stock options of $5,718,000 and proceeds from the disposition of assets of $3,417,000, partially offset by capital expenditures of $164,083,000 and $67,185,000 of acquisitions.

Deferred income taxes as of December 31, 2007 increased 4% compared with December 31, 2006, primarily due to the 2007 deferred tax provision of $1,653,000, the recording of $1,152,000 of state and federal deferred taxes associated with the Coastal acquisition and deferred tax liabilities of $2,600,000 related to the Company s defined benefit plans. The deferred state and federal tax liability related to the Coastal acquisition was recorded to reflect the tax effect of the difference in the financial basis of the assets over the tax basis.

Minority interests and other long-term liabilities as of December 31, 2007 increased 15% compared with December 31, 2006, primarily due to pension plan accruals and the recording of a $3,972,000 increase in the fair value of interest rate collar and swap agreements, more fully described under Long-Term Financing below.

Stockholders equity as of December 31, 2007 increased 22% compared with December 31, 2006. The increase was the result of $123,341,000 of net earnings for 2007, a $9,978,000 decrease in treasury stock, an increase of $3,951,000 in additional paid-in capital and an increase of $565,000 in accumulated other comprehensive income. The decrease in treasury stock and increase in additional paid-in capital were attributable to the exercise of stock options and the issuance of restricted stock.

Retirement Plans

The Company sponsors a defined benefit plan for vessel personnel and shore based tankermen. The plan benefits are based on an employee s years of service and compensation. The plan assets consist primarily of equity and fixed income securities. The Company s pension plan funding strategy has historically been to contribute an amount equal to the greater of the minimum required contribution under ERISA or the amount necessary to fully fund the plan on an accumulated benefit obligation basis (ABO) at the end of the fiscal year. The Company elected to fund its 2008 pension contribution in accordance with the Pension Protection Act of 2006 (PPA) to be approximately fully funded on a PPA basis instead of the higher amount as determined by the ABO due to uncertainty in the economic and credit market environment in December 2008. The Company s contribution of $32,000,000 in December 2008 resulted in funding 91% of the pension plan s ABO at December 31, 2008. The fair value of plan assets was $99,722,000 and $103,405,000 at December 31, 2008 and November 30, 2007, respectively.

The Company s investment strategy focuses on total return on invested assets (capital appreciation plus dividend and interest income). The primary objective in the investment management of assets is to achieve long-term growth of principal while avoiding excessive risk. Risk is managed through diversification of investments within and among asset classes, as well as by choosing securities that have an established trading and underlying operating history.

The Company assumed that plan assets would generate a long-term rate of return of 8.0% in 2008 and 2007. The Company developed its expected long-term rate of return assumption by evaluating input from investment consultants and comparing historical returns for various asset classes with its actual and targeted plan investments. The Company believes that long-term asset allocation, on average, will approximate the targeted allocation.

The Company has not finalized its assumption for a long-term rate of return on plan assets for 2009. In addition to input from its investment consultants, the Company will also consider the impact of the current economic environment on estimated future asset returns and any changes the Company may make on its target allocation among various asset classes that could impact its long-term rate of return on plan assets assumption for 2009. A decrease in the return on assets assumption from the 8% assumed in 2008 and 2007 would result in an increase in pension expense in 2009.

Long-Term Financing

The Company has an unsecured revolving credit facility (Revolving Credit Facility) with a syndicate of banks, with JPMorgan Chase Bank as the agent bank, with a maturity date of June 14, 2011. The Revolving Credit

Facility allows for an increase in the commitments of the banks from $250,000,000 up to a maximum of $325,000,000, subject to the consent of each bank that elects to participate in the increased commitment. The unsecured Revolving Credit Facility has a variable interest rate based on the London Interbank Offered Rate (LIBOR) that varies with the Company s senior debt rating and the level of debt outstanding. The variable interest rate spread for 2008 was 40 basis points over LIBOR and the commitment fee and utilization fee were each .10%. At February 27, 2009, the interest rate spread was 40 basis points over LIBOR and the commitment fee and utilization fee were each .10%. The Revolving Credit Facility contains certain restrictive financial covenants including an interest coverage ratio and a debt-to-capitalization ratio. In addition to financial covenants, the Revolving Credit Facility contains covenants that, subject to exceptions, restrict debt incurrence, mergers and acquisitions, sales of assets, dividends and investments, liquidations and dissolutions, capital leases, transactions with affiliates and changes in lines of business. Borrowings under the Revolving Credit Facility may be used for general corporate purposes, the purchase of existing or new equipment, the purchase of the Company s common stock, or for business acquisitions. As of December 31, 2008, the Company was in compliance with all Revolving Credit Facility covenants and had $46,000,000 of borrowings outstanding under the Revolving Credit Facility. The Revolving Credit Facility includes a $25,000,000 commitment which may be used for standby letters of credit. Outstanding letters of credit under the Revolving Credit Facility were $1,294,000 as of December 31, 2008.

The Company has $200,000,000 of unsecured floating rate senior notes (2005 Senior Notes) due February 28, 2013. The 2005 Senior Notes pay interest quarterly at a rate equal to LIBOR plus a margin of 0.5%. The 2005 Senior Notes are callable, at the Company s option, at par. No principal payments are required until maturity in February 2013. As of December 31, 2008, $200,000,000 was outstanding under the 2005 Senior Notes and the average interest rate was 3.7%. The Company was in compliance with all 2005 Senior Notes covenants as of December 31, 2008.

The Company has a $5,000,000 line of credit (Credit Line) with Bank of America, N.A. (Bank of America) for short-term liquidity needs and letters of credit with a maturity date of June 30, 2009. The Credit Line allows the Company to borrow at an interest rate agreed to by Bank of America and the Company at the time each borrowing is made or continued. The Company did not have any borrowings outstanding under the Credit Line as of December 31, 2008. Outstanding letters of credit under the Credit Line were $527,000 as of December 31, 2008.

Interest Rate Risk Management

From time to time, the Company has utilized and expects to continue to utilize derivative financial instruments with respect to a portion of its interest rate risks to achieve a more predictable cash flow by reducing its exposure to interest rate fluctuations. These transactions generally are interest rate collar and swap agreements and are entered into with large multinational banks. Derivative financial instruments related to the Company s interest rate risks are intended to reduce the Company s exposure to increases in the benchmark interest rates underlying the Company s floating rate senior notes and variable rate bank credit facility.

From time to time, the Company hedges its exposure to fluctuations in short-term interest rates under its variable rate bank credit facility and floating rate senior notes by entering into interest rate collar and swap agreements. The interest rate collar and swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the collar and swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of December 31, 2008, the Company had a total notional amount of $200,000,000 of interest rate swaps designated as cash flow hedges for its variable rate senior notes as follows (dollars in thousands):

Notional Amount	Effective date	Termination date	Fixed pay rate	Receive rate

$ 50,000	April 2004	May 2009	4.00%	Three-month LIBOR
$ 100,000	March 2006	February 2013	5.45%	Three-month LIBOR
$ 50,000	November 2008	February 2013	3.50%	Three-month LIBOR

On November 14, 2006, the Company entered into a $50,000,000 two-year zero-cost interest rate collar agreement which matured on November 28, 2008. The collar used LIBOR as its interest rate basis. The cap rate was set at 5.375% and the floor was set at 4.33%. When LIBOR was above the cap, the Company received the difference

between LIBOR and the cap. When LIBOR was below the floor, the Company paid the difference between LIBOR and the floor. When LIBOR was between the cap rate and the floor, no payments were required. The collar was designated as a cash flow hedge for the Company s variable rate senior notes.

The interest rate collar and swap agreements hedge a majority of the Company s long-term debt and only an immaterial loss on ineffectiveness was recognized in 2008, 2007 and 2006. At December 31, 2008, the fair value of the swap agreements was $21,002,000, of which $502,000 was recorded as other accrued liabilities for the swap maturing within the next twelve months and $20,500,000 was recorded as other long-term liabilities, for swap maturities greater than twelve months. At December 31, 2007, the fair value of the interest rate collar and swap agreements was $6,488,000, of which $192,000 was recorded as other accrued liabilities for the collar maturing within the next twelve months and $6,296,000 was recorded as other long-term liabilities for swap maturities greater than twelve months. The Company has recorded, in interest expense, net losses (gains) related to the interest rate collar and swap agreements of $3,404,000, $(633,000) and $(81,000) for the years ended December 31, 2008, 2007 and 2006, respectively. Gains or losses on the interest rate collar and swap agreements offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company anticipates $3,842,000 of net losses included in accumulated other comprehensive income will be transferred into earnings over the next year based on current interest rates. Fair value amounts were derived as of December 31, 2008 and 2007 utilizing fair value models of the Company and its counterparties on the Company s portfolio of derivative instruments.

On February 1, 2008, the Company entered into an interest rate swap agreement in a notional amount of $50,000,000 with a fixed rate of 3.795% for the purpose of extending an existing hedge of its exposure to interest rate fluctuations on floating rate interest payments on the Company s variable rate senior notes. The term of the new swap agreement starts on May 28, 2009, which is the maturity date on two existing swaps with the same total notional amount of $50,000,000, and ends on February 28, 2013, the maturity date of the Company s variable rate senior notes. The swap agreement effectively converts the Company s interest rate obligation on a portion of the Company s variable rate senior notes from quarterly floating rate payments based on LIBOR to quarterly fixed rate payments. The swap agreement is designated as a cash flow hedge for the Company s variable rate senior notes.

On November 4, 2008, the Company entered into two interest rate swap agreements in a total notional amount of $50,000,000 with a fixed rate of 3.5% for the purpose of extending an existing hedge of its exposure to interest rate fluctuations on floating rate interest payments on the Company s variable rate senior notes. The term of the two new swap agreements started on November 28, 2008, which was the maturity date of an interest rate collar with the same total notional amount of $50,000,000, and ends on February 28, 2013, the maturity date of the Company s variable rate senior notes. The swap agreements effectively convert the Company s interest rate obligation on a portion of the Company s variable rate senior notes from quarterly floating rate payments based on LIBOR to quarterly fixed rate payments. The swap agreements are designated as cash flow hedges for the Company s variable rate senior notes.

Foreign Currency Risk Management

From time to time, the Company has utilized and expects to continue to utilize derivative financial instruments with respect to its forecasted foreign currency transactions to attempt to reduce the risk of its exposure to foreign currency rate fluctuations in its future diesel engine services inventory purchase commitments. These transactions, which relate to foreign currency obligations for the purchase of equipment from foreign suppliers, generally are purchased call options and are entered into with large multinational banks.

As of December 31, 2008, the Company has purchased Euro call options with a 1.28 strike price in the amount of 264,090 Euros maturing on March 1, 2010 and 528,180 Euros maturing on December 1, 2010. The purchased call options are designated as cash flow hedges, therefore, the changes in fair value, to the extent the purchased call options agreements are effective, are recognized in other comprehensive income until the purchased call option

expires and is recognized in cost of sales and operating expenses.

No losses or gains on ineffectiveness or realized gains or losses were recognized in 2008, 2007 and 2006. At December 31, 2008, the fair value of the purchased call options was $188,000, of which all was recorded as other assets. The Company anticipates no net gains included in accumulated other comprehensive income will be

transferred into earnings over the next year based on the maturity dates of the current purchased call options being in excess of twelve months. Fair value amounts were derived as of December 31, 2008 utilizing fair value models of the Company and its counterparties on the Company s portfolio of derivative instruments.

Capital Expenditures

Capital expenditures for 2008 were $173,019,000 of which $89,181,000 was for construction of new tank barges and towboats, and $83,838,000 was primarily for upgrading of the existing marine transportation fleet. Capital expenditures for 2007 were $164,083,000 of which $67,898,000 was for construction of new tank barges and towboats, and $96,185,000 was primarily for upgrading of the existing marine transportation fleet. Capital expenditures for 2006 were $139,129,000, of which $58,649,000 was for construction of new tank barges and towboats, and $80,480,000 was primarily for upgrading of the existing marine transportation fleet. Financing of the construction of the new tank barges and towboats was through operating cash flows and available credit under the Company s Revolving Credit Facility.

