KIRBY CORP
Form 10-K
February 24, 2014

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

Form 10-K

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

For the fiscal year ended December 31, 2013

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 þ No ¨

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of common stock held by nonaffiliates of the registrant as of June 28, 2013, based on the closing sales price of such stock on the New York Stock Exchange on June 28, 2013, was $4,343,966,000. 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 21, 2014, 56,905,000 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The Company’s definitive proxy statement in connection with the Annual Meeting of Stockholders to be held April 29, 2014, to be filed with the Commission pursuant to Regulation 14A, is incorporated by reference into Part III of this report.

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PART I

Item 1. Business
THE COMPANY

Kirby Corporation (the "Company") was incorporated in Nevada on January 31, 1969 as a subsidiary of Kirby Industries, Inc. ("Industries"). The Company became publicly owned on September 30, 1976 when its common stock was distributed pro rata to the stockholders of Industries in connection with the liquidation of Industries. At that time, the Company was engaged in oil and gas exploration and production, marine transportation and property and casualty insurance. Since then, through a series of acquisitions and divestitures, the Company has become a marine transportation and diesel engine services company. In 1990, the name of the Company was changed from "Kirby Exploration Company, Inc." to "Kirby Corporation" because of the changing emphasis of its business. Today, the Company 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 eight offshore barge and tug units 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 remanufacturers 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 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 4,575 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):

	2013	2012	2011
Revenues from unaffiliated customers:			
Marine transportation	$1,713,167	$1,408,893	$1,194,607
Diesel engine services	529,028	703,765	655,810
Consolidated revenues	$2,242,195	$2,112,658	$1,850,417
Operating profits:			
Marine transportation	$408,255	$311,755	$262,193
Diesel engine services	42,767	66,386	68,105
General corporate expenses	(15,728)	(13,294)	(17,915)
Gain (loss) on disposition of assets	888	(14)	(40)
	436,182	364,833	312,343
Equity in earnings of affiliates	348	276	347
Other income (expense)	20	(198)	(41)
Interest expense	(27,872)	(24,385)	(17,902)
Earnings before taxes on income	$408,678	$340,526	$294,747
Identifiable assets:			
Marine transportation	$3,046,692	$2,951,723	$2,307,821
Diesel engine services	576,472	647,986	608,886
	3,623,164	3,599,709	2,916,707
Investment in affiliates	2,156	1,808	3,682
General corporate assets	57,197	51,611	40,022

Consolidated assets	$3,682,517	$3,653,128	$2,960,411

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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 21, 2014, the equipment owned or operated by the marine transportation segment consisted of 861 inland tank barges with 17.3 million barrels of capacity, 253 inland towboats, 72 coastal tank barges with 6.0 million barrels of capacity, 76 coastal tugboats, eight offshore dry-bulk cargo barge and tugboat units, 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 chartered):			
Regular double hull:			
20,000 barrels and under	356	16.3	4,092,000
Over 20,000 barrels	432	12.7	12,106,000
Specialty double hull	73	37.0	1,068,000
Total inland tank barges	861	16.2	17,266,000
Inland towboats (owned and chartered):			
800 to 1300 horsepower	96	35.6	
1400 to 1900 horsepower	84	32.4	
2000 to 2400 horsepower	43	16.6	
2500 to 3200 horsepower	15	40.5	
3300 to 4800 horsepower	12	32.5	
Greater than 5000 horsepower	2	41.0	
Spot charters (chartered trip to trip)	1		
Total inland towboats	253	31.5	
Coastal tank barges (owned and chartered):			
Double hull:			
30,000 barrels and under	9	29.1	181,000
50,000 to 70,000 barrels	13	13.0	650,000
80,000 to 90,000 barrels	27	13.5	2,231,000
100,000 to 110,000 barrels	6	7.5	630,000
120,000 to 150,000 barrels	10	18.7	1,282,000
Over 150,000 barrels	6	23.2	1,023,000
Single hull:			
30,000 barrels and under	1	34.0	16,000
Total coastal tank barges	72	16.7	6,013,000
Coastal tugboats (owned and chartered):			
1000 to 1900 horsepower	8	28.3	
2000 to 2900 horsepower	8	38.3	
3000 to 3900 horsepower	16	34.7	
4000 to 4900 horsepower	23	25.3	
5000 to 6900 horsepower	11	33.8	
Greater than 7000 horsepower	10	20.6	
Total coastal tugboats	76	29.4	

			Deadweight Tonnage
Offshore dry-bulk cargo barges (owned)	8	26.5	149,000
Offshore tugboats and docking tugboat (owned and chartered)	9	28.1	

The 253 inland towboats, 76 coastal tugboats, eight offshore tugboats and one docking tugboat provide the power source and the 861 inland tank barges, 72 coastal tank barges and eight 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.

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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 17.3 million barrels equates to approximately 28,900 railroad tank cars or approximately 90,400 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 31,600 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 3,450 by the end of 2013. 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 3,450 by the end of 2013 primarily resulted from increased barge construction and deferred retirements due to strong demand and resulting capacity shortages. The Company's 861 inland tank barges represent approximately 25% of the industry's 3,450 inland tank barges.

For 2011, the Company estimated that industry wide 160 tank barges were placed in service and 125 tank barges were retired. Due to the improved demand during 2011 for inland petrochemical and black oil barges and federal tax incentives on new equipment, the Company estimated that industry wide 260 tank barges were placed in service during 2012 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. During 2013, due to continued strong demand, the Company estimates that approximately 260 tank barges were ordered for delivery throughout 2014 and many older tank barges will be retired, dependent on 2014 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 850 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 18 years. Single hull barges comprise approximately 1% of the nation's tank barge fleet, with an average age of 40 years. The Company does not operate any single hull inland tank barges. Single hull barges are being driven from the nation's tank barge fleet by market forces, stringent environmental regulations and rising maintenance costs. Single hull tank barges are required by current federal law to be retrofitted with double hulls or phased out of domestic service by December 31, 2014. Market bias has also resulted in reduced lives for single hull tank barges industry wide.

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 gas condensate to Gulf Coast, Northeast and West Coast refineries and the movement of petrochemicals primarily from Gulf Coast petrochemical facilities to end users.

The number of coastal tank barges that operate in the 195,000 barrel or less category is approximately 265, of which the Company operates 72 or approximately 27%. The average age of the nation's coastal tank barge fleet is approximately 15 years.

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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 861 tank barges as of February 21, 2014, or approximately 25% 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.

