KIRBY CORP
Form 10-K
February 25, 2011

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, 2010

or

¨ **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	***(I.R.S. Employer***
incorporation or organization)	***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 ¨

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 ¨ 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 ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. ¨

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 ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of common stock held by nonaffiliates of the registrant as of June 30, 2010, based on the closing sales price of such stock on the New York Stock Exchange on June 30, 2010 was $1,975,529,000. 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 23, 2011, 53,668,000 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 26, 2011, to be filed with the Commission pursuant to Regulation 14A, is incorporated by reference into Part III of this report.

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KIRBY CORPORATION

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PART I

Item 1. ***Business***

THE COMPANY

Kirby Corporation (the Company) was incorporated in Nevada on January 31, 1969 as a subsidiary of Kirby Industries, Inc. (Industries). The Company became publicly owned on September 30, 1976 when its common stock was distributed pro rata to the stockholders of Industries in connection with the liquidation of Industries. At that time, the Company was engaged in oil and gas exploration and production, marine transportation and property and casualty insurance. Since then, through a series of acquisitions and divestitures, the Company has become a marine transportation and diesel engine services company. 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. Today, the Company operates inland tank barges and towing vessels, transporting petrochemicals, black oil products, refined petroleum products and agricultural chemicals throughout the United States inland waterway system. The Company also owns and operates four ocean-going barge and tug units transporting dry-bulk commodities in United States coastwise trade. Through the diesel engine services segment, the Company provides after-market service for medium-speed and high-speed diesel engines and reduction gears used in marine, power generation and railroad applications.

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

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

Documents and Information Available on Web Site

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

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

- Audit Committee Charter
- Compensation Committee Charter
- Governance Committee Charter
- Business Ethics Guidelines
- Corporate Governance Guidelines

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

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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.

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

The Company and its marine transportation and diesel engine services segments have approximately 2,615 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):

	2010	2009	2008
Revenues from unaffiliated customers:			
Marine transportation	$ 915,046	$ 881,298	$ 1,095,475
Diesel engine services	194,511	200,860	264,679
Consolidated revenues	$ 1,109,557	$ 1,082,158	$ 1,360,154
Operating profits:			
Marine transportation	$ 192,758	$ 208,086	$ 244,866
Diesel engine services	20,553	21,005	39,587
General corporate expenses	(13,189)	(12,239)	(14,099)
Impairment of goodwill		(1,901)	
Gain (loss) on disposition of assets	(78)	1,079	142
	200,044	216,030	270,496
Equity in earnings of affiliates	283	874	134
Other income (expense)	273	(266)	(649)
Interest expense	(10,960)	(11,080)	(14,064)
Earnings before taxes on income	$ 189,640	$ 205,558	$ 255,917
Identifiable assets:			
Marine transportation	$ 1,383,252	$ 1,336,358	$ 1,289,689
Diesel engine services	185,824	185,573	208,993
	1,569,076	1,521,931	1,498,682
Investment in affiliates	3,336	3,052	2,056
General corporate assets	222,525	110,980	25,360
Consolidated assets	$ 1,794,937	$ 1,635,963	$ 1,526,098

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MARINE TRANSPORTATION

The marine transportation segment is primarily a provider of transportation services by barge for the inland and offshore markets. As of February 23, 2011, the equipment owned or operated by the marine transportation segment consisted of 825 active inland tank barges, 222 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	364	21.1	4,210,000
Over 20,000 barrels	380	16.3	10,543,000
Specialty double hull	81	35.2	1,187,000
Total active inland tank barges	825	20.3	15,940,000
Inactive	34	34.8	360,000
Inland towboats:			
Active (owned and chartered):			
Less than 800 horsepower	1	42.0	
800 to 1300 horsepower	96	33.1	
1400 to 1900 horsepower	78	28.5	
2000 to 2400 horsepower	21	19.9	
2500 to 3200 horsepower	14	37.0	
3300 to 4900 horsepower	9	34.0	
Greater than 5000 horsepower	2	38.0	
Spot charters (chartered trip to trip)	1		
Total active inland towboats	222	30.6	
Inactive	7	34.9	
			Deadweight Tonnage
Offshore dry-cargo barges	4	30.9	70,000
Offshore tugboats and shifting tugboat	5	33.7	

The 222 active inland towboats, four offshore tugboats and one offshore shifting tugboat provide the power source and the 825 active inland tank barges and four offshore dry-cargo barges provide the freight capacity. When the power source and freight capacity are combined, the unit is called a tow. The Company s inland tows generally consist of one towboat and from one to 25 tank barges, depending upon the horsepower of the towboat, the river or canal capacity and conditions, and customer requirements. The Company s offshore tows consist of one tugboat and one dry-cargo barge.

Marine Transportation Industry Fundamentals

The United States inland waterway system, composed of a network of interconnected rivers and canals that serve the nation as water highways, is one of the world s most efficient transportation systems. The nation s waterways are vital to the United States distribution system, with over 1.1 billion short tons of cargo moved annually on United States shallow draft waterways. The inland waterway system extends approximately

26,000 miles, 12,000 miles of which are generally considered significant for domestic commerce, through

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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 2 3/4 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 15.9 million barrels equates to approximately 26,600 railroad tank cars or approximately 83,200 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 Port St. Joe, Florida, the Mississippi River System and the Houston Ship Channel. The Mississippi River System includes the Arkansas, Illinois, Missouri, Ohio, Red, Tennessee, Yazoo, Ouachita and Black Warrior Rivers and the Tennessee-Tombigbee Waterway.

The number of tank barges that operate on the inland waterways of the United States declined from an estimated 4,200 in 1982 to 2,900 in 1993, remained relatively constant at 2,900 until 2002, decreased to 2,750 from 2002 through 2006 and increased to 3,050 by the end of 2008 and 3,150 by the end of 2009, and is estimated at 3,100 at the end of 2010. The Company believes the decrease from 4,200 in 1982 to 2,750 in 2006 primarily resulted from: the increasing age of the domestic tank barge fleet, resulting in scrapping; rates inadequate to justify new construction; a reduction in tax incentives, which previously encouraged speculative construction of new equipment; stringent operating standards to adequately cope with safety and environmental risk; the elimination of government regulations and programs supporting the many new small refineries and a proliferation of oil traders which created a strong demand for tank barge services; an increase in the average capacity per barge; and an increase in environmental regulations that mandate expensive equipment modification, which some owners were unwilling or unable to undertake given capital constraints and the age of their fleets. The cost of tank barge hull work for required periodic United States Coast Guard (USCG) certifications, as well as general safety and environmental concerns, force operators to periodically reassess their ability to recover

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maintenance costs. The increase from 2,750 in 2006 to an estimated 3,100 by the end of 2010 primarily resulted from increased barge construction and deferred retirements due to strong demand and resulting capacity shortages through the 2008 third quarter.

From 2003 through 2006, the Company believes that new tank barge construction approximated retirements. During 2007 and 2008, sustained favorable market conditions stimulated additional new capacity. During the first 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 and 2010 deliveries. During 2010, the Company estimated that approximately 115 new tank barges were delivered and placed in service and an estimated 165 tank barges were retired; however, the current reduction of petrochemical and refining production compared with peak levels in 2008 has resulted in excess barge capacity, lower utilization and the acceleration of the retirement of older barges. While weaker market conditions may constrain industry wide new barge orders for 2011 and the retirement of older barges may be further accelerated, the cost of constructing new tank barges has decreased significantly. The reduced construction price of new tank barges, along with the two-year extension of bonus tax depreciation on qualified property, may accelerate the building of new tank barges. The risk of a continued oversupply of barges may be mitigated by the fact that the tank barge industry has a mature fleet, with approximately 850 tank barges over 30 years old and approximately 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 20 years, with 28% of the fleet built in the last 10 years. Single hull barges comprise approximately 3% of the nation s tank barge fleet, with an average age of 37 years. Single hull barges are being driven from the nation s tank barge fleet by market forces, stringent environmental regulations and rising maintenance costs. Single hull tank barges are required by current federal law to be retrofitted with double hulls or phased out of domestic service by 2015. Due to a market bias against single hull tank barges, the Company retired its nine remaining single hull tank barges in 2009. Market bias and current weak market conditions may also result in reduced lives for single hull tank barges industry wide.

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

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

Competition in the Inland Tank Barge Industry

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

The Company s direct competitors are primarily noncaptive inland tank barge operators. Captive fleets are owned by major oil and/or petrochemical companies which occasionally compete in the inland tank barge market, but primarily transport cargoes for their own account. The Company is the largest inland tank barge carrier, both in terms of number of barges and total fleet barrel capacity. The Company s inland tank barge fleet has grown from 71 tank barges in 1988 to 825 active tank barges as of February 25, 2011. It currently operates approximately 27% of the estimated 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 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 February 24, 2011, the Company purchased 21 inland and offshore tank barges and 15 inland towboats and offshore tugboats from Enterprise Marine Services LLC (Enterprise) for approximately $53,200,000 in cash. Enterprise provided transportation and delivery services for ship bunkers (engine fuel) to cruise ships, container ships and freighters primarily in the Miami, Port Everglades and Cape Canaveral, Florida area, the three largest cruise ship ports in the United States, as well as Tampa, Florida, Mobile, Alabama and Houston, Texas.

On February 9, 2011, the Company purchased from Kinder Morgan Petcoke, L.P. (Kinder Morgan) for $4,050,000 in cash a 51% interest in Kinder Morgan s shifting operation and fleeting facility for dry cargo barges and tank barges on the Houston Ship Channel. Kinder Morgan retained the remaining 49% interest and the Company will manage the operation. In addition, the Company purchased a towboat from Kinder Morgan for $1,250,000 in cash.

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.

Products Transported

During 2010, 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 consisted of 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 69% of the segment s 2010 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 (engine fuel). Such products represented 18% of the segment s 2010 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, gasoline blendstocks, jet fuel, No. 2 oil, naphtha, heating oil and diesel fuel, and represented 8% of the segment s 2010 revenues. Customers are oil and refining companies and marketers.

Agricultural Chemicals. Agricultural chemicals transported represented 5% of the segment s 2010 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.

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Demand Drivers in the Inland Tank Barge Industry

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

Bulk petrochemical volumes generally track the general domestic economy and correlate to the United States Gross Domestic Product. Volumes also track the production volumes of United States petrochemical plants whose products may also be exported. These products are used primarily in consumer durable and non-durable goods. The other component of petrochemical production consists of gasoline blending components, the demand for which closely parallels United States gasoline consumption.

The demand for black oil products, including ship bunkers, varies with the type of product transported. Demand for transportation of residual oil, a heavy by-product of refining operations, varies with refinery utilization and feedstocks used. 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 can 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 domestic and imported agricultural fertilizer is directly related to domestic nitrogen-based liquid fertilizer consumption, driven by the production of corn, cotton and wheat. During periods of high natural gas prices, the manufacturing of nitrogen-based liquid fertilizer in the United States is curtailed significantly. 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 825 active inland tank barges and 222 active inland towboats. The segment also owns and operates four offshore dry-cargo barges, four offshore tugboats and one offshore shifting tugboat, and a small bulk liquid terminal.

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

The Canal fleet transports petrochemical feedstocks, processed chemicals, pressurized products, black oil products and refined petroleum products along the Gulf Intracoastal Waterway, the Mississippi River below Baton Rouge, Louisiana, and the Houston Ship Channel. Petrochemical feedstocks and certain pressurized products are transported from one plant to another plant 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.

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Refined petroleum products are transported to waterfront terminals along the Gulf Intracoastal Waterway for distribution.

The Linehaul fleet transports petrochemical feedstocks, 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, 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, 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 825 active inland tank barges currently operated, 635 are petrochemical and refined products barges, 112 are black oil barges, 62 are pressure barges, 11 are refrigerated anhydrous ammonia barges and 5 are specialty barges. Of the 825 active inland tank barges, 782 are owned by the Company and 43 are leased.

The fleet of 222 active inland towboats ranges from 600 to 5,600 horsepower. Of the 222 active inland towboats, 168 are owned by the Company and 54 are chartered. Towboats in the 600 to 1900 horsepower classes provide power for barges used by the Canal and Linehaul fleets on the Gulf Intracoastal Waterway and the Houston Ship Channel. Towboats in the 1400 to 6000 horsepower classes provide power for both the River and Linehaul fleets on the Gulf Intracoastal Waterway and the Mississippi River System. Towboats above 3600 horsepower are typically used on the Mississippi River System to move River fleet unit tows and provide Linehaul fleet towing. Based on the capabilities of the individual towboats used in the Mississippi River System, the tows range in size from 10,000 to 30,000 tons.

Marine transportation services are conducted under long-term contracts, ranging from one to five years with renewal options, with customers with whom the Company has traditionally had long-standing relationships, as well as under spot contracts. During the 2009 fourth quarter and the 2010 year, approximately 75% of marine transportation revenues were from term contracts and 25% from spot contracts. During the first nine months of 2009 and the 2008 year, approximately 80% of marine transportation revenues were derived from term contracts and 20% from spot contracts. This decrease in term contract revenue mix was due to certain customers switching to spot contracts when their term contracts expired.

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

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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 a 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 2010, approximately 120 KLM tankermen conducted more than 22,000 barge transfers and provided approximately 60 operators for in-plant services for petrochemical companies, refineries and terminal operators.

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

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

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

Contracts and Customers

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

A term contract is an agreement with a specific customer to transport cargo from a designated origin to a designated destination at a set rate (affreightment) or at a daily rate (time charter). The rate may or may not escalate during the term of the contract; however, the base rate generally remains constant and contracts often include escalation provisions to recover changes in specific costs such as fuel. Time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented approximately 52% of revenue under term contracts during 2010 and 56% of the revenue under term contracts during 2009 and 2008. A spot contract is an agreement with a customer to move cargo from a specific origin to a designated destination for a rate negotiated at the time the cargo movement takes place. Spot contract rates are at the current market rate and are subject to market volatility. The Company typically maintains a higher mix of term contracts to spot contracts to provide the Company with a predictable revenue stream while maintaining spot market exposure to take advantage of new business opportunities and existing customers peak demands. During the 2009 fourth quarter and the 2010 year, approximately 75% of marine transportation revenues were from term contracts and 25% from spot contracts. During the first nine months of 2009 and the 2008 year, approximately 80% of marine transportation revenues were derived from term contracts and 20% from spot contracts. This decrease in term contract revenue mix was due to certain customers switching to spot contracts when their term contracts expired.

The Dow Chemical Company (Dow), with which the Company has a contract through 2016, including renewal options, accounted for 12% of the Company s revenues in 2010, 11% in 2009 and 9% in 2008. 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 11% of the Company s revenues in 2010 and 10% in 2009 and 2008.

Employees

The Company s marine transportation segment has approximately 2,010 employees, of which approximately 1,380 are vessel crew members. None of the segment s operations are subject to collective bargaining agreements.

Properties

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

Governmental Regulations

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

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

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

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

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

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

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

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

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

Environmental Regulations

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

Water Pollution Regulations. The Federal Water Pollution Control Act of 1972, as amended by the Clean Water Act of 1977, the Comprehensive Environmental Response, Compensation and Liability Act of 1981 (CERCLA) and the Oil Pollution Act of 1990 (OPA) impose strict prohibitions against the discharge of oil and its derivatives or hazardous substances into the navigable waters of the United States. These acts impose civil and criminal penalties for any prohibited discharges and impose substantial strict liability for cleanup of these discharges and any associated damages. Certain states also have water pollution laws that prohibit discharges into waters that traverse the state or adjoin the state, and impose civil and criminal penalties and liabilities similar in nature to those imposed under federal laws.

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

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

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

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

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

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

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

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.

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 has developed and instituted 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 wheelhouse simulator, a working towboat, three tank barges and a tank barge simulator for tankermen training. During 2010, approximately 1,750 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 2010, 2009 or 2008. The diesel engine services segment also provides service to the Company s marine transportation segment, which accounted for approximately 5% of the diesel engine services segment s 2010 and 2009 revenues and 3% for 2008. 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, 2010 (dollars in thousands):

	2010		2009		2008	
	Amounts	**%**	**Amounts**	**%**	**Amounts**	**%**
Overhaul and repairs	$ 123,009	63%	$ 122,847	61%	$ 167,196	63%
Direct parts sales	71,502	37	78,013	39	97,483	37
	$ 194,511	100%	$ 200,860	100%	$ 264,679	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.

