KIRBY CORP
Form 10-K
February 23, 2015

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

Form 10-K

(Mark One)
TANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

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 incorporation or organization)	(I.R.S. Employer Identification No.)
55 Waugh Drive, Suite 1000	
Houston, Texas	77007
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes T 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 T

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 T 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 T 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 T 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

The aggregate market value of common stock held by nonaffiliates of the registrant as of June 30, 2014, based on the closing sales price of such stock on the New York Stock Exchange on June 30, 2014, was $6,543,241,000. 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 20, 2015, 55,703,000 shares of common stock were outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

The Company’s definitive proxy statement in connection with the Annual Meeting of Stockholders to be held April 28, 2015, to be filed with the Commission pursuant to Regulation 14A, is incorporated by reference into Part III of this report.

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PART I

Item 1. Business

THE COMPANY

Kirby Corporation (the "Company") is the nation's largest domestic tank barge operator, transporting bulk liquid products throughout the Mississippi River System, on the Gulf Intracoastal Waterway, coastwise along all three United States coasts and in Alaska and Hawaii. The Company transports petrochemicals, black oil, refined petroleum products and agricultural chemicals by tank barge. The Company also operates six offshore barge and tug units transporting dry-bulk commodities in the United States coastal trade. Through its diesel engine services segment, the Company provides after-market services for medium-speed and high-speed diesel engines, reduction gears and ancillary products for marine and power generation applications, distributes and services high-speed diesel engines and transmissions, pumps and compression products, and manufactures and remanufactures oilfield service equipment, including pressure pumping units, for land-based pressure pumping and oilfield service markets.

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 http://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, through its marine transportation segment, is a provider of marine transportation services, operating tank barges and towing vessels transporting bulk liquid products throughout the Mississippi River System, on the Gulf Intracoastal Waterway, coastwise along all three United States coasts and in Alaska and Hawaii. The Company transports petrochemicals, black oil, refined petroleum products and agricultural chemicals by tank barge. The Company operates offshore dry-bulk barge and tugboat units engaged in the offshore transportation of dry-bulk cargoes in the United States coastal trade. 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 Company's vessels operate under the United States flag and are qualified for domestic trade under the Jones Act.

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, transmissions, reduction gears, pumps and compression products, maintains facilities to rebuild component parts or entire medium-speed and high-speed diesel engines, transmissions and entire reduction gears, and manufactures and remanufactures oilfield service equipment, including pressure pumping units. The Company primarily services the marine, power generation and land-based oil and gas operator and producer markets.

The Company and its marine transportation and diesel engine services segments have approximately 4,800 employees, substantially 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):

	2014	2013	2012
Revenues from unaffiliated customers:			
Marine transportation	$1,770,684	$1,713,167	$1,408,893
Diesel engine services	795,634	529,028	703,765
Consolidated revenues	$2,566,318	$2,242,195	$2,112,658
Operating profits:			
Marine transportation	$429,864	$408,255	$311,755
Diesel engine services	60,063	42,767	66,386
General corporate expenses	(14,896)	(15,728)	(13,294)
Gain (loss) on disposition of assets	781	888	(14)
	475,812	436,182	364,833
Equity in earnings of affiliates	384	348	276
Other income (expense)	(345)	20	(198)
Interest expense	(21,461)	(27,872)	(24,385)
Earnings before taxes on income	$454,390	$408,678	$340,526
Identifiable assets:			
Marine transportation	$3,317,696	$3,046,692	$2,951,723
Diesel engine services	736,129	576,472	647,986
	4,053,825	3,623,164	3,599,709
Investment in affiliates	2,539	2,156	1,808
General corporate assets	85,545	57,197	51,611

Consolidated assets	$4,141,909	$3,682,517	$3,653,128

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MARINE TRANSPORTATION

The marine transportation segment is primarily a provider of transportation services by tank barge for the inland and coastal markets. As of February 23, 2015, the equipment owned or operated by the marine transportation segment consisted of 884 inland tank barges with 17.8 million barrels of capacity, 247 inland towboats, 69 coastal tank barges with 6.0 million barrels of capacity, 74 coastal tugboats, six offshore dry-bulk cargo barges, seven offshore tugboats and one docking tugboat with the following specifications and capacities:

Class of equipment	Number in class	Average age (in years)	Barrel capacities
Inland tank barges (owned and leased):			
Regular double hull:			
20,000 barrels and under	370	14.8	4,234,000
Over 20,000 barrels	446	12.3	12,517,000
Specialty double hull	68	37.5	1,011,000
Total inland tank barges	884	15.3	17,762,000
Inland towboats (owned and chartered):			
800 to 1300 horsepower	88	36.7	
1400 to 1900 horsepower	82	33.0	
2000 to 2400 horsepower	47	16.6	
2500 to 3200 horsepower	16	41.4	
3300 to 4800 horsepower	11	35.5	
Greater than 5000 horsepower	2	42.0	
Spot charters (chartered trip to trip)	1		
Total inland towboats	247	32.1	
Coastal tank barges (owned and leased):			
Double hull:			
30,000 barrels and under	7	21.7	160,000
50,000 to 70,000 barrels	13	14.0	650,000
80,000 to 90,000 barrels	27	14.5	2,231,000
100,000 to 110,000 barrels	6	8.5	630,000
120,000 to 150,000 barrels	10	19.7	1,282,000
Over 150,000 barrels	6	24.2	1,023,000
Total coastal tank barges	69	16.2	5,976,000
Coastal tugboats (owned and chartered):			
1000 to 1900 horsepower	8	29.3	
2000 to 2900 horsepower	6	39.7	
3000 to 3900 horsepower	15	35.6	
4000 to 4900 horsepower	24	26.0	
5000 to 6900 horsepower	12	34.9	
Greater than 7000 horsepower	9	20.2	
Total coastal tugboats	74	30.1	

	Deadweight Tonnage

Offshore dry-bulk cargo barges (owned)	6	22.9	113,000
Offshore tugboats and docking tugboat (owned and chartered)	8	26.9	

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The 247 inland towboats, 74 coastal tugboats, seven offshore tugboats and one docking tugboat provide the power source and the 884 inland tank barges, 69 coastal tank barges and six offshore dry-bulk cargo barges provide the freight capacity for the marine transportation segment. 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 coastal and offshore tows primarily consist of one tugboat and one tank barge or dry-bulk 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 inland waterways are vital to the United States distribution system, with over 1.1 billion short tons of cargo moved annually on United States shallow draft waterways. The inland waterway system extends approximately 26,000 miles, 12,000 miles of which are generally considered significant for domestic commerce, through 38 states, with 635 shallow draft ports. These navigable inland waterways link the United States heartland to the world.

The United States coastal system consists of ports along the Atlantic, Gulf and Pacific coasts, as well as ports in Alaska, Hawaii and on the Great Lakes. Like the inland waterways, the coastal trade is vital to the United States distribution system, particularly the regional distribution of refined petroleum products from refineries and storage facilities to a variety of destinations, including other refineries, distribution terminals, power plants and ships. In addition to distribution directly from refineries and storage facilities, coastal tank barges are used frequently to distribute products from pipelines. Many coastal markets receive refined products principally from coastal tank barges. Smaller volumes of petrochemicals are distributed from Gulf Coast plants to end users and black oil, including crude oil and natural gas condensate, are distributed regionally from refineries and terminals along the United States coast to refineries, power plants and distribution terminals.

Based on cost and safety, barge transportation is often the most efficient and safest means of transporting bulk commodities when compared with railroads and trucks. The cargo capacity of a 27,500 barrel inland tank barge is the equivalent of 46 railroad tank cars or 144 tractor-trailer tank trucks. A typical Company lower Mississippi River linehaul tow of 15 barges has the carrying capacity of approximately 216 railroad tank cars plus six locomotives, or approximately 1,050 tractor-trailer tank trucks. The Company's inland tank barge fleet capacity of 17.8 million barrels equates to approximately 29,700 railroad tank cars or approximately 93,000 tractor-trailer tank trucks. Furthermore, barging is much more energy efficient. One ton of bulk product can be carried 616 miles by inland barge on one gallon of fuel, compared with 478 miles by railcars or 150 miles by truck. In the coastal trade, the carrying capacity of a 100,000 barrel tank barge is the equivalent of approximately 165 railroad tank cars or approximately 525 tractor-trailer tank trucks. The Company's coastal tank barge fleet capacity of 6.0 million barrels equates to approximately 9,900 railroad tank cars or approximately 31,400 tractor-trailer tank trucks.

Tank barge transportation is safer than most modes of transportation in the United States. Marine transportation generally involves less urban exposure than railroad or truck transportation and 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 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, throughout the Mississippi River and its tributaries and on the Gulf Intracoastal Waterway. The most significant markets in this industry include the transportation of

petrochemicals, black oil, 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.

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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 then increased over the years to approximately 3,650 by the end of 2014. The Company believes the decrease from 4,200 in 1982 to 2,750 in 2006 primarily resulted from: the increasing age of the domestic tank barge fleet, resulting in scrapping; rates inadequate to justify new construction; a reduction in tax incentives, which previously encouraged speculative construction of new equipment; stringent operating standards to adequately cope with safety and environmental risk; the elimination of government regulations and programs supporting the many new small refineries and a proliferation of oil traders which created a strong demand for tank barge services; an increase in the average capacity per barge; and an increase in environmental regulations that mandate expensive equipment modification, which some owners were unwilling or unable to undertake given capital constraints and the age of their fleets. The cost of tank barge hull work for required periodic United States Coast Guard ("USCG") certifications, as well as general safety and environmental concerns, force operators to periodically reassess their ability to recover maintenance costs. The increase from 2,750 in 2006 to approximately 3,650 by the end of 2014 primarily resulted from increased barge construction and deferred retirements due to strong demand and resulting capacity shortages. The Company's 884 inland tank barges represent approximately 24% of the industry's 3,650 inland tank barges.

During 2012, the Company estimated that industry wide 260 tank barges were placed in service and 110 tank barges were retired. For 2013, the Company estimated that industry wide 270 tank barges were placed in service and 70 tank barges were retired. For 2014, the Company estimated that industry wide 300 tank barges were placed in service and 100 tank barges were retired. During 2014, due to continued strong demand for inland petrochemical, refined petroleum products and black oil barges, the Company estimates that approximately 180 tank barges were ordered for delivery throughout 2015 and many older tank barges will be retired, dependent on 2015 market conditions. The risk of an oversupply of tank barges may be mitigated by continued increased petrochemical, black oil and refined petroleum products volumes and the fact that the inland tank barge industry has a mature fleet, with approximately 725 tank barges over 30 years old and approximately 500 of those over 35 years old, which may lead to retirement of older tank barges.

The average age of the nation's inland tank barge fleet is approximately 17 years. Neither the Company, nor the industry, operates any single hull inland tank barges. Single hull tank barges were required by current federal law to either be retrofitted with double hulls or phased out of domestic service effective December 31, 2014.

The Company's inland marine transportation segment also owns a two-thirds interest in Osprey Line, L.L.C. ("Osprey"), a transporter of project cargoes and cargo containers by barge on the United States inland waterway system, as well as a 51% interest in a shifting operation and fleeting facility for dry cargo barges and tank barges on the Houston Ship Channel.

Coastal Tank Barge Industry

The Company also operates in the United States coastal tank barge industry, operating tank barges in the 195,000 barrel or less category. This market is composed of approximately 15 large integrated transportation companies and small operators. The 195,000 barrel or less category coastal tank barge industry primarily provides regional marine transportation distribution of bulk liquid cargoes along the United States' Atlantic, Gulf and Pacific coasts, in Alaska and Hawaii and to a lesser extent on the Great Lakes. Products transported are primarily refined petroleum products and black oil from refineries and storage facilities to a variety of destinations, including other refineries, distribution terminals, power plants and ships, the regional movement of crude oil and natural gas condensate to Gulf Coast, Northeast and West Coast refineries, and the movement of petrochemicals primarily from Gulf Coast petrochemical facilities to end users.

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The number of coastal tank barges that operate in the 195,000 barrel or less category is approximately 260, of which the Company operates 69 or approximately 27%. The average age of the nation's coastal tank barge fleet is approximately 16 years. The coastal tank barge also has a mature fleet, with approximately 50 tank barges over 30 years old and approximately 40 of those over 35 years old, which may lead to the retirement of older tank barges.

Competition in the Tank Barge Industry

The tank barge industry remains very competitive. Competition in this business has historically been based primarily on price; however, most of 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 tank barge services have the capability to handle a variety of tank barge requirements. These requirements include distribution capability throughout the inland waterway system and coastal markets, with high levels of flexibility, safety, environmental responsibility and financial responsibility, as well as adequate insurance and high quality of service consistent with the customer's own operational standards.

In the inland markets, the Company's direct competitors are primarily noncaptive inland tank barge operators. "Captive" fleets are owned by major oil and 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 884 tank barges as of February 23, 2015, or approximately 24% of the estimated total number of domestic inland tank barges.

In the coastal markets, the Company's direct competitors are the operators of United States tank barges in the 195,000 barrels or less category. Coastal tank barges in the 195,000 barrels or less category have the ability to enter the large majority of coastal ports. Ocean-going tank barges and United States refined petroleum products tankers, in the 300,000 barrels plus category, including the captive fleets of major oil companies, primarily move large volumes of refined petroleum products and crude oil from the Gulf Coast to the Northeast. There are approximately 35 such vessels and, because of their size, their access to ports is limited by terminal size and draft restrictions.

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 both inland and coastal marine transportation of bulk liquid products enjoys a substantial cost advantage over railroad and truck transportation. The Company believes that refined product and crude oil pipelines, although often a less expensive form of transportation than inland and coastal 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.

Products Transported

The Company transports petrochemicals, black oil, refined petroleum products and agricultural chemicals by tank barge throughout the Mississippi River System, on the Gulf Intracoastal Waterway, coastwise along all three United States coasts and in Alaska and Hawaii. During 2014, the Company's inland marine transportation operation moved over 48 million tons of liquid cargo on the United States inland waterway system.

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 47% of the segment's 2014 revenues. Customers shipping these products are petrochemical and refining companies.

Black Oil. Black oil transported includes such products as residual fuel oil, No. 6 fuel oil, coker feedstock, vacuum gas oil, asphalt, carbon black feedstock, crude oil, natural gas condensate and ship bunkers (engine fuel). Such products represented 25% of the segment's 2014 revenues. Black oil customers are refining companies, marketers and end users that require the transportation of black oil between refineries and storage terminals, to refineries and to power plants. Ship bunker customers are oil companies and oil traders in the bunkering business.

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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 25% of the segment's 2014 revenues. The Company also classifies ethanol in the refined petroleum products category. Customers are oil and refining companies, marketers and ethanol producers.

Agricultural Chemicals. Agricultural chemicals transported represented 3% of the segment's 2014 revenues. They include anhydrous ammonia and nitrogen-based liquid fertilizer, as well as industrial ammonia. Agricultural chemical customers consist mainly of domestic and foreign producers of such products.

Demand Drivers in the Tank Barge Industry

Demand for tank barge transportation services is driven by the production volumes of the bulk liquid commodities transported by barge. Marine transportation demand for the segment's four primary commodity groups, petrochemicals, black oil, 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 certain cases of re-allocating inland equipment and coastal equipment between the petrochemical and refined products markets as needed.

Bulk petrochemical volumes have historically tracked the general domestic economy and correlate to the United States Gross Domestic Product. However, since late 2010, inland petrochemical tank barge utilization levels have remained strong, in the 90% to 95% range. The United States economy showed signs of improvement during 2014 with lower unemployment levels. The United States petrochemical industry continued to see strong production levels for both domestic consumption and exports. Low priced domestic natural gas, a basic feedstock for the United States petrochemical industry, provides the industry with a competitive advantage against foreign petrochemical producers. As a result, United States petrochemical production has remained strong during 2014, 2013 and 2012, thereby producing increased marine transportation volumes of basic petrochemicals to both domestic consumers and terminals for export destinations. Petrochemical products are used primarily in consumer non-durable and durable goods. Coastal tank barge utilization levels for the transportation of petrochemicals during 2014 were in the 90% to 95% range.

The demand for black oil, including ship bunkers, varies by type of product transported. Demand for transportation of residual oil, a heavy by-product of refining operations, varies with refinery utilization and usage of feedstocks. During 2014, 2013 and 2012, inland black oil tank barge utilization levels have remained strong, in the 90% to 95% range, due to strong demand driven by steady refinery production levels from major customers, the export of diesel fuel and heavy fuel oil, demand for crude oil and natural gas condensate transportation from the Eagle Ford shale formations in South Texas along the Gulf Intracoastal Waterway, and for the movement of Canadian, Bakken and Utica crude oil downriver from the Midwest to the Gulf Coast. Coastal black oil tank barge utilization levels improved from approximately 75% during 2012, to the 90% level in 2013 and 90% to 95% level during 2014, partly attributable to the movement of black oil, specifically residual fuel oil and asphalt along the United States East and Gulf Coasts. In addition, starting in 2012 and continuing through 2014, coastal tank barges moved Eagle Ford crude oil in the Gulf of Mexico, Bakken crude oil from Albany, New York down the Hudson River to East Coast refineries, and starting in late 2013 moved Bakken crude oil from the Columbia River to West Coast refineries. Inland and coastal 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 economy and are used in the production of automobiles and related parts, and in housing applications. In August 2013, the Company sold its New York Harbor bunkering barges and tugboats, thereby exiting the New York Harbor ship bunker market.

Refined petroleum product volumes are driven by United States gasoline and diesel fuel 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. Volumes were also driven by heavier volumes of diesel fuel transported to terminals along the Gulf Coast for export to South America. Ethanol, produced in the Midwest, is moved from the Midwest to Gulf Coast customers; however, during 2012 and 2013 ethanol volumes declined due to the high price of corn, the major feedstock for United States ethanol production. In the coastal trade, tank barges are frequently used regionally to transport refined petroleum products from a coastal refinery or terminals served by pipelines to the end markets. Many coastal areas have access to refined petroleum products only by using marine transportation as the last link in the distribution chain.

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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. 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 884 inland tank barges and 247 inland towboats, as well as 69 coastal tank barges and 74 coastal tugboats. The segment also operates six offshore dry-bulk cargo barges, seven offshore tugboats and one docking tugboat transporting dry-bulk commodities in coastal trade.

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, 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. Black oil is transported to waterfront terminals and products such as No. 6 fuel oil are transported directly to the end users. Refined petroleum products are transported to waterfront terminals along the Gulf Intracoastal Waterway for distribution.

The Linehaul fleet transports petrochemical feedstocks, 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 along the Mississippi River System above Baton Rouge. 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. Petrochemical feedstocks and processed chemicals are transported to waterfront petrochemical and chemical plants, while black oil, refined petroleum products and agricultural chemicals are transported to waterfront terminals.

The inland transportation of petrochemical feedstocks, chemicals and pressurized products is generally consistent throughout the year. Transportation of refined petroleum products, certain black oil and agricultural chemicals is generally more seasonal. Movements of black oil, 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 inland operation moves and handles a broad range of sophisticated cargoes. To meet the specific requirements of the cargoes transported, the inland 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 884 inland tank barges currently operated, 695 are petrochemical and refined products barges, 119 are black oil barges, 55 are pressure barges, 10 are refrigerated anhydrous ammonia barges and five are specialty barges. Of the 884 inland tank barges, 845 are owned by the Company and 39 are leased.

