

KIRBY CORP
Form 10-Q
November 07, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2011

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 1-7615

KIRBY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of

74-1884980
(IRS Employer

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incorporation or organization)	Identification No.)
55 Waugh Drive, Suite 1000, Houston, TX (Address of principal executive offices)	77007 (Zip Code)
(713) 435-1000	

(Registrant's telephone number, including area code)

No Change

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of large accelerated filer and accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

The number of shares outstanding of the registrant's Common Stock, \$.10 par value per share, on November 2, 2011 was 55,669,000.

PART I FINANCIAL INFORMATION
Item 1. Financial Statements**KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES****CONDENSED BALANCE SHEETS****(Unaudited)****ASSETS**

	September 30, 2011	December 31, 2010
	(\$ in thousands)	
Current assets:		
Cash and cash equivalents	\$ 8,365	\$ 195,600
Accounts receivable:		
Trade less allowance for doubtful accounts	291,148	146,359
Other	24,212	21,612
Inventories net	126,324	38,821
Prepaid expenses and other current assets	35,066	17,105
Deferred income taxes	11,434	6,418
Total current assets	496,549	425,915
Property and equipment	2,562,961	1,862,311
Less accumulated depreciation	(798,793)	(744,150)
Property and equipment - net	1,764,168	1,118,161
Goodwill net	478,923	228,873
Other assets	126,866	21,988
Total assets	\$ 2,866,506	\$ 1,794,937

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS

(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2011	December 31, 2010
	(\$ in thousands)	
Current liabilities:		
Current portion of long-term debt	\$ 32,571	\$ 128
Income taxes payable	7,805	3,065
Accounts payable	148,988	71,354
Accrued liabilities	113,065	74,079
Deferred revenues	30,919	11,633
Total current liabilities	333,348	160,259
Long-term debt less current portion	764,311	200,006
Deferred income taxes	280,260	231,775
Other long-term liabilities	70,830	43,758
Total long-term liabilities	1,115,401	475,539
Contingencies and commitments		
Equity:		
Kirby stockholders' equity:		
Common stock, \$.10 par value per share. Authorized 120,000,000 shares, issued 59,276,000 shares at September 30 and 57,337,000 at December 31, 2010	5,928	5,734
Additional paid-in capital	353,348	237,014
Accumulated other comprehensive income net	(29,718)	(33,642)
Retained earnings	1,173,471	1,046,615
Treasury stock at cost, 3,634,000 at September 30, 2011 and 3,780,000 at December 31, 2010	(96,882)	(99,622)
Total Kirby stockholders' equity	1,406,147	1,156,099
Noncontrolling interests	11,610	3,040
Total equity	1,417,757	1,159,139
Total liabilities and equity	\$ 2,866,506	\$ 1,794,937

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF EARNINGS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	(\$ in thousands, except per share amounts)			
Revenues:				
Marine transportation	\$ 351,206	\$ 232,785	\$ 859,495	\$ 682,603
Diesel engine services	212,376	48,532	440,777	140,636
Total revenues	563,582	281,317	1,300,272	823,239
Costs and expenses:				
Costs of sales and operating expenses	378,520	172,029	858,928	505,908
Selling, general and administrative	52,780	29,334	121,284	90,366
Taxes, other than on income	3,244	3,092	10,468	10,171
Depreciation and amortization	36,827	24,135	90,233	70,359
Loss (gain) on disposition of assets	(97)	(8)	(71)	55
Total costs and expenses	471,274	228,582	1,080,842	676,859
Operating income	92,308	52,735	219,430	146,380
Other income (expense)	(6)	131	123	173
Interest expense	(5,974)	(2,750)	(12,085)	(8,115)
Earnings before taxes on income	86,328	50,116	207,468	138,438
Provision for taxes on income	(32,734)	(19,211)	(78,745)	(52,979)
Net earnings	53,594	30,905	128,723	85,459
Less: Net earnings attributable to noncontrolling interests	(860)	(218)	(1,867)	(830)
Net earnings attributable to Kirby	\$ 52,734	\$ 30,687	\$ 126,856	\$ 84,629
Net earnings per share attributable to Kirby common stockholders:				
Basic	\$.95	\$.57	\$ 2.33	\$ 1.57
Diluted	\$.94	\$.57	\$ 2.33	\$ 1.56