A summary of the new tank barge construction follows:

Contract Date	No. of Barges	Total Capacity	Expended 2006	Expended 2007	Expended 2008	Expended Total		Placed in Service 2006	Placed in Service 2007	Placed in Service 2008	Placed in Service 2009*	Placed in Service 2010*
			($ in millions)					(Barrels in thousands)				
June 2004	11	311,000	.1			24.7						
July 2004	7	199,000	.2			15.0		28				
Nov. 2004	20	221,000	1.4			23.3						
July 2005	10	285,000	11.6	4.3		19.6		171	114			
July 2005	13	368,000	28.4			28.4		368				
Mar. 2006	12	347,000	2.4	28.0		30.4			347			
April 2006	8	227,000	1.4	9.9	6.4	17.7			85	142		
June 2006	2	21,000	1.8	.9		2.7			21			
Oct. 2006	6	66,000	1.7	6.2	.4	8.3			44	22		
Feb. 2007	1	19,000		2.9		2.9			19			
Feb. 2007	12	340,000			36.7	36.7				340		
Aug. 2007	6	71,000		2.2	7.9	10.1				71		
Dec. 2007	2	21,000			2.6	3.1	Est.			11	10	
Jan. 2008	14	322,000				37.7	Est.				322	
Mar. 2008	2	56,000				6.7	Est.				56	
Apr. 2008	6	63,000			3.6	11.4	Est.				53	10
May 2008	5	104,000			10.6	29.3	Est.				104	
May 2008	6	168,000			4.9	16.4	Est.				168	
Aug. 2008	15	420,000				41.7	Est.				420	

* Based on current or expected construction schedule

A summary of the new towboat construction follows:

Contract Date	No. of Towboats	Horsepower	Market	Expended 2006	2007	2008	Total		Placed in Service 2006	2007	2008	2009*	2010*
				($ in millions)									
Dec. 2005	4	2100	River	$ 6.8	$ 4.9	$	$ 14.9		1	3			
Aug. 2006	4	1800	Canal	2.8	7.0	3.3	13.1			1	3		
Mar. 2007	4	1800	Canal		1.2	9.1	13.1	Est.			1	3	
June 2007	2	1800	Canal		.3	2.2	6.9	Est.				2	
Aug. 2007	2	1800	Canal		.1	1.5	6.9	Est.					2

* Based on current or expected construction schedule

42

Table of Contents

Funding for future capital expenditures and new tank barge and towboat construction is expected to be provided through operating cash flows and available credit under the Company s Revolving Credit Facility.

Treasury Stock Purchases

During 2008, the Company purchased in the open market 837,400 shares of common stock at a total purchase price of $33,377,000, for an average price of $39.86. The Company did not purchase any common stock during 2007. During 2006, the Company purchased in the open market 162,900 shares of common stock at a total purchase price of $4,789,000, for an average price of $29.40 per share. As of February 27, 2009, the Company had 1,420,000 shares available under its existing repurchase authorization. Historically, treasury stock purchases have been financed through operating cash flows and borrowings under the Company s Revolving Credit Facility. The Company is authorized to purchase its common stock on the New York Stock Exchange and in privately negotiated transactions. When purchasing its common stock, the Company is subject to price, trading volume and other market considerations. Shares purchased may be used for reissuance upon the exercise of stock options or the granting of other forms of incentive compensation, in future acquisitions for stock or for other appropriate corporate purposes.

Liquidity

The Company generated net cash provided by operating activities of $245,947,000, $235,746,000 and $150,364,000 for the years ended December 31, 2008, 2007 and 2006, respectively. The increase in 2008 versus 2007 reflected higher 2008 net earnings, higher depreciation and amortization expense attributable to the new tank barge and towboat construction and acquisitions, and a higher deferred tax provision primarily due to bonus tax depreciation on qualifying expenditures due to the Economic Stimulus Act of 2008. This was partially offset by net negative cash flows resulting from changes in operating assets and liabilities in 2008 compared to net positive cash flows in 2007. The 2008 year experienced a larger increase in accounts receivables, a decrease in accounts payable reflecting the declining business levels in late 2008 versus an increase in accounts payable during 2007 as business levels were increasing, and a pension contribution of $32,000,000 in 2008 versus none in 2007. This was partially offset by decreases in inventory during 2008 due to inventory purchases in the 2007 fourth quarter being utilized in the 2008 first quarter service projects and lower activity levels in the 2008 fourth quarter versus an increase in 2007 to support the 2008 first quarter service projects, and prepaid fuel expenses decreasing during 2008 due to falling fuel prices versus prepaid fuel expenses increasing during 2007 due to rising fuel prices.

The increase in 2007 versus 2006 reflected stronger net earnings in 2007 versus 2006, higher depreciation and amortization expense attributable to the new construction program and acquisitions, and higher cash flows resulting from changes in operating assets and liabilities. The 2007 year experienced a net increase in cash flows from changes in operating assets and liabilities versus a net decrease in 2006 primarily due to the timing of federal income tax payments, including a 2006 tax year refund carryover to 2007 and the settlement in 2006 of the audit of the Company s 2002 through 2004 federal tax returns with the Internal Revenue Service. In addition, 2007 included improved accounts receivable collections versus 2006 in the diesel engine services segment, higher employee incentive compensation accruals, and an increase in deferred revenue liabilities in 2007 versus a decrease in 2006. These increases were partially offset by higher inventory levels in 2007 versus 2006.

Funds generated are available for acquisitions, capital expenditure projects, common stock repurchases, repayments of borrowings associated with each of the above and other operating requirements. In addition to net cash flow provided by operating activities, the Company also had available as of February 26, 2009, $203,706,000 under its Revolving Credit Facility and $4,461,000 available under its Credit Line.

Neither the Company, nor any of its subsidiaries, is obligated on any debt instrument, swap agreement, or any other financial instrument or commercial contract which has a rating trigger, except for pricing grids on its Revolving Credit Facility.

The Company expects to continue to fund expenditures for acquisitions, capital construction projects, common stock repurchases, repayment of borrowings, and for other operating requirements from a combination of funds generated from operating activities and available financing arrangements.

The credit markets are currently undergoing significant volatility. Many financial institutions have been recently experiencing liquidity concerns, prompting government intervention to mitigate pressure on the credit

markets. The Company s material exposure to the current credit market crisis includes its Revolving Credit Facility, 2005 Senior Notes and counterparty performance risks related to its interest rate swap agreements.

The Revolving Credit Facility s commitment is in the amount of $250,000,000 and expires June 14, 2011. As of December 31, 2008, the Company had $202,706,000 available under the Revolving Credit Facility. Future extensions of the Revolving Credit Facility may contain terms that are less favorable than those of the current Revolving Credit Facility should current credit market volatility be prolonged for several years. The Revolving Credit Facility also allows for an increase in the commitments from the banks from the current $250,000,000 level up to a maximum of $325,000,000, subject to the consent of each bank that elects to participate in the increased commitment. Based on current economic conditions and credit market volatility, there is no guarantee that the participating banks would elect to increase the commitment, and if they did, the terms may be less favorable than the current Revolving Credit Facility. The 2005 Senior Notes of $200,000,000 do not mature until 2013 and require no prepayments. Bond and private placement markets were negatively impacted by the worldwide credit crisis, which resulted in more restrictive access by issuers and higher costs. While the Company currently has no plans to access the bond market, should the Company decide to do so in the near term, the terms, size and cost of a new debt issue could be less favorable.

Current market conditions also elevate the concern over counterparty risks related to the Company s interest rate swap agreements used to hedge the Company s exposure to fluctuating interest rates. The counterparties to these contracts are large multinational banks. The Company may not realize the benefit of some of its hedges should one of these financial counterparties not perform.

There are numerous factors that may negatively impact the Company s cash flow in 2009. For a list of significant risks and uncertainties that could impact cash flows, see Note 11, Contingencies and Commitments in the financial statements. Amounts available under the Company s existing financial arrangements are subject to the Company continuing to meet the covenants of the credit facilities as described in Note 4, Long-Term Debt in the financial statements.

The Company has issued guaranties or obtained standby letters of credit and performance bonds supporting performance by the Company and its subsidiaries of contractual or contingent legal obligations of the Company and its subsidiaries incurred in the ordinary course of business. The aggregate notional value of these instruments is $9,203,000 at December 31, 2008, including $5,328,000 in letters of credit and debt guarantees, and $3,875,000 in performance bonds. All of these instruments have an expiration date within three years. The Company does not believe demand for payment under these instruments is likely and expects no material cash outlays to occur in connection with these instruments.

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.

During the last three years, inflation has had a relatively minor effect on the financial results of the Company. The marine transportation segment has long-term contracts which generally contain cost escalation clauses whereby certain costs, including fuel as noted above, can be passed through to its customers. Spot market rates include the cost of fuel and are subject to market volatility. The repair portion of the diesel engine services segment is based on prevailing current market rates.

44

Table of Contents

Contractual Obligations

The contractual obligations of the Company and its subsidiaries at December 31, 2008 consisted of the following (in thousands):

		Payments Due By Period			
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	$ 247,307	$ 1,243	$ 46,058	$ 200,006	$
Non-cancelable operating leases tank barges	42,470	7,680	14,540	11,983	8,267
Non-cancelable operating leases towboats	114,385	63,024	43,466	7,895	
Non-cancelable operating leases land, buildings and equipment	30,181	4,565	7,813	6,502	11,301
Tank barge and towboat construction contracts	140,294	140,294			
	$ 574,637	$ 216,806	$ 111,877	$ 226,386	$ 19,568

The majority of the towboat charter agreements are for terms of one year or less. The Company s towboat rental agreements provide the Company with the option to terminate most agreements with notice ranging from seven to 90 days. The Company estimates that 80% of the charter rental cost is related to towboat crew costs, maintenance and insurance.

Accounting Standards

In June 2006, Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN No. 48) was issued. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s consolidated financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN No. 48 effective January 1, 2007 with no effect on the Company s financial position or results of operations.

In September 2006, the FASB issued FASB No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities by defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. In February 2008, the FASB issued a FASB Staff Position (FSP) on SFAS No. 157 that delays the effective date of SFAS No. 157 by one year for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted SFAS No. 157 effective January 1, 2008, with the exceptions allowed under the FSP described above, with no effect on the Company s financial position or results of operations. The Company is currently

evaluating the impact of the adoption of SFAS No. 157 related to the nonfinancial assets and nonfinancial liabilities exceptions allowed under the FSP described above on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

In September 2006, the FASB issued FASB No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). SFAS No. 158 requires an employer to: (a) recognize in its balance sheet an asset for a defined benefit plan s overfunded status or a liability for its underfunded status; (b) recognize changes in the funded status of a defined benefit postretirement plan that are not recognized as components of net periodic benefit cost in comprehensive

income in the year in which the changes occur; and (c) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions). The requirement to recognize the funded status of a benefit plan and the disclosure requirements was effective for the Company s fiscal year ended December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of a Company s fiscal year end balance sheet was effective for the Company s fiscal year ending on December 31, 2008.

In February 2007, the FASB issued FASB No. 159, The Fair Value Option of Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure eligible financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Company adopted SFAS No. 159 effective January 1, 2008 with no effect on the Company s financial position or results of operations as the Company has currently chosen not to elect the fair value option for any eligible items that are not already required to be measured at fair value in accordance with United States generally accepted accounting principles.

In December 2007, the FASB issued FASB No. 141R, Business Combinations (SFAS No. 141R). SFAS No. 141R provides guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS No. 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, goodwill acquired and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for acquisitions beginning in the Company s fiscal year ending December 31, 2009 and earlier application is prohibited.

In December 2007, the FASB issued FASB No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements. The Company is currently evaluating the impact of the adoption of SFAS No. 160 on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

In March 2008, the FASB issued FASB No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement No. 133 with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The Company is currently evaluating the impact of the adoption of SFAS No. 161 on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

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

The Company is exposed to risk from changes in interest rates on certain of its outstanding debt. The outstanding loan balances under the Company s bank credit facilities bear interest at variable rates based on prevailing short-term interest rates in the United States and Europe. A 10% change in variable interest rates would impact the 2009 interest expense by approximately $42,000, based on balances outstanding at December 31, 2008, and change the fair value of the Company s debt by less than 1%.

Interest Rate Risk Management

From time to time, the Company has utilized and expects to continue to utilize derivative financial instruments with respect to a portion of its interest rate risks to achieve a more predictable cash flow by reducing its exposure to interest rate fluctuations. These transactions generally are interest rate collar and swap agreements and are entered into with large multinational banks. Derivative financial instruments related to the Company s interest rate risks are

Table of Contents

intended to reduce the Company s exposure to increases in the benchmark interest rates underlying the Company s floating rate senior notes and variable rate bank credit facility. The Company does not enter into derivative financial instrument transactions for speculative purposes.

From time to time, the Company hedges its exposure to fluctuations in short-term interest rates under its variable rate bank credit facility and floating rate senior notes by entering into interest rate collar and swap agreements. The interest rate collar and swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the collar and swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of December 31, 2008, the Company had a total notional amount of $200,000,000 of interest rate swaps designated as cash flow hedges for its variable rate senior notes as follows (dollars in thousands):

Notional Amount	Effective date	Termination date	Fixed pay rate	Receive rate
$ 50,000	April 2004	May 2009	4.00%	Three-month LIBOR
$ 100,000	March 2006	February 2013	5.45%	Three-month LIBOR
$ 50,000	November 2008	February 2013	3.50%	Three-month LIBOR

On November 14, 2006, the Company entered into a $50,000,000 two-year zero-cost interest rate collar agreement, which matured on November 28, 2008. The collar used LIBOR as its interest rate basis. The cap rate was set at 5.375% and the floor was set at 4.33%. When LIBOR was above the cap, the Company received the difference between LIBOR and the cap. When LIBOR was below the floor, the Company paid the difference between LIBOR and the floor. When LIBOR was between the cap rate and the floor, no payments were required. The collar was designated as a cash flow hedge for the Company s variable rate senior notes.