Marine Transportation Acquisitions

On December 14, 2012, the Company completed the acquisition of Penn Maritime Inc. and Maritime Investments LLC ("Penn"), an operator of tank barges and tugboats participating in the coastal transportation of primarily refinery feedstocks, asphalt and crude oil in the United States. The total value of the transaction was $300,538,000, consisting of $146,750,000 of cash, $29,080,000 through the issuance of 500,000 shares of Company common stock valued at $58.16 per share, and $124,708,000 of cash for the retirement of Penn's debt. Penn's fleet, comprised of 18 double hull tank barges with a capacity of 1.9 million barrels and 16 tugboats, operated along the East Coast and Gulf Coast of the United States and primarily transported refinery feedstocks, asphalt and crude oil.

On November 1, 2012, the Company purchased from Allied Transportation Company ("Allied") 10 coastal tank barges with a total capacity of 680,000 barrels, three offshore dry-bulk barges with a total capacity of 48,000 deadweight tons and seven coastal tugboats for $108,547,000 in cash plus a provision for up to $10,000,000 that will be paid 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. A payment of $5,000,000 was made in the 2013 first quarter on the contingent liability. Allied provided coastal transportation of petrochemicals as well as dry sugar products in the Northeast, Atlantic and Gulf Coast regions of the United States.

On December 15, 2011, the Company completed the purchase of the coastal tank barge fleet of Seaboats, Inc. and affiliated companies (“Seaboats”) consisting of three 80,000 barrel coastal tank barge and tugboats for $42,745,000 in cash. The three coastal tank barge and tugboats currently operate along the United States East Coast and had an average age of five years.

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

On April 17, 2012, the Company changed the name of K-Sea to Kirby Offshore Marine, LLC (“Kirby Offshore Marine”) to more fully integrate the Company’s coastal operations with the Company’s inland marine transportation operations. The acquired company is referred to in this report as either K-Sea or Kirby Offshore Marine, depending on the context.

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

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

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

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 2013, the Company’s inland marine transportation operation moved over 51 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 2013 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, gas condensate and ship bunkers (engine fuel). Such products represented 25% of the segment’s 2013 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 24% of the segment's 2013 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 4% of the segment's 2013 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. While the United States economy remains sluggish with consistently high unemployment levels, the United States petrochemical industry continues 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 2013, 2012 and 2011, 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. With the Allied acquisition on November 1, 2012, the Company moves petrochemicals from Gulf Coast petrochemical plants primarily to East Coast destinations. Coastal tank barge utilization levels for the transportation of petrochemicals during 2013 were in the 90% level.

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 2013, 2012 and 2011, 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 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 2011 and 2012 to the 90% level in 2013, partly attributable to the Penn acquisition on December 14, 2012, moving black oil, specifically residual fuel oil and asphalt along the United States East and Gulf Coasts. In addition, starting in 2012 and continuing throughout 2013, coastal tank barges are moving 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 began moving 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 861 inland tank barges and 253 inland towboats, as well as 72 coastal tank barges and 76 coastal tugboats. The segment also operates eight offshore barge and tugboats units 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 861 inland tank barges currently operated, 670 are petrochemical and refined products barges, 118 are black oil barges, 58 are pressure barges, 10 are refrigerated anhydrous ammonia barges and five are specialty barges. Of the 861 inland tank barges, 817 are owned by the Company and 44 are leased.

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The fleet of 253 inland towboats ranges from 800 to 5200 horsepower. Of the 253 inland towboats, 179 are owned by the Company and 74 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 2013, 2012 and 2011 approximately 75% of inland marine transportation revenues were from term contracts and 25% from spot contracts.

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 and Kirby Ocean Transport Company ("Kirby Ocean Transport").

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.
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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 ranging in the 18,000 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 16,000 to 193,000 barrel capacity range and tugboats in the 2000 to 11000 horsepower range, transporting primarily refined petroleum products. Beginning in late 2013, the Pacific Division began transporting crude oil from the terminals on the Columbia River to West Coast refineries.

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 72 tank barges, 71 of which are double hull and one is single hull, with 6.0 million barrels of capacity, primarily transporting refined petroleum products, black oil and petrochemicals. Of the 72 coastal tank barges currently operating, 46 are refined products and petrochemical barges and 26 are black oil barges. The Company owns 61 of the coastal tank barges and 11 are leased. The Company operates 76 coastal tugboats ranging from 1000 to 11000 horsepower, 69 of which are owned and seven 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 2013, approximately 75% of the coastal marine transportation revenues were under term contracts and 25% were spot contract revenues, compared with 60% under term contracts and 40% under spot contracts during 2012.

Kirby Offshore Marine also operates a fleet of three offshore dry-bulk barges and tugboats 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 five 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 in December 2014. 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 58% of the marine transportation's inland revenues under term contracts during 2013, 57% of revenue under term contracts during 2012 and 55% of the revenue under term contracts during 2011. 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 2011, 2012 and 2013, approximately 75% of marine transportation's inland revenues were from term contracts and 25% from spot contracts. During 2011 and 2012, approximately 60% of marine transportation's coastal revenues were under term contracts and 40% from spot contracts. During 2013, with the acquisitions of Allied and Penn in late 2012, along with stronger demand for coastal tank barges, approximately 75% of the coastal revenues were under term contracts and 25% from spot contracts. Coastal time charters represented approximately 90% of the marine transportation coastal revenues under term contracts during 2013, 2012 and 2011.

No single customer of the marine transportation segment accounted for more than 10% of the Company's revenues in 2013, 2012 and 2011.

Employees

The Company's marine transportation segment has approximately 3,275 employees, of which approximately 2,425 are vessel crew members. None of the segment's inland operations are subject to collective bargaining agreements. The segment's coastal operation includes approximately 875 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 is in effect through December 2014. In addition, approximately 150 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 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.

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

Environmental Regulations

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

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

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

One of the most important requirements under the OPA is that all newly constructed tank barges engaged in the transportation of oil and petroleum in the United States be double hulled, and all existing single hull tank barges be retrofitted with double hulls or phased out of domestic service by 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. In addition, the Company's inland fleet consists entirely of double hull barges and with only one single hull barge in the coastal fleet. 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.

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

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Insurance. The Company's marine transportation operations are subject to the hazards associated with operating vessels carrying large volumes of bulk cargo in a marine environment. These hazards include the risk of loss of or damage to the Company's vessels, damage to third parties as a result of collision, fire or explosion, loss or contamination of cargo, personal injury of employees and third parties, and pollution and other environmental damages. The Company maintains insurance coverage against these hazards. Risk of loss of or damage to the Company's vessels is insured through hull insurance currently insuring approximately $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 2013, approximately 3,375 certificates were issued for the completion of courses at the training facility, of which 1,450 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.

DIESEL ENGINE SERVICES

The Company, through its wholly owned subsidiary Kirby Engine Systems, Inc. ("Kirby Engine Systems"), and its 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.

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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.