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The fleet of 247 inland towboats ranges from 800 to 5200 horsepower. Of the 247 inland towboats, 172 are owned by the Company and 75 are chartered. Towboats in the 800 to 2100 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 3200 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 for inland movements are conducted under long-term contracts, typically ranging from one to five years, some of which have renewal options, with customers with whom the Company has traditionally had long-standing relationships, as well as under spot contracts. During 2014, approximately 80% of the inland marine transportation revenues were under term contracts and 20% were spot contract revenues, compared with 75% under term contracts and 25% under spot contracts during 2013 and 2012.

All of the Company's inland tank barges used in the transportation of bulk liquid products 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 regulations.

The Company 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 customer service department located in its corporate office. Electronic orders are communicated to the vessel personnel with reports of towing activities communicated electronically back to the customer service department. The electronic interface between the customer service 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, Baton Rouge and New Orleans, Louisiana and other locations on the Mississippi River. Included in the fleeting service is a 51% interest and management control of a shifting operation and fleeting service for dry cargo barges and tank barges on the Houston Ship Channel. 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 Inland Marine also provides shore-based tankerman and support services to the Company and third parties. Services provided include barge tankermen, marine terminal, refinery and chemical plant dock operators, and terminal management services. Services to the Company and third parties cover the Gulf Coast, mid-Mississippi Valley, and the Ohio River Valley.

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.

Coastal Operations. The segment's coastal operations are conducted through wholly owned subsidiaries, Kirby Offshore Marine, LLC ("Kirby Offshore Marine") and Kirby Ocean Transport Company ("Kirby Ocean Transport").

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Kirby Offshore Marine provides marine transportation of refined petroleum products, petrochemicals and black oil in coastal regions of the United States. The coastal operations consist of the Atlantic, Pacific and Hawaii Divisions.

The Atlantic Division primarily operates along the eastern seaboard of the United States and along the Gulf Coast. The Atlantic Division vessels call on coastal states from Maine to Texas, servicing refineries, storage terminals and power plants. The Atlantic Division also operates equipment, to a lesser extent, in the Eastern Canadian provinces. The tank barges and tugboats operating in the Atlantic Division are among the largest, with tank barges in the 9,000 to 188,000 barrel capacity range and coastal tugboats in the 1800 to 8000 horsepower range, transporting primarily refined petroleum products, petrochemicals and black oil. In August 2013, the Company sold its New York Harbor bunkering barges and tugboats, thereby exiting the New York Harbor ship bunker market.

The Pacific Division primarily operates along the Pacific Coast of the United States, servicing refineries and storage terminals from Southern California to Washington State, throughout Alaska, including Dutch Harbor, Cook Inlet and the Alaska River Systems, and from California to Hawaii. The Pacific Division’s fleet consists of tank barges in the 26,000 to 193,000 barrel capacity range and tugboats in the 2000 to 11000 horsepower range, transporting primarily refined petroleum products.

The Hawaii Division services local petroleum retailers and oil companies distributing refined petroleum products and black oil between the Hawaiian Islands and provides other services to the local maritime community. The Hawaii Division’s fleet consists of tank barges in the 53,000 to 86,000 barrel capacity range and tugboats in the 1000 to 5000 horsepower range, transporting refined petroleum products for local and regional customers, black oil to power generation customers and delivering bunker fuel to ships. The Hawaii Division also provides service docking, standby tug assistance and line handling to vessels using the Single Point Mooring installation at Barbers Point, Oahu, a facility for large tankers to safely load and discharge their cargos through an offshore buoy and submerged pipeline without entering the port.

The coastal transportation of refined petroleum products and black oil is impacted by seasonality, partially dependent on the area of operations. Operations along the West Coast and in Alaska have been subject to more seasonal variations in demand than the operations along the East Coast and Gulf Coast regions. Seasonality generally does not impact the Hawaiian market. Movements of refined petroleum products such as various blends of gasoline are strongest during the summer driving season while heating oil generally increases during the winter months.

The coastal fleet consists of 69 tank barges with 6.0 million barrels of capacity, primarily transporting refined petroleum products, black oil and petrochemicals. Of the 69 coastal tank barges currently operating, 44 are refined products and petrochemical barges and 25 are black oil barges. The Company owns 61 of the coastal tank barges and eight are leased. The Company operates 74 coastal tugboats ranging from 1000 to 11000 horsepower, 68 of which are owned and six of which are chartered.

Coastal marine transportation services are conducted under long-term contracts, primarily one year or longer, some of which have renewal options for customers with which the Company has traditionally had long-standing relationships, as well as under spot contracts. During 2014, approximately 85% of the coastal marine transportation revenues were under term contracts and 15% were spot contract revenues, compared with 75% under term contracts and 25% under spot contracts during 2013.

Kirby Offshore Marine also operates a fleet of two offshore dry-bulk barge and tugboat units involved in the transportation of sugar and other dry products between Florida and East Coast ports. These vessels primarily operate under contracts of affreightment that are typically one year or less in length.

Kirby Ocean Transport owns and operates a fleet of four offshore dry-bulk barges, five offshore tugboats and one docking tugboat. Kirby Ocean Transport operates primarily under term contracts of affreightment, including a contract

that expires in 2020 with Progress Energy Florida (“PEF”) to transport coal across the Gulf of Mexico to PEF’s power generation facility at Crystal River, Florida.

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Kirby Ocean Transport has a contract with Holcim (US) Inc. ("Holcim") to transport Holcim's limestone requirements from a facility adjacent to the PEF facility at Crystal River to Holcim's plant in Theodore, Alabama. Holcim's contract expires on June 30, 2015. The Holcim contract provides cargo for a portion of the return voyage for the vessels that carry coal to PEF'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 inland and coastal services are conducted under term contracts, typically ranging from one to five years, some of which have renewal options, for customers with 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 many years and management anticipates continued relationships; however, there is no assurance that any individual contract will be renewed.

A term contract is an agreement with a specific customer to transport cargo from a designated origin to a designated destination at a set rate (affreightment) or at a daily rate (time charter). The rate may or may not escalate during the term of the contract; however, the base rate generally remains constant and contracts often include escalation provisions to recover changes in specific costs such as fuel. Time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented approximately 56% of the marine transportation's inland revenues under term contracts during 2014, 58% of revenue under term contracts during 2013 and 57% of the revenue under term contracts during 2012. 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 2014, approximately 80% of the inland marine transportation revenues were under term contracts and 20% were spot contract revenues, compared with 75% under term contracts and 25% under spot contracts during 2012 and 2013. During 2014, approximately 85% of the coastal marine transportation revenues were under term contracts and 15% were spot contract revenues. During 2013, approximately 75% of the coastal revenues were under term contracts and 25% from spot contracts. During 2012, approximately 60% of marine transportation's coastal revenues were under term contracts and 40% from spot contracts. Coastal time charters represented approximately 90% of the marine transportation coastal revenues under term contracts during 2014, 2013 and 2012.

No single customer of the marine transportation segment accounted for 10% of the Company's revenues in 2014, 2013 and 2012.

Employees

The Company's marine transportation segment has approximately 3,275 employees, of which approximately 2,450 are vessel crew members. None of the segment's inland operations are subject to collective bargaining agreements. The segment's coastal operation includes approximately 900 vessel employees some of which are subject to collective bargaining agreements in certain geographic areas. Approximately 375 Kirby Offshore Marine vessel crew members employed in the Atlantic Division are subject to a collective bargaining agreement with the Richmond Terrace Bargaining Unit that expired in December 2014, but remains in effect while negotiations continue. In addition, approximately 165 Kirby Offshore Marine vessel crew members are represented by the Seafarers International Union ("SIU") under a collective bargaining agreement in effect through April 2015.

Properties

The principal office of Kirby Inland Marine, Kirby Offshore Marine, Kirby Ocean Transport and Osprey is located in Houston, Texas, in the Company’s facilities under a lease that expires in December 2025. Kirby Inland Marine’s operating locations are on the Mississippi River at Baton Rouge and New Orleans, Louisiana, and Greenville, Mississippi, two locations in Houston, Texas, on and near the Houston Ship Channel, one in Miami, Florida, and one in Corpus Christi, Texas. The New Orleans and Houston facilities are owned, and the Baton Rouge, Greenville, Miami and Corpus Christi facilities are leased. Kirby Offshore Marine’s operating facilities are located in Staten Island, New York, Seattle, Washington and Honolulu, Hawaii. All of Kirby Offshore Marine's operating facilities are leased, including pier and wharf facilities and office and warehouse space.

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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 tank barges are inspected by the USCG and carry certificates of inspection. The Company's inland and coastal towing vessels and coastal dry-bulk barges are not currently subject to USCG inspection requirements; however, regulations are currently under development that would subject inland and coastal towing vessels to USCG inspection requirements. Most of the Company's coastal tugboats and coastal tank and 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 it is to be 75% owned and controlled by United States citizens. The Company monitors citizenship and meets the requirements of the Jones Act for its 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 material negative effect on the Company. The Company monitors the citizenship of its employees and stockholders.

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 user 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. Effective April 1, 2015, the waterway user tax increases to 29 cents per gallon.

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.

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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 was 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 either retrofitted with double hulls or phased out of domestic service effective December 31, 2014.

The Company manages its exposure to losses from potential discharges of pollutants through the use of well-maintained and equipped vessels, through safety, training and environmental programs, and through the Company's insurance program. 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 more difficult to comply with than the oil spill plans.

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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 $3 billion in hull values. Liabilities such as collision, cargo, environmental, personal injury and general liability are insured up to $1 billion per occurrence.

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

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

Training. The Company believes that among the major elements of a successful and productive work force are effective training programs. The Company also believes that training in the proper performance of a job enhances both the safety and quality of the service provided. New technology, regulatory compliance, personnel safety, quality and environmental concerns create additional demands for training. The Company 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 full bridge wheelhouse simulator, a working towboat, two tank barges and a tank barge simulator for tankermen training. During 2014, approximately 3,300 certificates were issued for the completion of courses at the training facility, of which 1,100 were USCG approved classes and the balance were employee development and Company required classes, including Leadership, Safety by Choice and Defensive Driving.

Quality. Kirby Inland Marine has made a substantial commitment to the implementation, maintenance and improvement of Quality Assurance Systems in compliance with the International Quality Standard, ISO 9001. Kirby Offshore Marine is certified under ABS ISM standards. These Quality Assurance Systems and certification have

enabled both shore and vessel personnel to effectively manage the changes which occur in the working environment, as well as enhancing the Company’s safety and environmental performance.

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DIESEL ENGINE SERVICES

The Company, through its wholly owned subsidiary Kirby Engine Systems, Inc. (“Kirby Engine Systems”), and its wholly owned subsidiaries Marine Systems, Inc. (“Marine Systems”), Engine Systems, Inc. (“Engine Systems”) and United Holdings LLC (“United”), sells genuine replacement parts, provides service mechanics to overhaul and repair medium-speed and high-speed diesel engines, transmissions, reduction gears, pumps and compression products, maintains facilities to rebuild component parts or entire medium-speed and high-speed diesel engines, transmissions and entire reduction gears, and manufactures and remanufactures oilfield service equipment, including pressure pumping units. The Company primarily services the marine, power generation and land-based oil and gas operator and producer markets.

For the marine market, 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 reduction gears. For the power generation market, the Company provides engineering and field services, OEM replacement parts, and safety-related products to power generation operators and to the nuclear industry, and manufactures engine generator and pump sets for the power generation operators and municipalities.

For the land-based market, the Company sells OEM replacement parts, sells and services diesel engines, pumps and transmissions and manufactures and remanufactures oilfield service equipment, including pressure pumping units for oil and gas service companies and gas operators and producers. In addition, United manufactures compression equipment for natural gas transmission and for natural gas fired power generation plants.

No single customer of the diesel engine services segment accounted for 10% of the Company’s revenues in 2014, 2013 or 2012. The diesel engine services segment also provides service to the Company’s marine transportation segment, which accounted for approximately 3% of the diesel engine services segment’s 2014 revenues, 5% of 2013 revenues and 4% of 2012 revenues. 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, 2014 (dollars in thousands):

	2014		2013		2012	
	Amounts	%	Amounts	%	Amounts	%
Manufacturing	$261,553	33 %	$110,053	21 %	$206,183	29 %
Overhauls and service	366,477	46	283,209	53	358,626	51
Direct parts sales	167,604	21	135,766	26	138,956	20
	$795,634	100%	$529,028	100%	$703,765	100%

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 19% of the segment’s 2014 revenues. Medium-speed diesel engines have an engine speed of 400 to 1000 revolutions per minute (“RPM”) with a horsepower range of 800 to 32000. High-speed diesel engines have an engine speed of over 1000 RPM and a horsepower range of 50 to 8375. 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 for Electro-Motive Diesel, Inc. ("EMD"). The marine operations based in Houma, Louisiana, Paducah, Kentucky and Seattle, Washington are nonexclusive contract service centers for EMD providing service and related parts sales. The Company is also a distributor and representative for certain Alfa Laval products in the Midwest and on the East Coast, Gulf Coast, and West Coast. 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, the tugboat and barge industry, the USCG and Navy, and other customers in Alaska, Hawaii and the Pacific Rim.

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The high-speed operations are located in Houma, Baton Rouge, Belle Chasse and New Iberia, Louisiana, Paducah, Kentucky, Mobile, Alabama, Houston, Texas and Thorofare, New Jersey. The Company serves as a factory-authorized marine dealer for Caterpillar diesel engines in Alabama, Kentucky, Louisiana, New Jersey and Texas. The Company also operates factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere diesel engines, as well as Allison transmissions and Twin Disc marine gears. High-speed diesel engines provide the main propulsion for a significant amount 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 also 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.

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 generators, and related parts sales for power generation customers, which represented 9% of the segment's 2014 revenues. The Company is also engaged in the sale and distribution of diesel engine parts, engine modifications, generator modifications, controls, governors and diesel generator packages to the nuclear industry. The Company services users of diesel engines that provide emergency standby, peak and base load power generation.

The Company provides in-house and in-field repair capabilities and products to power generation operators from the Rocky Mount, North Carolina location. The operation based in Rocky Mount, North Carolina is an EMD authorized distributor for 17 eastern states 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 worldwide distributor for Woodward, Inc. products to the nuclear industry, the worldwide distributor of Cameron Process and Compression Systems Group 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 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 Company is a non-exclusive distributor of Ingersoll Rand air start equipment to the nuclear industry worldwide.

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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 service 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 also 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, Cameron, Woodward, Nordberg and Norlake parts for the nuclear industry, and non-exclusive distributor of Weschler parts and Ingersoll Rand air start equipment 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 OEM parts not properly tested and certified cannot be used in nuclear applications.

Land-Based Operations

The Company is engaged in the distribution and service of diesel engines, pumps and transmissions, the manufacture and remanufacture of oilfield service equipment and the manufacture of compression equipment for natural gas transmission and for natural gas fired power generation plants, all of which represented 72% of the segment's 2014 revenues. The Company offers a full line of custom fabricated oilfield service equipment, fully tested and field ready. The Company manufactures products or components that are purchased by a company and marketed under the purchasing company's brand name. The Company distributes, sells parts for and services diesel engines and transmissions for on-and off-highway use and provides in-house and in-field service capabilities. The Company is the largest off-highway distributor for Allison, a major distributor for MTU in North America, and a distributor for Isuzu diesel engines. The Company is also the exclusive distributor for Daimler for engines and related equipment in Oklahoma, Arkansas and Louisiana. The Company manufactures and remanufactures oilfield service equipment, including pressure pumping units, nitrogen pumping units, cementers, hydration equipment, mud pumps and blenders. The Company also manufactures and packages custom compressor systems, including electric motor driven systems, natural gas driven systems and industrial air systems, and manufactures natural gas General Motors and Isuzu diesel engine-powered packages for a variety of applications from 40 to 500 horsepower. Lastly, the Company is a dealer for Thermo King refrigeration systems for trucks, railroad cars and other land transportation markets in south and central Texas.

The Company's land-based operation is based in Oklahoma City, Oklahoma with 20 locations across seven states in key oil and gas producing regions and major transportation corridors. The distribution and service facilities are located in Oklahoma City and Tulsa, Oklahoma, Little Rock, Arkansas and Shreveport, Louisiana. The Company's manufacturing facilities are located in six locations in Oklahoma City and one location in Henderson, Colorado. The Company's field sales and service operations are located in Casper, Wyoming, Billings, Montana and Lubbock and Amarillo, Texas. The Company's refrigeration facilities are located in Houston, Pharr, Laredo, San Antonio and Austin, Texas.

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Land-Based Customers

The Company's major land-based customers include large and mid-cap oilfield service providers, oil and gas operators and producers, compression companies, construction companies, domestic and international utilities, on-highway transportation companies and companies associated with the agricultural markets. The Company has long standing relationships with most of its customers.

Since the land-based business is linked to the oilfield services industry, oil and gas operators, and producers, there is no assurance that its present gross revenues can be maintained in the future. The results of the land-based diesel engines services industry are largely tied to the industries it serves and, therefore, are influenced by the cycles of such industries.

Land-Based Competitive Conditions

The Company's primary competitors are other oilfield equipment manufacturers and service companies. While price is a major determinant in the competitive process, equipment availability, reputation, consistent quality, expeditious service, experienced personnel, access to parts inventories and market presence are also significant factors. A substantial portion of the Company's business is obtained by competitive bids.

Employees

The Company's diesel engine services segment has approximately 1,400 employees. None of the segment's operations are subject to collective bargaining agreements.

Properties

The principal offices of the diesel engine services segment are located in Houma, Louisiana and Oklahoma City, Oklahoma.

The marine and power generation businesses operate 13 parts and service facilities, with two facilities located in Houma, Louisiana, and one facility each located in Baton Rouge, Belle Chasse and New Iberia, Louisiana, Mobile, Alabama, Houston, Texas, Chesapeake, Virginia, Rocky Mount, North Carolina, Paducah, Kentucky, Tampa, Florida, Seattle, Washington and Thorofare, New Jersey. All of these facilities are leased except the Houma, Belle Chasse and New Iberia, Louisiana and Mobile, Alabama facilities, which are owned by the Company.

The land-based business operates 20 distribution and service and manufacturing facilities across seven states in key oil and gas producing regions and major transportation corridors. The distribution and service facilities are located in Oklahoma City and Tulsa, Oklahoma, Little Rock, Arkansas and Shreveport, Louisiana. The Oklahoma City, Oklahoma, Shreveport, Louisiana and the Little Rock, Arkansas facilities are owned by the Company and the Tulsa, Oklahoma facility is leased. The Company's manufacturing facilities are located in six locations in Oklahoma City and in Henderson, Colorado. All of the manufacturing facilities are leased except for one location in Oklahoma City, Oklahoma and the facility in Henderson, Colorado, which are owned by the Company. The Company's field sales and service operations in Casper, Wyoming and Billings, Montana are leased and the Lubbock and Amarillo, Texas facilities are owned by the Company. The Company's refrigeration facilities are located in Houston, Pharr, Laredo, San Antonio and Austin, Texas. All of these facilities are leased except for the San Antonio facility which is owned by the Company.