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30, 2011 2010 (\$ in thousands)	
Cash flows from operating activities:		
Net earnings	\$ 128,723	\$ 85,459
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation and amortization	90,233	70,359
Provision for deferred income taxes	45,383	28,025
Amortization of unearned compensation	7,107	9,033
Other	103	(165)
Decrease in cash flows resulting from changes in operating assets and liabilities, net	(56,223)	(22,874)
Net cash provided by operating activities	215,326	169,837
Cash flows from investing activities:		
Capital expenditures	(163,210)	(108,036)
Acquisitions of businesses and marine equipment, net of cash acquired	(816,767)	
Proceeds from disposition of assets	3,967	7,501
Retirement of interest rate swaps assumed in acquisition	(14,803)	
Other	(10)	
Net cash used in investing activities	(990,823)	(100,535)
Cash flows from financing activities:		
Borrowings on long-term debt	531,645	
Borrowings on bank credit facilities, net	83,310	
Payments on long-term debt	(26,561)	(88)
Proceeds from exercise of stock options	349	3,824
Purchase of treasury stock		(20,584)
Excess tax benefit from equity compensation plans	789	165
Other	(1,270)	(1,251)
Net cash provided by (used in) financing activities	588,262	(17,934)
Increase (decrease) in cash and cash equivalents	(187,235)	51,368
Cash and cash equivalents, beginning of year	195,600	97,836
Cash and cash equivalents, end of period	\$ 8,365	\$ 149,204
Supplemental disclosures of cash flow information:		
Cash paid during the period:		
Interest	\$ 11,324	\$ 7,948
Income taxes	\$ 19,156	\$ 50,253
Noncash investing activity:		
Stock issued in acquisition	\$ 113,019	\$
Cash acquired in acquisition	\$ 4,044	\$

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES**NOTES TO CONDENSED FINANCIAL STATEMENTS****(Unaudited)**

In the opinion of management, the accompanying unaudited condensed financial statements of Kirby Corporation and consolidated subsidiaries (the Company) contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2011 and December 31, 2010, and the results of operations for the three months and nine months ended September 30, 2011 and 2010.

(1) BASIS FOR PREPARATION OF THE CONDENSED FINANCIAL STATEMENTS

The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including significant accounting policies normally included in annual financial statements, have been condensed or omitted pursuant to such rules and regulations. It is suggested that these condensed financial statements be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

(2) ACCOUNTING ADOPTION

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-08, Testing Goodwill for Impairment. ASU 2011-08 amends the guidance in ASC 350-20, Intangibles—Goodwill and Other—Goodwill. Under ASU 2011-08, entities have the option of performing a qualitative assessment before calculating the fair value of the reporting unit when testing goodwill for impairment. If the fair value of the reporting unit is determined, based on qualitative factors, to be more likely than not less than the carrying amount of the reporting unit, then entities are required to perform the two-step goodwill impairment test. This standard is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company is currently evaluating the effect that ASU 2011-08 will have on its consolidated financial statements.

(3) ACQUISITIONS

On July 1, 2011, the Company completed the acquisition of K-Sea Transportation Partners L.P. (K-Sea), an operator of tank barges and tugboats participating in the coastwise transportation primarily of refined petroleum products in the United States. The total value of the transaction was \$603,427,000, excluding transaction fees, consisting of \$227,617,000 of cash paid to K-Sea common and preferred unit holders and the general partner, \$262,791,000 of cash to retire K-Sea's outstanding debt, and \$113,019,000 through the issuance of 1,939,234 shares of Company common stock valued at \$58.28 per share, the Company's closing share price on July 1, 2011.