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, which represented 65% of the segment s 2010 revenues. 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). In August 2010, EMD was purchased by a wholly owned subsidiary of Caterpillar. 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 reduction gears and Oil States Industries, Inc. clutches. The Chesapeake, Virginia operation concentrates on East Coast inland and offshore dry-bulk, tank barge and harbor docking operators, the USCG and United States Navy (Navy). The Houma, Louisiana operation concentrates on the inland and offshore barge and oil services industries. The Tampa, Florida operation concentrates on Gulf of Mexico offshore dry-bulk, tank barge and harbor docking operators. The Paducah, Kentucky operation concentrates on the inland river towboat and barge operators and the

Great Lakes carriers. The Seattle, Washington operation concentrates on the offshore commercial fishing industry, tugboat and barge industry, the USCG and Navy, and other customers in Alaska, Hawaii and the Pacific Rim.

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

Marine Customers

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

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

Marine Competitive Conditions

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

Many of the parts sold by the Company are generally available from other service providers, but the Company is one of a limited number of authorized resellers of EMD, Caterpillar, Cummins, Detroit Diesel and John Deere parts. The Company is also the only marine distributor for Falk reduction gears 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, which represented 27% of the segment s 2010 revenues. 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 products to the nuclear industry, the exclusive worldwide distributor of Cooper Energy Services, Inc. products to the nuclear industry, and owns the assets and technology necessary to support the Nordberg medium-speed diesel engines used in nuclear applications. In addition, the Rocky Mount operation is a non-exclusive distributor for Honeywell International Incorporated industrial measurement and control products to the nuclear industry, an exclusive distributor for Norlake Manufacturing Company transformer products to the nuclear industry and a non-exclusive distributor of analog Weschler Instruments metering products and an exclusive distributor of digital Weschler metering products to the nuclear industry. The Paducah, Kentucky operation provides in-house and in-field repair services for Falk industrial reduction gears in the Midwest. The Seattle, Washington operation provides in-house and in-field repair services for Alco engines located on the West Coast and the Pacific Rim.

Power Generation Customers

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

Power Generation Competitive Conditions

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

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

Railroad Operations

The Company is engaged in the overhaul and repair of locomotive diesel engines and the sale of replacement parts for locomotives serving shortline, industrial, Class II and certain transit railroads within the continental United States, which represented 8% of the segment s 2010 revenues. 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 88 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.

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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 510 employees.

Properties

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

Executive Officers of the Registrant

The executive officers of the Company are as follows:

Name	Age	Positions and Offices
Joseph H. Pyne	63	Chairman of the Board, President and Chief Executive Officer
David W. Grzebinski	49	Executive Vice President and Chief Financial Officer
Gregory R. Binion	46	President Kirby Inland Marine
Dorman L. Strahan	54	President Kirby Engine Systems
Ronald A. Dragg	47	Vice President and Controller
G. Stephen Holcomb	65	Vice President Investor Relations and Assistant Secretary
Amy D. Husted	42	Vice President Legal
David R. Mosley	46	Vice President and Chief Information Officer
Joseph H. Reniers	36	Vice President Human Resources
Renato A. Castro	39	Treasurer

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

Joseph H. Pyne holds a degree in liberal arts from the University of North Carolina and has served the Company as Chairman of the Board, President and Chief Executive Officer since April 2010. He served the Company as President and Chief Executive Officer from 1995 to April 2010, Executive Vice President from 1992 to April 1995 and as President of Kirby Inland Marine from 1984 to November 1999. He has served the Company as a Director since 1988. 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.

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

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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.

Joseph H. Reniers holds a degree in mechanical engineering from the United States Naval Academy and an M.B.A. from the University of Chicago Booth School of Business. He has served as Vice President Human Resources since March 2010. Prior to joining the Company, he was a management consultant with McKinsey & Company serving a wide variety of industrial clients. Prior to joining McKinsey, he served as a nuclear power officer in the Navy.

Renato A. Castro is a Certified Public Accountant and holds an M.B.A. degree from Tulane University and a degree in civil engineering from the National Autonomous University of Honduras. He has served the Company as Treasurer since April 2010 and served as Manager of Financial Analysis from 2007 to April 2010. He also served as Financial Analyst from 2005 through 2006 and Assistant Controller of Kirby Inland Marine from 2001 through 2004. Prior to joining the Company, he was employed by a subsidiary of Astaldi S.p.A. in their transport infrastructure division.

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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 revenues. Failure of the federal government to adequately fund infrastructure maintenance and improvements in the future would have a negative impact on the Company s ability to deliver products for its customers on a timely basis. In addition, any additional user taxes that may be imposed in the future to fund infrastructure improvements would increase the Company s operating expenses.

The Company is subject to adverse weather conditions in its marine transportation segment. 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 2010 and 2009, the Company experienced more favorable weather conditions and water levels than in 2008, when the Company experienced high water conditions throughout the Mississippi River System during the majority of the second quarter and Hurricanes Gustav and Ike negatively impacted the 2008 third quarter by an estimated $.09 per share. The Company s operations for 2010 and 2009 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 marine carriers.

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

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

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Company s marine transportation segment will depend on its ability to adequately crew its towboats. With the rising unemployment rates during 2008 and 2009 and continued high unemployment rate during 2010 associated with the economic recession, crewing levels have remained adequate.

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 27 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 $915.1 million in 2010. Diesel engine services revenue in 1987 was $7.1 million compared with $194.5 million in 2010. While the Company is of the opinion that future acquisition opportunities exist in both its marine transportation and diesel engine services segments, the Company may not be able to continue to grow through acquisitions to the extent that it has in the past.

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

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

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

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

The Company s marine transportation segment is subject to volatility in the United States production of petrochemicals. For 2010, 69% of the marine transportation segment s revenues were from the movement of petrochemicals, including the movement of raw materials and feedstocks from one refinery and petrochemical plant to another, as well as the movement of more finished products to end users and Gulf Coast terminals for exportation. During 2010, petrochemical volumes improved compared with the 2009 year primarily due to lower priced domestic natural gas that improved the competitiveness of the United States petrochemical industry in global markets, thereby producing increased marine transportation volumes for basic petrochemicals to both domestic consumers and terminals for export destinations. This improvement in volumes was partially offset by the generally weak United States economy. A weak United States and global economy during 2009 and 2008 resulted in lower worldwide consumer spending, as well as lower exports of petrochemicals which reduced the volumes of petrochemicals transported by the Company.

The Company s marine transportation segment could be adversely impacted by the construction of inland tank barges by its competitors. At the present time, there are an estimated 3,100 inland tank barges in the United States, of which the Company operates 825, or 27%. The number of tank barges peaked at an estimated 4,200 in 1982, slowly declined to 2,750 by 2003, and with the favorable market conditions through the first nine months of 2008 gradually increased to 3,150 by late 2009 and currently stands at an estimated 3,100. Strong tank barge transportation markets in 2006, 2007 and through the first nine months of 2008 absorbed the additional capacity built by the industry. During 2007 and the first nine months of 2008, prior to the deterioration of the marine transportation markets in the 2008 fourth quarter, the Company and many competitors signed tank barge construction contracts with shipyards for 2009 deliveries. The Company believes that 192 tank barges were delivered and placed in service during 2009, of which 50, including seven new chartered barges were for the Company, and an estimated 140 tank barges were retired, 101 of which were the Company s. During 2010, with a significant reduction in the price for new tank barges due to a reduction in the price of steel and a reduction in the number of tank barges ordered, the Company believes that approximately 115 new tank barges were delivered and placed in service, of which 57 were for the Company, and an estimated 165 tank barges were retired, 89 of which were the Company s.

The Company believes that the large increase in new tank barge construction between 2006 and 2009, coupled with the decrease in demand in 2009 and 2010 caused by the economic downturn, has resulted in an oversupply of tank barge capacity in the industry. However, of the estimated 3,100 tank barges in the industry at the present time, approximately 500 are over 35 years old and approximately 250 of those over 40 years old. With the high cost of maintaining the USCG certification requirements for older tank barges and the current low term contract and spot contract rate environment limiting recovery of maintenance costs for older barges, the Company expects older barges will continue to be removed from service and industry supply and demand will continue to slowly move closer to balance.

Higher fuel prices could increase operating expenses. The cost of fuel during 2010 was approximately 11% of marine transportation revenue, as the Company consumed 43.3 million gallons of diesel fuel at an average price of $2.22 per gallon. This compares with 2009 when the cost of fuel was approximately 9% of marine transportation revenue, and the Company consumed 41.8 million gallons of diesel fuel at an average price of $1.72 per gallon. All marine transportation term contracts contain fuel escalation clauses. However, there is generally a 30 to 90 day delay before contracts are adjusted depending on the specific contract. In general, the fuel escalation clauses are effective over the long-term in allowing the Company to adjust to 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, Dow and SeaRiver, accounted for approximately 23% of the Company s 2010 revenue, 21% of 2009 revenue and 19% of 2008 revenue. Although the Company considers its relationships with Dow and SeaRiver 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 45-year relationship with EMD, the largest manufacturer of medium-speed diesel engines. The Company serves as both an EMD distributor and service center for select markets and locations for both service and parts. In August 2010, EMD was purchased by a wholly owned subsidiary of Caterpillar. Sales and service of EMD products account for approximately 5% of the Company s revenue. Although the Company considers its relationship with EMD to be strong, the loss of the EMD distributorship and service rights, or a disruption of the supply of EMD parts, could have a negative impact on the Company s ability to service its customers.

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

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

Significant increases in the construction cost of inland tank barges and towboats may limit the Company s ability to earn an adequate return on its investment in new tank barges and towboats. The price of steel increased significantly from 2006 to 2009, thereby increasing the construction cost of new tank barges and towboats. The Company s average construction price for a new 30,000 barrel capacity inland tank barge ordered in 2008 for 2009 delivery was approximately 90% higher than in 2000, primarily due to the increase in steel prices. During 2009, the United States and global recession negatively impacted demand levels for inland tank barges. The construction price of inland tank barges for 2010 delivery fell significantly, primarily due to a significant decrease in steel prices, as well as a decrease in the number of tank barges ordered.

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

Not applicable.

Item 2. ***Properties***

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

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Item 3. ***Legal Proceedings***

In 2000, the Company and a group of approximately 45 other companies were notified that they are Potentially Responsible Parties (PRPs) under CERCLA with respect to a Superfund site, the Palmer Barge Line Superfund Site (Palmer), located in Port Arthur, Texas. In prior years, Palmer had provided tank barge cleaning services to various subsidiaries of the Company. The Company and three other PRPs entered into an agreement with the EPA to perform a remedial investigation and feasibility study and, subsequently, a limited remediation was performed and is now complete. During the 2007 third quarter, five new PRPs entered into an agreement with the EPA in regards 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 continue to discuss suggested pro rata allocations of all PRPs with the EPA and the U.S. Department of Justice (DOJ) in order to resolve the EPA s past cost claim.

In 2000, the Company and approximately 50 other companies were notified that they are PRPs under CERCLA with respect to a Superfund site, the State Marine of Port Arthur Superfund Site (State Marine), located in Port Arthur, Texas. In the past, State Marine had performed tank barge cleaning and services for various subsidiaries of the Company. In March 2010, the DOJ and EPA issued a letter to seven PRPs, which include the former owners/operator of the site and others, including the Company, indicating their intent to pursue reimbursement of its past costs of approximately $2,902,000 in connection with clean-up activities in relation to the site. The Company and the other PRPs have requested documentation concerning the site activities related to all PRPs in order to determine appropriate allocation of past costs relative to activities at the site to develop suggested pro rata sharing to resolve the EPA s past cost claim.

With respect to the above sites, the Company has recorded reserves for its estimated potential liability for its portion of the EPA s past costs claim based on information developed to date including various factors such as the Company s liability in proportion to other responsible parties and the extent to which such costs are recoverable from third parties.

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.

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PART II

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

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

	Sales Price	
	High	**Low**
2011		
First Quarter (through February 23, 2011)	$ 55.18	$ 43.29
2010		
First Quarter	38.77	30.83
Second Quarter	43.96	36.60
Third Quarter	43.33	35.78
Fourth Quarter	45.78	39.25
2009		
First Quarter	31.16	19.46
Second Quarter	36.32	25.93
Third Quarter	39.16	28.71
Fourth Quarter	37.28	32.30

As of February 23, 2011, the Company had 53,668,000 outstanding shares held by approximately 830 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. The Company s revolving credit facility contains a covenant restricting the payment of dividends by the Company at any time when there is a default under the revolving credit facility.

Issuer Purchases of Equity Securities

Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans**
October 1 October 31, 2010	79,000	$ 40.27	79,000	2,085,000
November 1 November 30, 2010				2,085,000
December 1 December 31, 2010				2,085,000
Total	79,000	$ 40.27	79,000	

Purchases were made pursuant to a stock trading plan entered into with a brokerage firm pursuant to Rule 10b5-1 under the Securities Exchange Act of 1934. The plan was publicly announced on July 28, 2010, originally covered 1,400,000 shares and expired on January 29, 2011. On July 28, 2010, the Company also announced that the Board of Directors had authorized the repurchase of an additional 2,000,000 shares on a discretionary basis. The Company s total remaining repurchase authorization as of February 23, 2011 was 1,685,000 shares.

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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, 2010. 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,		
	2010	**2009**	**2008**	**2007**	**2006**
Revenues:					
Marine transportation	$ 915,046	$ 881,298	$ 1,095,475	$ 928,834	$ 807,216
Diesel engine services	194,511	200,860	264,679	243,791	177,002
	$ 1,109,557	$ 1,082,158	$ 1,360,154	$ 1,172,625	$ 984,218
Net earnings attributable to Kirby	$ 116,249	$ 125,941	$ 157,168	$ 123,341	$ 95,451
Net earnings per share attributable to Kirby common stockholders:					
Basic	$ 2.16	$ 2.34	$ 2.92	$ 2.31	$ 1.81
Diluted	$ 2.15	$ 2.34	$ 2.91	$ 2.29	$ 1.79
Common stock outstanding:					
Basic	53,331	53,192	53,238	52,831	52,351
Diluted	53,466	53,313	53,513	53,263	52,855

			December 31,		
	2010	**2009**	**2008**	**2007**	**2006**
Property and equipment, net	$ 1,118,161	$ 1,085,057	$ 990,932	$ 906,098	$ 766,606
Total assets	$ 1,794,937	$ 1,635,963	$ 1,526,098	$ 1,430,475	$ 1,271,119
Long-term debt, including current portion	$ 200,134	$ 200,239	$ 247,307	$ 297,383	$ 310,362
Total equity	$ 1,159,139	$ 1,056,095	$ 893,555	$ 772,807	$ 635,013

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 continue, or the negative thereof or other variations thereon or com 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 net earnings per share attributable to Kirby common stockholders are diluted earnings per share. The weighted average number of common shares applicable to diluted earnings per share for 2010, 2009 and 2008 were 53,466,000, 53,313,000 and 53,513,000, respectively. The increase in the weighted average number of common shares for 2010 compared with 2009 primarily reflected the issuance of restricted stock and the exercise of stock options, partially offset by common stock repurchases in the 2010 second, third and fourth quarters.

Overview

The Company is the nation s largest domestic inland tank barge operator with a fleet of 825 active tank barges, including 43 leased barges, and 15.9 million barrels of capacity as of December 31, 2010. The Company operated an average of 221 towing vessels during 2010, of which an average of 53 was chartered. The Company uses the United States inland waterway system to transport bulk liquids including petrochemicals, black oil products, refined petroleum products and agricultural chemicals. The Company also owns and operates four ocean-going barge and tug units transporting dry-bulk commodities in United States coastwise trade. Through its diesel engine services segment, the Company provides after-market services for medium-speed and high-speed diesel engines used in marine, power generation and railroad applications.