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Executive Officers of the Registrant

The executive officers of the Company are as follows:

Name	Age	Positions and Offices
Joseph H. Pyne	67	Chairman of the Board
David W. Grzebinski	53	President and Chief Executive Officer
C. Andrew Smith	44	Executive Vice President and Chief Financial Officer
Joseph H. Reniers	40	Senior Vice President– Diesel Engine Services and Marine Facility Operations
William G. Ivey	71	President – Marine Transportation Group
James F. Farley	63	President – Kirby Offshore Marine
Michael W. Coulter	56	President – United
Dorman L. Strahan	58	President – Kirby Engine Systems
Ronald A. Dragg	51	Vice President, Controller and Assistant Secretary
Amy D. Husted	46	Vice President – Legal
David R. Mosley	50	Vice President and Chief Information Officer
Mark K. Forbes	57	Vice President – Human Resources
Renato A. Castro	43	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 since April 2014. He served the Company as Chairman of the Board and Chief Executive Officer from January 2014 to April 2014, as Chairman of the Board, President and Chief Executive Officer from April 2013 to January 2014 and from April 2010 to April 2011, and as President and Chief Executive Officer from 1995 to April 2010, Executive Vice President from 1992 to 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 a Masters in Business Administration degree from Tulane University and a degree in chemical engineering from the University of South Florida. He has served as President and Chief Executive Officer since April 2014. He served as President and Chief Operating Officer from January 2014 to April 2014 and as Chief Financial Officer from March 2010 to April 2014. He served as Chairman of Kirby Offshore Marine from February 2012 to April 2013 and served as Executive Vice President from March 2010 to January 2014. Prior to joining the Company in February 2010, he served in various administrative positions since 1988 with FMC Technologies Inc. (“FMC”), including Controller, Energy Services, Treasurer, and Director of Global SAP and Industry Relations. Prior to joining FMC, he was employed by Dow Chemical Company (“Dow”).

C. Andrew Smith is a Certified Public Accountant and holds a degree in business administration from the University of Houston. He has served as Executive Vice President and Chief Financial Officer since April 2014. He served as Executive Vice President – Finance from January 2014 to April 2014. Prior to joining the Company in January 2014, he served as Senior Vice President and Chief Financial Officer of Benthic Geotech and was previously Chief Financial Officer for both Global Industries, LTD and NATCO Group.

Joseph H. Reniers holds a degree in mechanical engineering from the United States Naval Academy and a Master of Business Administration degree from the University of Chicago Booth School of Business. He has served as Senior

Vice President– Diesel Engine Services and Marine Facility Operations since February 2015. He served as Vice President — Strategy and Operational Service from April 2014 to February 2015, Vice President — Supply Chain from April 2012 to April 2014 and Vice President – Human Resources from March 2010 to April 2012. 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.

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William G. Ivey attended the University of Houston and has served the Company as President – Marine Transportation Group since February 2014, President of Kirby Inland Marine since April 2011 and served as Executive Vice President, Sales and Marketing from 1989 to April 2011. He joined the Company in 1989 with the acquisition of Alamo Inland Marine. Prior to joining the Company he served in various sales and marketing positions with inland marine companies dating back to 1970.

James F. Farley holds a Master of Science degree from Thunderbird School of Global Management and a bachelor of arts degree from Texas Tech University. He has served the Company as President of Kirby Offshore Marine since February 2012 and served as Executive Vice President – Operations of Kirby Inland Marine from 2003 to February 2012. Prior to joining the Company in 2003, he held senior level marketing, logistics and operations positions in the marine transportation industry.

Michael W. Coulter holds a degree in mechanical engineering from University of Texas and a Masters in Business Administration from Santa Clara University Leavey School of Business. He has served as President of United since August 2013. Prior to joining the Company in August 2013, he served in various positions with FMC from 1982 through 2013, including General Manager Surface Wellhead Americas and General Manager Fluid Control.

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 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.

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.

Mark K. Forbes holds bachelors and masters degrees in Industrial Psychology from Western Michigan University. He has served the Company as Vice President – Human Resources since June 2014. Prior to joining the Company in June 2014, he served in various leadership positions in human resources in the exploration and production business with Apache Corporation, the petrochemical business with Lyondell Petrochemical Company and Dow Chemical Company and in food service processing with Michigan Sugar Company.

Renato A. Castro is a Certified Public Accountant and holds a Masters in Business Administration 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. Effective April 1, 2015, the diesel fuel tax paid by marine transportation companies increases to 29 cents per gallon. 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 and diesel engine services segments. The Company's marine transportation segment is subject to weather conditions on a daily basis. Adverse weather conditions such as high or low water on the inland waterway systems, fog and ice, tropical storms, hurricanes and tsunamis on both the inland waterway systems and throughout the United States coastal waters 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 and weather conditions can negatively affect a towing vessel's performance, tow size, loading drafts, fleet efficiency, place limitations on night passages and dictate horsepower requirements. The Company's diesel engine services segment is subject to tropical storms and hurricanes impacting its coastal locations and tornadoes impacting its Oklahoma facilities.

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 or a coastal area of the United States 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, refined petroleum products and agricultural chemicals throughout the Mississippi River System, the Gulf Intracoastal Waterway, coastwise along all three United States coasts and in Alaska and Hawaii. The Company manages its exposure to losses from potential discharges of pollutants through the use of well-maintained and equipped tank barges and towing vessels, through safety, training and environmental programs, and through 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 towing vessels. The Company's towing vessels 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 towing vessels. As a result, the Company invests significant resources in training its crews and providing crew members an opportunity to advance from a deckhand to the captain of a

Company towboat or tugboat, or on the coastal tugboats from a deckhand to the chief engineer. Lifestyle issues are a deterrent for employment for inland and coastal crew members. Inland crew members generally work a 20 days on, 10 days off rotation, or a 30 days on, 15 days off rotation. For the coastal fleet, crew members are generally required to work a 14 days on, 14 days off, 21 days on, 21 days off or 30 days on, 30 days off rotation, dependent upon the location. With ongoing retirements and competitive labor pressure in the marine transportation segment, the Company continues to monitor and implement market competitive pay practices. The Company also utilizes an internal development program to train Maritime Academy graduates for vessel leadership positions.

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The Company's marine transportation segment has approximately 3,275 employees, of which approximately 2,450 are vessel crew members. None of the segment's inland operations are subject to collective bargaining agreements. The segment's coastal operation includes approximately 900 vessel employees, of whom approximately 550 are subject to collective bargaining agreements in certain geographic areas. Any work stoppages or labor disputes could adversely affect coastal operations in those areas.

Reduction in the number of acquisitions made by the Company may curtail future growth. Since 1986, the Company has been successful in the integration of 31 acquisitions in its marine transportation segment and 17 acquisitions in its diesel engine services segment. Acquisitions have played a significant part in the growth of the Company. The Company's marine transportation revenue in 1987 was $40.2 million compared with $1.8 billion in 2014. Diesel engine services revenue in 1987 was $7.1 million compared with $795.6 million in 2014. 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 failure to comply with the Foreign Corrupt Practices Act ("FCPA") could have a negative impact on its ongoing operations. The Company's operations outside the United States require the Company to comply with a number of United States and international regulations. For example, its operations in countries outside the United States are subject to the FCPA, which prohibits United States companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity, or obtain any unfair advantage. The Company has internal control policies and procedures and has implemented training and compliance programs for its employees and agents with respect to the FCPA. However, the Company's policies, procedures and programs may not always protect it from reckless or criminal acts committed by its employees or agents, and severe criminal or civil sanctions could be the result of violations of the FCPA. The Company is also subject to the risks that its employees, joint venture partners, and agents outside of the United States may fail to comply with other applicable laws.

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 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 increases 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 Secretary of Homeland Security is vested with the authority and discretion to waive the Jones Act to such extent and upon such terms as the Secretary may prescribe whenever the Secretary deems that such action is necessary in the interest of national defense. In response to the effects of Hurricanes Katrina and Rita, the Secretary waived the Jones Act generally for the transportation of petroleum products from September 1 to September 19, 2005 and from September 26, 2005 to October 24, 2005. In June 2011, the Secretary waived the Jones Act for the transportation of petroleum released from the Strategic Petroleum Reserve and in November 2012 waived the Jones Act for the transportation of refined petroleum products in the Northeast following Hurricane Sandy. Waivers of the Jones Act, whether in response to natural disasters or otherwise, could result in increased competition from foreign tank vessel operators, which could negatively impact the marine transportation segment.

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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 has considered in the past 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." Any 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 2014, 47% of the marine transportation segment's revenues were from the movement of petrochemicals, including the movement of raw materials and feedstocks from one refinery or petrochemical plant to another, as well as the movement of more finished products to end users and terminals for export. During 2014, petrochemical volumes continued to improve compared with 2013 and 2012 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. Higher natural gas prices and other factors could negatively impact the United States petrochemical industry and its production volumes, which would negatively impact the Company.

The Company's marine transportation segment could be adversely impacted by the construction of tank barges by its competitors. At the present time, there are an estimated 3,650 inland tank barges in the United States, of which the Company operates 884, or 24%. The number of tank barges peaked at an estimated 4,200 in 1982, slowly declined to 2,750 by 2003, and then gradually increased to an estimated 3,650 by the end of 2014. During 2012, the Company estimates that 260 tank barges were placed in service, of which 56 were for the Company, and 110 tank barges were retired, 52 of which were by the Company. During 2013, the Company estimates that 270 tank barges were placed in service, of which 70 were for the Company, and 70 tank barges were retired, 46 of which were by the Company. During 2014, the Company estimates that 300 tank barges were placed in service, of which 61 were for the Company,

and 100 tank barges were retired, 38 of which were by the Company. The Company estimates that approximately 180 tank barges were ordered during 2014 for delivery throughout 2015, 39 of which are for the Company, and many older tank barges will be retired, dependent on 2015 market conditions. The increases for 2012, 2013 and 2014, and the orders for 2015, reflect the improved demand for inland petrochemical and black oil barges and federal tax incentives on new equipment in 2012 and 2013. Strong tank barge markets for 2012, 2013 and 2014 absorbed the additional capacity built by the industry.

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The risk of an oversupply of inland tank barges may be mitigated by the fact that the inland tank barge industry has a mature fleet. Of the estimated 3,650 tank barges in the industry at the present time, approximately 725 are over 30 years old and approximately 500 of those over 35 years old. Given the age profile of the industry inland tank barge fleet, the expectation is that older tank barges will continue to be removed from service and replaced by new tank barges that will enter the fleet, with the extent of the retirements dependent on 2015 petrochemical and refinery production levels, crude oil and natural gas condensate movements and industry-wide tank barge utilization levels.

During the first half of 2012, the marine transportation segment was negatively impacted by excess coastal tank barge capacity limiting tank barge utilization to the 75% range. The coastal operations reflected improvements in market conditions during the 2012 second half and throughout 2013, with tank barge utilization improving to the 75% to 80% range in the 2012 third quarter, 85% to 90% in the 2012 fourth quarter, continuing at 90% in 2013 and improving to the 90% to 95% range in 2014. During the 2012 second half and 2013 and 2014, the Company experienced increased demand for coastal crude and natural gas condensate moves and success in expanding the coastal customer base to include inland customers with coastal requirements. The Company estimates there are approximately 260 tank barges operating in the 195,000 barrel or less coastal industry fleet, the sector of the market in which the Company operates. The Company believes that very few coastal tank barges were built during 2012 and 2013 and that one coastal tank barge and tugboat unit was built and placed in service by a competitor during 2014. The Company announced in January 2014 the signing of an agreement to construct a 185,000 barrel coastal articulated tank barge and 10000 horsepower tugboat unit, with delivery anticipated for mid-to-late 2015. In April 2014, the Company exercised its option for the construction of a second 185,000 barrel coastal articulated tank barge and 10000 horsepower tugboat unit, with delivery anticipated for the first half of 2016. In July 2014, the Company signed agreements to construct two 155,000 barrel coastal articulated tank barge and 6000 horsepower tugboat units, the first for delivery in the 2016 second half and the second in the 2017 first half. The Company is aware of seven coastal tank barge and tugboat units in the 195,000 barrel or less class under construction by competitors for delivery in 2015, 2016 and 2017.

Higher fuel prices could increase operating expenses. The cost of fuel during 2014 was approximately 13% of marine transportation revenue. All marine transportation term contracts contain fuel escalation clauses, or the customer pays for the fuel. 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. Four marine transportation customers accounted for approximately 25% of the Company’s 2014 and 2013 revenue and 22% of 2012 revenue. The Company has contracts with these customers expiring in 2015 through 2017. Although the Company considers its relationships with these companies to be strong, the loss of any of these customers could have an adverse effect on the Company.

The Company’s diesel engine services segment has a 49-year relationship with EMD, the largest manufacturer of medium-speed diesel engines. In addition, the Company serves as both an EMD distributor and service center for select markets and locations for both service and parts. Sales and service of EMD products account for approximately 3% of the Company’s revenue for 2014. 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.

United has maintained continuous exclusive distribution rights for MTU and Allison since 1946. United is one of MTU’s top five distributors of off-highway engines in North America, with exclusive distribution rights in Oklahoma,

Arkansas, Louisiana and Mississippi. In addition, as a distributor of Allison products, United has distribution rights in Oklahoma, Arkansas and Louisiana. United is also the exclusive distributor for Daimler for engines and related equipment in Oklahoma, Arkansas and Louisiana. Sales and service of MTU and Allison products account for approximately 2% and 3%, respectively, of the Company's revenue during 2014. Although the Company considers its relationships with MTU and Allison to be strong, the loss of MTU, Allison or Daimler distributorships and service rights, or a disruption of the supply of MTU or Allison parts, could have a negative impact on the Company's ability to service its customers.

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The Company is subject to competition in both its marine transportation and diesel engine services segments. The inland and coastal tank barge industry remains very competitive. The Company's primary competitors are noncaptive inland tank barge operators and coastal 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 market, the primary competitors are other independent service companies. The segment's land-based market's principal competitors are independent diesel engine service and oilfield manufacturing companies and other factory-authorized distributors and service centers. In addition, certain oilfield service companies that are customers of the Company also manufacture and service a portion of their own oilfield equipment. Increased competition in the diesel engine services industry and continued low price of natural gas, crude oil or natural gas condensate, and resulting decline in drilling for such natural resources in North American shale formations, could result in less oilfield equipment being manufactured and remanufactured, lower rates for service and parts pricing and result in less manufacturing, remanufacturing, service and repair opportunities and parts sales for the Company.

Significant increases in the construction cost of 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 and as a result, 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. The average construction price for tank barges delivered in 2012, 2013 and 2014 and ordered in 2014 for delivery in 2015 increased, but remained below the construction price for tank barges delivered in 2009.

The Company's marine transportation segment could be adversely impacted by the failure of the Company's shipyard vendors to deliver new vessels according to contractually agreed delivery schedules and terms. The Company contracts with shipyards to build new vessels and currently has many vessels under construction. Construction projects are subject to risks of delay and cost overruns, resulting from shortages of equipment, materials and skilled labor; lack of shipyard availability; unforeseen design and engineering problems; work stoppages; weather interference; unanticipated cost increases; unscheduled delays in the delivery of material and equipment; and financial and other difficulties at shipyards including labor disputes, shipyard insolvency and inability to obtain necessary certifications and approvals. A significant delay in the construction of new vessels or a shipyard's inability to perform under the construction contract could negatively impact the Company's ability to fulfill contract commitments and to realize timely revenues with respect to vessels under construction. Significant cost overruns or delays for vessels under construction could also adversely affect the Company's financial condition, results of operations and cash flows.

The Company's diesel engine services segment could be adversely impacted by future legislation or additional regulation of hydraulic fracturing practices. The Company, through its United subsidiary, is a distributor and service provider of engine and transmission related products for the oil and gas services, power generation and transportation industries, and a manufacturer of oilfield service equipment, including pressure pumping units. The EPA is studying hydraulic fracturing practices, and legislation may be introduced in Congress that would authorize the EPA to impose additional regulations on hydraulic fracturing. In addition, a number of states have adopted or are evaluating the adoption of legislation or regulations governing hydraulic fracturing. Such federal or state legislation and/or

regulations could materially impact customers' operations and greatly reduce or eliminate demand for the Company's pressure pumping fracturing equipment and related products. The Company is unable to predict whether future legislation or any other regulations will ultimately be enacted and, if so, the impact on the Company's diesel engine services segment.

The Company relies on critical information systems for the operation of its businesses, and the failure of any critical information system, including a cyber-security breach, may adversely impact its businesses. The Company is dependent on its technology infrastructure and must maintain and rely upon critical information systems for the effective and safe operation of its businesses. These information systems include software applications and hardware equipment, as well as data networks and telecommunications.

The Company's information systems, including the Company's proprietary vessel management computer system, are subject to damage or interruption from a number of potential sources, including but not limited to, natural disasters, software viruses, power failures and cyber-attacks. The Company has implemented measures such as emergency recovery processes, virus protection software, intrusion detection systems and annual attack and penetration audits to mitigate these risks. However, the Company cannot guarantee that its information systems cannot be damaged or compromised.

Any damage or compromise of its data security or its inability to use or access these critical information systems could adversely impact the efficient and safe operation of its businesses, or result in the failure to maintain the confidentiality of data of its customers or its employees and could subject the Company to increased operating expenses or legal action, which could have an adverse effect on the Company.

An easing or lifting of the United States crude oil export ban could adversely impact the Company's marine transportation segment. Over the last four decades, the ability of United States producers to export domestic crude oil has been limited by the United States government. As crude oil production has increased in the United States due to hydraulic fracturing and shale oil production, there have been more calls by crude oil producers for the United States government to change its energy policy to ease or lift the crude oil export ban. Although the impact on the Company's inland barge operations is not determinable, the easing of the crude oil export ban could result in reduced coastal barge moves which may have an adverse impact on the Company's marine transportation segment. Alternatively, higher crude volumes, for domestic or export consumption, may be a positive as regional moves and moves to export terminals could increase.

Prevailing natural gas and crude oil prices, as well as the volatility of their prices, could have an adverse effect on the Company's businesses. Demand for tank barge transportation services is driven by the production of volumes of the bulk liquid commodities such as petrochemicals, black oil and refined products that the Company transports by tank barge. This production can depend on the prevailing level of natural gas and crude oil prices, as well as the volatility of their prices.

In general, lower energy prices are good for the United States economy and typically translate into increased petrochemical and refined product production and therefore increased demand for tank barge transportation services. However, lower crude oil prices could result in a decline in domestic crude oil and natural gas condensate production and reduced volumes to be transported by tank barge. The Company currently operates approximately 6% of its inland barges and approximately 13% of its coastal barges in the transportation of crude oil and natural gas condensate. Volatility in the price of natural gas and crude oil can also result in heightened uncertainty which may lead to decreased production and delays in new petrochemical and refinery plant construction. Increased competition for available black oil and petrochemical barge moves caused by reduced crude oil and natural gas condensate production could have an adverse impact on the Company's marine transportation segment.

Lower energy prices generally result in a decrease in the number of oil and gas wells being drilled. Oilfield service companies reduce their capital spending, resulting in decreased demand for new parts and equipment, including

pressure pumping units, provided by the Company's diesel engine services segment. This may also lead to order cancellations from customers or customers requesting to delay delivery of new equipment. In addition to the possibility that decreased energy prices may result in reduced demand for the Company's parts and equipment, energy price volatility may also result in difficulties in the Company's ability to ramp up and ramp down production on a timely basis and, therefore, could result in an adverse impact on the Company's diesel engine services segment.