In April 2011, the Company expanded its diesel engine services operation with the purchase of United, a manufacturer, diesel engine and transmission distributor and service provider for the land-based oil and gas services market, oil and gas operators and producers, compression companies, power generation companies, on-highway transportation companies and agricultural markets. United's principal businesses are the distribution and service of diesel engines, pumps and transmissions, the manufacture and remanufacture of oilfield service equipment, including pressure pumping units, and the manufacture of 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 more than 10% of the Company's revenues in 2013, 2012 or 2011. The diesel engine services segment also provides service to the Company's marine transportation segment, which accounted for approximately 5% of the diesel engine services segment's 2013 revenues, 4% of 2012 revenues and 3% of 2011 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, 2013 (dollars in thousands):

	2013		2012		2011	
	Amounts	%	Amounts	%	Amounts	%
Manufacturing	$110,053	21 %	$206,183	29 %	$238,685	37 %
Overhauls and service	283,209	53	358,626	51	277,924	42
Direct parts sales	135,766	26	138,956	20	139,201	21
	$529,028	100%	$703,765	100%	$655,810	100%

Diesel Engine Services Acquisitions

On December 28, 2012, the Company purchased the assets of Flag Service & Maintenance, Inc. ("Flag") for $6,864,000 in cash. Flag was an East Coast high-speed diesel engine service provider, operating factory-authorized full service marine dealerships for Caterpillar, Cummins, MTU Detroit Diesel ("MTU") and John Deere diesel engines.

On April 15, 2011, the Company purchased United, a distributor and service provider of engine and transmission related products for the oil and gas services, power generation and on-highway transportation industries, and manufacturer of oilfield service equipment. The purchase price was $271,192,000 in cash, plus a three-year earnout provision for up to an additional $50,000,000 payable in 2014, dependent on achieving certain financial targets. As of December 31, 2013, the financial targets were not achieved and no payment will be made. United, headquartered in Oklahoma City, Oklahoma with 21 locations across seven states, distributes and services equipment and parts for Allison Transmission ("Allison"), MTU, Daimler Trucks NA ("Daimler"), and other diesel and natural gas engines. United also manufactures oilfield service equipment, including pressure pumping units. United's principal customers are oilfield service companies, oil and gas operators and producers, compression companies and on-highway transportation companies.

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 27% of the segment's 2013 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.

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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.

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.

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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 10% of the segment's 2013 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.

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 63% of the segment's 2013 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 remanufacturers 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.

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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 and Van Buren, Arkansas and Shreveport, Louisiana. The Company's manufacturing facilities are located in five 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.

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 1,175 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 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 and Van Buren, 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 and Van Buren, Arkansas facilities are leased. The Company's manufacturing facilities are located in five 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, Texas, 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	66	Chairman of the Board and Chief Executive Officer
David W. Grzebinski	52	President, Chief Operating Officer and Chief Financial Officer
C. Andrew Smith	43	Executive Vice President — Finance
William G. Ivey	70	President — Marine Transportation Group
James F. Farley	62	President — Kirby Offshore Marine
Michael W. Coulter	55	President — United
Dorman L. Strahan	57	President — Kirby Engine Systems
Ronald A. Dragg	50	Vice President and Controller
G. Stephen Holcomb	68	Vice President — Investor Relations and Assistant Secretary
Amy D. Husted	45	Vice President — Legal
David R. Mosley	49	Vice President and Chief Information Officer
Christian G. O'Neil	41	Vice President — Human Resources
Joseph H. Reniers	39	Vice President — Supply Chain
Renato A. Castro	42	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 and Chief Executive Officer since January 2014. He served the Company 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 Operating Officer since January 2014 and Chief Financial Officer since March 2010. 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, having joined the Company in February 2010. Prior to joining the Company, he served in various administrative positions since 1988 with FMC Technologies Inc. ("FMC"), including Controller, Energy Services, Treasurer, and Director of Global SAP and Industry Relations. Prior to joining FMC, he was employed by 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 – Finance since joining the Company in January 2014. Prior to joining the Company, 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. Mr. Smith will assume the role of Chief Financial Officer of the Company after the filing of the Company's 2013 Form 10-K.

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.

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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.

G. Stephen Holcomb holds a degree in business administration from Stephen F. Austin State University and has served the Company as Vice President — Investor Relations and Assistant Secretary since November 2002. He also served as Vice President, Controller and Assistant Secretary from 1989 to November 2002, Controller from 1987 through 1988 and as Assistant Controller from 1976 through 1986. Prior to that, he was Assistant Controller of Kirby Industries from 1973 to 1976. Prior to joining the Company in 1973, he was employed by Cooper Industries, Inc.

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

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

Christian G. O'Neil holds a Masters in Business Administration degree from Rice University, a doctorate of jurisprudence from Tulane University and a bachelor of arts degree from Southern Methodist University. He has served the Company as Vice President – Human Resources since April 2012. He also served as Vice President – Sales for Kirby Inland Marine from 2009 to March 2012 and President of Osprey from 2006 through 2008. He has also served in various sales and business development roles at the Company and Osprey. Prior to joining the Company, he served as Sales Manager and Fleet Manager at Hollywood Marine after joining Hollywood in 1997.

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 Vice

President — Supply Chain since April 2012 and served as 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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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.

Item 1A. Risk Factors

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

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

The Company is subject to adverse weather conditions in its marine transportation 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. During 2013, high water on the Mississippi and Illinois Rivers and lock closure issues negatively impacted the 2013 second quarter by an estimated $.03 per share. During 2012, low water throughout the Mississippi River System negatively impacted the 2012 second, third and fourth quarters, Hurricane Isaac negatively impacted the 2012 third quarter and Hurricane Sandy negatively impacted the 2012 fourth quarter, all by an estimated $.06 to $.07 per share in the aggregate. During the 2011 second quarter, high water and flooding throughout the Mississippi River System and along the Gulf Intracoastal Waterway near Morgan City negatively impacted the quarter by an estimated $.07 per share. 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's operations for 2013 and 2011 were not materially affected by hurricanes, tropical storms or tornadoes.

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.

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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 the continued high unemployment rates during 2011, 2012 and 2013 associated with the economic recession, crewing levels have remained adequate.

The Company's marine transportation segment has approximately 3,275 employees, of which approximately 2,425 are vessel crew members. None of the segment's inland operations are subject to collective bargaining agreements. The segment's coastal operation includes approximately 875 vessel employees, the majority of whom 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 1987, 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 $1.7 billion in 2013. Diesel engine services revenue in 1987 was $7.1 million compared with $529.0 million in 2013. 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.

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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.

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 2013, 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 2013, petrochemical volumes continued to improve compared with 2012 and 2011 primarily due to lower priced domestic natural gas that improved the competitiveness of the United States petrochemical industry in global markets, thereby producing increased marine transportation volumes for basic petrochemicals to both domestic consumers and terminals for export destinations. This improvement in volumes was partially offset by the continued generally weak

United States economy. 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.