For 2010, net earnings attributable to Kirby were $116,249,000, or $2.15 per share, on revenues of $1,109,557,000, compared with 2009 net earnings attributable to Kirby of $125,941,000, or $2.34 per share, on revenues of $1,082,158,000. The 2010 performance reflected an improvement in tank barge demand and equipment utilization levels in the Company s petrochemical and black oil markets, primarily due to the continued modest improvement in production volumes from United States petrochemical plants throughout 2010, and the exportation of diesel fuel and black oil products produced at United States refineries. In addition, diesel fuel prices for 2010 increased 29% compared with 2009, thereby positively impacting marine transportation revenues since fuel price increases are covered by fuel escalation clauses in the Company s term contracts. Offsetting the improved demand and higher equipment utilization was the negative impact of lower term contract and spot contract rates negotiated throughout 2009 and the first half of 2010 due to recessionary pressure and resulting lower industry-wide demand. The diesel engine services segment s service levels and direct parts sales were relatively consistent with 2009 levels due to the continued weak Gulf Coast oil services market that historically has generated 20% to 25% of the segment s revenues.

As a result of the lower demand in both the marine transportation and diesel engine services segments during late 2008, 2009 and the first quarter of 2010, the Company took specific steps to reduce overhead and lower expenditures. During the 2009 first and fourth quarters, charges totaling $8,753,000, or $.10 per share, were taken for early retirement incentives and staff reductions in both the marine transportation and diesel engine services segments. During the 2010 first quarter, the Company continued its cost reduction initiatives by further reducing its marine transportation and corporate overhead costs through early retirements and staff reductions, incurring a charge of $4,072,000 before taxes, or $.05 per share. Since its peak headcount in October 2008, the Company has reduced its shore staff by 24% through early retirements, staff reductions and employee attrition.

Marine Transportation

For 2010, 82% 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 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 the volumes produced by the Company s customer base.

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The following table shows the marine transportation markets serviced by the Company, the marine transportation revenue distribution for 2010, products moved and the drivers of the demand for the products the Company transports:

Markets Serviced	**2010 Revenue Distribution**	**Products Moved**	**Drivers**
Petrochemicals	69%	Benzene, Styrene, Methanol, Acrylonitrile, Xylene, Caustic Soda, Butadiene, Propylene	Consumer non-durables 70% Consumer durables 30%
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	8%	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 and Wheat Production, Chemical Feedstock Usage

Marine transportation revenue for 2010 increased 4% compared with 2009, while the segment s operating income for 2010 decreased 7% compared with 2009. The higher marine transportation revenue reflected an improvement in tank barge demand and equipment utilization due to higher production volumes from United States petrochemical customers, by shipments of refinery feedstocks and intermediates between United States refineries supporting both normal and turnaround operations, and the exportation of diesel fuel and heavy fuel oil during the 2010 second half. In addition, diesel fuel prices for 2010 increased 29% compared with 2009, thereby positively impacting marine transportation revenues as fuel is escalated and de-escalated through revenue adjustment clauses in customers term contracts. Offsetting the improved demand and higher equipment utilization was the negative impact of lower term contract and spot contract rates negotiated throughout 2009 and the first half of 2010 due to recessionary pressure and resulting lower industry-wide demand.

During 2010, approximately 75% of the marine transportation revenues were under term contracts and 25% were spot contract revenues compared with 80% under term contracts and 20% under spot contracts during 2009. The percentage applicable to term contracts declined beginning in the fourth quarter of 2009 as certain customers switched to spot contracts, and in some cases, short-term charters when their term contracts expired. Time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented approximately 52% of marine transportation revenues under term contracts during 2010 compared with 56% for 2009. Rates on term contracts, net of fuel, renewed during the 2010 first quarter generally decreased an average of approximately 10% when compared with term contracts renewed in the first quarter of 2009. Rates on term contracts renewed in the 2010 second quarter were relatively flat with the 2010 first quarter renewals, but declined an average of 10% to 12% when compared with the 2009 second quarter. For the 2010 third and fourth quarters, term contract renewals were relatively flat with the 2010 first half, as well as relatively flat compared with the 2009 third and fourth quarters. Spot contract rates, which include the cost of fuel, for 2010 first quarter were up an average of 3% to 6% when compared with the 2009 fourth quarter, but down an average of 15% to 25% compared with the 2009 first quarter. Spot contract rates for the 2010 second quarter were up an average of 2% to 3% compared with the 2010 first quarter, but when compared with the 2009 second quarter were down an average of 10% to 15%. Spot market rates for the 2010 third and fourth quarters were relatively flat to slightly positive compared with the 2010 second quarter. Effective January 1, 2010, annual escalators for labor and the producer price index on a number of multi-year contracts were neutral.

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The marine transportation operating margin for 2010 was 21.1% compared with 23.6% for 2009. The lower operating margin reflected the impact of lower term contract and spot contract pricing negotiated throughout the 2009 year and the 2010 first half, higher fuel costs and increased delay days. This was partially offset by higher tank barge utilization in the petrochemical market during the 2010 second, third and fourth quarters, and in the black oil market in the 2010 third and fourth quarters, by cost reduction initiatives implemented during 2009 and 2010, and decreased charges for early retirements and staff reductions.

Diesel Engine Services

During 2010, 18% 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 marine, power generation and railroad industries it serves.

The following table shows the markets serviced by the Company, the revenue distribution for 2010, and the customers for each market:

Markets Serviced	2010 Revenue Distribution	Customers
Marine	65%	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	27%	Standby Power Generation, Pumping Stations
Railroad	8%	Passenger (Transit Systems), Class II, Shortline, Industrial

Diesel engine services revenue and operating income for 2010 decreased 3% and 2%, respectively, compared with 2009. Demand levels for service and direct parts sales across the majority of the marine markets, particularly the Gulf Coast oil services market, remained weak during 2010, resulting from customers continued deferral of major maintenance projects. In addition, the moratorium on Gulf of Mexico deep water drilling, uncertainty around new drilling regulations and corresponding delays in issuing drilling permits negatively impacted both the Gulf Coast medium-speed and high-speed operations during the 2010 second quarter and second half. Partially offsetting the weaknesses in the marine market was required repair work for customers involved in the Gulf Coast oil spill cleanup. The 2010 year did benefit from additional engine-generator set upgrades and higher parts and engine sales in the medium-speed power generation market.

The diesel engine services segment s operating margin for 2010 was 10.6% compared with 10.5% for 2009. The 2010 operating margin reflected overall lower service levels and direct parts sales, excluding the power generation market as noted above, some pricing pressure in the high-speed marine markets and lower labor utilization, partially offset by the positive impact of the 2009 and 2010 cost reduction initiatives. The 2009 charges for early retirements and staff reductions of $2,342,000 also lowered the 2009 operating margin.

Cash Flow and Capital Expenditures

The Company continued to generate strong operating cash flow during 2010 with net cash provided by operating activities of $245,246,000 compared with net cash provided by operating activities for 2009 of $319,885,000. The 2010 year experienced a net decrease in cash flows from changes in operating assets and liabilities of $12,518,000, primarily due to increased receivables from stronger business activity levels and a federal income tax receivable as of December 31, 2010 of $11,138,000, the result of the recently enacted Small Business Jobs Act of 2010 (Small Business Act) that included a one-year extension of 50% bonus tax depreciation on qualified property. This extension was made after the Company made three quarterly 2010 estimated tax payments based on the assumption that bonus tax depreciation would not be extended and, as a result, the Company overpaid its 2010 estimated federal income taxes. In addition, the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (Tax Relief Act) that was signed on December 17, 2010 provides 100% bonus tax depreciation for capital investments placed in service after September 8, 2010 through December 31, 2011. For equipment placed in service after December 31, 2011 and through December 31, 2012, the bill provides for 50% bonus tax depreciation. The net decrease in cash flows from changes in operating assets and liabilities in 2010 compares with a net increase in cash flows from changes in operating assets and liabilities in the 2009 year of $47,360,000, primarily due to a decrease in receivables during 2009, the result of decreased revenues due to weaker business activity levels. In addition during 2010, the Company generated cash of $4,884,000 from the exercise of stock options and $9,725,000 from proceeds from the disposition of assets. During 2010, cash generated was used for capital expenditures of $136,841,000, including $74,265,000 for new tank barge and towboat construction and $62,576,000 primarily for upgrading the existing marine transportation fleet, and $23,793,000 for the repurchase of the Company s common stock. The Company s debt-to-capitalization ratio decreased to 14.7% at December 31, 2010 from 15.9% at December 31, 2009. Debt was essentially unchanged but equity increased primarily due to net earnings attributable to Kirby for 2010 of $116,249,000, exercise of stock options and the amortization of unearned equity compensation, partially offset by treasury stock purchases. As of December 31, 2010, the Company had no outstanding balance under its $250,000,000 revolving credit facility and had $195,600,000 of cash and cash equivalents.

During 2010, taking advantage of current attractive tank barge construction prices, the Company took delivery of 57 new tank barges and six chartered tank barges with a total capacity of 784,000 barrels, and three 1800 horsepower towboats. The Company projects that capital expenditures for 2011, assuming the closing of the United Holdings LLC (United) purchase described below, will be in the $185,000,000 to $195,000,000 range, including approximately $100,000,000 for new tank barge and towboat construction. For 2011, new construction commitments include 40 tank barges with a total capacity of 1,097,000 barrels and three 1800 horsepower towboats.

Outlook

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 tank barge operators and captive fleet owners seeking to outsource tank barge requirements. Increasing the fleet size through external growth opportunities would allow the Company to improve asset utilization through more backhaul opportunities, faster barge turnarounds, more efficient use of horsepower, positioning barges 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 related products.

Petrochemical and black oil tank barge utilization levels on the Gulf Intracoastal Waterway and into the Midwest improved during 2010 when compared with 2009, a year of economic recession. The current excess industry tank barge capacity has also improved slightly in 2010. During 2010 the Company estimates that 115 tank barges were constructed and delivered, of which 57 were the Company s. During 2010, the Company estimates that 165 tank barges were retired, of which 89 were the Company s. At the beginning of 2010, the Company estimates there were 3,150 tank barges in the industry fleet, of which approximately 500 were over 35 years old and approximately 250 of those over 40 years old. At the end of 2010, the Company estimated there were approximately 3,100 tank barges in the industry fleet. Given the age profile of the industry fleet and current industry-wide excess tank barge capacity, the Company expects older barges will continue to be removed from service and industry supply and demand will continue to slowly move closer to balance.

While improvement in utilization levels and the slight reduction in industry capacity is encouraging, the continued sluggish United States economy, consistently high unemployment levels, negative consumer confidence, current excess industry tank barge capacity, and the continued negative impact of pending safety regulations enacted on Gulf of Mexico drillers and its unknown impact on the diesel engine services segment leave the Company s outlook for 2011 unclear.

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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 customers trade receivables which could have a material effect on the Company s results of operations.

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

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

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

Acquisitions

On February 24, 2011, the Company purchased 21 inland and offshore tank barges and 15 inland towboats and offshore tugboats from Enterprise for approximately $53,200,000 in cash. Enterprise provided transportation and delivery services for ship bunkers (engine fuel) to cruise ships, container ships and freighters primarily in the Miami, Port Everglades and Cape Canaveral, Florida area, the three largest cruise ship ports in the United States, as well as Tampa, Florida, Mobile, Alabama and Houston, Texas. Financing of the acquisition was through the Company s operating cash flows.

On February 21, 2011, the Company signed an agreement to purchase United, a distributor and service provider of engine and transmission related products for the oil and gas services, power generation and transportation industries, and manufacturer of oilfield service equipment. The base purchase price is $270,000,000 in cash (before post closing adjustments), plus a three-year earnout provision for up to an additional $50,000,000 payable in 2014. United, headquartered in Oklahoma City, Oklahoma with 21 locations across 13 states, distributes and services equipment and parts for Allison Transmission, MTU Detroit Diesel Engines, Daimler Trucks NA, and other diesel and natural gas engines. United also manufactures oilfield service equipment, including hydraulic fracturing equipment. United s principal customers are oilfield service companies, oil and gas operators and producers, compression service companies and transportation companies. The closing of the acquisition is expected to occur in April 2011 and is subject to certain conditions, including the expiration of the required waiting period under the Hart-Scott-Rodino Act. The acquisition will be financed using the Company s operating cash flows and revolving credit facility.

On February 9, 2011, the Company purchased from Kinder Morgan for $4,050,000 in cash a 51% interest in Kinder Morgan s shifting operation and fleeting facility for dry cargo barges and tank barges on the Houston Ship Channel. Kinder Morgan retained the remaining 49% interest and the Company will manage the operation. In addition, the Company purchased a towboat from Kinder Morgan for $1,250,000 in cash. Financing of the acquisition was through the Company s operating cash flows.

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.

Results of Operations

The Company reported 2010 net earnings attributable to Kirby of $116,249,000, or $2.15 per share, on revenues of $1,109,557,000, compared with 2009 net earnings attributable to Kirby of $125,941,000, or $2.34 per share, on revenues of $1,082,158,000, and 2008 net earnings attributable to Kirby of $157,168,000, or $2.91 per share, on revenues of $1,360,154,000.

Marine transportation revenues for 2010 were $915,046,000, or 82% of total revenues, compared with $881,298,000, or 81% of total revenues for 2009 and $1,095,475,000, or 81% of total revenues for 2008. Diesel engine services revenues for 2010 were $194,511,000, or 18% of total revenues, compared with $200,860,000, or 19% of total revenues for 2009 and $264,679,000, or 19% of total revenues for 2008.

As a result of the lower demand in both the marine transportation and diesel engine services segments, the Company took specific steps to reduce overhead and lower expenditures during the 2009 first and fourth quarters and 2010 first quarter. During 2009, charges totaling $8,753,000, or $.10 per share, were taken for early retirement incentives and staff reductions in both the marine transportation and diesel engine services segments. During the 2010 first quarter, the Company continued its cost reduction initiatives by further reducing its marine transportation and corporate overhead costs through retirements and staff reductions, incurring a charge of $4,072,000 before taxes, or $.05 per share. Since its peak headcount in October 2008, the Company has reduced its shore staff by 24% through early retirements, staff reductions and employee attrition.

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, 2010, the Company operated 825 active inland tank barges, with a total capacity of 15.9 million barrels, compared with 863 active inland tank barges at December 31, 2009, with a total capacity of 16.7 million barrels. The Company operated an average of 221 inland towing vessels during 2010 and 220 during 2009. The Company owns and operates four offshore dry-bulk barge and tug units engaged in the offshore transportation of dry-bulk cargoes. The Company also owns a two-thirds interest in Osprey, which transports cargo containers and project cargoes by barge on the United States inland waterway system.

The following table sets forth the Company s marine transportation segment s revenues, costs and expenses, operating income and operating margins for the three years ended December 31, 2010 (dollars in thousands):

	2010	2009	% Change 2009 to 2010	2008	% Change 2008 to 2009
Marine transportation revenues	$ 915,046	$ 881,298	4%	$ 1,095,475	(20)%
Costs and expenses:					
Costs of sales and operating expenses	540,427	494,139	9	657,078	(25)
Selling, general and administrative	80,938	80,897		96,960	(17)
Taxes, other than on income	12,213	10,587	15	12,034	(12)
Depreciation and amortization	88,710	87,589	1	84,537	4
	722,288	673,212	7	850,609	(21)
Operating income	$ 192,758	$ 208,086	(7)%	$ 244,866	(15)%
Operating margins	21.1%	23.6%		22.4%	

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2010 Compared with 2009

Marine Transportation Revenues

Marine transportation revenues for 2010 increased 4% compared with 2009, reflecting an improvement in tank barge demand and equipment utilization levels in the Company s petrochemical and black oil markets, primarily due to the continued modest improvement in production volumes from United States petrochemical plants throughout 2010, and the exportation of diesel fuel and black oil products produced at United States refineries. In addition, diesel fuel prices for 2010 increased 29% compared with 2009, thereby positively impacting marine transportation revenues since fuel price increases are covered by fuel escalation and de-escalation clauses in the Company s term contracts.