The interest rate collar and swap agreements hedge a majority of the Company s long-term debt and only an immaterial loss on ineffectiveness was recognized in 2008, 2007 and 2006. At December 31, 2008, the fair value of the swap agreements was $21,002,000, of which $502,000 was recorded as other accrued liabilities for the swap maturing within the next twelve months and $20,500,000 was recorded as other long-term liabilities, for swap maturities greater than twelve months. At December 31, 2007, the fair value of the interest rate collar and swap agreements was $6,488,000, of which $192,000 was recorded as other accrued liabilities for the collar maturing within the next twelve months and $6,296,000 was recorded as other long-term liabilities for swap maturities greater than twelve months. The Company has recorded, in interest expense, net losses (gains) related to the interest rate collar and swap agreements of $3,404,000, $(633,000) and $(81,000) for the years ended December 31, 2008, 2007 and 2006, respectively. Gains or losses on the interest rate collar and swap agreements offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company anticipates $3,842,000 of net losses included in accumulated other comprehensive income will be transferred into earnings over the next year based on current interest rates. Fair value amounts were derived as of December 31, 2008 and 2007 utilizing fair value models of the Company and its counterparties on the Company s portfolio of derivative instruments.

On February 1, 2008, the Company entered into an interest rate swap agreement in a notional amount of $50,000,000 with a fixed rate of 3.795% for the purpose of extending an existing hedge of its exposure to interest rate fluctuations on floating rate interest payments on the Company s variable rate senior notes. The term of the new swap agreement starts on May 28, 2009, which is the maturity date on two existing swaps with the same total notional amount of $50,000,000, and ends on February 28, 2013, the maturity date of the Company s variable rate senior notes. The swap agreement effectively converts the Company s interest rate obligation on a portion of the Company s variable rate senior notes from quarterly floating rate payments based on LIBOR to quarterly fixed rate payments. The swap

agreement is designated as a cash flow hedge for the Company s variable rate senior notes.

On November 4, 2008, the Company entered into two interest rate swap agreements in a total notional amount of $50,000,000 with a fixed rate of 3.5% for the purpose of extending an existing hedge of its exposure to interest rate fluctuations on floating rate interest payments on the Company s variable rate senior notes. The term of the two new swap agreements started on November 28, 2008, which was the maturity date of an interest rate collar with the same total notional amount of $50,000,000, and ends on February 28, 2013, the maturity date of the Company s

variable rate senior notes. The swap agreements effectively convert the Company s interest rate obligation on a portion of the Company s variable rate senior notes from quarterly floating rate payments based on LIBOR to quarterly fixed rate payments. The swap agreements are designated as cash flow hedges for the Company s variable rate senior notes.

Foreign Currency Risk Management

From time to time, the Company has utilized and expects to continue to utilize derivative financial instruments with respect to its forecasted foreign currency transactions to attempt to reduce the risk of its exposure to foreign currency rate fluctuations in its future diesel engine services inventory purchase commitments. These transactions, which relate to foreign currency obligations for the purchase of equipment from foreign suppliers, generally are purchased call options and are entered into with large multinational banks. The Company does not enter into derivative financial instrument transactions for speculative purposes.

As of December 31, 2008, the Company has purchased Euro call options with a 1.28 strike price in the amount of 264,090 Euros maturing on March 1, 2010 and 528,180 Euros maturing on December 1, 2010. The purchased call options are designated as cash flow hedges, therefore, the changes in fair value, to the extent the purchased call options agreements are effective, are recognized in other comprehensive income until the purchased call option expires and is recognized in cost of sales and operating expenses.

No losses or gains on ineffectiveness or realized gains or losses were recognized in 2008, 2007 and 2006. At December 31, 2008, the fair value of the purchased call options was $188,000, of which all was recorded as other assets. The Company anticipates no net gains included in accumulated other comprehensive income will be transferred into earnings over the next year based on the maturity dates of the current purchased call options being in excess of twelve months. Fair value amounts were derived as of December 31, 2008 utilizing fair value models of the Company and its counterparties on the Company s portfolio of derivative instruments.

Item 8. *Financial Statements and Supplementary Data*

The response to this item is submitted as a separate section of this report (see Item 15, page 86).

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

Not applicable.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures. The Company s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act) as of December 31, 2008. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of December 31, 2008, the disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

Management s Report on Internal Control Over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). The Company s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company s internal control over financial reporting as of December 31, 2008 using the framework in *Internal Control Integrated Framework* issued by the Committee of

Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that the Company s internal control over financial reporting was effective as of December 31, 2008. KPMG LLP, the Company s independent registered public accounting firm, has audited the Company s internal control over financial reporting, as stated in their report which is included herein.

Table of Contents

There were no changes in the Company s internal control over financial reporting during the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART III

Items 10 Through 14.

The information for these items is incorporated by reference to the definitive proxy statement filed by the Company with the Commission pursuant to Regulation 14A within 120 days of the close of the fiscal year ended December 31, 2008, except for the information regarding executive officers which is provided under Item 1.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Kirby Corporation:

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

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

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

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

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Kirby Corporation and consolidated subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of earnings, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 27, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Houston, Texas
February 27, 2009

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Kirby Corporation:

We have audited the accompanying consolidated balance sheets of Kirby Corporation and consolidated subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of earnings, stockholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kirby Corporation and consolidated subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Kirby Corporation s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2009 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

KPMG LLP

Houston, Texas
February 27, 2009

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007

	2008	2007
	($ in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,647	$ 5,117
Accounts receivable:		
Trade less allowance for doubtful accounts of $8,878 ($2,016 in 2007)	187,210	175,876
Other	12,976	7,713
Inventory finished goods, at lower of average cost or market	48,518	53,377
Prepaid expenses and other current assets	12,163	18,731
Deferred income taxes	9,997	6,529
Total current assets	279,511	267,343
Property and equipment:		
Marine transportation equipment	1,550,547	1,391,613
Land, buildings and equipment	105,028	98,317
	1,655,575	1,489,930
Accumulated depreciation	664,643	583,832
Property and equipment, net	990,932	906,098
Investment in marine affiliates	2,056	1,921
Goodwill less accumulated amortization of $15,566 in 2008 and 2007	230,774	229,292
Other assets	22,825	25,821
Total assets	$ 1,526,098	$ 1,430,475
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,243	$ 1,368
Income taxes payable	4,755	9,182
Accounts payable	78,020	100,908
Accrued liabilities:		
Interest	1,008	1,200
Insurance premiums and claims	25,796	21,360
Employee compensation	36,957	34,439
Taxes other than on income	7,300	6,789
Other	10,981	9,403
Deferred revenues	7,006	6,771

Total current liabilities	173,066	191,420
Long-term debt less current portion	246,064	296,015
Deferred income taxes	145,568	130,899
Minority interests	3,502	2,977
Other long-term liabilities	67,845	39,334
Total long-term liabilities	462,979	469,225
Contingencies and commitments		
Stockholders equity:		
Preferred stock, $1.00 par value per share. Authorized 20,000,000 shares		
Common stock, $.10 par value per share. Authorized 120,000,000 shares, issued 57,337,000 shares	5,734	5,734
Additional paid-in capital	225,718	211,983
Accumulated other comprehensive income net	(55,047)	(22,522)
Retained earnings	804,425	647,692
Treasury stock at cost, 3,848,000 shares in 2008 and 3,806,000 in 2007	(90,777)	(73,057)
Total stockholders equity	890,053	769,830
Total liabilities and stockholders equity	$ 1,526,098	$ 1,430,475

See accompanying notes to consolidated financial statements.

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
For the Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
	($ in thousands, except per share amounts)		
Revenues:			
Marine transportation	$ 1,095,475	$ 928,834	$ 807,216
Diesel engine services	264,679	243,791	177,002
Total revenues	1,360,154	1,172,625	984,218
Costs and expenses:			
Costs of sales and operating expenses	843,310	735,427	631,334
Selling, general and administrative	142,171	121,952	107,728
Taxes, other than on income	13,120	13,159	12,826
Depreciation and amortization	91,199	80,916	64,396
Loss (gain) on disposition of assets	(142)	383	(1,436)
Total costs and expenses	1,089,658	951,837	814,848
Operating income	270,496	220,788	169,370
Equity in earnings of marine affiliates	134	266	707
Other expense	(649)	(221)	(116)
Minority interests	(1,305)	(717)	(558)
Interest expense	(14,064)	(20,284)	(15,201)
Earnings before taxes on income	254,612	199,832	154,202
Provision for taxes on income	(97,444)	(76,491)	(58,751)
Net earnings	$ 157,168	$ 123,341	$ 95,451
Net earnings per share of common stock:			
Basic	$ 2.94	$ 2.33	$ 1.82
Diluted	$ 2.91	$ 2.29	$ 1.79

See accompanying notes to consolidated financial statements.

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME
For the Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
		($ in thousands)	
Common stock:			
Balance at beginning of year	$ 5,734	$ 5,734	$ 3,091
Two-for-one stock split with distribution date of May 31, 2006			2,643
Balance at end of year	$ 5,734	$ 5,734	$ 5,734
Additional paid-in capital:			
Balance at beginning of year	$ 211,983	$ 208,032	$ 204,453
Excess of proceeds received upon exercise of stock options and issuance of restricted stock over cost of treasury stock issued	3,879	746	4,553
Tax benefit realized from equity compensation plans	8,930	2,995	5,520
Two-for-one stock split with distribution date of May 31, 2006			(2,643)
Issuance of restricted stock, net of forfeitures	(8,332)	(6,133)	(5,607)
Amortization of unearned compensation	9,258	6,343	6,816
Reclassification from unearned compensation			(5,060)
Balance at end of year	$ 225,718	$ 211,983	$ 208,032
Accumulated other comprehensive income:			
Balance at beginning of year	$ (22,522)	$ (23,087)	$ (2,028)
Change in defined benefit plans minimum liabilities, net of taxes ($14,344 in 2008, $(2,600) in 2007 and $13,677 in 2006)	(23,134)	4,063	(21,925)
Change in fair value of derivative financial instruments, net of taxes ($5,049 in 2008, $1,884 in 2007 and $(466) in 2006)	(9,391)	(3,498)	866
Balance at end of year	$ (55,047)	$ (22,522)	$ (23,087)
Unearned compensation:			
Balance at beginning of year	$	$	$ (5,060)
Reclassification to additional paid-in capital			5,060
Balance at end of year	$	$	$
Retained earnings:			
Balance at beginning of year	$ 647,692	$ 524,351	$ 428,900
Net earnings for the year	157,168	123,341	95,451
Adjustment to initially apply FASB Statement No. 158, net of taxes of $270	(435)		

Balance at end of year	$ 804,425	$ 647,692	$ 524,351
Treasury stock:			
Balance at beginning of year	$ (73,057)	$ (83,035)	$ (91,814)
Purchase of treasury stock (837,000 in 2008 and 163,000 shares in 2006)	(33,377)		(4,789)
Cost of treasury stock issued upon exercise of stock options and issuance of restricted stock (795,000 in 2008, 548,000 in 2007 and 745,000 in 2006)	15,657	9,978	13,568
Balance at end of year	$ (90,777)	$ (73,057)	$ (83,035)
Comprehensive income:			
Net earnings for the year	$ 157,168	$ 123,341	$ 95,451
Other comprehensive income (loss), net of taxes ($19,394 in 2008, $(716) in 2007 and $13,211 in 2006)	(32,525)	565	(21,059)
Total comprehensive income	$ 124,643	$ 123,906	$ 74,392

See accompanying notes to consolidated financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
		($ in thousands)	
Cash flows from operating activities:			
Net earnings	$ 157,168	$ 123,341	$ 95,451
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation and amortization	91,199	80,916	64,396
Provision for doubtful accounts	7,799	85	60
Provision (credit) for deferred income taxes	34,280	1,653	(292)
Loss (gain) on disposition of assets	(142)	383	(1,436)
Equity in earnings of marine affiliates, net of distributions	(134)	395	(707)
Amortization of unearned compensation	9,258	6,343	6,816
Other	1,370	825	634
Increase (decrease) in cash flows resulting from changes in:			
Accounts receivable	(21,277)	1,868	(15,540)
Inventory	6,208	(9,335)	(5,009)
Other assets	7,053	(1,198)	4,456
Income taxes payable	(7,530)	8,614	(1,549)
Accounts payable	(22,888)	11,742	11,276
Accrued and other liabilities	(16,417)	10,114	(8,192)
Net cash provided by operating activities	245,947	235,746	150,364
Cash flows from investing activities:			
Capital expenditures	(173,019)	(164,083)	(139,129)
Acquisitions of businesses and marine equipment, net of cash acquired	(5,480)	(67,185)	(143,911)
Proceeds from disposition of assets	1,978	3,417	3,077
Other		(52)	(7,313)
Net cash used in investing activities	(176,521)	(227,903)	(287,276)
Cash flows from financing activities:			
Borrowings (payments) on bank credit facilities, net	(49,050)	(12,350)	107,400
Payments on long-term debt, net	(1,091)	(984)	(96)
Return of investment to minority interests	(894)	(1,333)	(1,256)
Proceeds from minority interest investment	113	575	1,760
Proceeds from exercise of stock options	12,888	5,718	13,188
Purchase of treasury stock	(33,377)		(4,789)
Excess tax benefit from equity compensation plans	5,515	2,995	5,520
Net cash provided by (used in) financing activities	(65,896)	(5,379)	121,727

Increase (decrease) in cash and cash equivalents		3,530		2,464		(15,185)
Cash and cash equivalents, beginning of year		5,117		2,653		17,838
Cash and cash equivalents, end of year	$	8,647	$	5,117	$	2,653
Supplemental disclosures of cash flow information:						
Cash paid during the year:						
Interest	$	14,002	$	20,171	$	15,154
Income taxes	$	65,180	$	63,341	$	55,072
Noncash investing activity:						
Disposition of assets for note receivables	$		$		$	1,735
Cash acquired in acquisitions	$		$	10	$	2,790
Debt assumed in acquisitions	$		$	245	$	2,625

See accompanying notes to consolidated financial statements.