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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 3,450 inland tank barges in the United States, of which the Company operates 861, or 25%. 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 3,450 by the end of 2013. The Company estimates that 160 tank barges were placed in service during 2011, of which 40 were for the Company, and 125 were retired, 66 of which were the Company's. 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 the Company's. 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 the Company's. The Company estimates that approximately 260 tank barges were ordered during 2013 for delivery throughout 2014, 37 of which are for the Company, and many older tank barges will be retired, dependent on 2014 market conditions. The increase for both 2011, 2012 and 2013, and the orders for 2014, reflect the improved demand for inland petrochemical and black oil barges and federal tax incentives on new equipment in 2011 through 2013. Strong tank barge markets for 2011, 2012 and 2013 absorbed the additional capacity built by the industry.

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 3,450 tank barges in the industry at the present time, approximately 500 are over 35 years old and approximately 275 of those are 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 that will enter the fleet, with the extent of the retirements dependent on 2014 petrochemical and refinery production levels, crude oil and gas condensate movements and industry-wide tank barge utilization levels.

During 2011 and 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, and to the 90% range during 2013. During the 2012 second half and 2013, the Company experienced increased demand for coastal crude and gas condensate moves and success in expanding the coastal customer base to include inland customers with coastal requirements. The Company estimated there are approximately 265 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. The Company announced in January 2014 the signing of an agreement to construct an articulated 185,000 barrel coastal tank barge and 10000 horsepower tugboat unit. Delivery is anticipated to be in mid-to-late 2015. The Company is aware of several coastal tank barge and tugboat units under construction by competitors for delivery in 2014, 2015 and 2016.

Higher fuel prices could increase operating expenses. The cost of fuel during 2013 was approximately 15% 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. Two marine transportation customers, Dow and SeaRiver Maritime, Inc. ("SeaRiver"), the United States transportation affiliate of Exxon Mobil Corporation, accounted for approximately 13% of the Company's 2013 revenue, 14% of 2012 revenue and 16% of 2011 revenue. The Company has a contract with Dow through 2016 and with SeaRiver through 2017. Although the Company considers its relationships with Dow and SeaRiver to be strong, the loss of either

customer could have an adverse effect on the Company.

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The Company's diesel engine services segment has a 48-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 2013. 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 2013. 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.

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, and resulting decline in drilling for natural gas in North American shale formation, 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 ordered in 2011 for delivery in 2012, ordered in 2012 for delivery in 2013 and ordered in 2013 for delivery in 2014 increased, but remained below the construction price for tank barges built in 2008 and 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.

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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's diesel engine services segment could be adversely impacted by the construction of hydraulic fracturing horsepower by its competitors. At the present time, there is an estimated 18 million horsepower of hydraulic fracturing equipment 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 nor have they provided requested supporting documentation for costs and expenses related to the site. The Company is investigating its activities at the site in order to assess what, if any, liability it has in connection with the site.

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.

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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.

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. As this matter is in the initial stage of discovery as to the merits of the case, the Company is unable to assess what liability, if any, it may have.

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

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

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

	Sales Price	
	High	Low
2014		
First Quarter (through February 21, 2014)	$103.89	$92.86
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
2012		
First Quarter	70.61	61.20
Second Quarter	67.36	42.78
Third Quarter	58.83	45.72
Fourth Quarter	61.89	53.60

As of February 21, 2014, the Company had 56,905,000 outstanding shares held by approximately 775 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.

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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, 2013. 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,				
	2013	2012	2011	2010	2009
Revenues:					
Marine transportation	$1,713,167	$1,408,893	$1,194,607	$915,046	$881,298
Diesel engine services	529,028	703,765	655,810	194,511	200,860
	$2,242,195	$2,112,658	$1,850,417	$1,109,557	$1,082,158
Net earnings attributable to Kirby	$253,061	$209,438	$183,026	$116,249	$125,941
Net earnings per share attributable to Kirby common stockholders:					
Basic	$4.45	$3.75	$3.35	$2.16	$2.34
Diluted	$4.44	$3.73	$3.33	$2.15	$2.34
Common stock outstanding:					
Basic	56,354	55,466	54,191	53,331	53,192
Diluted	56,552	55,674	54,413	53,466	53,313

	December 31,				
	2013	2012	2011	2010	2009
Property and equipment, net	$2,370,803	$2,315,165	$1,822,173	$1,118,161	$1,085,057
Total assets	$3,682,517	$3,653,128	$2,960,411	$1,794,937	$1,635,963
Long-term debt, including current portion	$749,150	$1,135,110	$802,005	$200,134	$200,239
Total equity	$2,022,153	$1,707,054	$1,454,158	$1,159,139	$1,056,095

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 2013, 2012 and 2011 were 56,552,000, 55,674,000 and 54,413,000, respectively. The increase in the weighted

average number of common shares for 2013 compared with 2012 and 2011 primarily reflects the issuance of 500,000 shares of Company common stock associated with the December 14, 2012 acquisition of Penn, the issuance of 1,939,234 shares of Company common stock associated with the July 1, 2011 acquisition of K-Sea, the issuance of restricted stock and the exercise of stock options.

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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, 2013, the Company operated a fleet of 861 inland tank barges with 17.3 million barrels of capacity, and operated an average of 256 inland towboats during 2013. The Company's coastal fleet consisted of 72 tank barges with 6.0 million barrels of capacity and 76 coastal tugboats. The Company also owns and operates eight offshore barge and tug units 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 2013, net earnings attributable to Kirby were $253,061,000, or $4.44 per share, on revenues of $2,242,195,000, compared with 2012 net earnings attributable to Kirby of $209,438,000, or $3.73 per share, on revenues of $2,112,658,000. 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. This compares with a $4,300,000 before taxes, or $.05 per share, credit to selling, general and administrative expenses for 2012 decreasing the fair value of the 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. The 2012 year included an estimated $.06 to $.07 per share negative impact from low water throughout the Mississippi River System during the second, third and fourth quarters, net of certain revenue and cost recovery from contracts with terms that provide reimbursements for delays and increased costs, and the impact of Hurricane Isaac in the second quarter which made landfall near the mouth of the Mississippi River on August 28, 2012 as a category 1 storm, impacting both the marine transportation and diesel engine services segments, and Hurricane Sandy in the fourth quarter which made landfall in the New Jersey area as a category 1 storm, impacting the Northeast marine transportation operations.

Marine Transportation

For 2013, 76% 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, fiber, paints, detergents, oil additives and paper, among others, as well as residual fuel oil, ship bunkers, asphalt, gasoline, diesel fuel, heating oil, crude oil, 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 results include the operations of Allied, acquired on November 1, 2012, and Penn, acquired on December 14, 2012, and described below.