The petrochemical market, the Company s largest market, contributed 69% of the marine transportation revenue for 2010. Throughout 2010, petrochemical transportation demand reflected a continued improvement in business levels. Lower priced domestic natural gas, a basic feedstock for the United States petrochemical industry, provided the industry with a competitive advantage against foreign petrochemical producers. As a result, United States petrochemical production improved as the 2010 year progressed, thereby producing increased marine transportation volumes for basic petrochemicals to both domestic consumers and terminals for export destinations. As a result of the higher volumes, the Company s petrochemical tank barge fleet s utilization level was in the high 80% range during the majority of 2010. The 2010 first quarter s improvement in the utilization level was also attributable to supply chain disruptions caused by petrochemical turnarounds and unscheduled plant maintenance. The black oil products market, which contributed 18% of 2010 marine transportation revenue, saw lower utilization of the fleet, as well as a heavy shipyard maintenance cycle for black oil barges during the 2010 first half. During the 2010 second half, a heavy United States refinery maintenance schedule which required additional black oil shipments between refineries, coupled with the exportation of diesel fuel and heavy fuel oil, resulted in the Company s black oil fleet maintaining a high 80% range utilization level. The refined petroleum products market, which contributed 8% of 2010 marine transportation revenue, reflected continued lower demand for movements of products, consistent with prevailing conditions in the United States economy, partially offset by an improvement of river ethanol volumes. The agricultural chemical market, which contributed 5% of 2010 marine transportation revenue, was weak during the first quarter due to high Midwest inventory levels, fueled by heavy rain and snow which reduced the farmer s ability to apply fertilizer, improved in the second quarter with the Midwest spring fill, declined significantly in the third quarter with a worldwide shortage of fertilizer and improved in the fourth quarter with a delayed fall fill.

For 2010, the marine transportation segment incurred 5,772 delay days, 11% more than the 5,201 delay days that occurred in 2009. Delay days measure the lost time incurred by a tow (towboat and one or more tank barges) during transit when the tow is stopped due to weather, lock conditions and other navigational factors. The higher 2010 delay days led to increased operating expenses compared with 2009. The 2010 delay days reflected more normal weather and lock conditions, including ice and high water conditions during portions of the first and second quarters and numerous delays from scheduled lock repairs during the third quarter. This compares with 2009 first nine months that experienced milder winter weather conditions and favorable water levels. Delay days for the 2010 fourth quarter were 17% below the 2009 fourth quarter, primarily due to favorable weather during the month of December.

During 2010, approximately 75% of marine transportation revenues were under term contracts and 25% were spot contract revenues, compared with 80% under term contracts and 20% under spot contracts during the 2009 first nine months. The percentage applicable to term contracts declined beginning in the fourth quarter of 2009 as certain customers switched to spot contracts, and in some cases, short-term charters when their term contracts expired. Time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented approximately 52% of the revenues under term contracts during 2010 compared with approximately 56% during 2009. The 75% to 80% term contract and 20% to 25% spot contract mix provides the Company with a predictable revenue stream.

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Rates on term contracts, net of fuel, renewed in the 2010 first quarter generally decreased an average of approximately 10% when compared with term contract renewals in the first quarter of 2009. Rates on term contracts renewed in the 2010 second quarter were relatively flat with the 2010 first quarter renewals, but when compared with the 2009 second quarter declined an average of 10% to 12%. For the 2010 third and fourth quarters, term contract renewals were relatively flat with the 2010 first and second quarters, as well as relatively flat compared with the 2009 third and fourth quarters. Spot contract rates, which include the cost of fuel, for the 2010 first quarter were up an average of 3% to 6% when compared with the 2009 fourth quarter, but down an average of 15% to 25% compared with the 2009 first quarter. Spot contract rates for the 2010 second quarter were up an average of 2% to 3% compared with the 2010 first quarter, but when compared with the 2009 second quarter were down an average of 10% to 15%. Spot contract rates for the 2010 third and fourth quarters were relatively flat to slightly positive compared with the 2010 second quarter. Effective January 1, 2010, annual escalators for labor and the producer price index on a number of multi-year contracts were neutral.

Marine Transportation Costs and Expenses

Costs and expenses for 2010 increased 7% compared with 2009, primarily reflecting higher costs and expenses associated with increased marine transportation volumes and the 29% increase in diesel fuel prices noted below. Unfavorable winter and spring weather operating conditions during the 2010 first and second quarters and numerous lock repairs during the third quarter, compared with more favorable conditions during 2009 comparable quarters, increased operating expenses.

Costs of sales and operating expenses for 2010 increased 9% compared with 2009, reflecting higher expenses associated with the increased demand and higher fuel costs, partially offset by the positive impact of cost savings initiatives.

During 2010, the Company consumed 43.3 million gallons of diesel fuel compared to 41.8 million gallons consumed during 2009. The average price per gallon of diesel fuel consumed during 2010 was $2.22, an increase of 29% compared with $1.72 per gallon for 2009. The higher gallons consumed during 2010 reflected higher overall demand levels and more normal weather conditions during the year that required additional horsepower, compared with lower overall demand levels and milder weather conditions during 2009. Fuel escalation and de-escalation clauses are designed to rebate fuel costs when prices decline and recover additional fuel costs when fuel prices rise; however, there is generally a 30 to 90 day delay before the contracts are adjusted. Spot contracts do not have escalators for fuel.

Selling, general and administrative expenses for 2010 were flat with 2009. Higher salaries for 2010, the result of salary increases, higher 2010 incentive compensation accruals and a higher provision for doubtful accounts, were offset by the reduced number of administrative personnel resulting from the 2009 and 2010 first quarter early retirement incentives and staff reductions. The 2010 year included an early retirement and shore staff reduction charge of $2,724,000 compared to a charge of $6,050,000 in 2009.

Taxes, other than on income, for 2010 increased 15% compared with 2009, primarily the reflection of higher waterway user taxes from increased mileage associated with improved demand on taxable waterways and higher property taxes.

Depreciation and amortization for 2010 increased 1% compared with 2009. The increase reflected the net changes of asset lives on certain equipment with revised accelerated tank barge retirement schedules and increased capital expenditures, including new tank barges and towboats.

Marine Transportation Operating Income and Operating Margins

The marine transportation operating income for 2010 decreased 7% compared with 2009. The 2010 operating margin was 21.1% compared with 23.6% for 2009. Both the lower operating income and lower operating margin were a reflection of lower term contract and spot contract rates negotiated throughout 2009 and the 2010 first half due to recessionary pressure and resulting industry-wide lower demand, higher fuel costs, and increased delay days during 2010, partially offset by the cost reduction initiatives implemented during 2009 and 2010 and decreased charges for early retirements and staff reductions.

2009 Compared with 2008

Marine Transportation Revenues

Marine transportation revenues for 2009 decreased 20% compared with 2008, reflecting lower petrochemical, black oil products, refined petroleum products and agricultural chemical demand, driven by the United States and global economic recession. The lower demand levels in all four marine transportation markets resulted in lower tank barge utilization levels industry wide that led to increased downward pressure on term contract and spot contract pricing over the last nine months of 2009. In addition, approximately 37% of the decrease in marine transportation revenues in 2009 compared with 2008 was due to negative term contract diesel fuel price escalation adjustments associated with the pass through of diesel fuel to customers through fuel escalation and de-escalation clauses in term contracts.

The petrochemical market, the Company s largest market, contributed 68% of the marine transportation revenue for 2009. During 2009, petrochemical transportation demand was soft, driven by the deteriorating economic environment, with demand levels well below 2008 levels. Movements of more finished petrochemical products to the Midwest improved modestly during the 2009 second and third quarters compared with the 2009 first and 2008 fourth quarters, when significant destocking of inventories occurred. The Gulf Intracoastal Waterway petrochemical demand for the 2009 second and third quarters stabilized when compared with the 2009 first quarter. The black oil products market, which contributed 19% of 2009 marine transportation revenue, and the refined products market, which contributed 9% of 2009 marine transportation revenue, also stabilized during the 2009 second and third quarters but remained well below prior year levels. Fourth quarter demand levels in the petrochemical, black oil products and refined products markets were slightly weaker when compared with the 2009 third quarter. The agricultural chemical market, which contributed 4% of 2009 marine transportation revenue, was weak throughout the year due to high Midwest inventory levels, fueled by heavy rain events which reduced the farmer s ability to apply fertilizer.

For 2009, the marine transportation segment incurred 5,201 delay days, 37% less than 2008 delay days of 8,267. The 2009 delay days reflected milder winter weather conditions and more normal water levels compared with 2008 that experienced ice and high water conditions in the Midwest throughout the 2008 first quarter, high water conditions throughout the Mississippi River System during the majority of the 2008 second quarter and Hurricanes Gustav and Ike during the 2008 third quarter. The lower 2009 delay days led to a reduction of operating expenses compared with 2008 and helped offset some of the financial impact of the lower demand levels.

During the 2009 first nine months, approximately 80% of marine transportation revenues were under term contracts and 20% were spot contract revenues. During the 2009 fourth quarter, the term contract portion of marine transportation revenues declined to 75% as certain customers switched to spot contracts when their term contracts expired. Time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented approximately 56% of the revenues under term contracts during 2009 and 2008. Rates on term contracts, net of fuel, renewed during the 2009 first quarter were generally renewed at existing rates and in some cases rates were traded for longer terms, while 2009 second, third and fourth quarter contract renewals declined in the zero to 8%, 7% to 15% and 7% to 15% range, respectively, when compared with the corresponding quarters of 2008. Spot contract rates for 2009, which include the cost of fuel, decreased an average of 3% to 4% in the first quarter, 10% to 15% in second quarter, 10% to 20% in the third quarter and 20% to 30% in the fourth quarter when compared with the corresponding quarters of 2008. In 2009, the Company estimates that approximately 40% to 50% of the spot contract rate decreases were fuel related. All marine transportation term contracts contain fuel escalation clauses designed to recover additional fuel costs when fuel prices rise and rebate fuel costs when prices decline. However, there is generally a 30 to

90 day delay before contracts are adjusted. Spot contracts do not have escalators for fuel. Effective January 1, 2009, escalators for labor and the producer price index on a number of multi-year contracts increased rates on those contracts by 4% to 5%.

Marine Transportation Costs and Expenses

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

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

The marine transportation segment operated an average of 220 towboats during 2009, of which an average of 56 were chartered, compared with 256 during 2008, of which an average of 84 were chartered. Since the fourth quarter of 2008 and continuing throughout 2009, as demand weakened the Company released chartered towboats and laid up Company owned towboats in an effort to balance horsepower needs with volume demand. The Company has historically used chartered towboats for approximately one-third of its horsepower requirements.

During 2009, the Company consumed 41.8 million gallons of diesel fuel compared to 48.5 million gallons consumed during 2008. The lower fuel consumption was a reflection of weaker demand in all four of the segment s marine transportation markets and the use of more fuel efficient engines in the towboats. The average price per gallon of diesel fuel consumed during 2009 was $1.72, a decrease of 46% compared with $3.21 per gallon for 2008. Fuel escalation clauses are designed to rebate fuel costs when prices decline and recover additional fuel costs when fuel prices rise; however, there is generally a 30 to 90 day delay before the contracts are adjusted. Spot contracts do not have escalators for fuel.

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

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

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

Marine Transportation Operating Income and Operating Margins

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

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, 2010 (dollars in thousands):

	2010	2009	% Change 2009 to 2010	2008	% Change 2008 to 2009
Diesel engine services revenues	$ 194,511	$ 200,860	(3)%	$ 264,679	(24)%
Costs and expenses:					
Costs of sales and operating expenses	142,809	143,694	(1)	186,232	(23)
Selling, general and administrative	26,131	30,440	(14)	33,014	(8)
Taxes, other than on income	963	1,474	(35)	1,016	45
Depreciation and amortization	4,055	4,247	(5)	4,830	(12)
	173,958	179,855	(3)	225,092	(20)
Operating income	$ 20,553	$ 21,005	(2)%	$ 39,587	(47)%
Operating margins	10.6%	10.5%		15.0%	

2010 Compared with 2009

Diesel Engine Services Revenues

Diesel engine services revenues for 2010 decreased 3% compared with 2009, primarily reflecting continued weak service levels and direct parts sales in both the medium-speed and high-speed Gulf Coast oil services market where customers continue to defer major maintenance projects. During the 2010 second, third and fourth quarters, the Gulf Coast oil services market was further weakened by the Gulf of Mexico deep water drilling moratorium, new safety regulations on Gulf Coast drilling operators and the delays in issuing offshore drilling permits. In addition, the segment continued to experience pricing pressure in the high-speed Gulf Coast oil services market. The segment somewhat benefited from required repair work for customers involved in the Gulf Coast oil spill cleanup effort in the 2010 second and third quarters. Partially offsetting the weak 2010 marine markets was a stronger medium-speed power generation market, benefitting from additional engine-generator set upgrade projects and higher parts and engine sales. Both the 2010 and 2009 first quarters benefited from seasonal work for Midwest and Great Lakes marine medium-speed customers, and the 2010 fourth quarter benefited from a higher level of service overhauls for Midwest marine customers. The medium-speed railroad market for 2010 was in line with 2009.

Diesel Engine Services Costs and Expenses

Costs and expenses for 2010 decreased 3% compared with 2009. The 2009 costs and expenses included $2,342,000 of charges for early retirements and staff reductions applicable to the diesel engine services segment.

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Cost of sales and operating expenses for 2010 decreased 1% compared with 2009, reflecting the costs and expenses associated with the lower marine market service and direct parts sales activity and cost savings from the 2009 staff reductions, partially offset by the increased cost of stronger power generation engine-generator set upgrade projects, engine sales and higher direct parts sales. The 2009 expenses included $795,000 of early retirements and staff reduction charges.

Selling, general and administrative expenses for 2010 decreased 14% compared with 2009, reflecting the cost savings from the 2009 staff reductions. The 2009 expenses included $1,547,000 of early retirements and staff reduction charges.

Diesel Engine Services Operating Income and Operating Margins

Operating income for the diesel engine services segment for 2010 decreased 2% compared with 2009. The operating margin for 2010 was 10.6% compared with 10.5% for 2009. The 2009 operating income included $2,342,000 of early retirements and staff reduction charges. The 2010 operating income reflected the continued weak medium-speed and high-speed Gulf Coast oil services and inland marine markets, and some downward pressure on pricing in the high-speed marine market, partially offset by a strong power generation market, as well as the cost reduction initiatives implemented during 2009. The 2010 operating margin reflected the lower service and direct parts sales, some pricing pressure in the high-speed marine market and lower labor utilization, partially offset by the positive impact of the 2009 cost reduction initiatives. The 2009 operating income and operating margin was negatively impacted by the charges for early retirements and staff reductions noted above.

2009 Compared with 2008

Diesel Engine Services Revenues

Diesel engine services revenues for 2009 decreased 24% compared 2008, reflecting the lower demand levels for service and direct parts sales in the medium-speed and high-speed diesel engine markets as Gulf Coast oil service customers and Gulf Intracoastal Waterway and Mississippi River inland marine customers deferred maintenance in response to the economic slowdown. The medium-speed railroad parts and service revenues were also weak as industrial and shortline railroad customers deferred maintenance in response to lower railroad traffic. The medium-speed power generation revenues benefited from several engine-generator set upgrades and direct parts sales in the 2009 first half, but revenues decreased in the 2009 second half. The East Coast marine revenues benefited from engine overhaul projects in the 2009 first quarter and the international offshore oil services market was stronger during the 2009 second quarter.

Diesel Engine Services Costs and Expenses

Costs and expenses for 2009 decreased 20% compared with 2008, reflecting lower service and direct parts sales across all three of the diesel engine services markets. Partially offsetting the decrease in 2009 were the increased costs and expenses attributable to Lake Charles Diesel, acquired in June 2008 and a $1,426,000 charge in the 2009 first quarter for early retirements and staff reductions and a $916,000 charge in the 2009 fourth quarter for staff reductions applicable to the diesel engine services segment.

Cost of sales and operating expenses for 2009 decreased 23% compared with 2008, reflecting the lower service and direct parts sales activity noted above, with the 2009 decrease being partially offset by $795,000 of 2009 first and fourth quarter early retirements and staff reduction charges.

Selling, general and administrative expenses for 2009 decreased 8% compared with 2008, reflecting the cost savings of the 2009 first and fourth quarter early retirements and staff reductions and lower employee incentive compensation accruals, partially offset by the early retirements and staff reduction charges of $1,547,000.

Diesel Engine Services Operating Income and Operating Margins

Operating income for the diesel engine services segment for 2009 decreased 47% compared with 2008, primarily reflecting the soft medium-speed and high-speed Gulf Coast oil services and inland marine markets, and the 2009 first and fourth quarter early retirements and staff reductions charges noted above. The operating margin for 2009 was 10.5% compared with 15.0% for 2008, reflecting lower service levels and direct parts sales and resulting lower labor utilization, and the first and fourth quarter charges for early retirements and staff reductions.