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Kirby Corporation and all majority-owned subsidiaries (the Company). One affiliated limited partnership in which the Company owns a 50% interest, is the general partner and has effective control, and whose activities are an integral part of the operations of the Company, is consolidated. All other investments in which the Company owns 20% to 50% and exercises significant influence over operating and financial policies are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to reflect the current presentation of financial information.

Accounting Policies

Cash Equivalents. Cash equivalents consist of all short-term, highly liquid investments with maturities of three months or less at date of purchase.

Accounts Receivable. In the normal course of business, the Company extends credit to its customers. The Company regularly reviews the accounts and makes adequate provisions for probable uncollectible balances. It is the Company s opinion that the accounts have no impairment, other than that for which provisions have been made. Included in accounts receivable as of December 31, 2008 and 2007 were $31,578,000 and $32,098,000, respectively, of accruals for revenues earned which have not been invoiced as of the end of each year.

The Company s marine transportation and diesel engine services operations are subject to hazards associated with such businesses. The Company maintains insurance coverage against these hazards with insurance companies. Included in accounts receivable as of December 31, 2008 and 2007 were $2,500,000 and $150,000, respectively, of receivables from insurance companies to cover claims in excess of the Company s deductible.

Concentrations of Credit Risk. Financial instruments which potentially subject the Company to concentrations of credit risk are primarily trade accounts receivables. The Company s marine transportation customers include the major oil refining and petrochemical companies. The diesel engine services customers are offshore oil and gas service companies, inland and offshore marine transportation companies, commercial fishing companies, power generation companies, shortline, industrial, Class II and certain transit railroads, and the United States government. 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.

Fair Value of Financial Instruments. Cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term maturity of these financial instruments. The fair value of the Company s debt instruments is more fully described in Note 4, Long-Term Debt.

In February 2007, the Financial Accounting Standards Board (FASB) issued FASB No. 159, The Fair Value Option of Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure eligible financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Company adopted SFAS No. 159 effective January 1, 2008 with no effect on the Company s financial position or results of operations as the Company has currently chosen not to elect

the fair value option for any eligible items that are not already required to be measured at fair value in accordance with United States generally accepted accounting principles.

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 as follows: marine transportation equipment, 6-40 years; buildings, 10-40 years; other equipment, 2-10 years; and leasehold improvements, term of lease. When property items are retired, sold or

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Summary of Significant Accounting Policies (Continued)

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.

Environmental Liabilities. The Company expenses costs related to environmental events as they are incurred or when a loss is considered probable and estimable.

Goodwill. The excess of the purchase price over the fair value of identifiable net assets acquired in transactions accounted for as a purchase is included in goodwill. Goodwill, including goodwill associated with equity method investments, is not amortized. The Company conducted its annual goodwill impairment test at November 30, 2008, noting no impairment of goodwill. The Company will continue to conduct goodwill impairment tests as of November 30 of subsequent years, or whenever events or circumstances indicate that interim impairment testing is necessary.

Revenue Recognition. The majority of marine transportation revenue is derived from term contracts, ranging from one to five years, with renewal options, and the remainder is from spot market movements. The majority of the term contracts are for terms of one year. The Company is a provider of marine transportation services for its customers and, in almost all cases, does not assume ownership of the products it transports. 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 or at a daily rate. 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. 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, including fuel, and are subject to market volatility. The Company uses a voyage accounting method of revenue recognition for its marine transportation revenues which allocates voyage revenue based on the percent of the voyage completed during the period. There is no difference in the recognition of revenue between a term contract and a spot contract.

Diesel engine service products and services are generally sold based upon purchase orders or preferential service agreements with the customer that include fixed or determinable prices and that do not include right of return or significant post delivery performance obligations. Diesel engine parts sales are recognized when title passes upon shipment to customers. Diesel overhauls and repairs revenue are reported on the percentage of completion method of accounting using measurements of progress towards completion appropriate for the work performed.

Stock-Based Compensation. The Company has share-based compensation plans covering selected officers and other key employees as well as the Company s Board of Directors. Stock-based grants made under the Company s stock plans are recorded at fair value on the date of the grant and the cost is recognized ratably over the vesting period of the stock option or restricted stock. Stock option grants are valued at the date of grant as calculated under the Black-Scholes option pricing model. The Company s stock-based compensation plans are more fully described in Note 7, Stock Award Plans.

Taxes on Income. The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective

tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Summary of Significant Accounting Policies (Continued)

In June 2006, FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN No. 48) was issued. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s consolidated financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN No. 48 effective January 1, 2007 with no effect on the Company s financial position or results of operations.

Accrued Insurance. Accrued insurance liabilities include estimates based on individual incurred claims outstanding and an estimated amount for losses incurred but not reported (IBNR) or fully developed based on past experience. Insurance premiums, IBNR losses and incurred claims losses, up to the Company s deductible, for 2008, 2007 and 2006 were $19,130,000, $14,317,000 and $9,383,000, respectively.

Minority Interests. The Company has a majority interest in and is the general partner in several affiliated entities. In situations where losses applicable to the minority interest in the affiliated entities exceed the limited partners equity capital, such excess and any further loss attributable to the minority interest is charged against the Company s interest in the affiliated entities. If future earnings materialize in the respective affiliated entities, the Company s interest would be credited to the extent of any losses previously absorbed.

In December 2007, the FASB issued FASB No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements. The Company is currently evaluating the impact of the adoption of SFAS No. 160 on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

Treasury Stock. The Company follows the average cost method of accounting for treasury stock transactions.

Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Company reviews long-lived assets and certain identifiable intangibles for impairment by vessel class whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Recoverability on marine transportation assets is assessed based on vessel classes, not on individual assets, because identifiable cash flows for individual marine transportation assets are not available. Projecting customer contract volumes allows estimation of future cash flows by projecting pricing and utilization by vessel class but it is not practical to project which individual marine transportation asset will be utilized for any given contract. Because customers do not specify which particular vessel is used, prices are quoted based on vessel classes not individual assets. Nominations of vessels for specific jobs are determined on a day by day basis and are a function of the equipment class required and the geographic position of vessels within that class at that particular time as vessels within a class are interchangeable and provide the same service. Barge vessel classes are based on similar capacities, hull type, and type of product and towboats are based on horsepower. Recoverability of the vessel classes is measured

by a comparison of the carrying amount of the assets to future net cash flows 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.

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Summary of Significant Accounting Policies (Continued)

Accounting Standards

In September 2006, the FASB issued FASB No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities by defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. In February 2008, the FASB issued a FASB Staff Position (FSP) on SFAS No. 157 that delays the effective date of SFAS No. 157 by one year for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted SFAS No. 157 effective January 1, 2008, with the exceptions allowed under the FSP described above, with no effect on the Company s financial position or results of operations. The Company is currently evaluating the impact of the adoption of SFAS No. 157 related to the nonfinancial assets and nonfinancial liabilities exceptions allowed under the FSP described above on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

SFAS No. 157 establishes a three tier value hierarchy, which prioritizes the inputs to valuation techniques used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little, if any, market data exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at December 31, 2008 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
Assets:				
Derivatives	$	$ 188	$	$ 188
Liabilities:				
Derivatives	$	$ 21,002	$	$ 21,002

The fair value of the Company s derivative instruments is more fully described in Note 3, Derivative Instruments.

In December 2007, the FASB issued FASB No. 141R, Business Combinations (SFAS No. 141R). SFAS No. 141R provides guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS No. 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, goodwill acquired and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for acquisitions beginning in the Company s fiscal year ending December 31, 2009 and earlier application is prohibited.

In March 2008, the FASB issued FASB No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement No. 133 with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments; (b) how derivative

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) Summary of Significant Accounting Policies (Continued)

instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The Company is currently evaluating the impact of the adoption of SFAS No. 161 on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

(2) 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 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.

On October 1, 2007, the Company purchased nine inland tank barges from Siemens Financial, Inc. 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 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. for a net $3,540,000 in cash, the assets and technology 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.

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 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.

On October 4, 2006, the Company signed agreements to purchase 11 inland tank barges from Midland Marine Corporation (Midland) and Shipyard Marketing, Inc. (Shipyard) for $10,600,000 in cash. The Company purchased four of the barges during 2006 for $3,300,000 and the remaining seven barges in 2007 for $7,300,000. The Company had been leasing the barges from Midland and Shipyard prior to their purchase.

On July 24, 2006, the Company signed an agreement to purchase the assets of Capital Towing Company (Capital), consisting of 11 towboats, for $15,000,000 in cash. The Company purchased nine of the towboats during 2006 for $13,299,000 and the remaining two towboats in 2007 for $1,701,000. The Company and Capital entered into a vessel operating agreement whereby Capital is contracted to crew and operate the towboats for the Company.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Acquisitions (Continued)

On July 21, 2006, the Company purchased the assets of Marine Engine Specialists, Inc. (MES) for $6,863,000 in cash. MES was a Gulf Coast high-speed diesel engine services provider, operating a factory-authorized full service marine dealership for John Deere, as well as a service provider for Detroit Diesel.

On June 7, 2006, the Company purchased the stock of Global Power Holding Company, a privately held company that owned all of the outstanding equity of Global Power Systems, L.L.C. (Global). The Company purchased Global for an aggregate consideration of $101,720,000, consisting of $98,657,000 in cash, the assumption of $2,625,000 of debt and $438,000 of merger costs. Global was a Gulf Coast high-speed diesel engine services provider, operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere high-speed diesel engines, and Allison transmissions, as well as an authorized marine dealer for Caterpillar in Louisiana. As a result of the acquisition, the Company recorded $55,705,000 of goodwill and $16,292,000 of intangibles. The intangibles have a weighted average amortization period of approximately 16 years.

On March 1, 2006, the Company purchased from Progress Fuels Corporation (PFC) the remaining 65% interest in Dixie Fuels Limited (Dixie Fuels) for $15,818,000 in cash. The Dixie Fuels partnership, formed in 1977, was 65% owned by PFC and 35% owned by the Company. As part of the transaction, the Company extended the expiration date of its marine transportation contract with PFC from 2008 to 2010.

Effective January 1, 2006, the Company acquired an additional one-third interest in Osprey Line, L.L.C. (Osprey), increasing the Company s ownership to a two-thirds interest. Osprey, formed in 2000, operates a barge feeder service for cargo containers on the Gulf Intracoastal Waterway, as well as several ports located above Baton Rouge on the Mississippi River.

Pro forma results of the acquisitions made in 2006 through 2008 have not been presented as the pro forma revenues, earnings before taxes on income, net earnings and net earnings per share would not be materially different from the Company s actual results.

(3) Derivative Instruments

Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), established accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded at fair value and included in the balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception date of a derivative. Special accounting for derivatives qualifying as fair value hedges allows a derivative s gain and losses to offset related results on the hedged item in the statement of earnings. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the cumulative difference between the fair value of the derivative contract and the hedged item over time. Any change in fair value resulting from ineffectiveness, as defined by SFAS No. 133, is recognized immediately in earnings.

Interest Rate Risk Management

From time to time, the Company has utilized and expects to continue to utilize derivative financial instruments with respect to a portion of its interest rate risks to achieve a more predictable cash flow by reducing its exposure to interest rate fluctuations. These transactions generally are interest rate collar and swap agreements and are entered into with large multinational banks. Derivative financial instruments related to the Company s interest rate risks are intended to reduce the Company s exposure to increases in the benchmark interest rates underlying the Company s floating rate senior notes and variable rate bank credit facility.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Derivative Instruments (Continued)

From time to time, the Company hedges its exposure to fluctuations in short-term interest rates under its variable rate bank credit facility and floating rate senior notes by entering into interest rate collar and swap agreements. The interest rate collar and swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the collar and swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of December 31, 2008, the Company had a total notional amount of $200,000,000 of interest rate swaps designated as cash flow hedges for its variable rate senior notes as follows (dollars in thousands):

Notional Amount	Effective date	Termination date	Fixed pay rate	Receive rate
$ 50,000	April 2004	May 2009	4.00%	Three-month LIBOR
$ 100,000	March 2006	February 2013	5.45%	Three-month LIBOR
$ 50,000	November 2008	February 2013	3.50%	Three-month LIBOR

On November 14, 2006, the Company entered into a $50,000,000 two-year zero-cost interest rate collar agreement which matured on November 28, 2008. The collar used London Interbank Offered Rate (LIBOR) as its interest rate basis. The cap rate was set at 5.375% and the floor was set at 4.33%. When LIBOR was above the cap, the Company received the difference between LIBOR and the cap. When LIBOR was below the floor, the Company paid the difference between LIBOR and the floor. When LIBOR was between the cap rate and the floor, no payments were required. The collar was designated as a cash flow hedge for the Company s variable rate senior notes.