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The Company's diesel engine services segment could be adversely impacted by the construction of pressure pumping units by its competitors. At the present time, there is an estimated 19.5 million horsepower of pressure pumping units in North America used in the hydraulic fracturing of shale formations. Increased 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. A significant drop in demand as well could result in oversupply in the pressure pumping market as attrition rates may not be high enough to absorb the new capacity entering the market and could negatively impact the Company's results of operations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The information appearing in Item 1 under "Marine Transportation– Properties" and "Diesel Engine Services– Properties" is incorporated herein by reference. The Company believes that its facilities are adequate for its needs and additional facilities would be available if required.

Item 3. Legal Proceedings

In June 2011, the Company as well as three other companies received correspondence from the EPA concerning ongoing cleanup and restoration activities under CERCLA with respect to a Superfund site, the Gulfco Marine Maintenance Site ("Gulfco"), located in Freeport, Texas. In prior years, various subsidiaries of the Company utilized a successor to Gulfco to perform tank barge cleaning services, sand blasting and repair on certain Company vessels. The EPA continues to investigate activities at the site to assess additional Potentially Responsible Parties ("PRPs"). Since 2005, four named PRPs have participated in the investigation, cleanup and restoration of the site under an administrative order from EPA. Information received to date indicates that approximately $4,500,000 has been incurred in connection with the cleanup effort in addition to EPA's oversight costs of approximately $1,800,000. To date, neither the EPA nor the named PRPs have performed an allocation of potential liability in connection with the site. The named PRPs filed suit against the Company and approximately 21 other defendants seeking contribution and indemnity under CERCLA for costs incurred in connection with its activities in cleaning up the Gulfco Site. This matter is in initial stages of litigation.

In 2009, the Company was named a PRP in addition to a group of approximately 250 named PRPs under CERCLA with respect to a Superfund site, the Portland Harbor Superfund site ("Portland Harbor") in Portland, Oregon. The site was declared a Superfund site in December 2000 as a result of historical heavily industrialized use due to manufacturing, shipbuilding, petroleum storage and distribution, metals salvaging, and electrical power generation activities which led to contamination of Portland Harbor, an urban and industrial reach of the lower Willamette River located immediately downstream of downtown Portland. The Company's involvement arises from four spills at the site after it was declared a Superfund site, as a result of predecessor entities' actions in the area. To date, there is no information suggesting the extent of the costs or damages to be claimed from the 250 notified PRPs. Based on the nature of the involvement at the Portland Harbor site, the Company believes its potential contribution is de minimis; however, to date neither the EPA nor the named PRPs have performed an allocation of potential liability in connection with the site nor have they provided costs and expenses in connection with the site.

In 2000, the Company and a group of approximately 45 other companies were notified that they are 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 related 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 submitted recommended pro rata allocations of costs among all PRPs to the EPA and the U.S. Department of Justice (“DOJ”) in order to resolve the EPA’s past costs claim which is under consideration by the DOJ.

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With respect to the above sites, the Company has recorded reserves, if applicable, 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.

On July 25, 2011, a subsidiary of the Company was named as a defendant in the U.S. District Court for the Southern District of Texas - Galveston Division, in a complaint styled Figgs. v. Kirby Inland Marine, et al., which alleges that the plaintiff individually as a vessel tankerman, and on behalf of other current and former similarly situated vessel tankermen employed with the Company, is entitled to overtime pay under the Fair Labor Standards Act. Plaintiffs assert that vessel tankermen are not seamen who are expressly exempt from overtime pay provisions under the law. The case was conditionally certified as a collective action on December 22, 2011 at which time the Court prescribed a notice period for current and former employees to voluntarily participate as plaintiffs. The notice period closed on February 27, 2012. Plaintiffs seek compensatory damages in the form of back pay, attorneys' fees, cost and liquidated damages. In a recent case that presented substantially the same facts and legal issues, the United States Court of Appeals for the Fifth Circuit ruled that vessel tankermen are seamen who are exempt from the overtime pay provisions of the Fair Labor Standards Act. While the Figgs case is still pending, the Company believes that, after the Fifth Circuit ruling, it will incur no material liability in the case.

On March 22, 2014, a tank barge and towboat (the M/V Miss Susan), both owned by Kirby Inland Marine, a wholly owned subsidiary of the Company, were involved in a collision with the M/S Summer Wind on the Houston Ship Channel near Texas City, Texas. The tank barge was damaged in the collision resulting in a discharge of intermediate fuel oil from one of its cargo tanks. The U.S. Coast Guard and the National Transportation Safety Board have named the Company and the Captain of the M/V Miss Susan, as well as the owner and the pilot of the M/S Summer Wind, as parties of interest in their investigation as to the cause of the incident. Sea Galaxy Ltd is the owner of the M/S Summer Wind. The Company is participating in the natural resource damage assessment and restoration process with federal and state government natural resource trustees.

The Company and the owner of the M/S Summer Wind have filed actions in the U.S. District Court for the Southern District of Texas seeking exoneration from or limitation of liability relating to the foregoing incident as provided for in the federal rules of procedure for maritime claims. The two actions have been consolidated for procedural purposes since they both arise out of the same occurrence. There is a separate process for making a claim under the OPA. The Company is processing claims properly presented, documented and recoverable under OPA. The Company is named as a party in other lawsuits filed in connection with this incident which are currently stayed by orders entered into by the court in the limitation proceedings, some of which may also have been presented as claims in the limitation proceeding. The actions include allegation of business interruption, loss of profit, loss of use of natural resources and seek unspecified economic and compensatory damages. In addition, the Company has received claims from numerous parties claiming property damage and various economic damages. The Company has also been named as a defendant in a civil action by two crewmembers of the M/V Miss Susan, alleging damages under the general maritime law and the Jones Act. The litigation and claims process is ongoing and many of the claims and lawsuits filed have not specified the amount of damages sought, but the Company believes it has adequate insurance coverage for pollution, marine and other potential liabilities arising from the incident. The Company believes it has accrued adequate reserves for the incident and does not expect the incident to have a material adverse effect on its business or financial condition.

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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Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

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

	Sales Price	
	High	Low
2015		
First Quarter (through February 20, 2015)	$82.91	$70.89
2014		
First Quarter	106.93	92.86
Second Quarter	117.18	96.00
Third Quarter	124.12	114.11
Fourth Quarter	117.78	78.84
2013		
First Quarter	78.04	61.41
Second Quarter	82.84	71.44
Third Quarter	89.19	79.15
Fourth Quarter	99.41	82.16

As of February 20, 2015, the Company had 55,703,000 outstanding shares held by approximately 800 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 credit agreements contain covenants restricting the payment of dividends by the Company at any time when there is a default under the agreements.

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 Amount that May Yet Be Purchased Under the Plan
October 1 – October 31, 2014	—	—	—	—
November 1 – November 30, 2014	—	—	—	—
December 1 – December 31, 2014	187,000	$81.75	—	$84,679,000
Total	187,000	$81.75	—	

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 ("Exchange Act"). The plan was entered into pursuant to authorization by the Board of Directors to repurchase up to $100,000,000 of the Company’s common stock pursuant to Rule 10b5-1. Purchases under the plan were completed in January 2015.

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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, 2014. 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,				
	2014	2013	2012	2011	2010
Revenues:					
Marine transportation	$1,770,684	$1,713,167	$1,408,893	$1,194,607	$915,046
Diesel engine services	795,634	529,028	703,765	655,810	194,511
	$2,566,318	$2,242,195	$2,112,658	$1,850,417	$1,109,557
Net earnings attributable to Kirby	$282,006	$253,061	$209,438	$183,026	$116,249
Net earnings per share attributable to Kirby common stockholders:					
Basic	$4.95	$4.46	$3.75	$3.35	$2.16
Diluted	$4.93	$4.44	$3.73	$3.33	$2.15
Common stock outstanding:					
Basic	56,674	56,354	55,466	54,191	53,331
Diluted	56,867	56,552	55,674	54,413	53,466

	December 31,				
	2014	2013	2012	2011	2010
Property and equipment, net	$2,589,498	$2,370,803	$2,315,165	$1,822,173	$1,118,161
Total assets	$4,141,909	$3,682,517	$3,653,128	$2,960,411	$1,794,937
Long-term debt, including current portion	$716,700	$749,150	$1,135,110	$802,005	$200,134
Total equity	$2,264,913	$2,022,153	$1,707,054	$1,454,158	$1,159,139

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," the negative thereof or other variations thereon or comparable terminology. The actual results of the future events described in such forward-looking statements in this Form 10-K could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are: adverse economic conditions, industry competition and other competitive factors, adverse weather conditions such as high water, low water, tropical storms, hurricanes, tsunamis, fog and ice, tornados, 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 2014, 2013 and 2012 were 56,867,000, 56,552,000 and 55,674,000, respectively. The increase in the weighted average number of common shares for 2014 compared with 2013 and 2012 primarily reflects the issuance of 500,000 shares of Company common stock associated with the December 14, 2012 acquisition of Penn Maritime, Inc. (“Penn”), the issuance of restricted stock and the exercise of stock options, partially offset by common stock repurchases in the 2014 fourth quarter.

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Overview

The Company is the nation's largest domestic tank barge operator, transporting bulk liquid products throughout the Mississippi River System, on the Gulf Intracoastal Waterway, coastwise along all three United States coasts and in Alaska and Hawaii. The Company transports petrochemicals, black oil, refined petroleum products and agricultural chemicals by tank barge. As of December 31, 2014, the Company operated a fleet of 884 inland tank barges with 17.8 million barrels of capacity, and operated an average of 251 inland towboats during 2014. The Company's coastal fleet consisted of 69 tank barges with 6.0 million barrels of capacity and 74 coastal tugboats. The Company also owns and operates six offshore dry-bulk cargo barges and seven offshore tugboats transporting dry-bulk commodities in United States coastal trade. Through its diesel engine services segment, the Company provides after-market services for medium-speed and high-speed diesel engines, reduction gears and ancillary products for marine and power generation applications, distributes and services high-speed diesel engines and transmissions, pumps and compression products, and manufactures and remanufactures oilfield service equipment, including pressure pumping units, for the land-based pressure pumping and oilfield service markets.

For 2014, net earnings attributable to Kirby were $282,006,000, or $4.93 per share, on revenues of $2,566,318,000, compared with 2013 net earnings attributable to Kirby of $253,061,000, or $4.44 per share, on revenues of $2,242,195,000. The 2014 year results included a $2,766,000 before taxes, or $.03 per share, first quarter severance charge which was mainly reflected in the marine transportation results. In addition, the 2014 year included an estimated $.03 per share first quarter combined negative impact from delays and the cost of extra horsepower to navigate the heavy ice conditions on the upper inland river systems, and costs related to a March 22, 2014 incident in the Houston Ship Channel. The 2013 year results included a credit to selling, general and administrative expenses of $18,300,000 before taxes, or $.20 per share, eliminating the fair value of the contingent earnout liability associated with the April 2011 acquisition of United. The 2013 year included an estimated $.03 per share negative impact during the second quarter from high water on the Mississippi and Illinois Rivers and the closure for repair of the Algiers Lock near New Orleans on the Gulf Intracoastal Waterway, net of certain revenue and cost recovery from contracts with terms that provide reimbursements for delays and increased costs.

Marine Transportation

For 2014, 69% 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 intermediate materials used to produce many of the end products used widely by businesses and consumers — plastics, fibers, paints, detergents, oil additives and paper, among others, as well as residual fuel oil, ship bunkers, asphalt, gasoline, diesel fuel, heating oil, crude oil, natural gas condensate and agricultural chemicals. Consequently, the Company's marine transportation business mirrors the volumes produced by the Company's petroleum, petrochemical and refining customer base.

The Company's marine transportation segment's revenues for 2014 increased 3% compared with 2013 and operating income for 2014 increased 5% compared with 2013. The higher marine transportation revenues and operating income reflected continued strong utilization levels for both the inland and coastal markets and favorable pricing trends. For 2014 and 2013, the inland tank barge fleet contributed 68% and 69%, respectively, and the coastal fleet 32% and 31%, respectively, of marine transportation revenues. The Company's inland petrochemical, black oil and refined products fleets achieved consistent tank barge utilization levels in the 90% to 95% range throughout 2014. The results were negatively impacted by changes in the Company's Florida bunkering operation where a customer change led to a decrease in dedicated equipment and reduced revenue. The Company's coastal marine transportation markets continued to improve with tank barge utilization levels in the 90% to 95% range throughout 2014, aided by increased transportation of crude oil and natural gas condensate, continued success in expanding the coastal customer base to inland customers with coastal requirements, and cold weather during the 2014 first quarter that increased the demand for the transportation of heating oil.

During 2014, approximately 80% of the inland marine transportation revenues were under term contracts and 20% were spot contract revenues, thereby providing the operations with a predictable revenue stream. Inland time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented 56% of the inland revenues under term contracts during 2014 compared with 58% during 2013. Rates on inland term contract rates renewed in the 2014 first and second quarters increased in the 3% to 5% average range compared with the 2013 first and second quarters. Rates on inland term contracts renewed in the 2014 third and fourth quarters increased in the 1% to 3% average range compared with term contracts renewed in the third and fourth quarters of 2013. Spot contract rates, which include the cost of fuel, increased modestly in each 2014 quarter compared with the prior quarters, except the spot contract rates in the 2014 fourth quarter were essentially flat when compared with the 2014 third quarter. Effective January 1, 2014, annual escalators for labor and the producer price index on a number of inland multi-year contracts resulted in rate increases on those contracts by approximately 1.7%, excluding fuel.

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During 2014, approximately 85% of the coastal marine transportation revenues were under term contracts and 15% were spot contract revenues. Coastal time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented approximately 90% of the coastal revenues under term contracts during 2014. During 2013, approximately 75% of the coastal marine transportation revenues were under term contracts and 25% were spot contract revenues. Coastal time charters represented approximately 90% of the coastal revenues under term contracts during 2013. The increase in term contract revenues reflected stronger demand for coastal tank barges. Rates on coastal term contracts renewed in the 2014 first, second and third quarters increased in the 7% to 9% average range and in the 2014 fourth quarter in the 5% average range compared with the term contracts renewed in the comparable 2013 quarters. Spot contract rates, which include the cost of fuel, continued to improve during 2014 and remained above term contract rates.

The 2014 marine transportation operating margin was 24.3% compared with 23.8% for 2013. The higher 2014 operating margin was a reflection of continued high inland and coastal equipment utilization, leading to higher inland and coastal term and spot contract rates negotiated throughout 2013 and 2014. The higher operating margin for 2014 was partially offset by the winter weather conditions experienced throughout the 2014 first quarter and the changes in the Company’s Florida bunkering operation.

Diesel Engine Services

During 2014, the diesel engine services segment generated 31% of the Company’s revenue, of which 46% was generated from overhauls and service, 21% from direct parts sales and 33% from manufacturing. The results of the diesel engine services segment are largely influenced by the economic cycles of the marine and power generation markets and the land-based pressure pumping and oilfield services industries.

Diesel engine services revenues for 2014 increased 50% and operating income increased 40% compared with 2013. The 2013 operating income included an $18,300,000 credit to selling, general and administrative expenses, resulting from a net decrease in the fair value of the contingent earnout liability associated with the April 2011 acquisition of United, thereby eliminating the remaining liability.

The 2014 increases were primarily attributable to an improvement in the sale and service of land-based diesel engines and transmissions, and an increase in the manufacture of oilfield service equipment, including pressure pumping units. Demand for the remanufacture of pressure pumping units remained steady throughout 2014, reflecting an improvement over 2013. With the steep decline in the price of crude oil during the 2014 fourth quarter, the land-based market was negatively impacted by some customer order cancellations and requests to delay projects. In addition, production inefficiencies related to supply chain issues and difficulties adding productive labor also negatively impacted the land-based market. The marine diesel engine services market improved modestly, benefiting from major service projects for inland and coastal customers, as well as Gulf of Mexico and foreign offshore service vessels and drilling operators. The power generation market was stable, benefiting from major generator set upgrades and parts sales for both domestic and international power generation customers.

The diesel engine services operating margin for 2014 was 7.5% compared with 8.1% for 2013. The operating margin for 2013 was positively impacted by the $18,300,000 credit to the contingent earnout liability noted above. The 2014 operating margin reflected improvement in the land-based market and stable marine and power generation markets. Some order cancellations and requests to delay projects during the 2014 fourth quarter and production inefficiencies during 2014 in the land-based market negatively impacted the 2014 operating margin.

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Cash Flow and Capital Expenditures

The Company continued to generate strong operating cash flow during 2014 with net cash provided by operating activities of $438,909,000 compared with $601,032,000 of net cash provided by operating activities for 2013. The 27% decrease was primarily from a $179,965,000 net decrease in cash flows from changes in operating assets and liabilities, primarily due to an increase in receivables and inventory during 2014 due to increased business activity levels in the land-based diesel engine services market, and a $25,080,000 decrease in provision for deferred income taxes, partially offset by $28,309,000 of higher net earnings. In addition, during 2014 and 2013, the Company generated cash of $7,519,000 and $6,635,000, respectively, from the exercise of stock options and $10,393,000 and $33,982,000, respectively, from proceeds from the disposition of assets. During 2014, the Company repurchased 187,000 shares of its common stock for $15,321,000.

For 2014, cash generated and borrowings under the Company's revolving credit facility were used for capital expenditures of $355,144,000, including $125,737,000 for inland tank barge and towboat construction, $71,793,000 for progress payments on the construction of two 185,000 barrel articulated tank barge and 10000 horsepower tugboat units, one scheduled to be placed in service in mid-to-late 2015 and one in the first half of 2016, $19,201,000 for down payments on the construction of two 155,000 barrel articulated tank barge and 6000 horsepower tugboat units, one scheduled to be placed in service in the 2016 second half and one in the 2017 first half, and $138,413,000 primarily for upgrading existing marine transportation equipment and facilities and diesel engine services facilities, as well as the final costs for the construction of two offshore dry-bulk barge and tugboat units delivered during 2013. The Company purchased one previously leased coastal tank barge in August 2014 for $6,500,000. In addition, the Company purchased two previously leased coastal tank barges in October 2014 for $25,300,000. Cash generated and borrowings under the Company's revolving credit facility in 2014 were also used for the repurchase of 187,000 shares of the Company's common stock for $15,321,000 in December 2014. The Company's debt-to-capitalization ratio decreased to 24.0% at December 31, 2014 from 27.0% at December 31, 2013, primarily due to a decrease of $32,450,000 in outstanding debt, an increase in total equity from net earnings attributable to Kirby for 2014 of $282,006,000, exercises of stock options and the amortization of unearned equity compensation, partially offset by treasury stock purchases. As of December 31, 2014, the Company had $116,700,000 outstanding under its revolving credit facility, $100,000,000 outstanding under its term loan, $500,000,000 of senior notes outstanding and no outstanding balance under its credit agreement.

During 2014, the Company took delivery of 61 new inland tank barges with a total capacity of 1,072,000 barrels, retired 33 inland tank barges and returned five leased inland tank barges, which reduced its capacity by 575,000 barrels. As a result, the Company added a net 23 inland tank barges and 497,000 barrels of capacity.

In January 2014, the Company signed an agreement to construct a 185,000 barrel coastal articulated tank barge and 10000 horsepower tugboat unit at a cost of approximately $75,000,000 for delivery in mid-to-late 2015. In April 2014, the Company exercised its option for the construction of a second 185,000 barrel coastal articulated tank barge and 10000 horsepower tugboat unit at a cost of approximately $75,000,000 for delivery in the first half of 2016.