K-Sea's fleet, comprised of 57 tank barges with a capacity of 3.8 million barrels and 63 tugboats, operates along the East Coast, West Coast and Gulf Coast of the United States, as well as in Alaska and Hawaii. K-Sea's tank barge fleet, 54 of which are double hulled, has an average age of approximately nine years and is one of the youngest fleets in the coastwise trade. K-Sea's customers include major oil companies and refiners, many of which are current Company customers for inland tank barge services. K-Sea has operating facilities in New York, Philadelphia, Norfolk, Seattle and Honolulu.

The Company considers K-Sea to be a natural progression of the current marine transportation segment, expanding into the coastwise and local based marine transportation business from the predominately inland based marine transportation business.

Total consideration transferred was as follows (in thousands):

Cash consideration paid	\$ 227,617
Cash to retire K-Sea's outstanding debt	262,791
Stock consideration through issuance of Company common stock	113,019

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Fair value of consideration transferred

\$ 603,427

The fair values of the assets acquired and liabilities assumed recorded at the acquisition date were as follows (in thousands):

Assets:	
Cash	\$ 4,044
Accounts receivable	36,752
Other current assets	8,881
Property and equipment	500,534
Goodwill	109,421
Deferred income taxes	4,450
Other assets	26,126
Total assets	\$ 690,208
Liabilities:	
Accounts payable	\$ 27,279
Accrued liabilities	39,095
Deferred revenues	8,224
Other long-term liabilities	8,100
Non-controlling interests	4,083
Total liabilities	\$ 86,781
Net assets acquired	\$ 603,427

The analysis of the K-Sea fair values above is substantially complete but all fair values have not been finalized pending obtaining the information necessary to complete the analysis. Companies have one year after an acquisition to finalize acquisition accounting under current accounting rules.

As a result of the acquisition, the Company recorded \$109,421,000 of goodwill and \$11,400,000 of net intangibles. The net intangibles have a weighted average amortization period of approximately 11 years. The Company expects substantially all of the goodwill will be deductible for tax purposes. Acquisition and integration related costs, consisting primarily of legal, audit and other professional fees plus other expenses, of \$5,325,000 were expensed as incurred to selling, general and administrative expense in the first nine months of 2011.

On April 15, 2011, the Company purchased United Holdings LLC (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 purchase price was \$271,192,000 in cash, plus a three-year earnout provision for up to an additional \$50,000,000 payable in 2014, dependent on achieving certain financial targets. 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 Company considers United to be a natural progression of the current diesel engine services segment, expanding into the land-based diesel engines and transmissions service business, especially the pressure pumping and oilfield services market.

Total consideration transferred was as follows (in thousands):

Cash consideration paid	\$ 271,192
Fair value of contingent earnout provision payable in 2014	16,300
Fair value of consideration transferred	\$ 287,492

The fair values of the assets acquired and liabilities assumed recorded at the acquisition date were as follows (in thousands):

Assets:	
Accounts receivable	\$ 71,427
Inventories	64,680
Other current assets	1,246
Property and equipment	16,629
Goodwill	132,310
Other assets	75,864
Total assets	\$ 362,156
Liabilities:	
Accounts payable	\$ 39,809
Accrued liabilities	7,202
Deferred revenues	27,331
Deferred income taxes	322
Total liabilities	\$ 74,664
Net assets acquired	\$ 287,492

The analysis of the United fair values above is substantially complete but all fair values have not been finalized pending obtaining the information necessary to complete the analysis. Companies have one year after an acquisition to finalize acquisition accounting under current accounting rules.

As a result of the acquisition, the Company recorded \$132,310,000 of goodwill and \$75,697,000 of intangibles. The intangibles have a weighted average amortization period of approximately 16 years. The Company expects substantially all of the goodwill will be deductible for tax purposes. Acquisition related costs, consisting primarily of legal and audit fees and other expenses, of \$760,000 were expensed as incurred to selling, general and administrative expense in the first nine months of 2011.