The interest rate collar and swap agreements hedge a majority of the Company s long-term debt and only an immaterial loss on ineffectiveness was recognized in 2008, 2007 and 2006. At December 31, 2008, the fair value of the swap agreements was $21,002,000, of which $502,000 was recorded as other accrued liabilities for the swap maturing within the next twelve months and $20,500,000 was recorded as other long-term liabilities, for swap maturities greater than twelve months. At December 31, 2007, the fair value of the interest rate collar and swap agreements was $6,488,000, of which $192,000 was recorded as other accrued liabilities for the collar maturing within the next twelve months and $6,296,000 was recorded as other long-term liabilities for swap maturities greater than twelve months. The Company has recorded, in interest expense, net losses (gains) related to the interest rate collar and swap agreements of $3,404,000, $(633,000) and $(81,000) for the years ended December 31, 2008, 2007 and 2006, respectively. Gains or losses on the interest rate collar and swap agreements offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company anticipates $3,842,000 of net losses included in accumulated other comprehensive income will be transferred into earnings over the next year based on current interest rates. Fair value amounts were derived as of December 31, 2008 and 2007 utilizing fair value models of the Company and its counterparties on the Company s portfolio of derivative instruments.

On February 1, 2008, the Company entered into an interest rate swap agreement in a notional amount of $50,000,000 with a fixed rate of 3.795% for the purpose of extending an existing hedge of its exposure to interest rate fluctuations on floating rate interest payments on the Company s variable rate senior notes. The term of the new swap agreement starts on May 28, 2009, which is the maturity date on two existing swaps with the same total notional amount of

$50,000,000, and ends on February 28, 2013, the maturity date of the Company s variable rate senior notes. The swap agreement effectively converts the Company s interest rate obligation on a portion of the Company s variable rate senior notes from quarterly floating rate payments based on LIBOR to quarterly fixed rate payments. The swap agreement is designated as a cash flow hedge for the Company s variable rate senior notes.

On November 4, 2008, the Company entered into two interest rate swap agreements in a total notional amount of $50,000,000 with a fixed rate of 3.5% for the purpose of extending an existing hedge of its exposure to interest rate fluctuations on floating rate interest payments on the Company s variable rate senior notes. The term of the two

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Derivative Instruments (Continued)

new swap agreements started on November 28, 2008, which was the maturity date of an interest rate collar with the same total notional amount of $50,000,000, and ends on February 28, 2013, the maturity date of the Company s variable rate senior notes. The swap agreements effectively convert the Company s interest rate obligation on a portion of the Company s variable rate senior notes from quarterly floating rate payments based on LIBOR to quarterly fixed rate payments. The swap agreements are designated as cash flow hedges for the Company s variable rate senior notes.

Foreign Currency Risk Management

From time to time, the Company has utilized and expects to continue to utilize derivative financial instruments with respect to its forecasted foreign currency transactions to attempt to reduce the risk of its exposure to foreign currency rate fluctuations in its future diesel engine services inventory purchase commitments. These transactions, which relate to foreign currency obligations for the purchase of equipment from foreign suppliers, generally are purchased call options and are entered into with large multinational banks.

As of December 31, 2008, the Company has purchased Euro call options with a 1.28 strike price in the amount of 264,090 Euros maturing on March 1, 2010 and 528,180 Euros maturing on December 1, 2010. The purchased call options are designated as cash flow hedges, therefore, the changes in fair value, to the extent the purchased call options agreements are effective, are recognized in other comprehensive income until the purchased call option expires and is recognized in cost of sales and operating expenses.

No losses or gains on ineffectiveness or realized gains or losses were recognized in 2008, 2007 and 2006. At December 31, 2008, the fair value of the purchased call options was $188,000, of which all was recorded as other assets. The Company anticipates no net gains included in accumulated other comprehensive income will be transferred into earnings over the next year based on the maturity dates of the current purchased call options being in excess of twelve months. Fair value amounts were derived as of December 31, 2008 utilizing fair value models of the Company and its counterparties on the Company s portfolio of derivative instruments.

(4) Long-Term Debt

Long-term debt at December 31, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Long-term debt, including current portion:		
$250,000,000 revolving credit facility due June 14, 2011	$ 46,000	$ 95,050
Senior notes due February 28, 2013	200,000	200,000
Other long-term debt	1,307	2,333
	$ 247,307	$ 297,383

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Long-Term Debt (Continued)

The aggregate payments due on the long-term debt in each of the next five years were as follows (in thousands):

2009	$ 1,243
2010	36
2011	46,022
2012	6
2013	200,000
Thereafter	
	$ 247,307

The Company has an unsecured revolving credit facility (Revolving Credit Facility) with a syndicate of banks, with JPMorgan Chase Bank as the agent bank, with a maturity date of June 14, 2011. The Revolving Credit Facility allows for an increase in the commitments of the banks from $250,000,000 up to a maximum of $325,000,000, subject to the consent of each bank that elects to participate in the increased commitment. The unsecured Revolving Credit Facility has a variable interest rate based on LIBOR and varies with the Company s senior debt rating and the level of debt outstanding. The variable interest rate spread for 2008 was 40 basis points over LIBOR and the commitment fee and utilization fee were each .10%. The Revolving Credit Facility contains certain restrictive financial covenants including an interest coverage ratio and a debt-to-capitalization ratio. In addition to financial covenants, the Revolving Credit Facility contains covenants that, subject to exceptions, restrict debt incurrence, mergers and acquisitions, sales of assets, dividends and investments, liquidations and dissolutions, capital leases, transactions with affiliates and changes in lines of business. Borrowings under the Revolving Credit Facility may be used for general corporate purposes, the purchase of existing or new equipment, the purchase of the Company s common stock, or for business acquisitions. As of December 31, 2008, the Company was in compliance with all Revolving Credit Facility covenants and had $46,000,000 of borrowings outstanding under the Revolving Credit Facility. The average borrowing under the Revolving Credit Facility during 2008 was $77,133,000, computed by averaging the daily balance, and the weighted average interest rate was 3.4%, computed by dividing the interest expense under the Revolving Credit Facility by the average Revolving Credit Facility borrowing. The Revolving Credit Facility includes a $25,000,000 commitment which may be used for standby letters of credit. Outstanding letters of credit under the Revolving Credit Facility were $1,294,000 as of December 31, 2008.

The Company has $200,000,000 of unsecured floating rate senior notes (2005 Senior Notes) due February 28, 2013. The 2005 Senior Notes pay interest quarterly at a rate equal to LIBOR plus a margin of 0.5%. The 2005 Senior Notes are callable, at the Company s option, at par. No principal payments are required until maturity in February 2013. As of December 31, 2008, $200,000,000 was outstanding under the 2005 Senior Notes and the 2008 average interest rate was 3.7%, computed by dividing the interest expense under the 2005 Senior Notes by the average 2005 Senior Notes borrowings of $200,000,000. The Company was in compliance with all 2005 Senior Notes covenants at December 31, 2008.

The Company has a $5,000,000 line of credit (Credit Line) with Bank of America, N.A. (Bank of America) for short-term liquidity needs and letters of credit with a maturity date of June 30, 2009. The Credit Line allows the Company to borrow at an interest rate agreed to by Bank of America and the Company at the time each borrowing is made or continued. The Company did not have any borrowings outstanding under the Credit Line as of December 31, 2008. Outstanding letters of credit under the Credit Line were $527,000 as of December 31, 2008.

The Company is of the opinion that the amounts included in the consolidated financial statements for outstanding debt materially represent the fair value of such debt at December 31, 2008 and 2007.

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Taxes on Income

Earnings before taxes on income and details of the provision (credit) for taxes on income for the years ended December 31, 2008, 2007 and 2006 were as follows (in thousands):

	2008	2007	2006
Earnings before taxes on income United States	$ 254,612	$ 199,832	$ 154,202
Provision (credit) for taxes on income:			
Federal			
Current	$ 55,077	$ 67,766	$ 53,539
Deferred	31,928	532	(316)
State and local	10,439	8,193	5,528
	$ 97,444	$ 76,491	$ 58,751

During the three years ended December 31, 2008, 2007 and 2006, tax benefits related to the exercise of stock options and the issuance of restricted stock that were allocated directly to additional paid-in capital were $8,930,000, $2,995,000 and $5,520,000, respectively.

The Company s provision for taxes on income varied from the statutory federal income tax rate for the years ended December 31, 2008, 2007 and 2006 due to the following:

	2008	2007	2006
United States income tax statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of federal benefit	2.7	2.7	2.3
Non-deductible items	.6	.6	.8
	38.3%	38.3%	38.1%

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Taxes on Income (Continued)

The tax effects of temporary differences that give rise to significant portions of the current deferred tax assets and non-current deferred tax assets and liabilities at December 31, 2008, 2007 and 2006 were as follows (in thousands):

	2008	2007	2006
Current deferred tax assets:			
Compensated absences	$ 546	$ 510	$ 497
Allowance for doubtful accounts	3,101	700	672
Insurance accruals	3,695	2,959	2,250
Other	2,655	2,360	1,658
	$ 9,997	$ 6,529	$ 5,077
Non-current deferred tax assets and liabilities:			
Deferred tax assets:			
Postretirement health care benefits	$ 3,654	$ 3,391	$ 3,226
Insurance accruals	1,010	1,022	1,783
Deferred compensation	6,000	4,949	1,885
Unrealized loss on derivative financial instruments	7,325	2,271	387
Unrealized loss on defined benefit plans	23,496	10,378	12,711
Tax credit carryforwards	2,570	3,249	496
Other	6,676	5,742	4,624
Valuation allowance	(487)	(496)	(496)
	50,244	30,506	24,616
Deferred tax liabilities:			
Property	(162,496)	(137,433)	(125,431)
Deferred state taxes	(13,846)	(12,739)	(10,948)
Pension benefits	(12,721)	(4,415)	(7,075)
Goodwill and other intangibles	(5,593)	(5,811)	(6,365)
Other	(1,156)	(1,007)	(740)
	(195,812)	(161,405)	(150,559)
	$ (145,568)	$ (130,899)	$ (125,943)

The valuation allowance at December 31, 2008 relates to a capital loss carryforward that expires in 2009 and will be reduced when and if the Company determines that the capital loss carryforward is more likely than not to be realized.

The Company or one of its subsidiaries files income tax returns in the United States federal jurisdiction and various state jurisdictions. The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the 2005 through 2007 tax years. With few exceptions, the Company and its subsidiaries state income tax returns are open to audit under the statute of limitations for the 2002 through 2007 tax years.

As of December 31, 2008, the Company has provided a liability of $3,698,000 for unrecognized tax benefits related to various income tax issues which includes interest and penalties. The amount that would impact the Company s effective tax rate, if recognized, is $2,450,000, with the difference between the total amount of unrecognized tax benefits and the amount that would impact the effective tax rate being primarily related to the

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Taxes on Income (Continued)

federal tax benefit of state income tax items. It is not reasonably possible to determine if the liability for unrecognized tax benefits will significantly change prior to December 31, 2009 due to the uncertainty of possible examination results.

A reconciliation of the beginning and ending amount of the liability for unrecognized tax benefits is as follows (in thousands):

	2008
Balance at January 1, 2008	$ 2,639
Additions based on tax positions related to the current year	569
Additions for tax positions of prior years	301
Reductions for tax positions of prior years	(601)
Settlements	(457)
Balance at December 31, 2008	$ 2,451

The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes. The Company recognized net expense (income) of $(336,000) and $338,000 in interest and penalties for the years ended December 31, 2008 and 2007, respectively. The Company had $1,247,000 and $1,591,000 of accrued liabilities for the payment of interest and penalties at December 31, 2008 and 2007, respectively.

(6) Leases

The Company and its subsidiaries currently lease various facilities and equipment under a number of cancelable and noncancelable operating leases. Lease agreements for tank barges have terms from three to seven years expiring at various dates through 2016. Lease agreements for towboats chartered by the Company have terms from 30 days to five years expiring at various dates through 2012; however, the majority of the towboat charter agreements are for terms of one year or less. Total rental expense for the years ended December 31, 2008, 2007 and 2006 was as follows (in thousands):

	2008	2007	2006
Rental expense:			
Marine equipment tank barges	$ 5,117	$ 6,065	$ 8,535
Marine equipment towboats	116,933	100,022	79,068
Other buildings and equipment	5,134	4,941	4,575

Rental expense	$ 127,184	$ 111,028	$ 92,178

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Leases (Continued)

Future minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2008 were as follows (in thousands):

	Land, Buildings and Equipment	Marine Equipment Tank Barges	Marine Equipment Towboats	Total
2009	$ 4,565	$ 7,680	$ 63,024	$ 75,269
2010	4,159	7,593	27,073	38,825
2011	3,654	6,947	16,393	26,994
2012	3,379	6,368	7,895	17,642
2013	3,123	5,615		8,738
Thereafter	11,301	8,267		19,568
	$ 30,181	$ 42,470	$ 114,385	$ 187,036

(7) Stock Award Plans

The Company has share-based compensation plans which are described below. The compensation cost that has been charged against earnings for the Company s stock award plans and the income tax benefit recognized in the statement of earnings for stock awards for the years ended December 31, 2008, 2007 and 2006 were as follows (in thousands):

	2008	2007	2006
Compensation cost	$ 9,258	$ 6,343	$ 6,816
Income tax benefit	$ 3,546	$ 2,429	$ 2,597

The Company has four employee stock award plans for selected officers and other key employees which provide for the issuance of stock options and restricted stock. For all of the plans, the exercise price for each option equals the fair market value per share of the Company s common stock on the date of grant. The terms of the options are five years and vest ratably over three years. At December 31, 2008, 2,146,723 shares were available for future grants under the employee plans and no outstanding stock options under the employee plans were issued with stock appreciation rights.