General Corporate Expenses

General corporate expenses for 2010, 2009 and 2008 were $13,189,000, $12,239,000 and $14,099,000 respectively. The 8% increase for 2010 compared with 2009 reflected $1,088,000 of the 2010 charges for early retirements and staff reductions noted above, and higher incentive compensation accruals. The 13% decrease for 2009 compared with 2008 primarily reflected lower employee incentive compensation accruals, partially offset by a 2009 fourth quarter charge for staff reductions of $361,000.

Impairment of Goodwill

During the 2009 fourth quarter, the Company took a $1,901,000 charge for the partial impairment of the goodwill recorded for Osprey. The partial impairment reflected the reduced profitability outlook of the container-on-barge operations due to the current economic environment at that time.

Gain (Loss) on Disposition of Assets

The Company reported a net loss on disposition of assets of $78,000 in 2010 and a net gain on disposition of assets of $1,079,000 and $142,000 in 2009 and 2008, respectively. The net gains and loss were predominantly from the sale of retired marine equipment.

Other Income and Expenses

The following table sets forth equity in earnings of affiliates, other income (expense), noncontrolling interests and interest expense for the three years ended December 31, 2010 (dollars in thousands):

	2010	2009	% Change 2009 to 2010	2008	% Change 2008 to 2009
Equity in earnings of affiliates	$ 283	$ 874	(68)%	$ 134	552%
Other income (expense)	273	(266)	203%	(649)	(59)%
Noncontrolling interests	(1,133)	(1,597)	(29)%	(1,305)	22%
Interest expense	(10,960)	(11,080)	(1)%	(14,064)	(21)%

Equity in Earnings of Affiliates

Equity in earnings of affiliates consists primarily of the Company s 50% ownership of a barge fleeting operation.

Interest Expense

Interest expense for 2010 decreased 1% compared with 2009 interest expense and 2009 interest expense decreased 21% compared with 2008, primarily the result of lower average debt levels, partially offset by higher average interest rates. During 2010, 2009 and 2008, the average debt and average interest rate, including the effect of interest rate collar and swaps, were $200,194,000 and 5.5%, $215,500,000 and 5.1%, and $278,843,000 and 5.0%, respectively.

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Financial Condition, Capital Resources and Liquidity

Balance Sheet

Total assets as of December 31, 2010 were $1,794,937,000 compared with $1,635,963,000 at December 31, 2009 and $1,526,098,000 as of December 31, 2008. The following table sets forth the significant components of the balance sheet as of December 31, 2010 compared with 2009 and 2009 compared with 2008 (dollars in thousands):

	2010	2009	% Change 2009 to 2010	2008	% Change 2008 to 2009
Assets:					
Current assets	$ 425,915	$ 300,097	42%	$ 279,511	7%
Property and equipment, net	1,118,161	1,085,057	3	990,932	9
Investment in affiliates	3,336	3,052	9	2,056	48
Goodwill, net	228,873	228,873		230,774	(1)
Other assets	18,652	18,884	(1)	22,825	(17)
	$ 1,794,937	$ 1,635,963	10%	$ 1,526,098	7%
Liabilities and stockholders equity:					
Current liabilities	$ 160,259	$ 137,104	17%	$ 173,066	(21)%
Long-term debt-less current portion	200,006	200,204		246,064	(19)
Deferred income taxes	231,775	200,397	16	145,568	38
Other long-term liabilities	43,758	42,163	4	67,845	(38)
Total equity	1,159,139	1,056,095	10	893,555	18
	$ 1,794,937	$ 1,635,963	10%	$ 1,526,098	7%

2010 Compared with 2009

Current assets as of December 31, 2010 increased 42% compared with December 31, 2009, primarily reflecting a 100% increase in cash and cash equivalents. Trade accounts receivable increased 10%, primarily a reflection of higher 2010 fourth quarter marine transportation revenues when compared with the 2009 fourth quarter, partially associated with the pass through to customers of higher diesel fuel costs as fuel is escalated and de-escalated through revenue adjustment clauses in customers term contracts. Other accounts receivable increased 193%, predominately due to a federal income tax receivable as of December 31, 2010 of $11,138,000, the result of the late 2010 enactment of the Small Business Act that included a one-year extension of 50% bonus tax depreciation on qualified property. This extension was granted after the Company made three quarterly estimated tax payments based on the assumption that bonus tax depreciation would not be extended and, as a result, the Company overpaid its 2010 estimated federal income taxes. In addition, the Tax Relief Act that was signed on December 17, 2010 provides 100% bonus tax depreciation for capital investments placed in service after September 8, 2010 through December 31, 2011. For equipment placed in service after December 31, 2011 and through December 31, 2012, the bill provides for 50% bonus tax depreciation. Finished goods inventory decreased 2% due primarily to the continued reduction of diesel engine services inventory levels associated with the weaker business levels in the marine market. Prepaid expenses and other current assets increased 14%, primarily due to an increase in prepaid fuel due to higher fuel prices in the 2010 fourth quarter compared with the 2009 fourth quarter.

Property and equipment, net of accumulated depreciation, at December 31, 2010 increased 3% compared with December 31, 2009. The increase reflected $136,841,000 of capital expenditures for 2010, more fully described under Capital Expenditures below, less $93,299,000 of depreciation expense for 2010 and $10,438,000 of property disposals during 2010.

Current liabilities as of December 31, 2010 increased 17% compared with December 31, 2009. Accounts payable increased 37%, a reflection of the increased marine transportation and diesel engine services business

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activity levels during the 2010 fourth quarter and higher shipyard accruals. Accrued liabilities increased 10%, primarily from higher employee incentive compensation accruals and property tax accruals, partially offset by payment of severance accrued in the 2009 fourth quarter.

Long-term debt, less current portion, as of December 31, 2010 was in line with December 31, 2009, as the Company had no outstanding balance under its $250,000,000 revolving credit facility during 2010.

Deferred income taxes as of December 31, 2010 increased 16% compared with December 31, 2009. The increase was primarily due to the 2010 deferred tax provision of $34,439,000, which included bonus tax deprecation on qualifying expenditures due to the late 2010 enactments of the extensions of bonus tax depreciation as noted above.

Other long-term liabilities as of December 31, 2010 increased 4% compared with December 31, 2009, primarily reflecting increased pension plan accruals, and the recording of a $1,477,000 increased liability in the fair value of derivative instruments, more fully described under Fair Value of Derivative Instruments below.

Total equity as of December 31, 2010 increased 10% compared with December 31, 2009. The increase was the result of $116,249,000 of net earnings attributable to Kirby for 2010, a decrease of $3,174,000 in accumulated other comprehensive income and an increase in treasury stock of $16,729,000. The decrease in accumulated other comprehensive income primarily resulted from the net change in fair value of derivative instruments, net of taxes, more fully described under Fair Value of Derivative Instruments below and the increase in unrecognized losses related to the Company s defined benefit plans. The increase in treasury stock was attributable to purchases during 2010 of $23,793,000 of Company common stock, partially offset by the exercise of stock options and the issuance of restricted stock during 2010.

2009 Compared with 2008

Current assets as of December 31, 2009 increased 7% compared with December 31, 2008, primarily reflecting the significant increase in cash and cash equivalents to $97,836,000 as of December 31, 2009 compared with $8,647,000 as of December 31, 2008. Partially offsetting the overall increase was a 29% decrease in trade accounts receivable due to lower marine transportation and diesel engine services revenues related to lower business activity levels. In addition, inventory-finished goods decreased 18% from lower activities in both the medium-speed and high-speed diesel engine services segment in 2009.

Property and equipment, net of accumulated depreciation, at December 31, 2009 increased 9% compared with December 31, 2008. The increase reflected $192,660,000 of capital expenditures for 2009, more fully described under Capital Expenditures below, less $91,292,000 of depreciation expense for 2009 and $7,243,000 of property disposals during 2009.

Current liabilities as of December 31, 2009 decreased 21% compared with December 31, 2008. Accounts payable decreased 33%, a reflection of the declining business activity during 2009 in both the marine transportation and diesel engine services segments. Accrued liabilities decreased 18%, primarily from the payment during 2009 of higher employee incentive compensation accrued during 2008, lower employee incentive compensation bonuses accrued during 2009, and lower marine insurance claims.

Long-term debt, less current portion, as of December 31, 2009 decreased 19% compared with December 31, 2008. During 2009, the Company had net cash provided by operating activities of $319,885,000, proceeds from the exercise of stock options of $2,774,000 and proceeds from the disposition of assets of $7,388,000, partially offset by capital expenditures of $192,660,000 and treasury stock purchases of $657,000. As of December 31, 2009, the Company had no outstanding balance under its $250,000,000 revolving credit facility.

Deferred income taxes as of December 31, 2009 increased 38% compared with December 31, 2008. The increase was primarily due to the 2009 deferred tax provision of $42,424,000, which included bonus tax depreciation on qualifying expenditures under the American Recovery and Reinvestment Act of 2009.

Other long-term liabilities as of December 31, 2009 decreased 38% compared with December 31, 2008, primarily reflecting decreased pension plan accruals and the recording of a $5,199,000 decrease in the fair value of interest swap agreements, more fully described under Fair Value of Derivative Instruments below.

Total equity as of December 31, 2009 increased 18% compared with December 31, 2008. The increase was the result of $125,941,000 of net earnings attributable to Kirby for 2009, a $7,884,000 decrease in treasury stock and an increase of $24,579,000 in accumulated other comprehensive income. The decrease in treasury stock was attributable to the exercise of stock options and the issuance of restricted stock, partially offset by the purchase during 2009 of $657,000 of Company common stock. The increase in accumulated other comprehensive income primarily resulted from the net change in fair value of interest rate swap agreements, net of taxes, more fully described under Fair Value of Derivative Instruments below, and the decrease in unrecognized losses related to the Company s defined benefit plans.

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 pension contribution for the 2010 year was $11,900,000. No pension contribution was made in 2009 for the 2009 year as funding of the pension plan s ABO was 107% at December 31, 2009. The fair value of plan assets was $152,696,000 and $126,490,000 at December 31, 2010 and December 31, 2009, 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 makes various assumptions when determining defined benefit plan costs including, but not limited to, the current discount rate and the expected long-term return on plan assets. Discount rates are determined annually and are based on a yield curve that consists of a hypothetical portfolio of high quality corporate bonds with maturities matching the projected benefit cash flows. The Company assumed that plan assets would generate a long-term rate of return of 7.5% in 2010 and 2009. 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.

Long-Term Financing

The Company has a $250,000,000 unsecured revolving credit facility (Revolving Credit Facility) with a syndicate of banks, with JPMorgan Chase Bank, N.A. as the administrative agent bank, with a maturity date of November 9, 2015. 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) or an Alternate Base Rate, meaning the highest of the administrative agent s prime rate, the Federal Funds Rate plus 0.5% and one month LIBOR plus 1.0%. The variable interest rate spread varies with the Company s senior debt rating. The variable interest rate spread is currently 2.0% over LIBOR for LIBOR loans and 1.0% over the Alternate Base Rate for Alternate Base Rate loans. The commitment fee is currently .30%. 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, 2010, the Company was in compliance with all Revolving Credit Facility covenants and had no 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 $11,000 as of December 31, 2010.

The Company has $200,000,000 of unsecured floating rate senior notes (Senior Notes) due February 28, 2013. The Senior Notes pay interest quarterly at a rate equal to LIBOR plus a margin of 0.5%. The 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, 2010, $200,000,000 was outstanding under the Senior Notes and the average interest rate was 0.9%. The Company was in compliance with all Senior Notes covenants as of December 31, 2010.

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, 2011. 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, 2010. Outstanding letters of credit under the Credit Line were $3,964,000 as of December 31, 2010.

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 (OCI) until the hedged interest expense is recognized in earnings. The swap agreements effectively convert the Company s interest rate obligation on the Company s variable rate senior notes from quarterly floating rate payments based on the LIBOR to quarterly fixed rate payments. As of December 31, 2010, 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**
$100,000	March 2006	February 2013	5.45%	Three-month LIBOR
$50,000	November 2008	February 2013	3.50%	Three-month LIBOR
$50,000	May 2009	February 2013	3.795%	Three-month LIBOR

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 transactions denominated in foreign currency. These

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transactions, which relate to foreign currency obligations for the purchase of equipment from foreign suppliers or foreign currency receipts from foreign customers, generally are forward contracts or purchased call options and are entered into with large multinational banks.

As of December 31, 2010, the Company has forward contracts with notional amounts aggregating $13,978,000 to hedge its exposure to foreign currency rate fluctuations in expected foreign currency transactions. These contracts expire on various dates beginning in the second quarter of 2011 and ending in the first quarter of 2014. These forward contracts are designated as cash flow hedges, therefore, the changes in fair value, to the extent the forward contracts are effective, are recognized in OCI until the forward contracts expire and are recognized in cost of sales and operating expenses.

As of December 31, 2009, the Company had purchased Euro call options with a 1.28 strike price in the amount of 264,090 Euros that matured on March 1, 2010 and 528,180 Euros that matured on December 1, 2010. The purchased call options were designated as cash flow hedges, therefore, the changes in fair value, to the extent the purchased call options agreements were effective, were recognized in OCI until the purchased call options expired and then were recognized in cost of sales and operating expenses.

Fair Value of Derivative Instruments

The following table sets forth the fair value of the Company s derivative instruments recorded as assets located on the consolidated balance sheet at December 31, 2010 and 2009 (in thousands):

Asset Derivatives	Balance Sheet Location	2010	2009
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Prepaid expenses and other current assets	$	$ 138
Total derivatives designated as hedging instruments under ASC 815		$	$ 138
Total asset derivatives		$	$ 138

The following table sets forth the fair value of the Company s derivative instruments recorded as liabilities located on the consolidated balance sheet at December 31, 2010 and 2009 (in thousands):

Liability Derivatives	Balance Sheet Location	2010	2009
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Other accrued liabilities	$ 798	$
Foreign currency contracts	Other long-term liabilities	569	
Interest rate contracts	Other long-term liabilities	16,209	15,301
Total derivatives designated as hedging instruments under ASC 815		$ 17,576	$ 15,301
Total liability derivatives		$ 17,576	$ 15,301

Fair value amounts were derived as of December 31, 2010 and 2009 utilizing fair value models of the Company and its counterparties on the Company s portfolio of derivative instruments. These fair value models use the income approach that relies on inputs such as yield curves, currency exchange rates and forward prices. The fair value of the Company s derivative instruments is described in the Company s financial statements in Note 3, Fair Value Measurements.

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Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Any ineffectiveness related to the Company s hedges was not material for any of the periods presented.

The following table sets forth the location and amount of gains and losses on the Company s derivative instruments in the consolidated statements of earnings for the years ended December 31, 2010, 2009 and 2008 (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) 2010	2009	2008
Interest rate contracts	Interest expense	$ (908)	$ 5,701	$ (14,514)
Foreign exchange contracts	Cost of sales and operating expenses	(1,419)	(51)	73
Total		$ (2,327)	$ 5,650	$ (14,441)

Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2010	2009	2008
Interest rate contracts	Interest expense	$ (8,529)	$ (7,356)	$ (3,404)
Foreign exchange contracts	Cost of sales and operating expenses	(411)		
Total		$ (8,940)	$ (7,356)	$ (3,404)

The Company anticipates $5,210,000 of net losses on interest rate swap agreements included in accumulated OCI will be transferred into earnings over the next year based on current interest rates. Gains or losses on interest rate swap agreements offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company also expects $798,000 of net losses on foreign currency contracts included in accumulated OCI will be transferred into earnings over the next year based on current spot rates.

Capital Expenditures

Capital expenditures for 2010 were $136,841,000 of which $74,265,000 was for construction of new tank barges and towboats, taking advantage of current attractive tank barge construction prices, and $62,576,000 was primarily for upgrading of the existing marine transportation fleet. Capital expenditures for 2009 were $192,660,000 of which $142,384,000 was for construction of new tank barges and towboats, and $50,276,000 was primarily for upgrading of the existing marine transportation fleet. 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. 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.