The Company's marine transportation segment's revenues for 2013 increased 22% compared with 2012 and operating income for 2013 increased 31% compared with 2012. The higher marine transportation revenues and operating income reflected the acquisitions of Allied and Penn and reflected continued strong demand across all inland marine transportation markets along with continued favorable pricing trends. 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 2013. 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 the 2012 second quarter, low water conditions on the Mississippi River System in mid-May and throughout June created delays and increased transit times. The Company's coastal marine transportation markets continued to improve with tank barge utilization levels in the 90% range throughout 2013, aided by the addition of petrochemical volumes with the acquisition of the Allied fleet and additional black oil volumes with the acquisition of Penn, along with increased transportation of crude oil and gas condensate.

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During 2013, approximately 75% of the inland marine transportation revenues were under term contracts and 25% 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 58% of the inland revenues under term contracts during 2013 compared with 57% during 2012. Rates on inland term contract rates renewed in each of the 2013 quarters increased in the 4% to 6% average range compared with term contracts in the corresponding quarters of 2012. Spot contract rates, which include the cost of fuel, increased modestly in each 2013 quarter compared with the prior quarters. 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 by approximately 1%, excluding fuel.

During 2013, approximately 75% of the coastal marine transportation revenues were under term contracts and 25% 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 2013. During 2012, approximately 60% of the coastal marine transportation revenues were under term contracts and 40% were spot contract revenues. Coastal time charters represented approximately 90% of the coastal revenues under term contracts during 2012. The increase in term contracts reflected stronger demand for coastal tank barges, new contracts with inland customers with coastal tank barge requirements and the 2012 fourth quarter acquisitions of Allied and Penn. Rates on coastal term contracts renewed throughout 2013 increased in the 7% to 9% average range compared with term contracts in 2012. Spot contract rates, which include the cost of fuel, continued to improve during 2013 and remained above term contract rates.

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

Diesel Engine Services

During 2013, the diesel engine services segment generated 24% of the Company’s revenue, of which 53% was generated from overhauls and service, 26% from direct parts sales and 21% 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 2013 decreased 25% and operating income decreased 36% compared with 2012. 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. This compares with a $4,300,000 credit to selling, general and administrative expenses for 2012, resulting from a net decrease in the fair value of the contingent earnout liability.

The 2013 decreases in revenues and operating income were primarily attributable to a continuation of lower demand for the manufacturing of oil service equipment, including pressure pumping units, and the sale and service of land-based diesel engines, transmissions and parts. The market for the remanufacturing of older pressure pumping units during 2013 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 both inland and coastal 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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The diesel engine services operating margin for 2013 was 8.1% compared with 9.4% for 2012. The operating margin for 2013 was positively impacted by the $18,300,000 credit to the contingent earnout liability noted above, while the operating margin for 2012 was positively impacted by the $4,300,000 credit to the contingent earnout liability.

Cash Flow and Capital Expenditures

The Company continued to generate strong operating cash flow during 2013 with net cash provided by operating activities of $601,032,000 compared with $325,730,000 of net cash provided by operating activities for 2012. The 85% increase was primarily from higher net earnings attributable to Kirby, higher depreciation and amortization and a higher deferred tax provision in 2013 versus 2012, as well as a $56,566,000 net increase in cash flows from changes in operating assets and liabilities during 2013 compared to a $124,607,000 net decrease in cash flows from changes in operating assets and liabilities during 2012. In addition, during 2013 and 2012, the Company generated cash of $6,635,000 and $8,932,000, respectively, from the exercise of stock options and $33,982,000 and $19,651,000, respectively, from proceeds from the disposition of assets.

For 2013, cash generated and borrowings under the Company's revolving credit facility were used for capital expenditures of $253,227,000, including $147,786,000 for inland tank barge and towboat construction and progress payments on the construction of two offshore articulated dry-bulk barge and tugboat units completed in the 2013 second quarter, and $105,441,000 primarily for upgrading the existing marine transportation fleet. The Company's debt-to-capitalization ratio decreased to 27.0% at December 31, 2013 from 39.9% at December 31, 2012, primarily due to a decrease of $385,960,000 of debt outstanding and the increase in total equity from net earnings attributable to Kirby for 2013 of $253,061,000, exercise of stock options, and the amortization of unearned equity compensation. As of December 31, 2013, the Company had $41,150,000 outstanding under its revolving credit facility, $208,000,000 outstanding under its term loan and $500,000,000 of senior notes outstanding.

During 2013, the Company took delivery of 70 new inland tank barges with a total capacity of approximately 1,400,000 barrels, retired 46 inland tank barges and returned four leased inland tank barges, reducing its capacity by approximately 800,000 barrels. As a result, the Company added a net 20 inland tank barges and approximately 600,000 barrels of capacity. The Company's inland operation also took delivery of three new inland towboats.

The Company projects that capital expenditures for 2014 will be in the $200,000,000 to $210,000,000 range. The 2014 construction program will consist of 37 inland tank barges with a total capacity of 390,000 barrels and progress payments on the construction of a 185,000 barrel coastal articulated tank barge and tugboat unit scheduled to be placed in service in mid-to-late 2015 at a cost of $75,000,000 to $80,000,000. Based on current commitments, steel prices and projected delivery schedules, the Company's 2014 payments on new inland tank barges will be approximately $45,000,000, and approximately $45,000,000 in progress payments on the construction of the 185,000 barrel coastal articulated tank barge and tugboat unit. The balance of approximately $110,000,000 to $120,000,000 is primarily capital upgrades and improvements to existing marine equipment, and marine transportation and diesel engine services facilities.

Outlook

Petrochemical and black oil inland tank barge utilization levels remained strong during 2013 in the 90% to 95% range. While the United States economy remains sluggish with consistently high unemployment levels, the United States petrochemical industry continues 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 2013, 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 2013, primarily due to continued stable United States refinery utilization levels, aided by the export of

refined petroleum products and heavy fuel oils, and demand for the inland transportation of crude oil and gas condensate from shale formations in South Texas, as well as the movement of Canadian, Bakken and Utica crude oil and gas condensate from the Midwest to the Gulf Coast.

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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. Certain 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 utilization levels 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 utilization levels and higher term and spot contract pricing, which could be mitigated by additional tank barge capacity.

As of December 31, 2013, the Company estimated there were approximately 3,450 inland tank barges in the industry fleet, of which approximately 500 were over 35 years old and approximately 275 of those were 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 that will enter the fleet. During 2013, with continued strong demand for inland petrochemical and black oil tank barges, the Company estimates that approximately 260 inland tank barges were ordered industry-wide during 2013 and early 2014 for delivery throughout 2014. Historically, 75 to 150 older inland tank barges are retired from service each year, with the extent of the retirements dependent on 2014 petrochemical and refinery production levels, crude oil and gas condensate movements and industry-wide tank barge utilization levels.