In July 2014, the Company signed agreements to construct two 155,000 barrel coastal articulated tank barge and 6000 horsepower tugboat units at a combined cost of approximately $125,000,000 to $130,000,000, the first for delivery in the 2016 second half and second in the 2017 first half.

The Company projects that capital expenditures for 2015 will be in the $300,000,000 to $310,000,000 range. The 2015 construction program will consist of 39 inland tank barges with a total capacity of 572,000 barrels, three inland towboats, progress payments on the construction of two 185,000 barrel coastal articulated tank barge and tugboat units scheduled to be placed in service in mid-to-late 2015 and first half of 2016 and progress payments on the construction of two 155,000 barrel coastal articulated tank barge and tugboat units scheduled to be placed in service in the 2016 second half and the 2017 first half. Based on current commitments, steel prices and projected delivery schedules, the

Company’s 2015 payments on new inland tank barges and towboats will be approximately $75,000,000 and 2015 progress payments on the construction of the two 185,000 barrel and two 155,000 barrel coastal articulated tank barge and tugboat units will be approximately $85,000,000. The balance of approximately $140,000,000 to $150,000,000 is primarily capital upgrades and improvements to existing marine equipment, and marine transportation and diesel engine services facilities.

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Outlook

Petrochemical, black oil and refined petroleum products inland tank barge utilization levels remained strong during 2014, in the 90% to 95% range. The United States economy showed signs of improvement during 2014 with lower unemployment levels. The United States petrochemical industry continued to see strong production levels for both domestic consumption and exports. Low priced domestic natural gas, a basic feedstock for the United States petrochemical industry, provides the industry with a competitive advantage against foreign petrochemical producers. As a result, United States petrochemical production remained strong throughout 2014, thereby producing increased marine transportation volumes of basic petrochemicals to both domestic consumers and terminals for export destinations. The black oil market also remained strong throughout 2014, primarily due to continued stable United States refinery utilization levels, aided by the export of refined petroleum products and heavy fuel oils. In addition, the black oil market reflected continued strong demand for the inland and coastal transportation of crude oil and natural gas condensate resulting from increased production from the major shale formations in South Texas, the mid-Atlantic and upper Midwest regions of the United States.

The United States petrochemical industry is globally competitive based on a number of factors, including a highly integrated and efficient transportation system of pipelines, tank barges, railroads and trucks, largely depreciated yet well maintained and operated facilities, and a low cost feedstock slate, which includes natural gas. Several United States producers have announced plans for plant capacity expansions and the reopening of idled petrochemical facilities. The current production volumes from the Company's petrochemical and refinery customers have resulted in the Company's inland petrochemical, black oil and refined petroleum products tank barge fleet utilization levels being consistently in the 90% to 95% range and any increased production from current facilities, plant expansions or the reopening of idled facilities should drive feedstock and production volumes higher, in turn leading to higher tank barge demand and higher term and spot contract pricing, which could be mitigated by additional tank barge capacity.

As of December 31, 2014, the Company estimated there were approximately 3,650 inland tank barges in the industry fleet, of which approximately 725 were over 30 years old and approximately 500 of those over 40 years old. Given the age profile of the industry inland tank barge fleet, the expectation is that older tank barges will continue to be removed from service and replaced by new tank barges. During 2014, with continued strong demand for inland petrochemical and black oil tank barges, the Company estimates that approximately 300 inland tank barges were ordered and delivered throughout 2014. The Company estimates that approximately 180 tank barges were ordered during 2014 for delivery throughout 2015, 39 of which are for the Company. Historically, 75 to 150 older inland tank barges are retired from service each year, with the extent of the retirements dependent on petrochemical and refinery production levels, and crude oil and natural gas condensate movements which can have a direct effect on industry-wide tank barge utilization levels. The Company expects continued strong utilization in its inland markets in 2015, but with the sharp decline in crude oil prices in late 2014 and the resulting decline in the North American oil and gas rig count, the Company expects inland tank barge pricing to remain flat throughout much of 2015, with the potential for some weakening as crude oil and natural gas condensate production may decline in late 2015.

As of December 31, 2014, the Company estimated there were approximately 260 tank barges operating in the 195,000 barrel or less coastal industry fleet, the sector of the market in which the Company operates. The Company believes that very few, if any, coastal tank barges in the 195,000 barrel or less category were built during 2012 and 2013 and that one coastal tank barge and tugboat unit was built and placed in service by a competitor during 2014. During 2013, coastal tank barge utilization was consistently in the 90% range, improving to the 90% to 95% range during 2014 with continued success in expanding the coastal customer base to include inland customers with coastal requirements and increased coastal demand for the movement of crude oil and natural gas condensate. The Company announced in January 2014 the signing of an agreement to construct a 185,000 barrel coastal articulated tank barge and 10000 horsepower tugboat unit at a cost of approximately $75,000,000, with delivery anticipated for mid-to-late 2015. In April 2014, the Company exercised its option for the construction of a second 185,000 barrel coastal articulated tank barge and 10000 horsepower tugboat unit at a cost of approximately $75,000,000 with delivery anticipated for the first

half of 2016. In July 2014, the Company signed agreements to construct two 155,000 barrel coastal articulated tank barge and 6000 horsepower tugboat units at a combined cost of approximately $125,000,000 to $130,000,000, the first for delivery in the 2016 second half and the second in the 2017 first half. The Company is also aware of seven announced coastal tank barge and tugboat units to be constructed by competitors for delivery in 2015, 2016 and 2017. The Company expects continued strong utilization in its coastal markets in 2015 with higher term and spot market pricing.

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In the diesel engine services segment, with the stable drilling activity in the Gulf of Mexico and positive inland and coastal marine transportation markets, service activity levels for the marine diesel engine services market during 2014 reflected a modest improvement and is anticipated to remain stable in 2015. The power generation market should remain stable, benefiting from engine-generator set upgrades and parts sales for both domestic and international customers. The land-based diesel engine services market consists of manufacturing and remanufacturing of oilfield service equipment, including pressure pumping units, and the distribution and service of their components, which include high-speed diesel engines, transmissions and pumps, many of the same components used by marine customers. Currently, an estimated 19.5 million horsepower is employed in the North American pressure pumping business. As a result of excess pressure pumping horsepower in 2012 and 2013, new orders for pressure pumping units essentially stopped and the supply and distribution portion of the land-based market slowed. During 2014, the land-based diesel engine business results reflected an improvement in manufacturing and remanufacturing of oilfield service equipment. However, with the steep decline in the price of crude oil during the 2014 fourth quarter, the land-based market was negatively impacted by some customer order cancellations and requests to delay projects. Given the current crude oil environment and announced capital spending reductions by oil and gas service companies, the Company anticipates a decline in land-based manufacturing and service activities during 2015.

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, a United States or global recession or other adverse economic condition 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 on vessels built for use on the inland waterways are charged to operating expense as incurred and includes the costs incurred in USCG inspections unless the shipyard extends the life or improves the operating capacity of the vessel which results in the costs being capitalized. The Company’s ocean-going vessels are subject to regulatory drydocking requirements after certain periods of time to be inspected, have planned major maintenance performed and be recertified by the ABS. These recertifications generally occur twice in a five year period. The Company defers the drydocking expenditures incurred on its ocean-going vessels due to regulatory marine inspections by the ABS and amortizes the costs of the shipyard over the period between drydockings, generally 30 or 60 months, depending on the

type of major maintenance performed. Drydocking expenditures that extend the life or improve the operating capability of the vessel result in the costs being capitalized. Routine repairs and maintenance on ocean-going vessels are expensed as incurred. Interest is capitalized on the construction of new ocean-going vessels.

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The Company reviews long-lived assets for impairment by vessel class whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability of the assets is measured by a comparison of the carrying amount of the assets to future net cash expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There are many assumptions and estimates underlying the determination of an impairment event or loss, if any. The assumptions and estimates include, but are not limited to, estimated fair market value of the assets and estimated future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service the asset will be used, and estimated salvage values. Although the Company believes its assumptions and estimates are reasonable, deviations from the assumptions and estimates could produce a materially different result.

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

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

Results of Operations

The Company reported 2014 net earnings attributable to Kirby of $282,006,000, or $4.93 per share, on revenues of $2,566,318,000, compared with 2013 net earnings attributable to Kirby of $253,061,000, or $4.44 per share, on revenues of $2,242,195,000, and 2012 net earnings attributable to Kirby of $209,438,000, or $3.73 per share, on revenues of $2,112,658,000.

Marine transportation revenues for 2014 were $1,770,684,000, or 69% of total revenues, compared with $1,713,167,000, or 76% of total revenues for 2013, and $1,408,893,000, or 67% of total revenues for 2012. Diesel engine services revenues for 2014 were $795,634,000, or 31% of total revenues, compared with $529,028,000, or 24% of total revenues for 2013, and $703,765,000, or 33% of total revenues for 2012.

The 2014 operating results included a $2,766,000 before taxes, or $.03 per share, first quarter severance charge which was mainly reflected in the marine transportation results. In addition, the 2014 year included an estimated $.03 per share first quarter combined negative impact from delays and the cost of extra horsepower to navigate the heavy ice conditions on the upper inland river systems, and costs related to a March 22, 2014 incident in the Houston Ship Channel. For 2013 and 2012, the operating results included a credit to selling, general and administrative expenses of

$18,300,000 before taxes, or $.20 per share, and a credit of $4,300,000 before taxes, or $.05 per share, respectively, associated with the change in the fair value of the United contingent earnout liability. The 2013 year included an estimated $.03 per share negative impact during the second quarter from high water on the Mississippi and Illinois Rivers and the closure for repair of the Algiers Lock near New Orleans on the Gulf Intracoastal Waterway, net of certain revenue and cost recovery from contracts with terms that provide reimbursements for delays and increased costs.

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Marine Transportation

The Company, through its marine transportation segment, is a provider of marine transportation services, operating tank barges and towing vessels transporting bulk liquid products throughout the Mississippi River System, on the Gulf Intracoastal Waterway, coastwise along all three United States coasts and in Alaska and Hawaii. The Company transports petrochemicals, black oil, refined petroleum products and agricultural chemicals by tank barge. As of December 31, 2014, the Company operated 884 inland tank barges, including 39 leased barges, with a total capacity of 17.8 million barrels. This compares with 861 inland tank barges operated as of December 31, 2013, including 44 leased barges, with a total capacity of 17.3 million barrels. The Company operated an average of 251 inland towboats during 2014, of which an average of 79 were chartered, compared with 256 during 2013, of which an average of 77 were chartered. The Company's coastal tank barge fleet as of December 31, 2014 consisted of 69 tank barges, including eight of which were leased, with 6.0 million barrels of capacity, and 74 tugboats, six of which were chartered. This compares with 72 coastal tank barges operated as of December 31, 2013, 11 of which were leased, with 6.0 million barrels of capacity, and 76 coastal tugboats, seven of which were chartered. As of December 31, 2014 and 2013, the Company operated six and eight, respectively, offshore dry-bulk cargo barge and tugboat units engaged in the offshore transportation of dry-bulk cargoes. The Company also owns a two-thirds interest in Osprey which transports project cargoes and cargo containers by barge, as well as a 51% interest in a shifting operation and fleeting facility for dry cargo barges and tank barges on the Houston Ship Channel.

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, 2014 (dollars in thousands):

	2014	2013	% Change 2013 to 2014	2012	% Change 2012 to 2013
Marine transportation revenues	$1,770,684	$1,713,167	3 %	$1,408,893	22 %
Costs and expenses:					
Costs of sales and operating expenses	1,053,390	1,029,040	2	848,540	21
Selling, general and administrative	119,087	112,272	6	105,934	6
Taxes, other than on income	14,324	14,026	2	12,807	10
Depreciation and amortization	154,019	149,574	3	129,857	15
	1,340,820	1,304,912	3	1,097,138	19
Operating income	$429,864	$408,255	5 %	$311,755	31 %
Operating margins	24.3 %	23.8 %		22.1 %	

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The following table shows the marine transportation markets serviced by the Company, the marine transportation revenue distribution for 2014, products moved and the drivers of the demand for the products the Company transports:

Markets Serviced	2014 Revenue Distribution	Products Moved	Drivers
Petrochemicals	47%	Benzene, Styrene, Methanol, Acrylonitrile, Xylene, Caustic Soda, Butadiene, Propylene	Consumer non-durables —70% Consumer durables — 30%
Black Oil	25%	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	25%	Gasoline, No. 2 Oil, Jet Fuel, Heating Oil, Naphtha, Diesel Fuel, Ethanol	Vehicle Usage, Air Travel, Weather Conditions, Refinery Utilization
Agricultural Chemicals	3%	Anhydrous Ammonia, Nitrogen-Based Liquid Fertilizer, Industrial Ammonia	Corn, Cotton and Wheat Production, Chemical Feedstock Usage

2014 Compared with 2013

Marine Transportation Revenues

Marine transportation revenues for 2014 increased 3% when compared with 2013, reflecting continued strong utilization levels for both the inland and coastal markets and favorable pricing trends. For 2014 and 2013, the inland tank barge fleet contributed 68% and 69%, respectively, and the coastal fleet 32% and 31%, respectively, of marine transportation revenues. The Company’s inland petrochemical, black oil and refined petroleum products fleets achieved consistent tank barge utilization levels in the 90% to 95% range throughout 2014, consistent with 2013. The results were negatively impacted by changes in the Company’s Florida bunkering operation where a customer change led to a decrease in dedicated equipment and reduced revenue. The coastal equipment utilization for 2014 was in the 90% to 95% range, an improvement over the 90% range reported for 2013, aided by increased transportation of crude oil and natural gas condensate, continued success in expanding the coastal customer base to inland customers with coastal requirements, and cold weather during the 2014 first quarter that increased the demand for the transportation of heating oil.

The petrochemical market, the Company’s largest market, contributed 47% of marine transportation revenues for 2014, reflecting continued strong volumes from Gulf Coast petrochemical plants for both domestic consumers and to terminals for export destinations. Low priced domestic natural gas, a basic feedstock for the United States petrochemical industry, provides the industry with a competitive advantage against foreign petrochemical producers.

The black oil market, which contributed 25% of marine transportation revenues for 2014, reflected continued strong demand driven by steady refinery production levels, the export of refined petroleum products and fuel oils, and demand for crude oil and natural gas condensate transportation from the Eagle Ford shale formations in South Texas both along the Gulf Intracoastal Waterway with inland vessels and in the Gulf of Mexico with coastal equipment, and for the movement of Canadian and Utica crude oil and natural gas condensate downriver from the Midwest to the Gulf Coast. The coastal fleet also moved Bakken crude from Albany, New York to Northeast refineries and from the Columbia River to West Coast refineries during 2014.

The refined petroleum products market, which contributed 25% of marine transportation revenues for 2014, reflected continued strong demand for the movement of products in the inland and coastal markets, benefiting from additional volumes from major customers and aided by the export of refined petroleum products and heavy fuel oils. The coastal

refined products market was also driven by continued success in expanding the coastal customer base to inland customers with coastal requirements, as well as a cold winter in the Northeast that increased the demand for heating oil during the 2014 first quarter.

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The agricultural chemical market, which contributed 3% of 2014 marine transportation revenues, saw strong demand for both domestically produced and imported products during the first quarter but was hindered by the slow transit times created by the harsh Midwest operating conditions throughout the 2014 first quarter. Strong seasonal demand continued through the months of April and May 2014. The 2014 third quarter saw typical demand with the start of the fall fertilizer fill, with demand continuing into the fourth quarter.

For 2014, the inland operations incurred 7,804 delay days, consistent with the 7,843 delay days that occurred during 2013. 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 or other navigational factors. Operating conditions during the 2014 third and fourth quarters were seasonally normal while operating conditions during the 2014 first quarter and portion of the second quarter were challenging, as transit times along the Gulf Intracoastal Waterway were affected by numerous strong frontal systems and fog, as well as heavy ice conditions on the Illinois, upper Mississippi and upper Ohio Rivers for the majority of the first quarter. While the Company continued to operate on these rivers despite the heavy ice conditions, transit times were increased, and either additional horsepower was required or tow sizes were reduced.

During 2014, approximately 80% of marine transportation’s inland revenues were under term contracts and 20% were spot contract revenues compared with 75% term contracts and 25% spot contract revenues for 2013. The 2014 increase in term contract revenues was primarily due to increased volumes from term contract customers, thereby reducing equipment available for spot contract movements. The harsh winter weather conditions during the 2014 first quarter and portion of the second quarter that required more equipment to meet contract volumes also contributed to the higher term contract revenues. Inland time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented 56% of the revenues under term contracts during 2014 compared with 58% during 2013. The 80% term contract and 20% spot contract mix provides the inland operations with a predictable revenue stream.

During 2014, approximately 85% of the marine transportation’s coastal revenues were under term contracts and approximately 15% were spot contract revenues compared with 75% term contracts and 25% spot contracts for 2013. The increase in term contract revenues reflected stronger demand for coastal tank barges. Coastal time charters represented approximately 90% of the revenues under term contracts during 2014 and 2013.

Rates on inland term contract rates renewed in the 2014 first and second quarters increased in the 3% to 5% average range compared with the 2013 first and second quarters. Rates on inland term contracts renewed in the 2014 third and fourth quarters increased in the 1% to 3% average range compared with term contracts renewed in the third and fourth quarters of 2013. Spot contract rates, which include the cost of fuel, increased modestly in each 2014 quarter compared with the prior quarters, except the spot contract rates in the 2014 fourth quarter were essentially flat when compared with the 2014 third quarter. Effective January 1, 2014, annual escalators for labor and the producer price index on a number of inland multi-year contracts resulted in rate increases on those contracts of approximately 1.7%, excluding fuel.

Rates on coastal term contracts renewed in the 2014 first, second and third quarters increased in the 7% to 9% average range and in the 2014 fourth quarter in the 5% average range, compared with term contracts renewed in the comparable 2013 quarters. Spot contract rates, which include the cost of fuel, continued to improve during 2014 and remained above term contract rates.

Marine Transportation Costs and Expenses

Costs and expenses for 2014 increased 3% compared with 2013. Costs of sales and operating expenses for 2014 increased 2% compared 2013.

The inland operations operated an average of 251 towboats during 2014, of which an average of 79 towboats were chartered, compared with 256 during 2013, of which an average of 77 towboats were chartered. As demand, or anticipated demand, increases or decreases, as new tank barges are added to the fleet, as chartered towboat availability changes, or as weather or water conditions dictate, such as the heavy ice conditions on the Illinois, upper Mississippi and upper Ohio Rivers that occurred in the 2014 first quarter and portion of the second quarter, the Company charters-in or releases chartered towboats in an effort to balance horsepower needs with current requirements. The Company has historically used chartered towboats for approximately one-third of its horsepower requirements.

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During 2014, the inland operations consumed 44.7 million gallons of diesel fuel compared to 43.3 million gallons consumed during 2013. The average price per gallon of diesel fuel consumed during 2014 was $3.06 compared with $3.21 for 2013. Fuel escalation and de-escalation clauses on term contracts 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 2014 increased 6% compared with 2013, reflecting salary increases effective April 1, 2014 and higher professional fees in the 2014 first half. In addition, the increase for 2014 reflected a first quarter severance charge of $2,215,000 and the 2013 first quarter included a $370,000 severance charge.