During 2010, the Company took delivery of 57 new tank barges and six chartered tank barges with a total capacity of 784,000 barrels, and three 1800 horsepower towboats. During 2010, the Company retired 89 tank barges and returned 12 charter barges, reducing its capacity by 1,574,000 barrels. The Company projects that capital expenditures for 2011, assuming the closing of the United purchase described above, will be in the

$185,000,000 to $195,000,000 range, including approximately $100,000,000 for new tank barge and towboat construction. Based on current commitments, steel prices and projected delivery schedules, the Company s 2011 new construction capital expenditures of approximately $100,000,000 will consist of 40 new tank barges with a total capacity of 1,097,000 barrels and three 1800 horsepower towboats.

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 2010, the Company purchased 618,000 shares of its common stock for $23,793,000, for an average price per share of $38.48. The common stock was purchased through a combination of discretionary purchases and purchases pursuant to a stock trading plan entered into with a brokerage firm pursuant to Rule 10b5-1 under the Securities and Exchange Act of 1934. During 2009, the Company purchased in the open market 20,000 shares of its common stock at a total purchase price of $657,000, for an average price of $32.83. The Company s Board of Directors on July 27, 2010 authorized the repurchase of an additional 2,000,000 shares of its common stock. As of February 23, 2011, the Company had 1,685,000 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 $245,246,000, $319,885,000 and $245,947,000 for the years ended December 31, 2010, 2009 and 2008, respectively. The 2010 year experienced a net decrease in cash flows from changes in operating assets and liabilities of $12,518,000, primarily due to increased receivables from stronger business activities levels and a federal income tax receivable as of December 31, 2010 of $11,138,000, the result of the recently enacted Small Business Act that included a one-year extension of 50% bonus tax depreciation on qualified property. This extension was made after the Company made three quarterly 2010 estimated tax payments based on the assumption that bonus tax depreciation would not be extended and, as a result, the Company overpaid its 2010 estimated federal income taxes. In addition, the Tax Relief Act that was signed on December 17, 2010 provides 100% bonus tax depreciation for capital investments placed in service after September 8, 2010 through December 31, 2011. For equipment placed in service after December 31, 2011 and through December 31, 2012, the bill provides for 50% bonus tax depreciation. This compares with a net increase in cash flows from changes in operating assets and liabilities in the 2009 year of $47,360,000, primarily due to a decrease in receivables during 2009, the result of decreased revenues due to weaker business activity levels. Also impacting 2010 was a pension contribution of $11,900,000 versus none in 2009. The increase for 2009 over 2008 reflected a net increase in cash flows from changes in operating assets and liabilities in 2009 versus a net decrease in 2008, primarily due to a decrease in receivables in 2009 as a result of decreased revenues. In 2008, the Company experienced an increase in receivables as revenues increased due to stronger business activity levels. Also impacting 2008 was a pension contribution of $32,000,000 versus none in 2009. This was partially offset by a decrease in accounts payable due to lower business activity levels and larger incentive compensation payments in 2009 versus 2008 and smaller incentive compensation accruals during 2009 versus 2008.

Funds generated are available for acquisitions, capital expenditure projects, common stock repurchases, repayments of borrowings and other operating requirements. In addition to net cash flow provided by operating activities, the Company also had available as of February 22, 2011, $249,989,000 under its Revolving Credit Facility, $849,000 available under its Credit Line and cash and cash equivalents of $200,346,000.

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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 available cash and cash equivalents, funds generated from operating activities and available financing arrangements.

The Revolving Credit Facility s commitment is in the amount of $250,000,000 and expires November 9, 2015. As of December 31, 2010, the Company had $249,989,000 available under the Revolving Credit Facility. 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 Senior Notes do not mature until 2013 and require no prepayments. While the Company has no current plans to access the private placement 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 and the Company s forward contracts used to hedge the Company s exposure to fluctuating foreign currency 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 2011. For a list of significant risks and uncertainties that could impact cash flows, see Note 12, Contingencies and Commitments in the financial statements, and Item 1A Risk Factors. 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 5, 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 $26,268,000 at December 31, 2010, including $7,257,000 in letters of credit and debt guarantees, and $19,011,000 in performance bonds. All of these instruments have an expiration date within four 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 contract 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.

Contractual Obligations

The contractual obligations of the Company and its subsidiaries at December 31, 2010 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	$ 200,134	$ 128	$ 200,006	$	$
Non-cancelable operating leases tank barges	31,777	8,630	13,776	8,910	461
Non-cancelable operating leases towboats	49,951	28,811	21,140		
Non-cancelable operating leases land, buildings and equipment	27,298	5,108	8,670	6,797	6,723
Tank barge and towboat construction contracts	100,783	100,783			
	$ 409,943	$ 143,460	$ 243,592	$ 15,707	$ 7,184

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 January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, Improving Disclosures about Fair Value Measurements . ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 as well as the reasons for the transfers and a greater level of disaggregation for each class of assets and liabilities. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately rather than as one net number. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of revised Level 3 disclosure requirements which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company applied the provisions of this standard to its financial statement disclosures beginning in the first quarter of 2010.

In June 2009, the FASB issued FASB No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (SFAS No. 168). SFAS No. 168 was effective for interim and annual periods ending after September 15, 2009. Under SFAS No. 168, the FASB Accounting Standards Codification (the Codification or ASC) became the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification superseded all existing non-SEC accounting and reporting standards at September 15, 2009. All other nongrandfathered non-SEC accounting literature not included in the Codification has become nonauthoritative. SFAS No. 168 has been incorporated in ASC 105, Generally Accepted Accounting Principles . The Company adopted SFAS No. 168 in the third quarter of 2009 with no effect on the Company s consolidated financial statements except for the change in the referencing of financial accounting standards.

The Company adopted a new accounting standard included in ASC 805, Business Combinations (formerly SFAS No. 141(R), Business Combinations) for business combinations beginning in the Company s fiscal year ending December 31, 2009. This standard 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. This standard also 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. As the Company completed no business acquisitions during 2009, the adoption as of January 1, 2009 had no effect on the Company s consolidated financial statements.

The Company adopted ASC 810-10-65, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (formerly SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51) effective January 1, 2009. This standard 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. Beginning January 1, 2009, the Company has applied the provisions of this standard to its accounting for noncontrolling interests and its financial statement disclosures. The presentation and disclosure provisions of this standard have been applied to all periods presented in the consolidated financial statements.

The Company adopted the provisions of ASC 820-10, Fair Value Measurements and Disclosures (formerly SFAS No. 157, Fair Value Measurements) with respect to 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), effective January 1, 2009. ASC 820-10 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. The adoption of ASC 820-10 in the first quarter of 2009 did not have an impact on the Company s consolidated financial statements except that the Company has applied these provisions to its financial statement disclosures.

The Company adopted a new accounting standard included in ASC 815, Derivatives and Hedging (formerly SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133) effective January 1, 2009. This standard amends and expands derivatives and hedging disclosure requirements 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 GAAP 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 applied the provisions of this standard to its financial statement disclosures 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 have no impact on the 2011 interest expense based on balances outstanding at December 31, 2010 as the Company s outstanding debt is approximately 100% hedged by interest rate swaps, and would 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 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 OCI until the hedged interest expense is recognized in earnings. The swap agreements effectively convert the Company s interest rate obligation on the Company s variable rate senior notes from quarterly floating rate payments based on LIBOR to quarterly fixed rate payments. As of December 31, 2010, 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
$100,000	March 2006	February 2013	5.45%	Three-month LIBOR
$50,000	November 2008	February 2013	3.50%	Three-month LIBOR
$50,000	May 2009	February 2013	3.795%	Three-month LIBOR

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 transactions denominated in foreign currency. These transactions, which relate to foreign currency obligations for the purchase of equipment from foreign suppliers or foreign currency receipts from foreign customers, generally are forward contracts or purchased call options and are entered into with large multinational banks.

As of December 31, 2010, the Company has forward contracts with notional amounts aggregating $13,978,000 to hedge its exposure to foreign currency rate fluctuations in expected foreign currency transactions. These contracts expire on various dates beginning in the second quarter of 2011 and ending in the first quarter of 2014. These forward contracts are designated as cash flow hedges, therefore, the changes in fair value, to the extent the forward contracts are effective, are recognized in OCI until the forward contracts expire and are recognized in cost of sales and operating expenses.

As of December 31, 2009, the Company had purchased Euro call options with a 1.28 strike price in the amount of 264,090 Euros that matured on March 1, 2010 and 528,180 Euros that matured on December 1, 2010. The purchased call options were designated as cash flow hedges, therefore, the changes in fair value, to the extent the purchased call options agreements were effective, were recognized in OCI until the purchased call options expired and then were recognized in cost of sales and operating expenses.

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Fair Value of Derivative Instruments

The following table sets forth the fair value of the Company s derivative instruments recorded as assets located on the consolidated balance sheet at December 31, 2010 and 2009 (in thousands):

Asset Derivatives	Balance Sheet Location	2010	2009
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Prepaid expenses and other current assets	$	$ 138
Total derivatives designated as hedging instruments under ASC 815		$	$ 138
Total asset derivatives		$	$ 138

The following table sets forth the fair value of the Company s derivative instruments recorded as liabilities located on the consolidated balance sheet at December 31, 2010 and 2009 (in thousands):

Liability Derivatives	Balance Sheet Location	2010	2009
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Other accrued liabilities	$ 798	$
Foreign currency contracts	Other long-term liabilities	569	
Interest rate contracts	Other long-term liabilities	16,209	15,301
Total derivatives designated as hedging instruments under ASC 815		$ 17,576	$ 15,301
Total liability derivatives		$ 17,576	$ 15,301

Fair value amounts were derived as of December 31, 2010 and 2009 utilizing fair value models of the Company and its counterparties on the Company s portfolio of derivative instruments. These fair value models use the income approach that relies on inputs such as yield curves, currency exchange rates and forward prices. The fair value of the Company s derivative instruments is described in the Company s financial statements in Note 3, Fair Value Measurements.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Any ineffectiveness related to the Company s hedges was not material for any of the periods presented.

The following table sets forth the location and amount of gains and losses on the Company s derivative instruments in the consolidated statements of earnings for the years ended December 31, 2010, 2009 and 2008 (in thousands):

Derivatives in ASC 815 Cash	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		
Flow Hedging Relationships:	(Effective Portion)	2010	2009	2008
Interest rate contracts	Interest expense	$ (908)	$ 5,701	$ (14,514)
Foreign exchange contracts	Cost of sales and operating expenses	(1,419)	(51)	73

Total	$ (2,327)	$ 5,650	$ (14,441)

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Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2010	2009	2008
Interest rate contracts	Interest expense	$ (8,529)	$ (7,356)	$ (3,404)
Foreign exchange contracts	Cost of sales and operating expenses	(411)		
Total		$ (8,940)	$ (7,356)	$ (3,404)

The Company anticipates $5,210,000 of net losses on interest rate swap agreements included in accumulated OCI will be transferred into earnings over the next year based on current interest rates. Gains or losses on interest rate swap agreements offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company also expects $798,000 of net losses on foreign currency contracts included in accumulated OCI will be transferred into earnings over the next year based on current spot rates.

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 88).

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, 2010. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of December 31, 2010, 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, 2010 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, 2010. 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.

There were no changes in the Company s internal control over financial reporting during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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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, 2010, except for the information regarding executive officers which is provided under Item 1.

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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, 2010, 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, 2010, 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, 2010 and 2009, 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, 2010, and our report dated February 25, 2011 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Houston, Texas

February 25, 2011

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, 2010 and 2009, 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, 2010. 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, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, 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, 2010, 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 25, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

KPMG LLP

Houston, Texas

February 25, 2011

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

	2010	2009
	($ in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 195,600	$ 97,836
Accounts receivable:		
Trade less allowance for doubtful accounts of $4,000 ($4,532 in 2009)	146,359	132,660
Other	21,612	7,379
Inventory finished goods, at lower of average cost or market	38,821	39,793
Prepaid expenses and other current assets	17,105	14,963
Deferred income taxes	6,418	7,466
Total current assets	425,915	300,097
Property and equipment:		
Marine transportation equipment	1,748,488	1,654,799
Land, buildings and equipment	113,823	117,560
	1,862,311	1,772,359
Accumulated depreciation	744,150	687,302
Property and equipment net	1,118,161	1,085,057
Investment in affiliates	3,336	3,052
Goodwill net	228,873	228,873
Other assets	18,652	18,884
Total assets	$ 1,794,937	$ 1,635,963
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 128	$ 35
Income taxes payable	3,065	5,210
Accounts payable	71,354	52,091
Accrued liabilities:		
Interest	1,006	934
Insurance premiums and claims	24,416	23,744
Employee compensation	30,582	24,860
Taxes other than on income	7,550	5,293
Other	10,525	12,640
Deferred revenues	11,633	12,297
Total current liabilities	160,259	137,104
Long-term debt less current portion	200,006	200,204
Deferred income taxes	231,775	200,397
Other long-term liabilities	43,758	42,163
Total long-term liabilities	475,539	442,764
Contingencies and commitments		

Equity:		
Kirby stockholders equity:		
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	237,014	229,724
Accumulated other comprehensive income net	(33,642)	(30,468)
Retained earnings	1,046,615	930,366
Treasury stock at cost, 3,780,000 shares in 2010 and 3,500,000 in 2009	(99,622)	(82,893)
Total Kirby stockholders equity	1,156,099	1,052,463
Noncontrolling interests	3,040	3,632
Total equity	1,159,139	1,056,095
Total liabilities and equity	$ 1,794,937	$ 1,635,963

See accompanying notes to consolidated financial statements.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

For the Years Ended December 31, 2010, 2009 and 2008

	2010	2009	2008
	($ in thousands, except per share amounts)		
Revenues:			
Marine transportation	$ 915,046	$ 881,298	$ 1,095,475
Diesel engine services	194,511	200,860	264,679
Total revenues	1,109,557	1,082,158	1,360,154
Costs and expenses:			
Costs of sales and operating expenses	683,236	637,833	843,310
Selling, general and administrative	117,694	121,401	142,171
Taxes, other than on income	13,209	12,104	13,120
Depreciation and amortization	95,296	93,968	91,199
Impairment of goodwill		1,901	
Loss (gain) on disposition of assets	78	(1,079)	(142)
Total costs and expenses	909,513	866,128	1,089,658
Operating income	200,044	216,030	270,496
Equity in earnings of affiliates	283	874	134
Other income (expense)	273	(266)	(649)
Interest expense	(10,960)	(11,080)	(14,064)
Earnings before taxes on income	189,640	205,558	255,917
Provision for taxes on income	(72,258)	(78,020)	(97,444)
Net earnings	117,382	127,538	158,473
Less: Net earnings attributable to noncontrolling interests	(1,133)	(1,597)	(1,305)
Net earnings attributable to Kirby	$ 116,249	$ 125,941	$ 157,168
Net earnings per share attributable to Kirby common stockholders:			
Basic	$ 2.16	$ 2.34	$ 2.92
Diluted	$ 2.15	$ 2.34	$ 2.91

See accompanying notes to consolidated financial statements.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND