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 \$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.

The following unaudited pro forma results present consolidated information as if the United and K-Sea acquisitions had been completed as of January 1, 2010. The pro forma results do not include the acquisitions of Enterprise and Kinder Morgan described above as the effect of these acquisitions would not be materially different from the Company 's actual results.

The pro forma results include the amortization associated with the acquired intangible assets, interest expense associated with the debt used to fund a portion of the acquisitions, the impact of the additional shares issued in connection with the K-Sea acquisition, the impact of certain fair value adjustments such as depreciation adjustments related to adjustments to property and equipment, elimination of K-Sea 's goodwill impairment charge in the second quarter of 2010, and standardization of accounting policies. The pro forma results do not include any cost savings or potential synergies related to the acquisitions nor any integration costs. The pro forma results should not be considered indicative of the results of operations or financial position of the combined companies had the acquisitions had been consummated as of January 1, 2010 and are not necessarily indicative of results of future operations of the Company.

The following table sets forth the Company's pro forma revenues, net earnings attributable to Kirby, basic net earnings per share and fully diluted net earnings per share attributable to Kirby common stockholders (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010 Pro forma	2011 Pro forma	2010 Pro forma
Revenues	\$ 563,582	\$ 441,074	\$ 1,555,759	\$ 1,236,368
Net earnings attributable to Kirby	\$ 52,734	\$ 38,899	\$ 122,317	\$ 91,232
Net earnings per share attributable to Kirby common stockholders:				
Basic	\$.95	\$.70	\$ 2.20	\$ 1.63
Diluted	\$.94	\$.70	\$ 2.19	\$ 1.63

(4) INVENTORIES

The following table presents the details of inventories, net of reserves, as of September 30, 2011 and December 31, 2010 (in thousands):

	September 30, 2011	December 31, 2010
Finished goods	\$ 110,455	\$ 35,719
Work in process	15,869	3,102
	\$ 126,324	\$ 38,821

(5) 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 September 30, 2011 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
Assets:				
Derivatives	\$	\$	\$	\$
Liabilities:				
Derivatives	\$	\$ 12,493	\$	\$ 12,493
Contingent earnout liability			18,900	18,900
	\$	\$ 12,493	\$ 18,900	\$ 31,393

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at December 31, 2010 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
Assets:				
Derivatives	\$	\$	\$	\$
Liabilities:				
Derivatives	\$	\$ 17,576	\$	\$ 17,576

The fair value of the Company's derivative instruments is more fully described below in Note 6, Derivative Instruments.

In connection with the acquisition of United on April 15, 2011, United's former owners are eligible to receive a three-year earnout provision for up to an additional \$50,000,000 payable in 2014, dependent on achieving certain financial targets. The fair value of the contingent earnout liability recorded at the acquisition date was \$16,300,000. The fair value of the earnout is based on a valuation of the estimated fair value of the liability after probability weighting and discounting various potential payments. The increase in the fair value of the earnout liability of \$2,220,000 and \$2,600,000 for the three months and nine months ended September 30, 2011, respectively, was charged to selling, general and administrative expense.

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 nine months ended September 30, 2011, there was no indication that the Company's long-lived assets were impaired, and accordingly, measurement at fair value was not required.

(6) 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 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, variable rate term loan and variable rate bank revolving credit facility.

From time to time, the Company hedges its exposure to fluctuations in short-term interest rates under its variable rate bank revolving credit facility and floating rate senior notes by entering into interest rate swap agreements. The interest rate swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the swap agreements are effective, are recognized in OCI until the hedged interest expense is recognized in earnings. The current 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 September 30, 2011,

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 September 30, 2011, the Company had forward contracts with notional amounts aggregating \$8,484,000 to hedge its exposure to foreign currency rate fluctuations in expected foreign currency transactions. These contracts expire on various dates beginning in the fourth 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.