Depreciation and amortization for 2014 increased 3% compared with 2013. The increase was primarily attributable to increased capital expenditures, including new inland tank barges and towboats.

Marine Transportation Operating Income and Operating Margins

Marine transportation operating income for 2014 increased 5% compared with 2013. The operating margin was 24.3% for 2014 compared with 23.8% for 2013. The higher 2014 operating income and operating margin was a reflection of continued high inland and coastal equipment utilization, leading to higher inland and coastal term and spot contract rates negotiated throughout 2013 and 2014. The higher operating income and operating margin for 2014 was partially offset by the winter weather conditions experienced throughout the 2014 first quarter and portion of the second quarter and changes in the Company’s Florida bunkering operation.

2013 Compared with 2012

Marine Transportation Revenues

Marine transportation revenues for 2013 increased 22% when compared with 2012, reflecting the expansion of the coastal transportation business with the acquisition of Allied Transportation Company (“Allied”) on November 1, 2012 and Penn on December 14, 2012. The inland tank barge fleet contributed approximately 70% and the coastal fleet approximately 30% of 2013 marine transportation revenues. Equipment utilization during 2013 for the inland petrochemical, black oil and refined petroleum products fleets remained in the 90% to 95% range, consistent with 2012. The coastal equipment utilization for 2013 was in the 90% range, a major improvement over the 80% range reported for 2012.

The petrochemical market, the Company’s largest market, contributed 47% of marine transportation revenues for 2013, reflecting continued strong volumes from Gulf Coast petrochemical plants for both domestic consumers and to terminals for export destinations. Low priced domestic natural gas, a basic feedstock for the United States petrochemical industry, provides the industry with a competitive advantage against foreign petrochemical producers. The 2013 year also included a full year of revenues from the 10 coastal tank barges purchased from Allied that transport petrochemicals coastwise.

The black oil market, which contributed 25% of marine transportation revenues for 2013, also reflected continued strong demand, driven by steady refinery production levels, the export of refined petroleum products and fuel oils, and increased demand for crude oil transportation from the Eagle Ford shale formations in South Texas both along the Gulf Intracoastal Waterway with inland vessels and in the Gulf of Mexico with coastal equipment, and for the movement of Canadian, Bakken and Utica crude oil and natural gas condensate downriver from the Midwest to the Gulf Coast. The coastal fleet also moved Bakken crude from Albany, New York to Northeast refineries during 2013 and in the 2013 fourth quarter began moving Bakken crude from the Columbia River to West Coast refineries. The 2013 year also included a full year of revenues from the 18 coastal tank barges acquired with the acquisition of Penn, expanding the Company’s coastal black oil movements of refinery feedstocks, asphalt, crude oil and natural gas

condensate.

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The refined petroleum products market, which contributed 24% of marine transportation revenues for 2013, reflected higher demand for the movement of products in the inland and coastal markets, benefiting from additional volumes from major customers and aided by the export of refined petroleum products and heavy fuel oils. The coastal refined products market was also driven by continued success in expanding the coastal customer base to inland customers with coastal requirements, as well as a colder winter in the Northeast that increased the demand for distillate products.

The agricultural chemical market, which contributed 4% of 2013 marine transportation revenues, saw weak demand during January and February due to winter weather and low water conditions in the Midwest. Demand increased significantly in March for both domestically produced and imported products and continued throughout the second quarter. Demand decreased during the 2013 third quarter due to seasonality and the Midwest drought but improved during the fourth quarter with the traditional fall fill.

For 2013, the inland operations incurred 7,843 delay days, 23% more than the 6,358 delay days that occurred during 2012. 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 or other navigational factors. High water conditions on the Mississippi and Illinois Rivers during the entire 2013 second quarter, and the closure of the Algiers Lock located on the Gulf Intracoastal Waterway due to structural damage during the entire second quarter and through the majority of July, created heavy congestion and multi-day delays in the New Orleans area and along the alternate route to the Mississippi River at the Bayou Sorrels and Port Allen Locks. In addition, low water levels on the upper Mississippi River System led to the light loading of tank barges destined for that area during the months of September and October 2013.

During 2013 and 2012, approximately 75% of marine transportation’s inland revenues were under term contracts and 25% were spot contract revenues. Inland time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented 58% of the revenues under term contracts during 2013 compared with 57% during 2012. The 75% term contract and 25% spot contract mix provides the inland operations with a predictable revenue stream.

During 2013, approximately 75% of the coastal revenues were under term contracts and 25% were spot contract revenues. Coastal time charters represented approximately 90% of the revenues under term contracts. For 2012, approximately 60% of the coastal revenues were under term contracts and 40% were spot contract revenues. The increase in term contracts reflected the stronger demand for coastal tank barges, as well as the 2012 fourth quarter acquisitions of Allied and Penn.

Rates on inland term contracts renewed throughout 2013 increased in the 4% to 6% average range compared with term contracts renewed throughout 2012. Spot contract rates in 2013, which include the cost of fuel, increased modestly compared with 2012. Effective January 1, 2013, annual escalators for labor and the producer price index on a number of inland multi-year contracts resulted in rate increases on those contracts of approximately 1%, excluding fuel.

Rates on coastal term contracts renewed throughout 2013 increased in the 7% to 9% average range compared with term contracts renewed throughout 2012. Spot contract rates, which include the cost of fuel, continued to improve during 2013 and remained above term contract rates.

Marine Transportation Costs and Expenses

Costs and expenses for 2013 increased 19% compared with the 2012, reflecting higher costs and expenses associated with increased marine transportation demand, and to a lesser extent the Allied and Penn acquisitions in late 2012. Costs of sales and operating expenses for 2013 increased 21% compared with 2012.

The inland operations operated an average of 256 towboats during 2013, of which an average of 77 were chartered, compared with 245 during 2012, of which an average of 64 were chartered. The increase in the number of towboats operated was a reflection of the higher tank barge utilization levels in the petrochemical, black oil and refined petroleum products markets during 2013 compared with 2012, as well as higher demand for towboats associated with the high water and lock closure issues noted above. As demand increases or decreases, or as weather or water conditions dictate, the Company charters-in or releases chartered towboats in an effort to balance horsepower needs with current requirements. The Company has historically used chartered towboats for approximately one-third of its inland horsepower requirements.

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During 2013, the inland operations consumed 43.3 million gallons of diesel fuel compared to 43.1 million gallons consumed during 2012. The average price per gallon of diesel fuel consumed during 2013 was $3.21 compared with $3.24 for 2012. Fuel escalation and de-escalation clauses on term contracts 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 2013 increased 6% compared with 2012, reflecting the acquisitions of Allied and Penn, and 2013 severance charges of $370,000 associated with the integration of Penn's administrative functions into the Company. The 2012 year included $2,920,000 of severance charges associated with the integration of Kirby Offshore Marine's administrative functions into the Company.

Depreciation and amortization for 2013 increased 15% compared with 2012. The increase was primarily attributable to increased capital expenditures, including new inland tank barges and towboats, and the acquisitions of Allied and Penn during late 2012.

Marine Transportation Operating Income and Operating Margins

Marine transportation operating income for 2013 increased 31% compared with 2012. The operating margin was 23.8% for 2013 compared with 22.1% for 2012. The higher operating income and operating margin was a reflection of continued high inland equipment utilization, leading to higher inland term and spot contract rates negotiated throughout 2012 and 2013, as well as higher coastal equipment utilization, including the Allied and Penn equipment, that led to higher coastal term and spot contract rates negotiated throughout 2013.

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, transmissions, reduction gears, pumps and compression products, maintains facilities to rebuild component parts or entire medium-speed and high-speed diesel engines, transmissions and entire reduction gears, and manufactures and remanufactures oilfield service equipment, including pressure pumping units. The Company primarily services the marine, power generation and land-based oil and gas operator and producer 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, 2014 (dollars in thousands):

	2014	2013	% Change 2013 to 2014	2012	% Change 2012 to 2013
Diesel engine services revenues	$795,634	$529,028	50 %	$703,765	(25)%
Costs and expenses:					
Costs of sales and operating expenses	641,492	419,765	53	561,122	(25)
Selling, general and administrative	80,309	53,595	50	62,560	(14)
Taxes, other than on income	2,307	1,805	28	1,667	8
Depreciation and amortization	11,463	11,096	3	12,030	(8)
	735,571	486,261	51	637,379	(24)
Operating income	$60,063	$42,767	40 %	$66,386	(36)%
Operating margins	7.5 %	8.1 %		9.4 %	

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The following table shows the markets serviced by the Company, the revenue distribution for 2014, and the customers for each market:

Markets Serviced	2014 Revenue Distribution	Customers
Land-Based	72%	Land-Based Oilfield Services, Oil and Gas Operators and Producers, Compression, On-and Off-Highway Transportation
Marine	19%	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	9%	Standby Power Generation, Pumping Stations

2014 Compared with 2013

Diesel Engine Services Revenues

Diesel engine services revenues for 2014 increased 50% compared with 2013, primarily attributable to an improvement in the sale and service of land-based diesel engines and transmissions, and an increase in the manufacture of oilfield service equipment, including pressure pumping units. Demand for the remanufacture of pressure pumping units remained steady throughout 2014 and reflected an improvement over 2013. With the steep decline in the price of crude oil during the 2014 fourth quarter, the land-based market was negatively impacted by some customer order cancellations and requests to delay projects. In addition, production inefficiencies related to supply chain issues and difficulties adding productive labor also negatively impacted the land-based market. The marine diesel engine services market improved modestly, benefiting from major service projects for inland and coastal customers, as well as Gulf of Mexico and foreign offshore oilfield service vessels and drilling operators. The power generation market was stable, benefiting from major generator set upgrades and parts sales for both domestic and international power generation customers.

Diesel Engine Services Costs and Expenses

Costs and expenses for 2014 increased 51% compared with 2013. The increases in cost of sales and operating expenses were primarily attributable to the continued improvement in demand for the manufacturing of oilfield service equipment, including pressure pumping units, as well as the increase in the sale and service of land-based diesel engines and transmissions. The 2013 year included an $18,300,000 credit to selling, general and administrative expenses, resulting from a net decrease in the fair value of the contingent earnout liability associated with the April 2011 acquisition of United.

Diesel Engine Services Operating Income and Operating Margins

Diesel engine services operating income for 2014 increased 40% compared with 2013. The operating margin for 2014 was 7.5% compared with 8.1% for 2013. The 2013 year included the $18,300,000 credit to selling, general and administrative expenses noted above. The 2014 results reflected improvement in the land-based market and stable marine and power generation markets. Some order cancellations and requests to delay projects during the 2014 fourth quarter and production inefficiencies during 2014 in the land-based market negatively impacted the 2014 operating income and margin.

2013 Compared with 2012

Diesel Engine Services Revenues

Diesel engine services revenues for 2013 decreased 25% compared with 2012, primarily attributable to a continuation of lower demand for the manufacturing of oil service equipment and the sale and service of land-based diesel engines, transmissions and parts. The market for the remanufacturing of older pressure pumping units remained relatively stable, but at lower levels. This decline in revenues for 2013 reflected the current state of the pressure pumping market and current oversupply of pressure pumping units, the result of over building in 2011 and of low natural gas prices and corresponding decline in drilling for natural gas in North America. The marine diesel engine services market remained stable, benefiting from major service projects for Midwest and Gulf Coast inland customers, and East Coast, Gulf Coast and West Coast offshore customers. The power generation market, consisting of major engine-generator set upgrades and parts sales for both domestic and international power generation customers, was stable.

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Diesel Engine Services Costs and Expenses

Costs and expenses for 2013 decreased 24% compared with 2012 and costs of sales and operating expenses decreased 25%, corresponding with the decrease in land-based revenues noted above. Selling, general and administrative expenses for 2013 decreased 14% compared with 2012, as 2013 included an $18,300,000 credit resulting from a decrease in the fair value of the contingent earnout liability associated with the April 2011 acquisition of United, thereby eliminating the remaining liability. This compares with a $4,300,000 credit for 2012 resulting from a net decrease in the fair value of the contingent earnout liability. The 2013 year also included a reduction in force charge in the marine high-speed sector, as well as higher warranty reserves and certain employee related costs in the land-based sector related to personnel changes.

Diesel Engine Services Operating Income and Operating Margins

Diesel engine services operating income for 2013 decreased 36% compared with 2012. The operating margin for 2013 was 8.1% compared with 9.4% for 2012. The lower operating income and operating margin primarily reflected the significant reduction in the number of pressure pumping units manufactured and the decline in the sale and service of land-based diesel engines, transmissions and parts during 2013 compared with 2012. In addition, 2013 and 2012 included the $18,300,000 and $4,300,000, respectively, earnout credit noted above.

General Corporate Expenses

General corporate expenses for 2014, 2013 and 2012 were $14,896,000, $15,728,000 and $13,294,000, respectively. The 5% decrease for 2014 compared with 2013 was due to lower employee incentive compensation accruals in 2014 and staff reductions in the first quarter of 2014. The 18% increase for 2013 compared with 2012 was primarily due to higher employee incentive compensation accruals, employee recruiting costs, and additional corporate personnel and related costs to support the Allied and Penn acquisitions.

Gain (Loss) on Disposition of Assets

The Company reported a net gain on disposition of assets of $781,000 in 2014 compared with a net gain on disposition of assets of $888,000 in 2013 and a net loss on disposition of assets of $14,000 in 2012. The net gains and losses were predominantly from the sale or retirement of marine equipment and the sale of a diesel engine services facility in 2013.

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, 2014 (dollars in thousands):

	2014	2013	% Change 2013 to 2014	2012	% Change 2012 to 2013
Equity in earnings of affiliates	$384	$348	10 %	$276	26 %
Other income (expense)	(345)	20	— %	(198)	— %
Noncontrolling interests	(2,602)	(3,238)	(20)%	(3,181)	2 %
Interest expense	(21,461)	(27,872)	(23)%	(24,385)	14 %

Equity in Earnings of Affiliates

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

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Noncontrolling Interests

Noncontrolling interests for 2014 decreased 20% compared with 2013, primarily due to lower business levels at the Company's 51% owned shifting operation and fleeting facility for dry cargo barges and tank barges on the Houston Ship Channel.

Interest Expense

Interest expense for 2014 decreased 23% compared with 2013, primarily due to lower 2014 average debt levels. Interest expense for 2013 increased 14% compared with 2012, primarily the result of borrowings under the revolving credit facility to finance the November 2012 Allied acquisition, as well as the new senior notes to finance the December 2012 Penn acquisition. During 2014, 2013 and 2012, the average debt and average interest rate (excluding capitalized interest expense), including the effect of interest rate swaps in 2012 and a portion of the 2013 first quarter, were $682,616,000 and 3.2%, $974,012,000 and 2.8%, and $800,123,000 and 3.0%, respectively. Interest expense excludes capitalized interest of $639,000 for the year ending December 31, 2014. No interest was capitalized for the years ending December 31, 2013 and 2012.

Financial Condition, Capital Resources and Liquidity

Balance Sheet

Total assets at December 31, 2014 were $4,141,909,000 compared with $3,682,517,000 at December 31, 2013 and $3,653,128,000 at December 31, 2012. The following table sets forth the significant components of the balance sheet as of December 31, 2014 compared with 2013 and 2013 compared with 2012 (dollars in thousands):

	2014	2013	% Change 2013 to 2014	2012	% Change 2012 to 2013
Assets:					
Current assets	$803,154	$544,006	48%	$596,256	(9)%
Property and equipment, net	2,589,498	2,370,803	9	2,315,165	2
Investment in affiliates	2,539	2,156	18	1,808	19
Goodwill	591,405	591,405	—	596,030	(1)
Other assets	155,313	174,147	(11)	143,869	21
	$4,141,909	$3,682,517	12%	$3,653,128	1%
Liabilities and stockholders' equity:					
Current liabilities	$594,027	$345,989	72%	$355,020	(3)%
Long-term debt-less current portion	600,000	749,150	(20)	1,070,110	(30)
Deferred income taxes	595,769	544,110	9	426,096	28
Other long-term liabilities	87,200	21,115	313	94,848	(78)
Total equity	2,264,913	2,022,153	12	1,707,054	18
	$4,141,909	$3,682,517	12%	$3,653,128	1%

2014 Compared with 2013

Current assets as of December 31, 2014 increased 48% compared with December 31, 2013. Trade accounts receivable increased 34%, primarily a reflection of the increase in the land-based diesel engine services receivables due to an increase in business activity levels in 2014 compared with 2013. Other accounts receivable increased 169%, primarily

due to an increase in insurance claim receivables related to the March 22, 2014 incident in the Houston Ship Channel. Inventory in the diesel engine services segment increased 42% with the building of land-based inventory to support increased business activity levels and parts purchased for 2015 first quarter projects.

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Property and equipment, net of accumulated depreciation, at December 31, 2014 increased 9% compared with December 31, 2013. The increase reflected $355,144,000 of capital expenditures for 2014, more fully described under Capital Expenditures below, the purchase of three previously leased coastal barges for $31,800,000, less $160,070,000 of depreciation expense for 2014 and $9,866,000 of property disposals during 2014.

Other assets at December 31, 2014 decreased 11% compared with December 31, 2013 primarily due to amortization of intangibles other than goodwill and the amortization of deferred major maintenance drydock expenditures on ocean-going vessels during 2014, net of major maintenance drydock expenditures for 2014.

Current liabilities as of December 31, 2014 increased 72% compared with December 31, 2013. The current portion of long-term debt at December 31, 2014 reflected the reclassification of the $116,700,000 balance of the revolving credit facility as current since it matures November 9, 2015. Accounts payable increased 25%, primarily from increased business activity levels in the diesel engine services segment. Accrued liabilities increased 56%, primarily from an increase in claims payable resulting from the March 22, 2014 incident in the Houston Ship Channel. Deferred revenues increased 38%, primarily reflecting increased advanced billings for diesel engine services and marine transportation customers.

Long-term debt, less current portion, as of December 31, 2014, decreased 20% compared with December 31, 2013, reflecting payments of $108,000,000 on the term loan during 2014 and the reclassification of the revolving credit facility to current portion of long-term debt.

Deferred income taxes as of December 31, 2014 increased 9% compared with December 31, 2013. The increase was primarily due to the 2014 deferred tax provision of $77,976,000, the result of bonus tax depreciation on qualifying expenditures due to the Tax Increase Prevention Act of 2014 that continued 50% bonus tax depreciation for capital investments placed in service through December 31, 2014.

Other long-term liabilities as of December 31, 2014 increased 313% compared with December 31, 2013. The increase was primarily attributable to an increase in the pension liability due to a lower discount rate and a new mortality table.

Total equity as of December 31, 2014 increased 12% compared with December 31, 2013. The increase was primarily the result of $282,006,000 of net earnings attributable to Kirby for 2014, a $12,272,000 increase in treasury stock, a $17,860,000 increase in additional paid-in capital and a $44,244,000 decrease in accumulated other comprehensive income (“OCI”). The increase in treasury stock was attributable to purchases during 2014 of $15,321,000 of Company common stock, partially offset by the exercise of stock options and the issuance of restricted stock. The increase in additional paid-in capital was due to the excess of proceeds received upon exercise of stock options and the issuance of restricted stock over the cost of the treasury stock issued. The decrease in accumulated OCI primarily resulted from the increase in unrecognized losses related to the Company’s defined benefit plans.