On March 6, 2008, the Board of Directors approved amendments to the Company s 2005 Employee Stock and Incentive Plan (2005 Plan) to (1) increase the number of shares that may be issued under the plan from 2,000,000 to 3,000,000 shares and (2) increase the maximum amount of cash that may be paid to any participant pursuant to any performance award under the 2005 Plan during any calendar year from $2,000,000 to $3,000,000, subject to stockholder approval. The amendments were approved by the stockholders at the Annual Meeting of Stockholders

held on April 22, 2008.

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Stock Award Plans (Continued)

The following is a summary of the stock option activity under the employee plans described above for the years ended December 31, 2008, 2007 and 2006:

	Outstanding Non-Qualified or Nonincentive Stock Options	Weighted Average Exercise Price
Outstanding at December 31, 2005	1,798,212	$ 14.56
Granted	223,408	$ 27.17
Exercised	(946,301)	$ 12.71
Canceled or expired	(3,002)	$ 16.96
Outstanding at December 31, 2006	1,072,317	$ 18.80
Granted	177,766	$ 35.69
Exercised	(318,965)	$ 14.58
Canceled or expired	(668)	$ 16.96
Outstanding at December 31, 2007	930,450	$ 23.48
Granted	178,495	$ 46.64
Exercised	(594,764)	$ 20.22
Canceled or expired		$
Outstanding at December 31, 2008	514,181	$ 35.28

Under the employee plans, stock options exercisable were 148,698, 536,600 and 522,161 at December 31, 2008, 2007 and 2006, respectively.

The following table summarizes information about the Company s outstanding and exercisable stock options under the employee plans at December 31, 2008:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value

$16.96	$20.89	61,674	.38	$ 18.17		61,674	$ 18.17	
$22.05	$27.60	119,874	2.02	$ 26.65		48,734	$ 25.79	
$34.40	$36.94	174,138	3.26	$ 35.54		38,290	$ 35.70	
$48.00	$48.65	158,495	4.09	$ 48.18				
$16.96	$48.65	514,181	2.88	$ 35.28	$ (4,074,000)	148,698	$ 25.18	$ 324,000

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Stock Award Plans (Continued)

The following is a summary of the restricted stock award activity under the employee plans described above for the years ended December 31, 2008, 2007 and 2006:

	Unvested Restricted Stock Award Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested balance at December 31, 2005	337,922	$ 18.92
Granted	202,418	$ 26.45
Vested	(90,476)	$ 21.70
Forfeited	(7,320)	$ 23.53
Nonvested balance at December 31, 2006	442,544	$ 22.35
Granted	173,214	$ 36.16
Vested	(118,100)	$ 20.86
Forfeited	(4,240)	$ 31.18
Nonvested balance at December 31, 2007	493,418	$ 27.48
Granted	172,432	$ 43.57
Vested	(156,580)	$ 28.35
Forfeited	(6,452)	$ 33.46
Nonvested balance at December 31, 2008	502,818	$ 33.64

The Company has two director stock award plans for nonemployee directors of the Company which provide for the issuance of stock options and restricted stock. No additional options can be granted under one of the plans. The 2000 Director Plan provides for the automatic grants of stock options and restricted stock to nonemployee directors on the date of first election as a director and after each annual meeting of stockholders. In addition, the 2000 Director Plan allows for the issuance of stock options or restricted stock in lieu of cash for all or part of the annual director fee at the option of the director. The exercise prices for all options granted under the plans are equal to the fair market value per share of the Company s common stock on the date of grant. The terms of the options are ten years. The options granted when first elected a director vest immediately. The options granted and restricted stock issued after each annual meeting of stockholders vest six months after the date of grant. Options granted and restricted stock issued in lieu of cash director fees vest in equal quarterly increments during the year to which they relate. At December 31, 2008, 442,707 shares were available for future grants under the 2000 Director Plan. The director stock award plans are intended as an incentive to attract and retain qualified and competent independent directors.

On March 6, 2008, the Board of Directors approved an amendment to the Company s 2000 Director Plan to increase the number of shares that may be issued under the plan from 600,000 to 1,000,000 shares, subject to stockholder approval. The amendment was approved by the stockholders at the Annual Meeting of Stockholders held on April 22, 2008.

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Stock Award Plans (Continued)

The following is a summary of the stock option activity under the director plans described above for the years ended December 31, 2008, 2007 and 2006:

	Outstanding Non-Qualified or Nonincentive Stock Options	Weighted Average Exercise Price
Outstanding at December 31, 2005	354,722	$ 14.02
Granted	66,036	$ 35.20
Exercised	(77,442)	$ 15.27
Outstanding at December 31, 2006	343,316	$ 17.81
Granted	42,000	$ 36.82
Exercised	(80,974)	$ 13.17
Outstanding at December 31, 2007	304,342	$ 21.66
Granted	69,298	$ 55.49
Exercised	(64,068)	$ 13.43
Outstanding at December 31, 2008	309,572	$ 30.94

Under the director plans, options exercisable were 309,247, 304,342, and 342,306 at December 31, 2008, 2007 and 2006, respectively.

The following table summarizes information about the Company s outstanding and exercisable stock options under the director plans at December 31, 2008:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
$9.69 $9.86	10,564	.92	$ 9.76		10,564	$ 9.76	
$10.06 $12.69	60,046	2.95	$ 11.14		60,046	$ 11.14	

$15.74	$20.28	61,628	4.76	$ 17.69		61,628	$ 17.69	
$35.17	$55.49	177,334	8.31	$ 43.51		177,009	$ 43.49	
$9.69	$55.49	309,572	6.34	$ 30.94	$ (1,108,000)	309,247	$ 30.91	$ (1,099,000)

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Stock Award Plans (Continued)

The following is a summary of the restricted stock award activity under the director plan described above for the years ended December 31, 2008, 2007 and 2006:

	Unvested Restricted Stock Award Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested balance at December 31, 2005	1,780	$ 20.28
Granted	9,460	$ 35.17
Vested	(10,622)	$ 32.67
Forfeited		$
Nonvested balance at December 31, 2006	618	$ 35.17
Granted	10,128	$ 36.86
Vested	(9,962)	$ 36.75
Forfeited		$
Nonvested balance at December 31, 2007	784	$ 36.86
Granted	9,557	$ 56.00
Vested	(9,951)	$ 54.49
Forfeited		$
Nonvested balance at December 31, 2008	390	$ 56.00

The total intrinsic value of all options exercised under all of the Company s plans was $17,827,000, $10,175,000 and $19,636,000 for the years ended December 31, 2008, 2007 and 2006, respectively. The actual tax benefit realized for tax deductions from stock option exercises was $6,828,000, $3,897,000 and $7,481,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

The total intrinsic value of all the restricted stock vestings under all of the Company s plans was $7,187,000, $4,726,000 and $2,952,000 for the years ended December 31, 2008, 2007 and 2006, respectively. The actual tax benefit realized for tax deductions from restricted stock vestings was $2,753,000, $1,810,000 and $1,125,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

As of December 31, 2008, there was $2,273,000 of unrecognized compensation cost related to nonvested stock options and $12,651,000 related to restricted stock. The stock options are expected to be recognized over a weighted average period of approximately 1.2 years and restricted stock over approximately 1.8 years. The total fair value of options vested was $2,273,000, $2,779,000 and $3,404,000 during the years ended December 31, 2008, 2007 and

2006, respectively. The fair value of the restricted stock vested was $7,187,000, $4,726,000 and $2,952,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Stock Award Plans (Continued)

The weighted average per share fair value of options granted during the years ended December 31, 2008, 2007 and 2006 was $14.95, $11.85 and $10.18, respectively. The fair value of the options granted during the years ended December 31, 2008, 2007 and 2006 was $3,705,000, $2,604,000 and $2,945,000, respectively. The fair value of each option was determined using the Black-Scholes option pricing model. The key input variables used in valuing the options during the years ended December 31, 2008, 2007 and 2006 were as follows:

	2008	2007	2006
Dividend yield	None	None	None
Average risk-free interest rate	3.2%	4.6%	4.9%
Stock price volatility	27%	25%	25%
Estimated option term	Four or nine years	Four or nine years	Four or nine years

(8) Retirement Plans

The Company sponsors a defined benefit plan for vessel personnel and shore based tankermen. The plan benefits are based on an employee s years of service and compensation. The plan assets consist primarily of equity and fixed income securities.

In September 2006, the FASB issued FASB No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS No. 158). SFAS No. 158 requires an employer to (a) recognize in its balance sheet an asset for a defined benefit plan s overfunded status or a liability for its underfunded status; (b) recognize changes in the funded status of a defined benefit postretirement plan that are not recognized as components of net periodic benefit cost in comprehensive income in the year in which the changes occur; and (c) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year (with limited exceptions). The requirement to recognize the funded status of a benefit plan and the disclosure requirements was effective for the Company s fiscal year ended December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of a Company s fiscal year end balance sheet was effective for the Company s fiscal year ending on December 31, 2008.

Therefore, the Company used a December 31 and November 30 measurement date for all of its plans in 2008 and 2007, respectively. The adjustment relating to this change in measurement date for the period between the early measurement date of November 30 and the end of the year was made in December 2008 to retained earnings, net of tax, of $435,000.

The fair value of plan assets was $99,722,000 and $103,405,000 at December 31, 2008 and November 30, 2007, respectively. As of December 31, 2008 and November 30, 2007, these assets were allocated among asset categories as follows:

Asset Category	2008	2007	Current Minimum, Target and Maximum Allocation Policy		
Equity securities	46%	48%	30%	70%	95%
Debt securities	18%	27%	15%	25%	50%
Fund of hedge funds	1%	16%	0%	0%	5%
Real estate investment trusts	%	9%	0%	5%	10%
Cash and cash equivalents	35%	%	0%	0%	10%
	100%	100%			

The cash and cash equivalents asset category exceeded the maximum percentage allocation due to the 2008 pension contribution of $32,000,000 being funding on the last day of 2008 which resulted in insufficient time to

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Retirement Plans (Continued)

properly allocate the contribution among the proper asset categories. The Company s intention is to allocate the contribution among the appropriate asset categories over the first four months of 2009.

The Company s investment strategy focuses on total return on invested assets (capital appreciation plus dividend and interest income). The primary objective in the investment management of assets is to achieve long-term growth of principal while avoiding excessive risk. Risk is managed through diversification of investments within and among asset classes, as well as by choosing securities that have an established trading and underlying operating history.

The Company assumed that plan assets would generate a long-term rate of return of 8.0% in 2008 and 2007. The Company developed its expected long-term rate of return assumption by evaluating input from investment consultants comparing historical returns for various asset classes with its actual and targeted plan investments. The Company believes that its long-term asset allocation, on average, will approximate the targeted allocation.

The Company s pension plan funding strategy has historically been to contribute an amount equal to the greater of the minimum required contribution under ERISA or the amount necessary to fully fund the plan on an accumulated benefit obligation basis (ABO) at the end of the fiscal year. The Company elected to fund its 2008 pension contribution in accordance with the Pension Protection Act of 2006 (PPA) to be approximately fully funded on a PPA basis instead of the higher amount as determined by the ABO due to uncertainty in the economic and credit market environment in December 2008. The Company s contribution of $32,000,000 in December 2008 resulted in funding 91% of the pension plan s ABO at December 31, 2008.

The Company sponsors an unfunded defined benefit health care plan that provides limited postretirement medical benefits to employees who meet minimum age and service requirements, and to eligible dependents. The plan limits cost increases in the Company s contribution to 4% per year. The plan is contributory, with retiree contributions adjusted annually. The Company also has an unfunded defined benefit supplemental executive retirement plan (SERP) that was assumed in an acquisition in 1999. That plan ceased to accrue additional benefits effective January 1, 2000.