Fair Value of Derivative Instruments

The following table sets forth the fair value of the Company's derivative instruments recorded as liabilities located on the consolidated balance sheet at September 30, 2011 and December 31, 2010 (in thousands):

Liability Derivatives	Balance Sheet Location	September 30, 2011	December 31, 2010
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Accrued liabilities	\$ 889	\$ 798
Foreign currency contracts	Other long-term liabilities	44	569
Interest rate contracts	Other long-term liabilities	11,560	16,209
Total derivatives designated as hedging instruments under ASC 815		\$ 12,493	\$ 17,576
Total liability derivatives		\$ 12,493	\$ 17,576

Fair value amounts were derived as of September 30, 2011 and December 31, 2010 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 5, 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 three months and nine months ended September 30, 2011 and 2010 (in thousands):

Derivatives in ASC 815 Cash	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
		Three months ended September 30,		Three months ended September 30,	
Flow Hedging Relationships:		2011	2010	2011	2010
Interest rate contracts	Interest expense	\$ 1,994	\$ (854)	\$ (2,183)	\$ (2,089)
Foreign exchange contracts	Cost of sales and operating expenses	951	(1,373)	30	(105)
Total		\$ 2,945	\$ (2,227)	\$ (2,153)	\$ (2,194)

Derivatives in ASC 815 Cash	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
		Nine months ended September 30,		Nine months ended September 30,	
Flow Hedging Relationships:		2011	2010	2011	2010
Interest rate contracts	Interest expense	\$ 4,649	\$ (3,534)	\$ (6,460)	\$ (6,356)
Foreign exchange contracts	Cost of sales and operating expenses	400	(1,921)	(13)	(83)
Total		\$ 5,049	\$ (5,455)	\$ (6,473)	\$ (6,439)

The Company anticipates \$5,104,000 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 \$517,000 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.

(7) LONG-TERM DEBT

On May 31, 2011, the Company entered into a Credit Agreement (Term Loan) with a group of commercial banks, with Wells Fargo Bank, National Association as the administrative agent bank, with a maturity date of May 31, 2016. The Term Loan provides for a \$540,000,000 five-year unsecured term loan facility with a variable interest rate based on LIBOR or a base rate calculated with reference to the agent bank's prime rate, among other factors (the Alternate Base Rate). The interest rate spread varies with the Company's senior debt rating and is currently 1.5% over LIBOR or 0.5% over the Alternate Base Rate. The outstanding balance of the Term Loan is subject to quarterly amortization in increasing amounts and is prepayable, in whole or in part, without penalty. The Term Loan contains certain restrictive financial covenants including an interest coverage ratio and a debt-to-capitalization ratio. In addition to financial covenants, the Term Loan 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. The primary purpose of the Term Loan was to provide financing for the Company's acquisition of K-Sea. The acquisition of K-Sea was completed and the Term Loan funded on July 1, 2011. As of September 30, 2011, the Company was in compliance with all Term Loan covenants and had \$513,500,000 outstanding under the Term Loan, \$32,500,000 of which was classified as current portion of long-term debt.

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. On May 31, 2011, the Revolving Credit Facility was amended to conform the interest rate spread to the spread provided in the Term Loan described above. The variable interest rate spread is currently 1.5% over LIBOR or 0.5% over the Alternate Base Rate. Prior to the May 31, 2011 amendment, the variable interest rate spread was 2.0% over LIBOR for LIBOR loans and 0.5% over the Alternate Base Rate for Alternate Base Rate loans. The commitment fee is currently 0.3%. 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 September 30, 2011, the Company was in compliance with all Revolving Credit Facility covenants and had \$83,310,000 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 \$2,286,000 as of September 30, 2011.

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. The Company was in compliance with all Senior Notes covenants at September 30, 2011.

The Company has a \$10,000,000 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, 2012. 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 September 30, 2011. Outstanding letters of credit under the Credit Line were \$4,258,000 as of September 30, 2011.