2013 Compared with 2012

Current assets as of December 31, 2013 decreased 9% compared with December 31, 2012. Trade accounts receivable decreased 1%, primarily a reflection of better collection efforts. Inventory in the diesel engine services segment decreased 23%, primarily due to a reduction in the number of engines and transmissions on hand at the Company’s land-based diesel engine service facilities that were purchased in 2012 for specific customers and sold in 2013, and the sale of pressure pumping units held on hand.

Property and equipment, net of accumulated depreciation, at December 31, 2013 increased 2% compared with December 31, 2012. The increase reflected $253,227,000 of capital expenditures for 2013, more fully described under Capital Expenditures below, less $155,068,000 of depreciation expense for 2013 and $32,798,000 of property disposals during 2013.

Other assets at December 31, 2013 increased 21% compared with December 31, 2012 primarily due to deferred major maintenance drydock expenditures on ocean-going vessels during 2013 and the recording of a pension asset of $4,563,000 due to the Company's pension plan being in a fully funded position at December 31, 2013.

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Current liabilities as of December 31, 2013 decreased 3% compared with December 31, 2012. At December 31, 2013, none of the long-term debt was classified as current due to prepayments of the term loan during 2013, compared with $65,000,000 classified as current portion of long-term debt at December 31, 2012. Accounts payable increased 13% primarily from higher voyage expenditures associated with higher marine transportation activity levels and higher shipyard accruals. Accrued liabilities increased 13% primarily from higher employee incentive compensation accruals, accrued interest and marine insurance claim reserves. Deferred revenues increased 118%, primarily reflecting increased advanced billings for coastal transportation customers.

Long-term debt, less current portion, as of December 31, 2013 decreased 30% compared with December 31, 2012, reflecting payments on the revolving credit facility and term loan during 2013.

Deferred income taxes as of December 31, 2013 increased 28% compared with December 31, 2012. The increase was primarily due to the 2013 deferred tax provision of $103,056,000, the result of bonus tax depreciation on qualifying expenditures due to the American Taxpayers Relief Act of 2012 that provides 50% bonus tax depreciation for capital investments placed in service through December 31, 2013.

Other long-term liabilities as of December 31, 2013 decreased 78% compared with December 31, 2012. The decrease was due to the reversal of pension plan accruals of $49,100,000 as the Company's pension plan was fully funded at December 31, 2013, the reversal during 2013 of the $18,300,000 contingent earnout liability associated with the acquisition of United, and a $5,000,000 payment associated with the $10,000,000 contingent liability recorded at the acquisition date of Allied pertaining to developments with the sugar provisions in the United States Farm Bill.

Total equity as of December 31, 2013 increased 18% compared with December 31, 2012. The increase was primarily the result of $253,061,000 of net earnings attributable to Kirby for 2013, a $5,493,000 decrease in treasury stock, a $12,830,000 increase in additional paid-in capital and a $44,334,000 increase in accumulated OCI. The decrease in treasury stock was attributable to the exercise of stock options and the issuance of restricted stock. The increase in additional paid-in capital was due to the excess of proceeds received upon exercise of stock options and the issuance of restricted stock over the cost of the treasury stock issued. The increase in accumulated OCI 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 its inland 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 ("ABO") basis at the end of the fiscal year. No pension contribution was made in 2014 for the 2014 year as funding of the pension plan's ABO was 100% at December 31, 2014. No pension contribution was made in 2013 for the 2013 year as funding of the pension plan's ABO was 127% at December 31, 2013. The fair value of plan assets was $242,275,000 and $254,523,000 at December 31, 2014 and December 31, 2013, 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 used discount rates of 4.1% and 5.0% in 2014 and 2013, respectively, in determining its benefit obligations. The Company estimates that every 0.1% decrease in the discount rate results in an increase in the ABO of approximately $4,056,000. The Company assumed that plan assets would generate a long-term rate of return of 7.5% in 2014 and 2013. 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.

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Long-Term Financing

The Company has $500,000,000 of unsecured senior notes ("Senior Notes Series A" and "Senior Notes Series B") with a group of institutional investors, consisting of $150,000,000 of 2.72% Senior Notes Series A due February 27, 2020 and $350,000,000 of 3.29% Senior Notes Series B due February 27, 2023. The Company issued $82,500,000 of Senior Notes Series A and $192,500,000 of Senior Notes Series B on December 13, 2012, the proceeds of which were used to fund the acquisition of Penn. The Company issued $67,500,000 of Senior Notes Series A and $157,500,000 of Senior Notes Series B on February 27, 2013, the proceeds of which were used to refinance $200,000,000 of floating rate senior notes due February 28, 2013, with the balance used to pay down the Company's unsecured revolving credit facility. No principal payments are required until maturity. The Senior Notes Series A and Series B contain certain covenants on the part of the Company, including an interest coverage covenant, a debt-to-capitalization covenant and covenants relating to liens, asset sales and mergers, among others. The Senior Notes Series A and Series B also specify certain events of default, upon the occurrence of which the maturity of the notes may be accelerated, including failure to pay principal and interest, violation of covenants or default on other indebtedness, among others. As of December 31, 2014, the Company was in compliance with all Senior Notes Series A and Series B covenants and had $150,000,000 of Senior Notes Series A outstanding and $350,000,000 of Senior Notes Series B outstanding.

The Company has a $325,000,000 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 variable interest rate spread varies with the Company's senior debt rating and is currently 1.5% over the London Interbank Offered Rate ("LIBOR") or 0.5% over an alternate base rate calculated with reference to the agent bank's prime rate, among other factors ("Alternate Base Rate"). 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 December 31, 2014, the Company was in compliance with all Revolving Credit Facility covenants and had $116,700,000 outstanding under the Revolving Credit Facility which was classified as current portion of long-term debt. 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 $4,939,000 as of December 31, 2014.

The Company has 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 July 1, 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 an 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. As of December 31, 2014, the Company was in compliance with all Term Loan covenants and had $100,000,000 outstanding under the Term Loan, none of which was classified as current portion of long-term debt.

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The Company had $200,000,000 of unsecured floating rate senior notes ("Senior Notes") that were retired on February 28, 2013, the maturity date of the Senior Notes, with the proceeds from the Senior Notes Series A and Senior Notes Series B described above.

The Company has a $10,000,000 line of credit ("Credit Line") with Bank of America for short-term liquidity needs and letters of credit, with a maturity date of June 29, 2015. 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. As of December 31, 2014, the Company had no balance outstanding under the Credit Line. Outstanding letters of credit under the Credit Line were $1,194,000 as of December 31, 2014.

Interest Rate Risk Management

From time to time, the Company has utilized 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. On February 28, 2013, all of the Company's outstanding interest rate swaps expired. These interest rate swaps, with a notional amount of $200,000,000, were designated as cash flow hedges.

Foreign Currency Risk Management

From time to time, the Company has utilized 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. During the first quarter of 2014, the Company's remaining forward contract with a notional amount of $469,000 expired.

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 December 31, 2014 and 2013 (in thousands):

Liability Derivatives	Balance Sheet Location	2014	2013
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Other accrued liabilities	$ —	$ 59
Foreign currency contracts	Other long-term liabilities	—	—
Interest rate contracts	Other accrued liabilities	—	—
Total derivatives designated as hedging instruments under ASC 815		$ —	$ 59
Total liability derivatives		$ —	$ 59

Fair value amounts were derived as of December 31, 2014 and December 31, 2013 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 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.

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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, 2014, 2013 and 2012 (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)		
		2014	2013	2012
Interest rate contracts	Interest expense	$—	$1,486	$7,716
Foreign exchange contracts	Cost of sales and operating expenses	145	(23)	346
Total		$145	$1,463	$8,062

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)		
		2014	2013	2012
Interest rate contracts	Interest expense	$—	$(1,389)	$(8,321)
Foreign exchange contracts	Cost of sales and operating expenses	121	—	19
Total		$121	$(1,389)	$(8,302)

Capital Expenditures

Capital expenditures for 2014 were $355,144,000, including $125,737,000 for inland tank barge and towboat construction, $71,793,000 primarily for progress payments on the construction of two 185,000 barrel articulated coastal tank barge and 10000 horsepower tugboat units, one scheduled to be placed in service in mid-to-late 2015 and one in the first half of 2016, $19,201,000 for down payments on the construction of two 155,000 barrel articulated coastal tank barge and 6000 horsepower tugboat units, one scheduled to be placed in service in the 2016 second half and one in the 2017 first half, and $138,413,000 primarily for upgrading existing marine transportation equipment and facilities and diesel engine services facilities, as well as the final costs for the construction of two offshore dry-bulk barge and tugboat units delivered during 2013. Capital expenditures for 2013 were $253,227,000, of which $147,786,000 was for construction of new inland tank barges and towboats and progress payments on the construction of the two offshore articulated dry-bulk barge and tugboat units completed in the 2013 second quarter, and $105,441,000 was primarily for upgrading existing marine transportation equipment and facilities and diesel engine service facilities. Financing of the construction of the inland tank barges and towboats, coastal tank barges and tugboats, and the two offshore dry-bulk barge and tugboat units was through operating cash flows and available credit under the Company's Revolving Credit Facility. The Company purchased one previously leased coastal tank barge in August 2014 for $6,500,000. In addition, the Company purchased two previously leased coastal tank barges in October 2014 for $25,300,000.

During 2014, the Company took delivery of 61 new inland tank barges with a total capacity of 1,072,000 barrels, retired 33 inland tank barges and returned five leased inland tank barges, which reduced its capacity by 575,000 barrels. As a result, the Company added a net 23 inland tank barges and 497,000 barrels of capacity during 2014. The Company's inland operation also took delivery of one inland towboat in 2014.

In January 2014, the Company signed an agreement to construct a 185,000 barrel coastal articulated tank barge and 10000 horsepower tugboat unit at a cost of approximately $75,000,000 for delivery in mid-to-late 2015. In April 2014,

the Company exercised its option for the construction of a second 185,000 barrel coastal articulated tank barge and 10000 horsepower tugboat unit at a cost of approximately $75,000,000 for delivery in the first half of 2016.

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In July 2014, the Company signed agreements to construct two 155,000 barrel coastal articulated tank barge and 6000 horsepower tugboat units at a combined cost of approximately $125,000,000 to $130,000,000, the first for delivery in the 2016 second half and second in the 2017 first half.

The Company projects that capital expenditures for 2015 will be in the $300,000,000 to $310,000,000 range. The 2015 construction program will consist of 39 inland tank barges with a total capacity of 572,000 barrels, three inland towboats, progress payments on the construction of two 185,000 barrel coastal articulated tank barge and tugboat units scheduled to be placed in service in mid-to-late 2015 and first half of 2016 and progress payments on the construction of two 155,000 barrel coastal articulated tank barge and tugboat units scheduled to be placed in service in the 2016 second half and the 2017 first half. Based on current commitments, steel prices and projected delivery schedules, the Company's 2015 payments on new inland tank barges and towboats will be approximately $75,000,000 and 2015 progress payments on the construction of the two 185,000 barrel coastal articulated tank barge and tugboat units and the two 155,000 barrel coastal articulated tank barge and tugboat units will be approximately $85,000,000. The balance of approximately $140,000,000 to $150,000,000 is primarily capital upgrades and improvements to existing marine equipment, and marine transportation and diesel engine services facilities.

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

Treasury Stock Purchases

In December 2014, the Company purchased 187,000 shares of its common stock for $15,321,000, for an average price of $81.75 per share, under a stock trading plan entered into with a brokerage firm pursuant to Rule 10b5-1 under the Exchange Act. In January 2015, the Company purchased 1,077,000 shares of its common stock for $84,679,000, for an average price of $78.66 per share under the same stock trading plan. On January 23, 2015, the Company's Board of Directors authorized the repurchase of an additional 2,000,000 shares of the Company's common stock. From February 4, 2015 to February 20, 2015, the Company purchased 176,000 shares of its common stock for $13,332,000, for an average price of $75.88 per share. As of February 20, 2015, the Company had approximately 3,510,000 shares available under the existing repurchase authorization. The treasury stock purchases are 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 $438,909,000, $601,032,000 and $325,730,000 for the years ended December 31, 2014, 2013 and 2012, respectively. The 2014 year experienced a net decrease in cash flows from changes in operating assets and liabilities of $123,399,000 compared with a net increase in the 2013 year of $56,566,000. The reduction was primarily due to an increase in receivables and inventory during 2014 due to increased business activity levels in the land-based diesel engine services market compared to a decrease in inventory in 2013 due to the sale during 2013 of inventories that were purchased in 2012 for specific customers and the sale of pressure pumping units on hand.

The 2013 year experienced a net increase in cash flows from changes in operating assets and liabilities of $56,566,000 compared with a net decrease in the 2012 year of $124,607,000. The net increase was primarily due to a decrease in inventory during 2013 due to the sale during 2013 of inventories that were purchased in 2012 for specific customers and the sale of pressure pumping units on hand. In addition, deferred revenue increased during 2013 due to increased advance billings for coastal transportation customers compared to a decrease in deferred revenue during 2012. Also,

there was no pension plan contribution in 2013 compared to a $25,000,000 pension plan contribution in 2012.

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Funds generated are available for acquisitions, capital expenditure projects, common stock repurchases, repayments of borrowings and for other corporate and operating requirements. In addition to net cash flow provided by operating activities, the Company also had available as of February 20, 2015, $55,214,000 under its Revolving Credit Facility and $8,806,000 available under its Credit Line.

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

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 $325,000,000 and expires November 9, 2015. As of December 31, 2014, the Company had $116,700,000 available under the Revolving Credit Facility. The Senior Notes Series A and Senior Notes Series B do not mature until February 27, 2020 and February 27, 2023, respectively, and require no prepayments. 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.

There are numerous factors that may negatively impact the Company's cash flow in 2015. For a list of significant risks and uncertainties that could impact cash flows, see Note 13, 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 $36,566,000 at December 31, 2014, including $7,433,000 in letters of credit and $29,133,000 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, or the customer pays for the fuel. 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.

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Contractual Obligations

The contractual obligations of the Company and its subsidiaries at December 31, 2014 consisted of the following (in thousands):

	Payments Due By Period				
	Total	Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years
Long-term debt	$716,700	$116,700	$100,000	$—	$500,000
Non-cancelable operating leases — barges	42,675	13,930	16,345	10,161	2,239
Non-cancelable operating leases — towing vessels	147,105	89,491	53,402	4,212	—
Non-cancelable operating leases — land, buildings and equipment	43,813	7,716	12,112	8,627	15,358
Barge and towing vessel construction contracts	262,209	157,811	104,398	—	—
	$1,212,502	$385,648	$286,257	$23,000	$517,597

Approximately half 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.

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 ABO basis 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 resulting in the Company electing to only make an expected pension contribution forecast of one year. As of December 31, 2014, the pension plan was funded at 100% of the ABO.

Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in United States Generally Accepted Accounting Principles when it becomes effective. ASU 2014-09 is effective for the Company on January 1, 2017. Early application is not permitted. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of ASU 2014-09 on its ongoing financial reporting.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"). ASU 2013-02 established the effective date for the requirement to present components of reclassifications out of OCI on the face of the financial statements. The adoption of ASU 2013-02 in the first quarter of 2013 did not have an impact on the Company's consolidated financial statements except the Company has applied these provisions to its presentation of consolidated financial statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to risk from changes in interest rates on certain of its outstanding debt. The outstanding loan balances under the Company's bank credit facilities bear interest at variable rates based on prevailing short-term interest rates in the United States and Europe. A 10% change in variable interest rates would impact the 2015 interest expense by $33,000 based on balances outstanding at December 31, 2014, and would change the fair value of the Company's debt by less than 1%.

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Interest Rate Risk Management

From time to time, the Company has utilized 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. On February 28, 2013, all of the Company's outstanding interest rate swaps expired. These interest rate swaps, with a total notional amount of $200,000,000, were designated as cash flow hedges.

Foreign Currency Risk Management

From time to time, the Company has utilized 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. During the 2014 first quarter, the Company's remaining forward contract with a notional amount of $469,000 expired.

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 December 31, 2014 and 2013 (in thousands):

Liability Derivatives	Balance Sheet Location	2014	2013
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Other accrued liabilities	$ —	$ 59
Foreign currency contracts	Other long-term liabilities	—	—
Interest rate contracts	Other accrued liabilities	—	—
Total derivatives designated as hedging instruments under ASC 815		$ —	$ 59
Total liability derivatives		$ —	$ 59

Fair value amounts were derived as of December 31, 2014 and December 31, 2013 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 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.

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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, 2014, 2013 and 2012 (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) 2014	2013	2012
Interest rate contracts	Interest expense	$ —	$ 1,486	$ 7,716
Foreign exchange contracts	Cost of sales and operating expenses	145	(23)	346
Total		$ 145	$ 1,463	$ 8,062

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) 2014	2013	2012
Interest rate contracts	Interest expense	$—	$(1,389)	$(8,321)
Foreign exchange contracts	Cost of sales and operating expenses	121	—	19
Total		$121	$(1,389)	$(8,302)

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 94).