During 2011 and 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 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, and to the 90% range throughout 2013. During 2012 and 2013, the Company experienced increased coastal demand for the movement of crude and gas condensate in the Gulf of Mexico, down the Hudson River to East Coast refineries, and starting in late 2013 from the Columbia River to West Coast refineries. During 2012 and 2013, the Company was also successful in expanding the coastal customer base to include inland customers with coastal requirements. The acquisitions of Allied and Penn during the 2012 fourth quarter also contributed to the higher 2013 revenue and operating income. As of December 31, 2013, the Company estimated there were approximately 265 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. The Company announced in January 2014 the signing of an agreement to construct an articulated 185,000 barrel coastal tank barge and 10000 horsepower tugboat unit. Delivery is anticipated to be in mid-to-late 2015. The Company is aware of several coastal tank barge and tugboat units under construction by competitors for delivery in 2014, 2015 and 2016.

In the diesel engine services segment, with the increase in drilling rigs operating in the Gulf of Mexico, positive inland marine transportation markets during 2012 and 2013, and improving coastal marine transportation markets during the 2012 second half and 2013, service activity levels for the marine diesel engine market reflected a modest improvement and should continue to modestly improve as activity increases. 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 18 million horsepower is employed in the North American pressure pumping business. With the current low price of natural gas, the exploration of United States natural gas shale formations has declined, resulting in excess pressure pumping horsepower. However, with the current high price of crude oil, the exploration of United States crude oil shale formations has remained active. As a result of the 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. The Company believes its land-based diesel engine business is at

the bottom of the current cycle and it expects improvement in this market sometime in 2014. The Company will continue to manufacture oil service equipment. However, the primary focus for growth in this business, currently as well as into the future, will be on the remanufacturing and service of existing pressure pumping equipment.

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Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates its estimates and assumptions on an ongoing basis based on a combination of historical information and various other assumptions that are believed to be reasonable under the particular circumstances. Actual results may differ from these estimates based on different assumptions or conditions. The Company believes the critical accounting policies that most impact the consolidated financial statements are described below. It is also suggested that the Company's significant accounting policies, as described in the Company's financial statements in Note 1, Summary of Significant Accounting Policies, be read in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Property, Maintenance and Repairs. Property is recorded at cost. Improvements and betterments are capitalized as incurred. Depreciation is recorded on the straight-line method over the estimated useful lives of the individual assets. When property items are retired, sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts with any gain or loss on the disposition included in the statement of earnings. Maintenance and repairs 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.

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

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

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

Acquisitions

On December 28, 2012, the Company purchased the assets of Flag for $6,864,000 in cash. Flag was an East Coast high-speed diesel engine service provider, operating factory-authorized full service marine dealerships for Caterpillar, Cummins, MTU and John Deere diesel engines. Financing of the acquisition was through the Company's revolving credit facility.

On December 14, 2012, the Company completed the acquisition of Penn, an operator of tank barges and tugboats participating in the coastal transportation of refinery feedstocks, asphalt and crude oil in the United States. The total value of the transaction was $300,538,000, consisting of $146,750,000 of cash, $29,080,000 through the issuance of 500,000 shares of Company common stock valued at $58.16 per share, and $124,708,000 of cash for the retirement of Penn's debt. Penn's fleet, comprised of 18 double hull tank barges with a capacity of 1.9 million barrels and 16 tugboats, operated along the East Coast and Gulf Coast of the United States and primarily transported refinery feedstocks, asphalt and crude oil. Financing of the acquisition was through a combination of new senior notes and the issuance of Company common stock.

On November 1, 2012, the Company purchased from Allied 10 coastal tank barges with a total capacity of 680,000 barrels, three offshore dry-bulk barges with a total capacity of 48,000 deadweight tons and seven coastal tugboats for $108,547,000 in cash plus a provision for up to $10,000,000 that will be paid 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. A payment of $5,000,000 was made in the 2013 first quarter on the contingent liability. Allied provided coastal transportation of petrochemicals as well as dry sugar products in the Northeast, Atlantic and Gulf Coast regions of the United States. Financing of the equipment acquisition was through the Company's revolving credit facility.

On December 15, 2011, the Company completed the purchase of the coastal tank barge fleet of Seaboats, consisting of three 80,000 barrel coastal tank barges and tugboats for $42,745,000 in cash. The three coastal tank barges and tugboats currently operate along the United States East Coast and had an average age of five years. Financing of the equipment acquisition was through the Company's revolving credit facility.

On July 1, 2011, the Company completed the acquisition of K-Sea, now named Kirby Offshore Marine, an operator of tank barges and tugboats participating in the coastal transportation primarily of refined petroleum products in the United States. The total value of the transaction was $603,427,000, excluding transaction fees, consisting of $227,617,000 of cash paid to K-Sea common and preferred unit holders and the general partner, $262,791,000 of cash to retire K-Sea's outstanding debt, and $113,019,000 through the issuance of 1,939,234 shares of Company common stock valued at $58.28 per share, the Company's closing share price on July 1, 2011. The transaction was financed through a combination of the new $540,000,000 term loan and the issuance of Company common stock.

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

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On April 15, 2011, the Company purchased United, a distributor and service provider of engine and transmission related products for the oil and gas services, power generation and transportation industries, and manufacturer of oilfield service equipment. The purchase price was $271,192,000 in cash, plus a three-year earnout provision for up to an additional $50,000,000 payable in 2014, dependent on achieving certain financial targets. As of December 31, 2013, the financial targets were not achieved and no payment will be made. United, headquartered in Oklahoma City, Oklahoma with 21 locations across seven states, distributes and services equipment and parts for Allison, MTU, Daimler, and other diesel and natural gas engines. United also manufactures oilfield service equipment, including hydraulic fracturing equipment. United's principal customers are oilfield service companies, oil and gas operators and producers, compression companies and on-highway transportation companies. Financing of the acquisition was through the Company's operating cash flows and borrowings under the Company's revolving credit facility.

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

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

Results of Operations

The Company reported 2013 net earnings attributable to Kirby of $253,061,000, or $4.44 per share, on revenues of $2,242,195,000, compared with 2012 net earnings attributable to Kirby of $209,438,000, or $3.73 per share, on revenues of $2,112,658,000, and 2011 net earnings attributable to Kirby of $183,026,000, or $3.33 per share, on revenues of $1,850,417,000.

Marine transportation revenues for 2013 were $1,713,167,000, or 76% of total revenues, compared with $1,408,893,000, or 67% of total revenues for 2012, and $1,194,607,000, or 65% of total revenues for 2011. Diesel engine services revenues for 2013 were $529,028,000, or 24% of total revenues, compared with $703,765,000, or 33% of total revenues for 2012, and $655,810,000, or 35% of total revenues for 2011.