(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 three months and nine months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Compensation cost	\$ 2,617	\$ 2,291	\$ 7,107	\$ 9,033
Income tax benefit	\$ 1,002	\$ 882	\$ 2,722	\$ 3,478

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 granted 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 September 30, 2011, 1,211,465 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 nine months ended September 30, 2011:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
Outstanding at December 31, 2010	434,447	\$ 33.53
Granted	103,021	\$ 47.01
Exercised	(30,936)	\$ 26.85
Outstanding at September 30, 2011	506,532	\$ 36.68

The following table summarizes information about the Company's outstanding and exercisable stock options under the employee plans at September 30, 2011:

Range of Exercise Prices	Options Outstanding			Options Exercisable			
	Number Outstanding	Weighted Average Contractual Life in Years	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
\$23.98 - \$34.40	246,450	3.54	\$ 28.26		126,697	\$ 27.31	
\$35.66 - \$36.94	64,858	0.64	\$ 35.78		62,191	\$ 35.76	
\$46.74 - \$58.28	195,224	3.99	\$ 47.61		92,203	\$ 48.28	
\$23.98 - \$58.28	506,532	3.33	\$ 36.68	\$ 8,082,000	281,091	\$ 36.06	\$ 4,661,000

The following is a summary of the restricted stock award activity under the employee plans described above for the nine months ended September 30, 2011:

	Unvested Restricted Stock Award Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested balance at December 31, 2010	499,335	\$ 31.98
Granted	150,612	\$ 46.50
Vested	(161,580)	\$ 33.31
Forfeited	(7,582)	\$ 34.94
Nonvested balance at September 30, 2011	480,785	\$ 36.48

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 to a director when first elected 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 September 30, 2011, 253,724 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.

The following is a summary of the stock option activity under the director plans described above for the nine months ended September 30, 2011:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
Outstanding December 31, 2010	356,429	\$ 34.88
Granted	60,552	\$ 56.42
Exercised	(19,356)	\$ 10.11
Outstanding September 30, 2011	397,625	\$ 39.36

The following table summarizes information about the Company's outstanding and exercisable stock options under the director plans at September 30, 2011:

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Range of Exercise Prices	Options Outstanding				Options Exercisable		
	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
\$12.69 - \$17.88	45,814	1.61	\$ 15.78		45,814	\$ 15.78	
\$20.28 - \$29.60	68,433	6.53	\$ 27.15		68,433	\$ 27.15	

Range of Exercise Prices	Options Outstanding			Options Exercisable			
	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
\$35.17 - \$36.82	96,036	4.94	\$ 35.81		96,036	\$ 35.81	
\$41.24 - \$56.45	187,342	8.16	\$ 51.42		138,066	\$ 49.62	
\$12.69 - \$56.45	397,625	6.36	\$ 39.36	\$ 5,279,000	348,349	\$ 36.95	\$ 5,467,000

The following is a summary of the restricted stock award activity under the director plan described above for the nine months ended September 30, 2011:

	Unvested Restricted Stock Award Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested balance at December 31, 2010	525	\$ 41.33
Granted	10,490	\$ 56.63
Vested	(1,019)	\$ 48.59
Nonvested balance at September 30, 2011	9,996	\$ 56.65

The total intrinsic value of all stock options exercised under all of the Company's plans was \$1,477,000 and \$2,280,000 for the nine months ended September 30, 2011 and 2010, respectively. The actual tax benefit realized for tax deductions from stock option exercises was \$565,000 and \$878,000 for the nine months ended September 30, 2011 and 2010, respectively.

The total intrinsic value of all the restricted stock vestings under all of the Company's plans was \$7,221,000 and \$8,349,000 for the nine months ended September 30, 2011 and 2010, respectively. The actual tax benefit realized for tax deductions from restricted stock vestings was \$2,766,000 and \$3,214,000 for the nine months ended September 30, 2011 and 2010, respectively.