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Retirement Plans (Continued)

The following table presents the change in benefit obligation and plan assets for the Company s defined benefit plans and postretirement benefit plans (in thousands):

	Pension Benefits				Other Postretirement Benefits	
	Pension Plan		SERP		Postretirement Welfare Plan	
	2008	2007	2008	2007	2008	2007
Change in benefit obligation						
Benefit obligation at beginning of year	$ 122,684	$ 115,189	$ 1,215	$ 1,880	$ 7,558	$ 7,385
Effect of eliminating early measurement date	908		2		(10)	
Service cost	6,361	5,993			506	506
Interest cost	7,734	6,805	88	95	496	426
Actuarial loss (gain)	684	(2,608)	189	(642)	(2,835)	(350)
Gross benefits paid	(3,034)	(2,695)	(63)	(118)	(286)	(427)
Less: federal subsidy on benefits paid					19	18
Benefit obligation at end of year	$ 135,337	$ 122,684	$ 1,431	$ 1,215	$ 5,448	$ 7,558
Accumulated benefit obligation at end of year	$ 109,359	$ 100,255	$ 1,431	$ 1,215	$	$
Weighted-average assumption used to determine benefit obligation at end of year						
Discount rate	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%
Rate of compensation increase	4.0%	4.1%				
Health care cost trend rate						
Initial rate					8.0%	8.5%
Ultimate rate					5.0%	5.0%
Years to ultimate					2015	2015
Effect of one-percentage-point change in assumed health care cost trend rate on postretirement obligation						
Increase					251	258
Decrease					(224)	(230)

Change in plan assets						
Fair value of plan assets at beginning of year	$ 103,405	$ 97,376	$	$	$	$
Effect of eliminating early measurement date	434					
Actual return on plan assets	(33,083)	8,324				
Employer contribution	32,000	400	63	118	286	427
Gross benefits paid	(3,034)	(2,695)	(63)	(118)	(286)	(427)
Fair value of plan assets at end of year	$ 99,722	$ 103,405	$	$	$	$

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Retirement Plans (Continued)

The following table presents the funded status and amounts recognized in the Company s consolidated balance sheet for the Company s defined benefit plans and postretirement benefit plan at December 31, 2008 and 2007 (in thousands):

	Pension Benefits				Other Postretirement Benefits	
	Pension Plan		SERP		Postretirement Welfare Plan	
	2008	2007	2008	2007	2008	2007
Funded status at end of year						
Fair value of plan assets	$ 99,722	$ 103,405	$	$	$	$
Benefit obligations	135,337	122,684	1,431	1,215	5,448	7,558
Funded status	(35,615)	(19,279)	(1,431)	(1,215)	(5,448)	(7,558)
December 2007 contributions				5		93
Amount recognized at end of year	$ (35,615)	$ (19,279)	$ (1,431)	$ (1,210)	$ (5,448)	$ (7,465)
Amounts recognized in the consolidated balance sheets						
Current liability	$	$	$ (102)	$ (81)	$ (372)	$ (435)
Long-term liability	(35,615)	(19,279)	(1,329)	(1,129)	(5,076)	(7,030)
Amounts recognized in accumulated other comprehensive income						
Net actuarial loss (gain)	$ 72,175	$ 32,205	$ 181	$ (2)	$ (5,247)	$ (2,520)
Prior service cost (credit)	(215)	(312)			238	281
Accumulated other compensation income	$ 71,960	$ 31,893	$ 181	$ (2)	$ (5,009)	$ (2,239)

The projected benefit obligation and fair value of plan assets for pension plans with a projected benefit obligation in excess of plan assets at December 31, 2008 and 2007 were as follows (in thousands):

	Pension Benefits			
	Pension Plan		SERP	
	2008	2007	2008	2007

Projected benefit obligation in excess of plan assets				
Projected benefit obligation at end of year	$ 135,337	$ 122,684	$ 1,431	$ 1,215
Fair value of plan assets at end of year	99,722	103,405		

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with an accumulated benefit obligation in excess of plan assets at December 31, 2008 and 2007 were as follows (in thousands):

	Pension Benefits			
	Pension Plan		**SERP**	
	2008	**2007**	**2008**	**2007**
Accumulated benefit obligation in excess of plan assets				
Projected benefit obligation at end of year	$ 135,337	$	$ 1,431	$ 1,215
Accumulated benefit obligation at end of year	109,359		1,431	1,215
Fair value of plan assets at end of year	99,722			

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Retirement Plans (Continued)

The following tables presents the expected cash flows for the Company s defined benefit plans and postretirement benefit plan at December 31, 2008 and 2007 (in thousands):

	Pension Benefits				Other Postretirement Benefits	
	Pension Plan		SERP		Postretirement Welfare Plan	
	2008	2007	2008	2007	2008	2007
Expected employer contributions						
First year*	$ 10,919	$ 1,253	$ 102	$ 81	$ 372	$ 435

* Expected contributions reflect amounts expected to be contributed to funded plans and expected employer cash distributions for unfunded plans (in thousands). The expected contribution to fully fund the pension plan on an ABO basis would be $15,690,000 versus $10,919,000 to be approximately fully funded on a PPA basis.

	Pension Benefits				Other Postretirement Benefits	
	Pension Plan		SERP		Postretirement Welfare Plan	
	2008	2007	2008	2007	2008	2007
Expected benefit payments (gross)						
2009	$ 3,950	$ 3,777	$ 102	$ 81	$ 391	$ 435
2010	4,263	3,981	101	81	409	455
2011	4,605	4,308	100	80	390	471
2012	4,936	4,685	99	79	374	504
2013	5,327	5,031	96	77	382	494
Next five years	36,839	33,535	479	392	2,282	3,520

	Pension Benefits		Other Postretirement Benefits
	Pension Plan	SERP	Postretirement Welfare Plan

	2008	2007	2008	2007	2008	2007
Expected federal subsidy**						
2009	$	$	$	$	$ (19)	$ (19)
2010					(19)	(20)
2011					(20)	(20)
2012					(21)	(21)
2013					(21)	(21)
Next five years					(95)	(94)

** Expected federal subsidy reflects a federal subsidy given to employers that sponsor postretirement health care plans that provide prescription drug benefits.

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Retirement Plans (Continued)

The components of net periodic benefit cost for the Company s defined benefit plans for the years ended December 31, 2008, 2007 and 2006 were as follows (in thousands):

	Pension Benefits					
	Pension Plan			SERP		
	2008	2007	2006	2008	2007	2006
Components of net periodic benefit cost						
Service cost	$ 6,361	$ 5,993	$ 5,556	$	$	$
Interest cost	7,734	6,805	6,062	88	95	102
Expected return on plan assets	(8,165)	(7,693)	(7,353)			
Amortization:						
Actuarial loss	1,809	2,584	3,284	5	13	21
Prior service credit	(89)	(89)	(89)			
Net periodic benefit cost	$ 7,650	$ 7,600	$ 7,460	$ 93	$ 108	$ 123
Weighted average assumptions used to determine net periodic benefit cost						
Discount rate	6.10%	5.70%	5.50%	6.10%	5.70%	5.50%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.25%			
Rate of compensation increase	4.10%	4.00%	4.00%			

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2009 are as follows (in thousands):

	Pension Benefits	
	Pension Plan	SERP
Actuarial loss	$ 5,675	$ 2
Prior service credit	(89)	
	$ 5,586	$ 2

Table of Contents

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Retirement Plans (Continued)

The components of net periodic benefit cost for the Company s postretirement benefit plan for the years ended December 31, 2008, 2007 and 2006 were as follows (in thousands):

	Other Postretirement Benefits Postretirement Welfare Plan		
	2008	2007	2006
Components of net periodic benefit cost			
Service cost	$ 506	$ 506	$ 416
Interest cost	496	426	404
Amortization:			
Actuarial gain	(98)	(116)	(105)
Prior service cost	40	40	40
Net periodic benefit cost	$ 944	$ 856	$ 755
Weighted average assumptions used to determine net periodic benefit cost			
Discount rate	6.10%	5.70%	5.50%
Health care cost trend rate			
Initial rate	8.50%	9.00%	10.00%
Ultimate rate	5.00%	5.00%	5.00%
Years to ultimate	2015	2011	2011
Effect of one-percentage-point change in assumed health care cost trend rate on aggregate service and interest cost			
Increase	$ 14	$ 13	$ 15
Decrease	(13)	(12)	(13)

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2009 are as follows (in thousands):

	Other Postretirement Benefits Postretirement Welfare Plan
Actuarial gain	$ (301)
Prior service cost	40
	$ (261)

In addition to the defined benefit plan and postretirement medical benefit plan, the Company sponsors defined contribution plans for all shore-based employees and certain vessel personnel. Maximum contributions to these plans equal the lesser of 15% of the aggregate compensation paid to all participating employees or up to 20% of each subsidiary s earnings before federal income tax after certain adjustments for each fiscal year. The aggregate contributions to the plans were $16,160,000, $13,795,000 and $9,781,000 in 2008, 2007 and 2006, respectively.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Earnings Per Share of Common Stock

The following table presents the components of basic and diluted earnings per share for the years ended December 31, 2008, 2007 and 2006 (in thousands, except per share amounts):

	2008	2007	2006
Net earnings	$ 157,168	$ 123,341	$ 95,451
Shares outstanding:			
Weighted average common stock outstanding	53,397	52,978	52,476
Effect of dilutive securities:			
Employee and director common stock plans	623	786	828
	54,020	53,764	53,304
Basic earnings per share of common stock	$ 2.94	$ 2.33	$ 1.82
Diluted earnings per share of common stock	$ 2.91	$ 2.29	$ 1.79

Certain outstanding options to purchase approximately 402,000 and 2,000 shares of common stock were excluded in the computation of diluted earnings per share as of December 31, 2008 and 2006, respectively, as such stock options would have been antidilutive. No shares were excluded in the computation of diluted earnings per share as of December 31, 2007.

(10) Quarterly Results (Unaudited)

The unaudited quarterly results for the year ended December 31, 2008 were as follows (in thousands, except per share amounts):

	Three Months Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
Revenues	$ 330,570	$ 348,260	$ 354,647	$ 326,677
Costs and expenses	267,078	279,550	282,881	260,291
Gain (loss) on disposition of assets	(58)	500	(166)	(134)
Operating income	63,434	69,210	71,600	66,252
Other expense	(96)	(12)	(164)	(243)
Minority interests	(161)	(317)	(351)	(476)

Interest expense	(3,782)	(3,508)	(3,375)	(3,399)
Earnings before taxes on income	59,395	65,373	67,710	62,134
Provision for taxes on income	(22,748)	(25,039)	(25,932)	(23,725)
Net earnings	$ 36,647	$ 40,334	$ 41,778	$ 38,409
Net earnings per share of common stock:				
Basic	$ .69	$ .75	$ .78	$ .72
Diluted	$ .68	$ .74	$ .77	$ .72

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Quarterly Results (Unaudited) (Continued)

The unaudited quarterly results for the year ended December 31, 2007 were as follows (in thousands, except per share amounts):

	Three Months Ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
Revenues	$ 274,211	$ 288,008	$ 302,556	$ 307,850
Costs and expenses	228,826	233,611	241,295	247,722
Gain (loss) on disposition of assets	(499)	(62)	30	148
Operating income	44,886	54,335	61,291	60,276
Other income (expense)	(29)	218	(75)	(69)
Minority interests	(121)	(273)	(177)	(146)
Interest expense	(5,154)	(5,436)	(5,236)	(4,458)
Earnings before taxes on income	39,582	48,844	55,803	55,603
Provision for taxes on income	(15,160)	(18,707)	(21,373)	(21,251)
Net earnings	$ 24,422	$ 30,137	$ 34,430	$ 34,352
Net earnings per share of common stock:				
Basic	$ .46	$ .57	$ .65	$ .65
Diluted	$ .46	$ .56	$ .64	$ .64

Quarterly basic and diluted earnings per share of common stock may not total to the full year per share amounts, as the weighted average number of shares outstanding for each quarter fluctuates as a result of the assumed exercise of stock options.

(11) Contingencies and Commitments

In 2000, the Company and a group of approximately 45 other companies were notified that they are Potentially Responsible Parties (PRPs) under the Comprehensive Environmental Response, Compensation and Liability Act 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 United States Environmental Protection Agency (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 participated in a preliminary meeting with the EPA and the United States Department of Justice to discuss the nature of the 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.

Certain Significant Risks and Uncertainties. The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Contingencies and Commitments (Continued)

that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. However, in the opinion of management, the amounts would be immaterial.

The customer base of the marine transportation segment includes the major industrial petrochemical and chemical manufacturers, agricultural chemical manufacturers and refining companies operating in the United States. Approximately 80% of marine transportation revenues are from movements of such products under term contracts, ranging from one year to five years, with renewal options. While the manufacturing and refining companies have generally been customers of the Company for numerous years (some as long as 40 years) and management anticipates a continuing relationship, there is no assurance that any individual contract will be renewed. SeaRiver Maritime, Inc., the United States transportation affiliate of Exxon Mobil Corporation, accounted for 10% of the Company s revenues in 2008 and 2007 and 12% in 2006. Dow accounted for 10% of the Company s revenues in 2007 and 11% in 2006.

Major customers of the diesel engine services segment include the inland and offshore barge operators, oil service companies, offshore fishing companies, other marine transportation entities, the United States Coast Guard (USCG) and United States Navy, shortline railroads, industrial owners of locomotives, transit railroads and Class II railroads, and power generation, nuclear and industrial companies. The segment operates as an authorized distributor in 17 eastern states and the Caribbean, and as non-exclusive authorized service centers for Electro-Motive Diesel, Inc. (EMD) throughout the rest of the United States for marine and power generation applications. The railroad portion of the segment serves as the exclusive distributorship of EMD aftermarket parts sales and services to the shortline and industrial railroad market. The segment also serves as the exclusive distributor of EMD parts to the nuclear industry. The diesel engine services segment s relationship with EMD has been maintained for 43 years. The segment also operates factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere high-speed diesel engines and Allison transmissions and gears in the Gulf Coast region, as well as an authorized marine dealer for Caterpillar in Alabama, Kentucky and Louisiana. The results of the diesel engine services segment are largely tied to the industries it serves and, therefore, can be influenced by the cycles of such industries. No single customer of the diesel engine services segment accounted for more than 10% of the Company s revenues in 2008, 2007 and 2006.