The 2013 operating 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. For 2012 and 2011, the operating results included a credit of $4,300,000 before taxes, or $.05 per share, and a charge of $6,300,000, or $.07 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. The 2012 year included an estimated $.06 to $.07 per share negative impact from low water throughout the Mississippi River System during the second, third and fourth quarters, net of certain revenue and cost recovery from contracts with terms that provide reimbursements for delays and increased costs, and the impact of Hurricane Isaac in the second quarter which made landfall near the mouth of the Mississippi River on August 28, 2012 as a category 1 storm, impacting both the marine transportation and diesel engine services segments, and Hurricane Sandy in the fourth quarter which made landfall in the New Jersey area as a category 1 storm, impacting the Northeast marine transportation operations.

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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, 2013, the Company operated 861 inland tank barges, including 44 leased barges, with a total capacity of 17.3 million barrels. This compares with 841 inland tank barges operated as of December 31, 2012, including 49 leased barges, with a total capacity of 16.7 million barrels. The Company operated an average of 256 inland 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 Company's coastal tank barge fleet as of December 31, 2013 consisted of 72 tank barges, one of which was single hull and 11 of which were leased, with 6.0 million barrels of capacity, and 76 tugboats, seven of which were chartered. This compares with 81 coastal tank barges operated as of December 31, 2012, two of which were single hull and 12 of which were leased, with 6.3 million barrels of capacity, and 86 coastal tugboats, three of which were chartered. As of December 31, 2013 and 2012, the Company operated eight offshore dry-bulk barge and tugboat units, of which one of the tugboats was chartered in 2012, 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, 2013 (dollars in thousands):

	2013	2012	% Change 2012 to 2013	2011	% Change 2011 to 2012
Marine transportation revenues	$1,713,167	$1,408,893	22 %	$1,194,607	18 %
Costs and expenses:					
Costs of sales and operating expenses	1,029,040	848,540	21	717,443	18
Selling, general and administrative	112,272	105,934	6	91,688	16
Taxes, other than on income	14,026	12,807	10	11,991	7
Depreciation and amortization	149,574	129,857	15	111,292	17
	1,304,912	1,097,138	19	932,414	18
Operating income	$408,255	$311,755	31 %	$262,193	19 %
Operating margins	23.8 %	22.1 %		21.9 %	

The following table shows the marine transportation markets serviced by the Company, the marine transportation revenue distribution for 2013, products moved and the drivers of the demand for the products the Company transports:

Markets Serviced	2013 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
	24%		

Refined Petroleum Products		Gasoline, No. 2 Oil, Jet Fuel, Heating Oil, Naphtha, Diesel Fuel, Ethanol	Vehicle Usage, Air Travel, Weather Conditions, Refinery Utilization
Agricultural Chemicals	4%	Anhydrous Ammonia, Nitrogen-Based Liquid Fertilizer, Industrial Ammonia	Corn, Cotton and Wheat Production, Chemical Feedstock Usage

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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 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 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 gas condensate.

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.

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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.

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.

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2012 Compared with 2011

Marine Transportation Revenues

Marine transportation revenues for 2012 increased 18% compared with 2011, reflecting the expansion into the coastal transportation business with the acquisition of Kirby Offshore Marine on July 1, 2011, the acquisition of the marine transportation fleet of Allied on November 1, 2012 and the acquisition of Penn on December 14, 2012. The coastal tank barge fleet contributed approximately 21% of the 2012 and 11% of 2011 marine transportation revenues. The increase also reflected strong United States petrochemical production levels and stable refinery production levels, resulting in equipment utilization levels in the 90% to 95% range for the inland petrochemical and black oil fleets, as well as favorable term and spot contract pricing. In addition, average diesel fuel prices for 2012 increased 5% compared with 2011, positively impacting marine transportation revenues since fuel price increases are covered by fuel escalation and de-escalation clauses in the Company's term contracts, or the customer pays for the fuel.

During the 2012 third quarter, the inland operations experienced low water conditions throughout the Mississippi River System. During the 2012 fourth quarter, conditions deteriorated between St. Louis, Missouri and Cairo, Illinois, as well as on the Illinois River; however, water levels improved late in the fourth quarter on the lower Mississippi and Ohio Rivers. The low water conditions required a reduction in tow sizes, slower transit times and draft reductions on tank barges with Mississippi River destinations all resulting in lower revenues. Water levels on the Gulf Intracoastal Waterway remained at normal levels and were not impacted by the low water levels on the Mississippi River System. The 2012 third quarter was negatively impacted by Hurricane Isaac which made landfall at the mouth of the Mississippi River on August 28, 2012 as a category 1 storm, impacting both the inland and coastal transportation operations and Gulf Coast diesel engine services operations. The 2012 fourth quarter was negatively impacted by Hurricane Sandy which made landfall near Atlantic City, New Jersey as a category 1 storm, impacting coastal operations along the Atlantic Seaboard and New York harbor. The Company estimates that the low water and Hurricane Isaac negatively impacted the 2012 third quarter by an estimated $.03 to $.04 per share. The Company estimates that the low water and Hurricane Sandy negatively impacted the 2012 fourth quarter by an estimated $.02 to $.03 per share.

The petrochemical market, the Company's largest market, contributed 51% of the marine transportation revenues for 2012, reflecting continued strong business levels. Low-priced natural gas, a basic feedstock for the United States petrochemical industry, provided the industry with a competitive advantage over foreign petrochemical producers. As a result, United States petrochemical production remained strong during 2012, producing stable marine transportation volumes for the movement of basic petrochemicals for both domestic consumers and terminals for foreign destinations. The Company entered the coastal petrochemical market with the acquisition of Allied on November 1, 2012.

The refined petroleum products market, which contributed 26% of 2012 marine transportation revenues, reflected higher demand for the movement of products in the inland market, benefiting from additional volumes from major customers. The coastal refined products market saw overall equipment utilizations in the 75% to 80% range for the majority of 2012, with demand increasing in the 2012 fourth quarter.

The black oil market, which contributed 19% of 2012 marine transportation revenues, also reflected stronger demand, driven by steady refinery production levels, the export of heavy fuel oil, demand for crude oil transportation from the Eagle Ford shale formations in South Texas both along the Gulf Intracoastal Waterway and in the Gulf of Mexico, and for the movement of Canadian and Bakken crude downriver from the Midwest to the Gulf Coast. The coastal fleet also moved Bakken crude from Albany, New York to Northeast refineries during the 2012 second half. With the acquisition on December 14, 2012 of Penn, the Company expanded its coastal black oil movements, including refinery feedstocks, asphalt and crude oil.