COMPREHENSIVE INCOME

For the Years Ended December 31, 2010, 2009 and 2008

	2010	2009 ($ in thousands)	2008
Common stock:			
Balance at beginning and end of year	$ 5,734	$ 5,734	$ 5,734
Additional paid-in capital:			
Balance at beginning of year	$ 229,724	$ 225,718	$ 211,983
Excess (deficit) of proceeds received upon exercise of stock options and issuance of restricted stock over cost of treasury stock issued	3,140	(349)	3,879
Tax benefit realized from equity compensation plans	373	1,013	8,930
Issuance of restricted stock, net of forfeitures	(7,090)	(6,513)	(8,332)
Amortization of unearned compensation	10,867	9,855	9,258
Balance at end of year	$ 237,014	$ 229,724	$ 225,718
Accumulated other comprehensive income:			
Balance at beginning of year	$ (30,468)	$ (55,047)	$ (22,522)
Change in defined benefit plans minimum liabilities, net of taxes ($1,028 in 2010, $(12,962) in 2009 and $14,344 in 2008)	(1,654)	20,903	(23,134)
Change in fair value of derivative financial instruments, net of taxes ($986 in 2010, $(1,974) in 2009 and $5,049 in 2008)	(1,520)	3,676	(9,391)
Balance at end of year	$ (33,642)	$ (30,468)	$ (55,047)
Retained earnings:			
Balance at beginning of year	$ 930,366	$ 804,425	$ 647,692
Net earnings attributable to Kirby for the year	116,249	125,941	157,168
Adjustment to initially apply ASC 715-10, net of taxes of $270			(435)
Balance at end of year	$ 1,046,615	$ 930,366	$ 804,425
Treasury stock:			
Balance at beginning of year	$ (82,893)	$ (90,777)	$ (73,057)
Purchase of treasury stock (618,000 in 2010, 20,000 in 2009 and 837,000 shares in 2008)	(23,793)	(657)	(33,377)
Cost of treasury stock issued upon exercise of stock options and issuance of restricted stock (338,000 in 2010, 368,000 in 2009 and 795,000 in 2008)	7,064	8,541	15,657
Balance at end of year	$ (99,622)	$ (82,893)	$ (90,777)
Noncontrolling interests:			
Balance at beginning of year	$ 3,632	$ 3,502	$ 2,978
Net earnings attributable to noncontrolling interests	1,133	1,597	1,305
Return of investment to noncontrolling interests	(1,794)	(1,782)	(894)
Proceeds from noncontrolling interest investments	69	315	113

	2010	2009	2008
Balance at the end of year	$ 3,040	$ 3,632	$ 3,502
Comprehensive income:			
Net earnings	$ 117,382	$ 127,538	$ 158,473
Other comprehensive income (loss), net of taxes ($2,013 in 2010, $(14,936) in 2009 and $19,393 in 2008)	(3,174)	24,579	(32,525)
Total comprehensive income	$ 114,208	$ 152,117	$ 125,948

See accompanying notes to consolidated financial statements.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2010, 2009 and 2008

	2010	2009 ($ in thousands)	2008
Cash flows from operating activities:			
Net earnings	$ 117,382	$ 127,538	$ 158,473
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation and amortization	95,296	93,968	91,199
Provision (credit) for doubtful accounts	(15)	(1,104)	7,799
Provision for deferred income taxes	34,439	42,424	34,280
Loss (gain) on disposition of assets	78	(1,079)	(142)
Equity in earnings of affiliates	(283)	(874)	(134)
Amortization of unearned share-based compensation	10,867	9,855	9,258
Impairment of goodwill		1,901	
Other		(104)	65
Increase (decrease) in cash flows resulting from changes in:			
Accounts receivable	(17,563)	59,083	(21,277)
Inventory	973	8,724	6,208
Other assets	(2,511)	(1,585)	7,053
Income taxes payable	(13,284)	3,557	(7,530)
Accounts payable	19,262	(25,929)	(22,888)
Accrued and other liabilities	605	3,510	(16,417)
Net cash provided by operating activities	245,246	319,885	245,947
Cash flows from investing activities:			
Capital expenditures	(136,841)	(192,660)	(173,019)
Acquisitions of businesses and marine equipment, net of cash acquired			(5,480)
Proceeds from disposition of assets	9,725	7,388	1,978
Net cash used in investing activities	(127,116)	(185,272)	(176,521)
Cash flows from financing activities:			
Payments on bank credit facilities, net		(46,000)	(49,050)
Payments on long-term debt, net	(105)	(1,087)	(1,091)
Return of investment to noncontrolling interests	(1,794)	(1,782)	(894)
Proceeds from noncontrolling interest investments	69	315	113
Proceeds from exercise of stock options	4,884	2,774	12,888
Purchase of treasury stock	(23,793)	(657)	(33,377)
Excess tax benefit from equity compensation plans	373	1,013	5,515
Net cash used in financing activities	(20,366)	(45,424)	(65,896)
Increase in cash and cash equivalents	97,764	89,189	3,530
Cash and cash equivalents, beginning of year	97,836	8,647	5,117
Cash and cash equivalents, end of year	$ 195,600	$ 97,836	$ 8,647
Supplemental disclosures of cash flow information:			
Cash paid during the year:			

Interest	$ 10,604	$ 10,899	$ 14,002
Income taxes	$ 50,743	$ 31,005	$ 65,180
Noncash investing activity:			
Disposition of assets for receivables	$ 1,569	$ 934	$

See accompanying notes to consolidated financial statements.

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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, 2010 and 2009 were $24,626,000 and $23,789,000, 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, 2010 and 2009 were $3,453,000 and $2,078,000, 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 have carrying values that 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 5, Long-Term Debt.

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 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, 2010 and 2009. For 2010, the Company noted no impairment of goodwill. For 2009, the Company incurred an impairment of goodwill charge of $1,901,000. 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. The gross carrying value of goodwill at December 31, 2010 and 2009 was $246,340,000 and accumulated amortization at December 31, 2010 and 2009 was $15,566,000. Accumulated impairment losses were $1,901,000 at December 31, 2010 and 2009.

During the 2009 fourth quarter, the Company took a $1,901,000 charge for the partial impairment of the goodwill recorded for Osprey Line, L.L.C., a subsidiary that transports project cargoes and cargo containers by barge on the United States inland waterway system. The partial impairment reflected the reduced profitability outlook of the container-on-barge operations due to the economic environment at that time. The fair value was determined using a combination of a discounted cash flow methodology and a market based approach utilizing net earnings before interest expense, taxes on income, depreciation and amortization (EBITDA) multiplier.

Net goodwill for the marine transportation segment was $153,870,000 at December 31, 2010 and 2009. Net goodwill for the diesel engine services segment was $75,003,000 at December 31, 2010 and 2009.

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 8, 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.

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 2010, 2009 and 2008 were $13,461,000, $12,786,000 and $19,130,000, respectively.

Noncontrolling 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.

The Company adopted ASC 810-10-65, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (formerly SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51) effective January 1, 2009. This standard 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. Beginning January 1, 2009, the Company has applied the provisions of this standard to its accounting for noncontrolling interests and its financial statement disclosures. The presentation and disclosure provisions of this standard have been applied to all periods presented in the consolidated financial statements.

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.

Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, Improving Disclosures about Fair Value Measurements . ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 as well as the reasons for the transfers and a greater level of disaggregation for each class of assets and liabilities. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately rather than as one net number. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of revised Level 3 disclosure requirements which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company applied the provisions of this standard to its financial statement disclosures beginning in the first quarter of 2010.

In June 2009, the FASB issued FASB No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162 (SFAS No. 168). SFAS No. 168 was effective for interim and annual periods ending after September 15, 2009. Under SFAS No. 168, the FASB Accounting Standards Codification (the Codification or ASC) became the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification superseded all existing non-SEC accounting and reporting standards at September 15, 2009. All other nongrandfathered non-SEC accounting literature not included in the Codification has become nonauthoritative. SFAS No. 168 has been incorporated in ASC 105, Generally Accepted Accounting Principles . The Company adopted SFAS No. 168 in the third quarter of 2009 with no effect on the Company s consolidated financial statements except for the change in the referencing of financial accounting standards.

The Company adopted a new accounting standard included in ASC 805, Business Combinations (formerly SFAS No. 141(R), Business Combinations) for business combinations beginning in the Company s fiscal year ending December 31, 2009. This standard 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. This standard also 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. As the Company completed no business acquisitions during 2009, the adoption as of January 1, 2009 had no effect on the Company s consolidated financial statements.

The Company adopted the provisions of ASC 820-10, Fair Value Measurements and Disclosures (formerly SFAS No. 157, Fair Value Measurements) with respect to 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), effective January 1, 2009. ASC 820-10 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. The adoption of ASC 820-10 in the first quarter of 2009 did not have an impact on the Company s consolidated financial statements except that the Company has applied these provisions to its financial statement disclosures.

The Company adopted a new accounting standard included in ASC 815, Derivatives and Hedging (formerly SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133) effective January 1, 2009. This standard amends and expands derivatives and hedging disclosure requirements 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 GAAP 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 applied the provisions of this standard to its financial statement disclosures beginning in the first quarter of 2009.

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(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.

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

(3) Fair Value Measurements

The accounting guidance for using fair value to measure certain assets and liabilities 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 prices 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, 2010 and 2009 (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
December 31, 2010:				
Assets:				
Derivatives	$	$	$	$
Liabilities:				
Derivatives	$	$ 17,576	$	$ 17,576

	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
December 31, 2009:				
Assets:				
Derivatives	$	$ 138	$	$ 138
Liabilities:				
Derivatives	$	$ 15,301	$	$ 15,301

The fair value of the Company s derivative instruments is more fully described in Note 4, Derivative Instruments.

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities have carrying values that approximate fair value due to the short-term maturity of these financial instruments. The Company is of the opinion that amounts included in the consolidated financial statements for outstanding debt materially represent the fair value of such debt due to their variable interest rates.

Certain assets are measured at fair value on a nonrecurring basis and therefore are not included in the table above. These assets are adjusted to fair value when there is evidence of impairment. During the year ended December 31, 2010, there was no indication that the Company s long-lived assets were impaired, and accordingly, measurement at fair value was not required. During 2009, the Company recorded a $1,901,000 impairment charge on goodwill, which was based on fair value measurements classified as Level 3 of the valuation hierarchy. As of December 31, 2009, the implied fair value of this impaired goodwill was $2,703,000.

Fair value is determined using a combination of a discounted cash flow methodology and a market based approach utilizing an EBITDA multiplier. The key inputs used in the determination of fair value include projections of the amounts and timing of future cash flows, an expected growth rate, an estimated discount rate and a terminal value. The key inputs are based on information such as historical performance and anticipated market conditions.

(4) Derivative Instruments

The Company recognizes all derivative instruments (including certain derivative instruments embedded in other contracts) at fair value in the balance sheet as either 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 gains 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 (OCI) 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 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.

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 OCI until the hedged interest expense is recognized in earnings. The swap agreements effectively convert the Company s interest rate obligation on the Company s variable rate senior notes from quarterly floating rate payments based on the London Interbank Offered Rate (LIBOR) to quarterly fixed rate payments. As of December 31, 2010, 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
$100,000	March 2006	February 2013	5.45%	Three-month LIBOR
$50,000	November 2008	February 2013	3.50%	Three-month LIBOR
$50,000	May 2009	February 2013	3.795%	Three-month LIBOR

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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 transactions denominated in foreign currency. These transactions, which relate to foreign currency obligations for the purchase of equipment from foreign suppliers or foreign currency receipts from foreign customers, generally are forward contracts or purchased call options and are entered into with large multinational banks.

As of December 31, 2010, the Company has forward contracts with notional amounts aggregating $13,978,000 to hedge its exposure to foreign currency rate fluctuations in expected foreign currency transactions. These contracts expire on various dates beginning in the second quarter of 2011 and ending in the first quarter of 2014. These forward contracts are designated as cash flow hedges, therefore, the changes in fair value, to the extent the forward contracts are effective, are recognized in OCI until the forward contracts expire and are recognized in cost of sales and operating expenses.

As of December 31, 2009, the Company had purchased Euro call options with a 1.28 strike price in the amount of 264,090 Euros that matured on March 1, 2010 and 528,180 Euros that matured on December 1, 2010. The purchased call options were designated as cash flow hedges, therefore, the changes in fair value, to the extent the purchased call options agreements were effective, were recognized in OCI until the purchased call options expired and then were recognized in cost of sales and operating expenses.

Fair Value of Derivative Instruments

The following table sets forth the fair value of the Company s derivative instruments recorded as assets located on the consolidated balance sheet at December 31, 2010 and 2009 (in thousands):

Asset Derivatives	Balance Sheet Location	2010	2009
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Prepaid expenses and other current assets	$	$ 138
Total derivatives designated as hedging instruments under ASC 815		$	$ 138
Total asset derivatives		$	$ 138

The following table sets forth the fair value of the Company s derivative instruments recorded as liabilities located on the consolidated balance sheet at December 31, 2010 and 2009 (in thousands):

Liability Derivatives	Balance Sheet Location	2010	2009
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Other accrued liabilities	$ 798	$
Foreign currency contracts	Other long-term liabilities	569	
Interest rate contracts	Other long-term liabilities	16,209	15,301
Total derivatives designated as hedging instruments under ASC 815		$ 17,576	$ 15,301
Total liability derivatives		$ 17,576	$ 15,301

Fair value amounts were derived as of December 31, 2010 and 2009 utilizing fair value models of the Company and its counterparties on the Company s portfolio of derivative instruments. These fair value models

use the income approach that relies on inputs such as yield curves, currency exchange rates and forward prices. The fair value of the Company s derivative instruments is described above in Note 3, Fair Value Measurements.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. Any ineffectiveness related to the Company s hedges was not material for any of the periods presented.

The following table sets forth the location and amount of gains and losses on the Company s derivative instruments in the consolidated statements of earnings for the years ended December 31, 2010, 2009 and 2008 (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) 2010	2009	2008
Interest rate contracts	Interest expense	$ (908)	$ 5,701	$ (14,514)
Foreign exchange contracts	Cost of sales and operating expenses	(1,419)	(51)	73
Total		$ (2,327)	$ 5,650	$ (14,441)

Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2010	2009	2008
Interest rate contracts	Interest expense	$ (8,529)	$ (7,356)	$ (3,404)
Foreign exchange contracts	Cost of sales and operating expenses	(411)		
Total		$ (8,940)	$ (7,356)	$ (3,404)

The Company anticipates $5,210,000 of net losses on interest rate swap agreements included in accumulated OCI will be transferred into earnings over the next year based on current interest rates. Gains or losses on interest rate swap agreements offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company also expects $798,000 of net losses on foreign currency contracts included in accumulated OCI will be transferred into earnings over the next year based on current spot rates.

(5) Long-Term Debt

Long-term debt at December 31, 2010 and 2009 consisted of the following (in thousands):

	2010	2009
Long-term debt, including current portion:		
$250,000,000 revolving credit facility due November 9, 2015	$	$
Senior notes due February 28, 2013	200,000	200,000
Other long-term debt	134	239
	$ 200,134	$ 200,239

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

2011	$ 128
2012	6
2013	200,000
2014	
2015	
Thereafter	
	$ 200,134

The Company has an unsecured revolving credit facility (Revolving Credit Facility) with a syndicate of banks, with JPMorgan Chase Bank, N.A. as the administrative agent bank, with a maturity date of November 9, 2015. 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 or an Alternate Base Rate, meaning the highest of the administrative agent s prime rate, the Federal Funds Rate plus 0.5% and one month LIBOR plus 1.0%. The variable interest rate spread varies with the Company s senior debt rating. The variable interest rate spread is currently 2.0% over LIBOR for LIBOR loans and 1.0% over the Alternate Base Rate for Alternate Base Rate loans. The commitment fee is currently .30%. 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, 2010, the Company was in compliance with all Revolving Credit Facility covenants and had no borrowings outstanding under the Revolving Credit Facility during any portion of the 2010 year. 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 $11,000 as of December 31, 2010.

The Company has $200,000,000 of unsecured floating rate senior notes (Senior Notes) due February 28, 2013. The Senior Notes pay interest quarterly at a rate equal to LIBOR plus a margin of 0.5%. The 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, 2010, $200,000,000 was outstanding under the Senior Notes and the 2010 average interest rate was 0.9%, computed by dividing the interest expense under the Senior Notes by the average Senior Notes borrowings of $200,000,000. The Company was in compliance with all Senior Notes covenants at December 31, 2010.

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, 2011. 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, 2010. Outstanding letters of credit under the Credit Line were $3,964,000 as of December 31, 2010.

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, 2010 and 2009 due to their variable interest rates.

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(6) Taxes on Income

Earnings before taxes on income and details of the provision for taxes on income for the years ended December 31, 2010, 2009 and 2008 were as follows (in thousands):

		2010	2009	2008
Earnings before taxes on income	United States	$ 189,640	$ 205,558	$ 255,917
Provision for taxes on income:				
Federal:				
Current		$ 33,014	$ 30,443	$ 55,077
Deferred		30,643	38,404	31,928
State and local		8,601	9,173	10,439
		$ 72,258	$ 78,020	$ 97,444

During the three years ended December 31, 2010, 2009 and 2008, 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 $373,000, $1,013,000 and $8,930,000, respectively.