Weather can be a major factor in the day-to-day operations of the marine transportation segment. Adverse weather conditions, such as high water, low water, tropical storms, hurricanes, fog and ice, can impair the operating efficiencies of the marine fleet. Shipments of products can be significantly delayed or postponed by weather conditions, which are totally beyond the control of the Company. Adverse water conditions are also factors which impair the efficiency of the fleet and can result in delays, diversions and limitations on night passages, and dictate horsepower requirements and size of tows. Additionally, much of the inland waterway system is controlled by a series of 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. Maintenance and operation of the navigable inland waterway infrastructure is a government function handled by the Army Corps of Engineers with costs shared by industry. Significant changes in governmental policies or appropriations with respect to maintenance and operation of the infrastructure could adversely affect the Company.

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 Company believes that

additional safety, environmental and occupational health regulations may be imposed on the marine industry. There can be no assurance that any such new regulations or requirements, or any discharge of pollutants by the Company, will not have an adverse effect on the Company.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) Contingencies and Commitments (Continued)

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 Jones Act cabotage provisions occasionally come under attack by interests seeking to facilitate foreign flag competition in trades reserved for domestic companies and vessels under the Jones Act. The efforts have been consistently defeated by large margins in the United States Congress. The Company believes that continued efforts will be made to modify or eliminate the cabotage provisions of the Jones Act. If such efforts are successful, certain elements could have an adverse effect on the Company.

The Company has issued guaranties or obtained standby letters of credit and performance bonds supporting performance by the Company and its subsidiaries of contractual or contingent legal obligations of the Company and its subsidiaries incurred in the ordinary course of business. The aggregate notional value of these instruments is $9,203,000 at December 31, 2008, including $5,328,000 in letters of credit and debt guarantees, and $3,875,000 in performance bonds. All of these instruments have an expiration date within three years. The Company does not believe demand for payment under these instruments is likely and expects no material cash outlays to occur in connection with these instruments.

(12) Segment Data

The Company s operations are classified into two reportable business segments as follows:

Marine Transportation Marine transportation by United States flag vessels on the United States inland waterway system and, to a lesser extent, offshore transportation of dry-bulk cargoes. The principal products transported on the United States inland waterway system include petrochemicals, black oil products, refined petroleum products and agricultural chemicals.

Diesel Engine Services Overhaul and repair of medium-speed and high-speed diesel engines, reduction gear repair, and sale of related parts and accessories for customers in the marine, power generation and railroad industries.

The Company s two reportable business segments are managed separately based on fundamental differences in their operations. The Company s accounting policies for the business segments are the same as those described in Note 1, Summary of Significant Accounting Policies. The Company evaluates the performance of its segments based on the contributions to operating income of the respective segments, and before income taxes, interest, gains or losses on disposition of assets, other nonoperating income, minority interests, accounting changes, and nonrecurring items. Intersegment sales for 2008, 2007 and 2006 were not significant.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Segment Data (Continued)

The following table sets forth by reportable segment the revenues, profit or loss, total assets, depreciation and amortization, and capital expenditures attributable to the principal activities of the Company for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	2008	2007	2006
Revenues:			
Marine transportation	$ 1,095,475	$ 928,834	$ 807,216
Diesel engine services	264,679	243,791	177,002
	$ 1,360,154	$ 1,172,625	$ 984,218
Segment profit (loss):			
Marine transportation	$ 244,866	$ 196,112	$ 153,225
Diesel engine services	39,587	37,948	26,374
Other	(29,841)	(34,228)	(25,397)
	$ 254,612	$ 199,832	$ 154,202
Total assets:			
Marine transportation	$ 1,289,689	$ 1,199,869	$ 1,047,264
Diesel engine services	208,993	213,062	205,281
Other	27,416	17,544	18,574
	$ 1,526,098	$ 1,430,475	$ 1,271,119
Depreciation and amortization:			
Marine transportation	$ 84,537	$ 75,311	$ 60,309
Diesel engine services	4,830	4,133	2,479
Other	1,832	1,472	1,608
	$ 91,199	$ 80,916	$ 64,396
Capital expenditures:			
Marine transportation	$ 164,681	$ 159,301	$ 134,184
Diesel engine services	3,051	3,112	1,701
Other	5,287	1,670	3,244
	$ 173,019	$ 164,083	$ 139,129

The following table presents the details of Other segment profit (loss) for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	2008	2007	2006
General corporate expenses	$ (14,099)	$ (12,889)	$ (11,665)
Interest expense	(14,064)	(20,284)	(15,201)
Gain (loss) on disposition of assets	142	(383)	1,436
Minority interests	(1,305)	(717)	(558)
Other income (expense)	(515)	45	591
	$ (29,841)	$ (34,228)	$ (25,397)

84

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Segment Data (Continued)

The following table presents the details of Other total assets as of December 31, 2008, 2007 and 2006 (in thousands):

	2008	2007	2006
General corporate assets	$ 25,360	$ 15,623	$ 16,310
Investment in affiliates	2,056	1,921	2,264
	$ 27,416	$ 17,544	$ 18,574

(13) Related Party Transactions

During 2008, the Company and its subsidiaries paid L3 Partners, LLC (L3P), a company owned by C. Berdon Lawrence, the Chairman of the Board of the Company, $260,000 for air transportation services provided by L3P. Such services were in the ordinary course of business of the Company.

During 2008, the Company and its subsidiaries paid 55 Waugh, LP, a partnership 60% owned by Mr. Lawrence and his family, $1,432,000 for the rental of office space in a building owned by 55 Waugh, LP. The Company s headquarters are located in the building under a lease that was signed in 2005, prior to the purchase of the building by 55 Waugh, LP, and expires at the end of 2015.

The Company is a 50% member of The Hollywood Camp, L.L.C. (The Hollywood Camp), a company that owns and operates a hunting and fishing facility used by the Company and L3P, which is also a 50% member. The Company uses The Hollywood Camp primarily for customer entertainment. L3P acts as manager of The Hollywood Camp. The Hollywood Camp allocates lease and lodging expenses to the owners based on their usage of the facilities. During 2008, the Company paid $2,129,000 to The Hollywood Camp for its share of facility expenses.

Walter E. Johnson, a director of the Company until April 2008, is a 25% limited partner in a limited partnership that owns one barge operated by a subsidiary of the Company, which owns the other 75% interest in the partnership. The partnership was entered into on October 1, 1974. In 2008, Mr. Johnson received $45,000 in distributions from the partnership. The distributions were proportionate to his interest in the partnership and were made in the ordinary course of business of the partnership.

Mr. Johnson is Chairman of Amegy Bank, N.A. (Amegy Bank). Amegy Bank has a 6.0% participation in the Company s Revolving Credit Facility. In 2008, Amegy Bank was paid $170,000 in interest and fees related to its participation in the Revolving Credit Facility. Amegy Bank is one of eight lenders under the Revolving Credit Facility, which was consummated in the ordinary course of business of the Company.

The husband of Amy D. Husted, Vice President Legal of the Company, is a partner in the law firm of Strasburger & Price, LLP. In 2008, the Company paid the law firm $281,000 for legal services in connection with matters in the ordinary course of business of the Company.

Table of Contents

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

1. *Financial Statements*

Included in Part III of this report:

Report of Independent Registered Public Accounting Firm.

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets, December 31, 2008 and 2007.

Consolidated Statements of Earnings, for the years ended December 31, 2008, 2007 and 2006.

Consolidated Statements of Stockholders Equity and Comprehensive Income, for the years ended December 31, 2008, 2007 and 2006.

Consolidated Statements of Cash Flows, for the years ended December 31, 2008, 2007 and 2006.

Notes to Consolidated Financial Statements, for the years ended December 31, 2008, 2007 and 2006.

2. *Financial Statement Schedules*

All schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

3. *Exhibits*

Exhibit Number	Description of Exhibit
3.1	Restated Articles of Incorporation filed June 18, 1976, with all amendments to date (incorporated by reference to Exhibit 3.1 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006).
3.2	Bylaws of the Company, as amended (incorporated by reference to Exhibit 3.1 of the Registrant s Current Report on Form 8-K dated January 28, 2008).
4.1	Rights Agreement, dated as of July 18, 2000, between Kirby Corporation and Fleet National Bank, a national bank association, which includes the Form of Resolutions Establishing Designations, Preference and Rights of Series A Junior Participating Preferred Stock of Kirby Corporation, the form of Rights Certificate and the Summary of Rights (incorporated by reference to Exhibit 4.1 of the Registrant s Current Report on Form 8-K dated July 18, 2000).
4.2	Amendment to Rights Agreement dated as of April 30, 2002 (incorporated by reference to Exhibit 4.3 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2006).
4.3	Amendment No. 2 to Rights Agreement dated as of January 24, 2006 between Kirby Corporation and Computershare Trust Company, N.A. (incorporated by reference to Exhibit 4.1 of the Registration s

	Current Report on Form 8-K dated January 24, 2006).
4.4	Master Note Purchase Agreement dated as of February 15, 2003 among the Company and the Purchasers named therein (incorporated by reference to Exhibit 4.3 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2002).
4.5	First Supplement to Note Purchase Agreement dated as of May 31, 2005 among Kirby Corporation and the Purchasers named therein (incorporated by reference to Exhibit 4.2 of the Registrant s Current Report on Form 8-K dated May 31, 2005).
10.1	Indemnification Agreement, dated April 29, 1986, between the Company and each of its Directors and certain key employees (incorporated by reference to Exhibit 10.11 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 1986).
10.2	Deferred Compensation Agreement dated August 12, 1985 between Dixie Carriers, Inc., and J. H. Pyne (incorporated by reference to Exhibit 10.19 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 1992).

Exhibit Number	Description of Exhibit
10.3	1994 Nonemployee Director Stock Option Plan for Kirby Corporation (incorporated by reference to Exhibit 10.22 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 1993).
10.4	Deferred Compensation Plan for Key Employees (incorporated by reference to Exhibit 10.7 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2005).
10.5	2002 Stock and Incentive Plan (incorporated by reference to Exhibit 10.13 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2006).
10.6	Annual Incentive Plan Guidelines for the 2008 Plan year (incorporated by reference to Exhibit 10.15 of the Registrant s Annual Report on Form 10-K for the year ended December 31, 2007).
10.7 *	Annual Incentive Plan Guidelines for the 2009 Plan year.
10.8	2000 Nonemployee Director Stock Option Plan (incorporated by reference to Exhibit 4.1 of the Registrant s Registration Statement on Form S-8 filed July 28, 2008 (Reg. No. 333-152565)).
10.9	2005 Stock and Incentive Plan (incorporated by reference to Exhibit 4.1 of the Registrant s Registration Statement on Form S-8 filed July 28, 2008 (Reg. No. 333-152566)).
10.10	Form of Nonincentive Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed with the Commission on April 29, 2005, File No. 001-07615).
10.11	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K filed with the Commission on April 29, 2005, File No. 001-07615).
10.12	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.4 to the Registrant s Current Report on Form 8-K filed with the Commission on April 29, 2005, File No. 001-07615).
10.13	Nonemployee Director Compensation Program (incorporated by reference to Exhibit 10.1 of the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).
10.14	Amended and Restated Credit Agreement, dated June 14, 2006 among Kirby Corporation, JPMorgan Chase Bank, N.A. as Fund Administrator, Issuer and Administration Agent, and the banks named therein (incorporated by reference to Exhibit 10.1 of Registrant s Current Report on Form 8-K dated June 14, 2006).
21.1*	Principal Subsidiaries of the Registrant.
23.1*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
32*	Certification Pursuant to 13 U.S.C. Section 1350 (As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

* Filed herewith

Management contract, compensatory plan or arrangement.

Table of Contents

SIGNATURES

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

Kirby Corporation
(Registrant)

By: /s/ Norman W. Nolen
Norman W. Nolen
Executive Vice President,
Chief Financial Officer and Treasurer

Dated: February 27, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ C. Berdon Lawrence C. Berdon Lawrence	Chairman of the Board and Director	February 27, 2009
/s/ Joseph H. Pyne Joseph H. Pyne	President, Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2009
/s/ Norman W. Nolen Norman W. Nolen	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	February 27, 2009
/s/ Ronald A. Dragg Ronald A. Dragg	Vice President and Controller (Principal Accounting Officer)	February 27, 2009
/s/ James R. Clark James R. Clark	Director	February 27, 2009
/s/ C. Sean Day C. Sean Day	Director	February 27, 2009
/s/ Bob G. Gower	Director	February 27, 2009

Bob G. Gower		
/s/ William M. Lamont, Jr.	Director	February 27, 2009
William M. Lamont, Jr.		
/s/ David L. Lemmon	Director	February 27, 2009
David L. Lemmon		
/s/ Monte J. Miller	Director	February 27, 2009
Monte J. Miller		
/s/ George A. Peterkin, Jr.	Director	February 27, 2009
George A. Peterkin, Jr.		
/s/ Richard R. Stewart	Director	February 27, 2009
Richard R. Stewart		

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.7 *	Annual Incentive Plan Guidelines for 2009 Plan year.
21.1*	Principal Subsidiaries of the Registrant.
23.1*	Independent Registered Public Accountants Consent.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
32*	Certification Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

Management contract, compensatory plan or arrangement.