The agricultural chemical market, which contributed 4% of 2012 marine transportation revenues, saw the traditional spring fill start early in the first quarter and continue through April and May. The traditional fall fill started early in July and continued through September with the movement of both domestically produced and imported products, driven by low fertilizer inventories. The low water levels and the Midwest drought negatively impacted demand during the 2012 fourth quarter.

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The coastal marine transportation operations reflected improvements in market conditions during the 2012 second half, with tank barge utilization improving to the 75% to 80% range in the third quarter and 85% to 90% in the fourth quarter, and some days higher, compared with 75% for the 2012 first six months. During the 2012 second half, and particularly the fourth quarter, the coastal market experienced increased demand for crude and condensates moves, as well as success in expanding the coastal customer base to inland customers with coastal requirements. The acquisitions of Allied and Penn during the 2012 fourth quarter also contributed to the higher revenues and operating income, more than offsetting the additional interest expense and transaction fees incurred.

For 2012, the inland operations of the marine transportation segment incurred 6,358 delay days, 6% less than the 6,777 delay days that occurred during 2011. Delay days measure the lost time incurred by a tow (towboat and one or more tank barges) during transit when the tow is stopped due to weather, lock conditions and other navigational factors. Low water conditions on the Mississippi River System, starting in mid-May 2012, and continuing through the remainder to the year, created delays. Hurricane Isaac also created delays in the 2012 third quarter. For the 2012 first quarter, weather and water conditions in the Midwest were better compared with the first quarter of 2011, but fog and high winds along the Gulf Coast during the 2012 first quarter created delays days in excess of the 2011 first quarter. Lock repairs on the Gulf Intracoastal Waterway and the Ohio River during the 2012 first and second quarters also created delays. During the 2012 fourth quarter, low water levels on the Mississippi River between Cairo, Illinois and St. Louis, Missouri, as well as on the Illinois River, caused delays.

During 2012, approximately 75% of inland marine transportation revenues were under term contracts and 25% were spot contract revenues. Inland operations time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, represented 57% of the revenues under term contracts during 2012 compared with 55% during 2011. The 75% term contract and 25% spot contract mix provides the inland operations with a predictable revenue stream.

During 2012, approximately 60% of the coastal marine transportation revenues were under term contracts and 40% were spot contract revenues. As of December 31, 2012, with the acquisitions of Allied and Penn, along with stronger demand for coastal tank barges, approximately 70% of the coastal revenues were under term contracts. Coastal time charters represented approximately 90% of the revenues under term contracts during 2012.

Inland operations term contracts renewed throughout 2012 increased in the 4% to 6% average range compared with term contracts renewed throughout 2011. Spot contracts throughout 2012, which include the cost of fuel, increased modestly compared with 2011. Effective January 1, 2012, annual escalators for labor and the producer price index on a number of inland operations multi-year contracts resulted in rate increases on those contracts in the 2% range, excluding fuel.

For the coastal operations, term contracts renewed in the 2012 first six months were relatively stable compared with contract rates in the 2011 first six months. No term contracts were renewed in the 2012 third quarter. Contracts renewed in the 2012 fourth quarter increased in the 7% to 9% average range compared with the 2011 fourth quarter. Spot contract rates for the 2012 first and second quarter were relatively stable compared with the corresponding prior quarter. Spot contract rates for the 2012 third quarter improved in the 2% to 4% average range compared with the 2012 second quarter, while spot contract rates for the 2012 fourth quarter increased in the 5% to 9% average range compared with the 2012 third quarter.

Marine Transportation Costs and Expenses

Costs and expenses, as well as costs of sales and operating expenses, for 2012 increased 18% compared with 2011, reflecting the Kirby Offshore Marine acquisition effective July 1, 2011, and to a lesser extent the Allied and Penn acquisitions in late 2012, as well as higher costs and expenses associated with increased inland marine transportation demand and higher diesel fuel prices.

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The inland operations of the marine transportation segment operated an average of 245 towboats during 2012, of which an average of 64 were chartered, compared with 240 during 2011, of which an average of 61 were chartered. 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 horsepower requirements.

During 2012, the inland operations of the marine transportation segment consumed 43.1 million gallons of diesel fuel compared to 44.8 million gallons consumed during 2011. The average price per gallon of diesel fuel consumed during 2012 was $3.24, an increase of 5% compared with $3.08 per gallon for 2011. Fuel escalation and de-escalation clauses are designed to rebate fuel costs when prices decline and recover additional fuel costs when fuel prices rise; however, there is generally a 30 to 90 day delay before the contracts are adjusted. Spot contracts do not have escalators for fuel.

Selling, general and administrative expenses for 2012 increased 16% compared with 2011, primarily reflecting the acquisition of Kirby Offshore Marine effective July 1, 2011 and a $2,421,000 first quarter of 2012 and $499,000 second quarter of 2012 severance charge associated with the integration of Kirby Offshore Marine's administrative functions into the Company, and to a lesser extent the acquisitions of Allied and Penn during late 2012.

Depreciation and amortization for 2012 increased 17% compared with 2011, primarily attributable to the acquisitions of Kirby Offshore Marine and Seaboats during 2011, and to a lesser extent the acquisitions of Allied and Penn during late 2012.

Marine Transportation Operating Income and Operating Margins

The marine transportation operating income for 2012 increased 19% compared with 2011. The higher operating income was primarily a reflection of higher inland tank barge utilization, higher inland term and spot contract rates negotiated throughout 2012, and the operating income from Kirby Offshore Marine, Allied and Penn, partially offset by the negative impact of low water conditions and Hurricanes Isaac and Sandy as noted above. The Company estimates that Allied and Penn contributed $.03 per share to 2012 earnings, more than offsetting the additional interest expense and transaction fees incurred with the acquisitions. The 2012 operating margin was 22.1% compared with 21.9% for 2011. The slight improvement was primarily a reflection of higher inland tank barge utilization and higher inland term and spot contract rates negotiated throughout 2012, partially offset by a lower but improved operating margin for the coastal operations.

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, 2013 (dollars in thousands):

	2013	2012	% Change 2012 to 2013	2011	% Change 2011 to 2012
Diesel engine services revenues	$529,028	$703,765	(25)%	$655,810	7 %

Costs and expenses:								
Costs of sales and operating expenses	419,765		561,122		(25	)	510,997	10
Selling, general and administrative	53,595		62,560		(14	)	63,764	(2)
Taxes, other than on income	1,805		1,667		8		1,143	46
Depreciation and amortization	11,096		12,030		(8	)	11,801	2
	486,261		637,379		(24	)	587,705	8
Operating income	$42,767		$66,386		(36	)%	$68,105	(3)%
Operating margins	8.1	%	9.4	%				