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 Exchange Act), as of December 31, 2014. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of December 31, 2014, 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, 2014 using the framework in Internal Control — Integrated Framework (2013) 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, 2014. 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, 2014 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, 2014, 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, 2014, based on criteria established in Internal Control — Integrated Framework (2013) 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, 2014, based on criteria established in Internal Control — Integrated Framework (2013) 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, 2014 and 2013, 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, 2014, and our report dated February 23, 2015 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Houston, Texas
February 23, 2015

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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, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, 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, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP
Houston, Texas
February 23, 2015

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

	2014	2013
	($ in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$24,299	$4,022
Accounts receivable:		
Trade — less allowance for doubtful accounts of $8,887 ($5,055 in 2013)	417,325	311,549
Other	115,598	43,053
Inventories — net, at lower of average cost or market	192,354	135,887
Prepaid expenses and other current assets	43,016	40,037
Deferred income taxes	10,562	9,458
Total current assets	803,154	544,006
Property and equipment:		
Marine transportation equipment	3,495,705	3,170,433
Land, buildings and equipment	221,693	205,460
	3,717,398	3,375,893
Accumulated depreciation	1,127,900	1,005,090
Property and equipment — net	2,589,498	2,370,803
Investment in affiliates	2,539	2,156
Goodwill	591,405	591,405
Other assets	155,313	174,147
Total assets	$4,141,909	$3,682,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$116,700	$—
Income taxes payable	3,470	2,915
Accounts payable	222,020	177,375
Accrued liabilities:		
Interest	5,610	5,494
Insurance premiums and claims	121,989	49,162
Employee compensation	42,056	42,613
Taxes — other than on income	13,694	12,160
Other	17,684	19,572
Deferred revenues	50,804	36,698
Total current liabilities	594,027	345,989
Long-term debt — less current portion	600,000	749,150
Deferred income taxes	595,769	544,110
Other long-term liabilities	87,200	21,115
Total long-term liabilities	1,282,969	1,314,375
Contingencies and commitments	—	—
Equity:		
Kirby stockholders' equity:		

Common stock, $.10 par value per share. Authorized 120,000,000 shares, issued 59,776,000 in 2014 and 2013	5,978	5,978
Additional paid-in capital	428,475	410,615
Accumulated other comprehensive income — net	(61,037)	(16,793)
Retained earnings	1,974,146	1,692,140
Treasury stock — at cost, 2,906,000 shares in 2014 and 2,930,000 in 2013	(93,526)	(81,254)
Total Kirby stockholders' equity	2,254,036	2,010,686
Noncontrolling interests	10,877	11,467
Total equity	2,264,913	2,022,153
Total liabilities and equity	$4,141,909	$3,682,517

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, 2014, 2013 and 2012

	2014	2013	2012
	($ in thousands, except per share amounts)		
Revenues:			
Marine transportation	$1,770,684	$1,713,167	$1,408,893
Diesel engine services	795,634	529,028	703,765
Total revenues	2,566,318	2,242,195	2,112,658
Costs and expenses:			
Costs of sales and operating expenses	1,694,882	1,448,805	1,409,662
Selling, general and administrative	210,416	177,766	178,483
Taxes, other than on income	16,677	15,893	14,519
Depreciation and amortization	169,312	164,437	145,147
Loss (gain) on disposition of assets	(781)	(888)	14
Total costs and expenses	2,090,506	1,806,013	1,747,825
Operating income	475,812	436,182	364,833
Equity in earnings of affiliates	384	348	276
Other income (expense)	(345)	20	(198)
Interest expense	(21,461)	(27,872)	(24,385)
Earnings before taxes on income	454,390	408,678	340,526
Provision for taxes on income	(169,782)	(152,379)	(127,907)
Net earnings	284,608	256,299	212,619
Less: Net earnings attributable to noncontrolling interests	(2,602)	(3,238)	(3,181)
Net earnings attributable to Kirby	$282,006	$253,061	$209,438
Net earnings per share attributable to Kirby common stockholders:			
Basic	$4.95	$4.46	$3.75
Diluted	$4.93	$4.44	$3.73

See accompanying notes to consolidated financial statements.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
	($ in thousands)		
Net earnings	$284,608	$256,299	$212,619
Other comprehensive income (loss), net of taxes:			
Pension and postretirement benefits	(44,294)	43,274	(10,270)
Foreign currency translation adjustments	(35)	108	102
Change in fair value of derivative instruments	85	952	5,217
Total other comprehensive income (loss), net of taxes	(44,244)	44,334	(4,951)
Total comprehensive income, net of taxes	240,364	300,633	207,668
Net earnings attributable to noncontrolling interests	(2,602)	(3,238)	(3,181)
Comprehensive income attributable to Kirby	$237,762	$297,395	$204,487

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, 2014, 2013 and 2012

	2014	2013	2012
	($ in thousands)		
Cash flows from operating activities:			
Net earnings	$284,608	$256,299	$212,619
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation and amortization	169,312	164,437	145,147
Provision (credit) for doubtful accounts	3,577	1,260	(42)
Provision for deferred income taxes	77,976	103,056	77,005
Loss (gain) on disposition of assets	(781)	(888)	14
Equity in earnings of affiliates, net of distributions and contributions	(384)	(348)	1,874
Amortization of unearned share-based compensation	11,591	11,621	9,796
Amortization of scheduled major maintenance costs	16,409	9,029	3,924
Increase (decrease) in cash flows resulting from changes in:			
Accounts receivable	(176,544)	2,235	(8,744)
Inventory	(56,468)	43,275	(46,372)
Other assets	(11,783)	(47,526)	(5,180)
Income taxes payable	(4,544)	313	(4,347)
Accounts payable	44,645	23,088	(10,484)
Accrued and other liabilities	81,295	35,181	(49,480)
Net cash provided by operating activities	438,909	601,032	325,730
Cash flows from investing activities:			
Capital expenditures	(355,144)	(253,227)	(312,167)
Acquisitions of businesses and marine equipment, net of cash acquired	(31,800)	(3,643)	(380,925)
Proceeds from disposition of assets	10,393	33,982	19,651
Net cash used in investing activities	(376,551)	(222,888)	(673,441)
Cash flows from financing activities:			
Borrowings (payments) on bank credit facilities, net	75,550	(150,960)	97,110
Borrowings on long-term debt	—	225,000	275,000
Payments on long-term debt	(108,000)	(460,000)	(39,005)
Return of investment to noncontrolling interests	(3,192)	(3,857)	(2,728)
Proceeds from exercise of stock options	7,519	6,635	8,932
Purchase of treasury stock	(15,321)	—	—
Payment of contingent liability	(4,756)	(5,000)	—
Excess tax benefit from equity compensation plans	6,119	3,001	3,212
Net cash provided by (used in) financing activities	(42,081)	(385,181)	342,521
Increase (decrease) in cash and cash equivalents	20,277	(7,037)	(5,190)
Cash and cash equivalents, beginning of year	4,022	11,059	16,249
Cash and cash equivalents, end of year	$24,299	$4,022	$11,059
Supplemental disclosures of cash flow information:			
Cash paid during the year:			
Interest	$19,622	$21,393	$21,364

Income taxes	$90,460	$46,136	$52,105
Noncash investing activity:			
Stock issued in acquisitions	$—	$—	$29,080
Cash acquired in acquisitions	$—	$—	$2,301

See accompanying notes to consolidated financial statements.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2014, 2013 and 2012

	2014	2013	2012
	($ in thousands)		
Common stock:			
Balance at beginning of year	$5,978	$5,978	$5,928
Issuance of shares in acquisition	—	—	50
Balance at end of year	$5,978	$5,978	$5,978
Additional paid-in capital:			
Balance at beginning of year	$410,615	$397,785	$357,294
Issuance of shares in acquisition	—	—	29,030
Excess of proceeds received upon exercise of stock options and issuance of restricted stock over cost of treasury stock issued	8,345	8,276	6,716
Tax benefit realized from equity compensation plans	6,119	3,001	3,212
Issuance of restricted stock, net of forfeitures	(8,195)	(10,068)	(8,263)
Amortization of unearned compensation	11,591	11,621	9,796
Balance at end of year	$428,475	$410,615	$397,785
Accumulated other comprehensive income:			
Balance at beginning of year	$(16,793)	$(61,127)	$(56,176)
Other comprehensive income (loss), net of taxes	(44,244)	44,334	(4,951)
Balance at end of year	$(61,037)	$(16,793)	$(61,127)
Retained earnings:			
Balance at beginning of year	$1,692,140	$1,439,079	$1,229,641
Net earnings attributable to Kirby for the year	282,006	253,061	209,438
Balance at end of year	$1,974,146	$1,692,140	$1,439,079
Treasury stock:			
Balance at beginning of year	$(81,254)	$(86,747)	$(94,162)
Purchase of treasury stock (187,000 in 2014)	(15,321)	—	—
Cost of treasury stock issued upon exercise of stock options and issuance of restricted stock (211,000 in 2014, 261,000 in 2013 and 341,000 in 2012)	3,049	5,493	7,415
Balance at end of year	$(93,526)	$(81,254)	$(86,747)
Noncontrolling interests:			
Balance at beginning of year	$11,467	$12,086	$11,633
Net earnings attributable to noncontrolling interests	2,602	3,238	3,181
Return of investment to noncontrolling interests	(3,192)	(3,857)	(2,728)
Balance at the end of year	$10,877	$11,467	$12,086

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"). Two affiliated limited partnerships, 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, are 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, 2014 and 2013 were $143,615,000 and $69,481,000, 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, 2014 and 2013 were $92,379,000 and $22,396,000, 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 oil and gas service companies, marine transportation companies, commercial fishing companies, power generation companies, 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, 5-40 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 on vessels built for use on the inland waterways are charged to

operating expense as incurred and includes the costs incurred in United States Coast Guard ("USCG") inspections unless the shipyard extends the life or improves the operating capacity of the vessel which results in the costs being capitalized.

Drydocking on Ocean-Going Vessels. The Company's ocean-going vessels are subject to regulatory drydocking requirements after certain periods of time to be inspected, have planned major maintenance performed and be recertified by the American Bureau of Shipping ("ABS"). These recertifications generally occur twice in a five year period. The Company defers the drydocking expenditures incurred on its ocean-going vessels due to regulatory marine inspections by the ABS and amortizes the costs of the shipyard over the period between drydockings, generally 30 or 60 months, depending on the type of major maintenance performed. Drydocking expenditures that extend the life or improve the operating capability of the vessel result in the costs being capitalized. The Company recognized amortization of capitalized planned major maintenance costs of $16,409,000, $9,029,000 and $3,924,000 for the years ended December 31, 2014, 2013 and 2012, respectively, in costs of sales and operating expenses. Routine repairs and maintenance on ocean-going vessels are expensed as incurred. Interest is capitalized on the construction of new ocean-going vessels. Interest expense excludes capitalized interest of $639,000 for the year ending December 31, 2014. No interest was capitalized for the years ending December 31, 2013 and 2012.

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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. The Company conducted its annual goodwill impairment test at November 30, 2014 and 2013. For 2014 and 2013, the Company noted no impairment of goodwill. The Company will continue to conduct goodwill impairment tests as of November 30 of subsequent years, or whenever events or circumstances indicate that interim impairment testing is necessary. The gross carrying value of goodwill at December 31, 2014 and 2013 was $608,872,000 and accumulated amortization at December 31, 2014 and 2013 was $15,566,000. Accumulated impairment losses were $1,901,000 at December 31, 2014 and 2013.

Net goodwill for the marine transportation segment was $381,243,000 at December 31, 2014 and 2013. Net goodwill for the diesel engine services segment was $210,162,000 at December 31, 2014 and 2013.

Revenue Recognition. The majority of marine transportation revenue is derived from term contracts, ranging from one to five years, some of which have 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 or when customer-specific acceptance requirements are met. Service revenue is recognized as the service is provided. Diesel manufacturing and assembly projects revenue is 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.

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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 claim losses, in excess of the Company's deductible for 2014, 2013 and 2012 were $25,416,000, $22,971,000 and $17,876,000, 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.

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. The Company's vessels are mobile assets and equipped to operate in geographic regions throughout the United States and the Company has in the past and expects to continue to move vessels from one region to another when it is necessary due to changing markets and it is economical to do so. Barge vessel classes are based on similar capacities, hull type, and type of product and towing vessels are based on similar hull type and 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 May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in United States Generally Accepted Accounting Principles when it becomes effective. ASU 2014-09 is effective for the Company on January 1, 2017. Early application is not permitted. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of ASU 2014-09 on its ongoing financial reporting.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"). ASU 2013-02 established the effective date for the requirement to present components of reclassifications out of accumulated other comprehensive income ("OCI") on the face of the financial statements. The adoption of ASU 2013-02 in the first quarter of 2013 did

not have an impact on the Company's consolidated financial statements except the Company has applied these provisions to its presentation of consolidated financial statements.

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(2) Inventories

The following table presents the details of inventories as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014	December 31, 2013
Finished goods	$179,760	$120,751
Work in process	12,594	15,136
	$192,354	$135,887

(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, 2013 (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, 2013:				
Assets:				
Derivatives	$ —	$ —	$ —	$ —
Liabilities:				
Derivatives	$ —	$ 59	$ —	$ 59
Contingent liabilities	—	—	4,903	4,903
	$ —	$ 59	$ 4,903	$ 4,962

In connection with the acquisition of Allied Transportation Company (“Allied”) on November 1, 2012, Allied’s former owners were eligible to receive up to an additional $10,000,000 payable in 2013 through 2015, contingent on developments with the sugar provisions in the United States Farm Bill. The fair value of the contingent liability recorded at the acquisition date was $9,756,000. The fair value of the contingent liability was based on a valuation of the estimated fair value of the liability after probability weighting and discounting various potential payments. Payments of $5,000,000 were made in the 2014 and 2013 first quarters on the contingent liability. The increase in the fair value of the contingent liability of $97,000 and $136,000 for the years ended December 31, 2014 and 2013, respectively, was charged to selling, general and administrative expense. As of December 31, 2014, no Allied contingent liability was recorded and no further payments will be made.

In connection with the acquisition of United Holdings LLC (“United”) on April 15, 2011, United’s former owners were 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 was based on a valuation of the estimated fair value of the liability after probability weighting and discounting various potential payments. The decrease in the fair value of the earnout liability of $18,300,000 for the year ended December 30, 2013 was credited to selling, general and administrative expense. No United earnout liability was recorded as of December 31, 2013 and December 31, 2014.

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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 fair value of the Company's debt instruments is described in Note 5, Long-Term Debt.

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 years ended December 31, 2014 and 2013, there was no indication that the Company's long-lived assets were impaired, and accordingly, measurement at fair value was not required.

(4) Derivative Instruments

The Company recognizes all derivative instruments 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. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in 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 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. On February 28, 2013, all of the Company's outstanding interest rate swaps expired. These interest rate swaps, with a total notional amount of $200,000,000, were designated as cash flow hedges.

Foreign Currency Risk Management

From time to time, the Company has utilized 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. During the 2014 first quarter, the Company's remaining forward contract with a notional amount of $469,000 expired.

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 December 31, 2014 and 2013 (in thousands):

Liability Derivatives	Balance Sheet Location	2014	2013
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Other accrued liabilities	$ —	$ 59
Foreign currency contracts	Other long-term liabilities	—	—
Interest rate contracts	Other accrued liabilities	—	—
Total derivatives designated as hedging instruments under ASC 815		$ —	$ 59
Total liability derivatives		$ —	$ 59

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Fair value amounts were derived as of December 31, 2014 and 2013 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, 2014, 2013 and 2012 (in thousands):

		Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)		
Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	2014	2013	2012
Interest rate contracts	Interest expense	$—	$1,486	$7,716
Foreign exchange contracts	Cost of sales and operating expenses	145	(23)	346
Total		$145	$1,463	$8,062

		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		
Derivatives in ASC 815 Cash Flow Hedging Relationships:	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	2014	2013	2012
Interest rate contracts	Interest expense	$—	$(1,389)	$(8,321)
Foreign exchange contracts	Cost of sales and operating expenses	121	—	19
Total		$121	$(1,389)	$(8,302)

(5) Long-Term Debt

Long-term debt at December 31, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Long-term debt, including current portion:		
$150,000,000 senior notes Series A due February 27, 2020	$150,000	$150,000
$350,000,000 senior notes Series B due February 27, 2023	350,000	350,000
$540,000,000 term loan due July 1, 2016	100,000	208,000
$325,000,000 revolving credit facility due November 9, 2015	116,700	41,150
$10,000,000 credit line due June 29, 2015	—	—
	$716,700	$749,150

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

2015	$116,700
2016	100,000
2017	—
2018	—
2019	—
Thereafter	500,000
	$716,700

The Company has $500,000,000 of unsecured senior notes ("Senior Notes Series A" and "Senior Notes Series B") with a group of institutional investors, consisting of $150,000,000 of 2.72% Senior Notes Series A due February 27, 2020 and $350,000,000 of 3.29% Senior Notes Series B due February 27, 2023. The Company issued $82,500,000 of Senior Notes Series A and $192,500,000 of Senior Notes Series B on December 13, 2012, the proceeds of which were used to fund the acquisition of Penn Maritime, Inc. ("Penn"). The Company issued $67,500,000 of Senior Notes Series A and $157,500,000 of Senior Notes Series B on February 27, 2013, the proceeds of which were used to refinance $200,000,000 of floating rate senior notes due February 28, 2013, with the balance used to pay down the Company's unsecured revolving credit facility. No principal payments are required until maturity. The Senior Notes Series A and Series B contain certain covenants on the part of the Company, including an interest coverage covenant, a debt-to-capitalization covenant and covenants relating to liens, asset sales and mergers, among others. The Senior Notes Series A and Series B also specify certain events of default, upon the occurrence of which the maturity of the notes may be accelerated, including failure to pay principal and interest, violation of covenants or default on other indebtedness, among others. As of December 31, 2014, the Company was in compliance with all Senior Notes Series A and Series B covenants and had $150,000,000 of Senior Notes Series A outstanding and $350,000,000 of Senior Notes Series B outstanding.

The Company has a $325,000,000 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 variable interest rate spread varies with the Company's senior debt rating and is currently 1.5% over the London Interbank Offered Rate ("LIBOR") or 0.5% over an alternate base rate calculated with reference to the agent bank's prime rate, among other factors ("Alternate Base Rate"). 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 December 31, 2014, the Company was in compliance with all Revolving Credit Facility covenants and had $116,700,000 outstanding under the Revolving Credit Facility which was classified as current portion of long-term debt. The average borrowing under the Revolving Credit Facility during 2014 was $28,591,000, computing by averaging the daily balance, and the weighted average interest rate was 1.7%, computed by dividing the interest expense under the Revolving Credit Facility by the average Revolving Credit Facility borrowing. The Revolving Credit Facility includes a $25,000,000 commitment which may be used for standby letters of credit. Outstanding letters of credit under the Revolving Credit Facility were $4,939,000 as of December 31, 2014.

The Company has 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 July 1, 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 an 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. As of December 31, 2014, the Company was in compliance with all Term Loan covenants and had $100,000,000 outstanding under the Term Loan, none of which was classified as current portion of long-term debt. The average borrowing under the Term Loan during 2014 was $152,892,000, computed by averaging the daily balance, and the weighted average interest rate was 1.7%, computed by dividing the interest expense under the Term Loan by the average Term Loan borrowing.

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The Company had $200,000,000 of unsecured floating rate senior notes ("Senior Notes") that were retired on February 28, 2013, the maturity date of the Senior Notes, with the proceeds from the Senior Notes Series A and Senior Notes Series B described above.

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 29, 2015. 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 had no borrowings outstanding under the Credit Line as of December 31, 2014. Outstanding letters of credit under the Credit Line were $1,194,000 as of December 31, 2014.

The estimated fair value of total debt outstanding at December 31, 2014 and 2013 was $705,215,000 and $710,377,000, respectively, which differs from the carrying amount of $716,700,000 and $749,150,000, respectively, included in the consolidated financial statements. The fair value was determined using an income approach that relies on inputs such as yield curves.

(6) Taxes on Income

Earnings before taxes on income and details of the provision for taxes on income for the years ended December 31, 2014, 2013 and 2012 were as follows (in thousands):

	2014	2013	2012
Earnings before taxes on income — United States	$454,390	$408,678	$340,526
Provision for taxes on income:			
Federal:			
Current	$81,953	$41,008	$41,297
Deferred	72,920	97,586	71,767
State and local	14,909	13,785	14,843
	$169,782	$152,379	$127,907

During the three years ended December 31, 2014, 2013 and 2012, 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 $6,119,000, $3,001,000 and $3,212,000, respectively.

The Company's provision for taxes on income varied from the statutory federal income tax rate for the years ended December 31, 2014, 2013 and 2012 due to the following:

	2014	2013	2012
United States income tax statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of federal benefit	2.2	2.2	2.8
Other – net	.2	.1	(.2)
	37.4%	37.3%	37.6%

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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, 2014 and 2013 were as follows (in thousands):

	2014	2013
Current deferred tax assets:		
Compensated absences	$854	$782
Allowance for doubtful accounts	3,111	1,927
Insurance accruals	2,858	2,572
Other	3,739	4,177
	$10,562	$9,458
Non-current deferred tax assets and liabilities:		
Deferred tax assets:		
Postretirement health care benefits	$2,795	$3,015
Insurance accruals	3,325	2,781
Deferred compensation	10,157	9,526
Unrealized loss on derivative financial instruments	—	51
Unrealized loss on defined benefit plans	34,501	9,379
Operating loss carryforwards	515	5,699
Other	20,687	17,925
	71,980	48,376
Deferred tax liabilities:		
Property	(547,388)	(487,187)
Deferred state taxes	(49,503)	(46,798)
Pension benefits	(11,198)	(13,063)
Goodwill and other intangibles	(37,936)	(26,120)
Other	(21,724)	(19,318)