As of September 30, 2011, there was \$2,224,000 of unrecognized compensation cost related to nonvested stock options and \$13,698,000 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 2.9 years. The total fair value of stock options vested was \$1,452,000 and \$2,498,000 during the nine months ended September 30, 2011 and 2010, respectively. The fair value of the restricted stock vested was \$7,221,000 and \$8,349,000 for the nine months ended September 30, 2011 and 2010, respectively.

The weighted average per share fair value of options granted during the nine months ended September 30, 2011 and 2010 was \$18.84 and \$13.81, respectively. The fair value of the options granted during the nine months ended September 30, 2011 and 2010 was \$3,081,000 and \$2,231,000, respectively. The Company currently uses treasury stock shares for restricted stock grants and stock option exercises. The fair value of each option was determined using the Black-Scholes option pricing model. The key input variables used in valuing the options during the nine months ended September 30, 2011 and 2010 were as follows:

	Nine months ended September 30,	
	2011	2010
Dividend yield	None	None
Average risk-free interest rate	2.4%	3.1%
Stock price volatility	33%	33%
Estimated option term	Six years or seven years	Six years or seven years

(9) COMPREHENSIVE INCOME

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The Company's total comprehensive income for the three months and nine months ended September 30, 2011 and 2010 was as follows (in thousands):

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	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net earnings	\$ 53,594	\$ 30,905	\$ 128,723	\$ 85,459
Other comprehensive income (loss), net of taxes:				
Pension and postretirement benefits	350	459	567	(1,822)
Foreign currency translation adjustments	(2)		(2)	
Change in fair value of derivative financial instruments	1,851	(1,352)	3,359	(3,415)
Total other comprehensive income (loss), net of taxes	2,199	(893)	3,924	(5,237)
Total comprehensive income, net of taxes	55,793	30,012	132,647	80,222
Net earnings attributable to noncontrolling interests	(860)	(218)	(1,867)	(830)
Comprehensive income attributable to Kirby	\$ 54,933	\$ 29,794	\$ 130,780	\$ 79,392

(10) SEGMENT DATA

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

Marine Transportation Marine transportation by United States flag vessels of liquid cargoes throughout the United States inland waterway system, coastwise along all three United States coasts, Alaska and Hawaii and, to a lesser extent, United States coastwise transportation of dry-bulk cargoes. The principal products transported include petrochemicals, black oil products, refined petroleum products and agricultural chemicals.

Diesel Engine Services Overhaul and repair of medium-speed and high-speed diesel engines, reduction gear repair, and sale of related parts and accessories for customers in the marine and power generation applications, and distribution and service of high-speed diesel engines, transmissions, including the manufacturing of hydraulic fracturing equipment, for land-based pressure pumping and oilfield service markets.

The following table sets forth the Company's revenues and profit or loss by reportable segment for the three months and nine months ended September 30, 2011 and 2010 and total assets as of September 30, 2011 and December 31, 2010 (in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Revenues:				
Marine transportation	\$ 351,206	\$ 232,785	\$ 859,495	\$ 682,603
Diesel engine services	212,376	48,532	440,777	140,636
	\$ 563,582	\$ 281,317	\$ 1,300,272	\$ 823,239
Segment profit (loss):				
Marine transportation	\$ 78,109	\$ 51,402	\$ 189,168	\$ 143,365
Diesel engine services	21,180	4,500	45,397	13,660
Other	(12,961)	(5,786)	(27,097)	(18,587)
	\$ 86,328	\$ 50,116	\$ 207,468	\$ 138,438

	September 30,	December 31,
	2011	2010
Total assets:		
Marine transportation	\$ 2,240,528	\$ 1,383,252

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Diesel engine services	596,196	185,824
Other	29,782	225,861
	\$ 2,866,506	\$ 1,794,937

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The following table presents the details of Other segment loss for the three months and nine months ended September 30, 2011 and 2010 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
General corporate expenses	\$ (7,078)	\$ (3,175)	\$ (15,206)	\$ (10,590)&nbs