The Company s provision for taxes on income varied from the statutory federal income tax rate for the years ended December 31, 2010, 2009 and 2008 due to the following:

	2010	2009	2008
United States income tax statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of federal benefit	2.9	2.9	2.7
Non-deductible items	.2	.1	.4
	38.1%	38.0%	38.1%

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, 2010 and 2009 were as follows (in thousands):

	2010	2009
Current deferred tax assets:		
Compensated absences	$ 518	$ 572
Allowance for doubtful accounts	1,400	1,580
Insurance accruals	2,319	3,042
Other	2,181	2,272
	$ 6,418	$ 7,466
Non-current deferred tax assets and liabilities:		
Deferred tax assets:		
Postretirement health care benefits	$ 3,548	$ 3,603
Insurance accruals	876	959
Deferred compensation	7,456	7,568
Unrealized loss on derivative financial instruments	6,162	5,347
Unrealized loss on defined benefit plans	12,582	11,643
Operating loss carryforwards	1,023	1,486
Other	9,177	8,037
	40,824	38,643
Deferred tax liabilities:		
Property	(234,732)	(205,696)
Deferred state taxes	(22,571)	(18,972)
Pension benefits	(8,738)	(8,082)
Goodwill and other intangibles	(5,538)	(5,465)
Other	(1,020)	(825)
	(272,599)	(239,040)
	$ (231,775)	$ (200,397)

The Company has determined that it is more likely than not that all deferred tax assets at December 31, 2010 will be realized, including its operating loss carryforward of $1,023,000 that expires in 2026.

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 2007 through 2009 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 2004 through 2009 tax years.

As of December 31, 2010, the Company has provided a liability of $3,081,000 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 $2,073,000, 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 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, 2011 due to the uncertainty of possible examination results.

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A reconciliation of the beginning and ending amount of the liability for unrecognized tax benefits for the years ended December 31, 2010, 2009 and 2008, is as follows (in thousands):

	2010	2009	2008
Balance at beginning of year	$ 2,290	$ 2,451	$ 2,639
Additions based on tax positions related to the current year	279	417	569
Additions for tax positions of prior years	84	87	301
Reductions for tax positions of prior years	(443)	(665)	(601)
Settlements	(122)		(457)
Balance at end of year	$ 2,088	$ 2,290	$ 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 $43,000, $(221,000) and $(336,000) in interest and penalties for the years ended December 31, 2010, 2009 and 2008, respectively. The Company had $993,000, $964,000 and $1,247,000 of accrued liabilities for the payment of interest and penalties at December 31, 2010, 2009 and 2008, respectively.

(7) 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 one 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 2013; 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, 2010, 2009 and 2008 was as follows (in thousands):

	2010	2009	2008
Rental expense:			
Marine equipment tank barges	$ 9,075	$ 9,489	$ 6,684
Marine equipment towboats	79,016	81,453	116,933
Other buildings and equipment	5,334	5,240	5,134
Rental expense	$ 93,425	$ 96,182	$ 128,751

Future minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2010 were as follows (in thousands):

	Land, Buildings and Equipment	Marine Equipment Tank Barges	Marine Equipment Towboats	Total
2011	$ 5,108	$ 8,630	$ 28,811	$ 42,549
2012	4,608	7,516	14,022	26,146
2013	4,062	6,260	7,118	17,440
2014	3,505	4,980		8,485
2015	3,292	3,930		7,222
Thereafter	6,723	461		7,184
	$ 27,298	$ 31,777	$ 49,951	$ 109,026

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(8) 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, 2010, 2009 and 2008 were as follows (in thousands):

	2010	2009	2008
Compensation cost	$ 10,867	$ 9,855	$ 9,258
Income tax benefit	$ 4,162	$ 3,775	$ 3,546

The Company has two employee stock award plans for selected officers and other key employees which provide for the issuance of stock options and restricted stock. For both 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 prior to January 25, 2010 are five years and vest ratably over three years. Options granted on or after January 25, 2010 have terms of seven years and vest ratably over three years. At December 31, 2010, 1,457,516 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.

The following is a summary of the stock option activity under the employee plans described above for the years ended December 31, 2010, 2009 and 2008:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
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
Granted	228,246	$ 23.98
Exercised	(101,944)	$ 21.86
Canceled or expired		$
Outstanding at December 31, 2009	640,483	$ 33.39
Granted	103,999	$ 32.60
Exercised	(228,543)	$ 28.36
Canceled or expired	(81,492)	$ 45.73
Outstanding at December 31, 2010	434,447	$ 33.53

Under the employee plans, stock options exercisable were 200,210, 262,488 and 148,698 at December 31, 2010, 2009 and 2008, respectively.

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The following table summarizes information about the Company s outstanding and exercisable stock options under the employee plans at December 31, 2010:

		Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregated Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregated Intrinsic Value
$23.98 $27.60	157,387	2.62	$ 24.54		64,552	$ 25.36	
$31.35 $34.40	119,999	5.55	$ 32.78		13,333	$ 34.40	
$35.66 $36.94	64,858	1.39	$ 35.78		60,858	$ 35.74	
$48.00 $48.65	92,203	2.11	$ 48.28		61,467	$ 48.28	
$23.98 $48.65	434,447	3.14	$ 33.53	$ 4,568,000	200,210	$ 36.16	$ 1,581,000

The following is a summary of the restricted stock award activity under the employee plans described above for the years ended December 31, 2010, 2009 and 2008:

	Unvested Restricted Stock Award Shares	Weighted Average Grant Date Fair Value Per Share
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
Granted	263,579	$ 24.70
Vested	(207,106)	$ 36.60
Forfeited	(16,612)	$ 32.70
Nonvested balance at December 31, 2009	542,679	$ 30.70
Granted	197,994	$ 33.42
Vested	(234,831)	$ 39.34
Forfeited	(6,507)	$ 32.00
Nonvested balance at December 31, 2010	499,335	$ 31.98

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, 2010, 324,766 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.

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The following is a summary of the stock option activity under the director plans described above for the years ended December 31, 2010, 2009 and 2008:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
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
Granted	50,433	$ 29.60
Exercised	(46,068)	$ 11.85
Forfeited	(12,000)	$ 35.99
Outstanding at December 31, 2009	301,937	$ 33.43
Granted	57,492	$ 41.24
Exercised	(3,000)	$ 10.67
Outstanding at December 31, 2010	356,429	$ 34.88

Under the director plans, options exercisable were 355,555, 301,328 and 309,247 at December 31, 2010, 2009 and 2008, respectively.

The following table summarizes information about the Company s outstanding and exercisable stock options under the director plans at December 31, 2010:

	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
$10.06 $12.69	31,356	1.05	$ 11.10		31,356	$ 11.10	
$15.74 $29.60	102,247	5.66	$ 23.75		102,247	$ 23.75	
$35.17 $36.82	96,036	5.70	$ 35.81		96,036	$ 35.81	
$41.24 $55.49	126,790	8.23	$ 49.03		125,916	$ 49.08	
$10.06 $55.49	356,429	6.18	$ 34.88	$ 3,269,000	355,555	$ 34.86	$ 3,267,000

The following is a summary of the restricted stock award activity under the director plan described above for the years ended December 31, 2010, 2009 and 2008:

	Unvested Restricted Stock Award	Weighted Average Grant Date

	Shares	Fair Value Per Share
Nonvested balance at December 31, 2007	784	$ 36.86
Granted	9,557	$ 56.00
Vested	(9,951)	$ 54.49
Nonvested balance at December 31, 2008	390	$ 56.00
Granted	10,919	$ 29.77
Vested	(10,577)	$ 30.74
Nonvested balance at December 31, 2009	732	$ 29.77
Granted	11,097	$ 41.33
Vested	(11,304)	$ 40.58
Nonvested balance at December 31, 2010	525	$ 41.33

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The total intrinsic value of all stock options exercised under all of the Company s plans was $2,835,000, $1,859,000 and $17,827,000 for the years ended December 31, 2010, 2009 and 2008, respectively. The actual tax benefit realized for tax deductions from stock option exercises was $1,086,000, $712,000 and $6,828,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

The total intrinsic value of all the restricted stock vestings under all of the Company s plans was $8,809,000, $5,931,000 and $7,187,000 for the years ended December 31, 2010, 2009 and 2008, respectively. The actual tax benefit realized for tax deductions from restricted stock vestings was $3,374,000, $2,271,000 and $2,753,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

As of December 31, 2010, there was $1,326,000 of unrecognized compensation cost related to nonvested stock options and $11,237,000 related to restricted stock. The stock options are expected to be recognized over a weighted average period of approximately 1.7 years and restricted stock over approximately 2.7 years. The total fair value of stock options vested was $3,491,000, $2,763,000 and $3,346,000 during the years ended December 31, 2010, 2009 and 2008, respectively. The fair value of the restricted stock vested was $8,809,000, $5,931,000 and $7,187,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

The weighted average per share fair value of stock options granted during the years ended December 31, 2010, 2009 and 2008 was $13.81, $8.15 and $14.95, respectively. The fair value of the stock options granted during the years ended December 31, 2010, 2009 and 2008 was $2,231,000, $2,271,000 and $3,705,000, respectively. The Company currently uses treasury stock shares for restricted stock grants and stock option exercises. The fair value of each stock option was determined using the Black-Scholes option pricing model. The key input variables used in valuing the stock options during the years ended December 31, 2010, 2009 and 2008 were as follows:

	2010	2009	2008
Dividend yield	None	None	None
Average risk-free interest rate	3.1%	1.9%	3.0%
Stock price volatility	33%	33%	26%
Estimated option term	Six years or seven years	Four years or eight years	Four years or nine years

(9) 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 fair value of plan assets was $152,696,000 and $126,490,000 at December 31, 2010 and 2009, respectively. As of December 31, 2010 and 2009, these assets were allocated among asset categories as follows:

Asset Category	2010	2009	Current Minimum, Target and Maximum Allocation Policy		
U.S. equity securities	50%	56%	30%	50%	70%
International equity securities	20%	17%	0%	20%	30%
Debt securities	29%	23%	15%	30%	55%
Cash and cash equivalents	1%	4%	0%	0%	5%
	100%	100%			

The plan assets are invested entirely in common collective trusts. These instruments are public investment vehicles valued using the net asset value provided by the administrator of the fund. The net asset value is classified within Level 2 of the valuation hierarchy as set forth in the accounting guidance for fair value

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measurements because the net asset value price is quoted on an inactive private market although the underlying investments are traded on an active market.

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 makes various assumptions when determining defined benefit plan costs including, but not limited to, the current discount rate and the expected long-term return on plan assets. Discount rates are determined annually and are based on a yield curve that consists of a hypothetical portfolio of high quality corporate bonds with maturities matching the projected benefit cash flows. The Company assumed that plan assets would generate a long-term rate of return of 7.5% in 2010 and 2009. 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 ABO is based on a variety of demographic and economic assumptions, and the pension plan assets returns are subject to various risks, including market and interest rate risk, making an accurate prediction of the pension plan contribution difficult.

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.

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

	Pension Benefits				Other Postretirement Benefits	
	Pension Plan		SERP		Postretirement Welfare Plan	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Change in benefit obligation						
Benefit obligation at beginning of year	$ 141,338	$ 135,337	$ 1,429	$ 1,431	$ 5,459	$ 5,448
Service cost	6,883	6,523				246
Interest cost	9,399	8,486	84	84	154	322
Actuarial loss (gain)	17,124	(5,761)	101	14	(3,108)	(141)
Plan amendments					519	
Gross benefits paid	(4,002)	(3,247)	(103)	(100)	(249)	(434)
Less: federal subsidy on benefits paid					15	18
Benefit obligation at end of year	$ 170,742	$ 141,338	$ 1,511	$ 1,429	$ 2,790	$ 5,459
Accumulated benefit obligation at end of year	$ 141,666	$ 118,041	$ 1,511	$ 1,429	$	$

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	Pension Benefits				Other Postretirement Benefits	
	Pension Plan		SERP		Postretirement Welfare Plan	
	2010	2009	2010	2009	2010	2009
Weighted-average assumption used to determine benefit obligation at end of year						
Discount rate	5.5%	6.1%	5.5%	6.1%	5.5%	6.1%
Rate of compensation increase	4.25%	4.0%				
Health care cost trend rate						
Initial rate					8.0%	7.5%
Ultimate rate					5.0%	5.0%
Years to ultimate					2017	2015
Effect of one-percentage-point change in assumed health care cost trend rate on postretirement obligation						
Increase	$	$	$	$	$ 223	$ 218
Decrease					(196)	(195)
Change in plan assets						
Fair value of plan assets at beginning of year	$ 126,490	$ 99,722	$	$	$	$
Actual return on plan assets	18,308	30,015				
Employer contribution	11,900		103	100	249	434
Gross benefits paid	(4,002)	(3,247)	(103)	(100)	(249)	(434)
Fair value of plan assets at end of year	$ 152,696	$ 126,490	$	$	$	$

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, 2010 and 2009 (in thousands):

	Pension Benefits				Other Postretirement Benefits	
	Pension Plan		SERP		Postretirement Welfare Plan	
	2010	2009	2010	2009	2010	2009
Funded status at end of year						
Fair value of plan assets	$ 152,696	$ 126,490	$	$	$	$
Benefit obligations	170,742	141,338	1,511	1,429	2,790	5,459
Funded status and amount recognized at end of year	$ (18,046)	$ (14,848)	$ (1,511)	$ (1,429)	$ (2,790)	$ (5,459)
Amounts recognized in the consolidated balance sheets						
Current liability	$	$	$ (102)	$ (102)	$ (246)	$ (323)
Long-term liability	(18,046)	(14,848)	(1,409)	(1,327)	(2,544)	(5,136)
Amounts recognized in accumulated other comprehensive income						
Net actuarial loss (gain)	$ 43,048	$ 38,065	$ 293	$ 193	$ (7,523)	$ (5,064)
Prior service cost (credit)	(38)	(127)			158	198
Accumulated other compensation income	$ 43,010	$ 37,938	$ 293	$ 193	$ (7,365)	$ (4,866)

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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, 2010 and 2009 were as follows (in thousands):

	Pension Benefits			
	Pension Plan		SERP	
	2010	2009	2010	2009
Projected benefit obligation in excess of plan assets				
Projected benefit obligation at end of year	$ 170,742	$ 141,338	$ 1,511	$ 1,429
Fair value of plan assets at end of year	152,696	126,490		

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, 2010 and 2009 were as follows (in thousands):

	Pension Benefits			
	Pension Plan		SERP	
	2010	2009	2010	2009
Accumulated benefit obligation in excess of plan assets				
Projected benefit obligation at end of year	$	$	$ 1,511	$ 1,429
Accumulated benefit obligation at end of year			1,511	1,429
Fair value of plan assets at end of year				

The following tables presents the expected cash flows for the Company s defined benefit plans and postretirement benefit plan at December 31, 2010 and 2009 (in thousands):

	Pension Benefits				Other Postretirement Benefits	
	Pension Plan		SERP		Postretirement Welfare Plan	
	2010	2009	2010	2009	2010	2009
Expected employer contributions						
First year	$	$	$ 102	$ 102	$ 246	$ 323

	Pension Benefits				Other Postretirement Benefits	
	Pension Plan		SERP		Postretirement Welfare Plan	
	2010	2009	2010	2009	2010	2009
Expected benefit payments (gross)						
2011	$ 4,639	$ 4,240	$ 102	$ 102	$ 262	$ 341
2012	5,058	4,551	100	101	261	378
2013	5,480	4,816	99	99	253	355
2014	5,997	5,105	97	98	257	361
2015	6,524	5,487	95	96	258	371
Next five years	42,703	35,121	558	489	1,274	2,186

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	Pension Benefits				Other Postretirement Benefits	
	Pension Plan		SERP		Postretirement Welfare Plan	
	2010	2009	2010	2009	2010	2009
Expected federal subsidy						
2011	$	$	$	$	$ (16)	$ (18)
2012					(16)	(18)
2013					(16)	(19)
2014					(16)	(19)
2015					(16)	(19)
Next five years					(74)	(85)

The components of net periodic benefit cost and other changes in plan assets and benefit obligations recognized in other comprehensive income for the Company s defined benefit plans for the years ended December 31, 2010, 2009 and 2008 were as follows (in thousands):

	Pension Benefits	
	Pension Plan	SERP
	2010	