KIRBY CORP
Form 10-Q
November 05, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2010

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

KIRBY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**74-1884980**
(State or other jurisdiction of	**(IRS Employer**

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

(713) 435-1000

(Registrant s telephone number, including area code)

No Change

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	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 x

The number of shares outstanding of the registrant s Common Stock, $.10 par value per share, on November 3, 2010 was 53,524,000.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS

(Unaudited)

ASSETS

	September 30, 2010	December 31, 2009
	($ in thousands)	
Current assets:		
Cash and cash equivalents	$ 149,204	$ 97,836
Accounts receivable:		
Trade less allowance for doubtful accounts	148,215	132,660
Other	33,851	7,379
Inventory finished goods	37,324	39,793
Prepaid expenses and other current assets	16,520	14,963
Deferred income taxes	6,447	7,466
Total current assets	391,561	300,097
Property and equipment	1,842,070	1,772,359
Less accumulated depreciation	(724,376)	(687,302)
Property and equipment net	1,117,694	1,085,057
Goodwill net	228,873	228,873
Other assets	20,312	21,936
Total assets	$ 1,758,440	$ 1,635,963

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS

(Unaudited)

LIABILITIES AND STOCKHOLDERS EQUITY

	September 30, 2010	December 31, 2009
	($ in thousands)	
Current liabilities:		
Current portion of long-term debt	$ 27	$ 35
Income taxes payable	4,943	5,210
Accounts payable	62,066	52,091
Accrued liabilities	70,738	67,471
Deferred revenues	14,314	12,297
Total current liabilities	152,088	137,104
Long-term debt less current portion	200,124	200,204
Deferred income taxes	224,232	200,397
Other long-term liabilities	56,265	42,163
Total long-term liabilities	480,621	442,764
Contingencies and commitments		
Equity:		
Kirby stockholders equity:		
Common stock, $.10 par value per share. Authorized 120,000,000 shares, issued 57,337,000 shares	5,734	5,734
Additional paid-in capital	234,791	229,724
Accumulated other comprehensive income net	(35,705)	(30,468)
Retained earnings	1,014,995	930,366
Treasury stock at cost, 3,733,000 at September 30, 2010 and 3,500,000 at December 31, 2009	(97,293)	(82,893)
Total Kirby stockholders equity	1,122,522	1,052,463
Noncontrolling interests	3,209	3,632
Total equity	1,125,731	1,056,095
Total liabilities and equity	$ 1,758,440	$ 1,635,963

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF EARNINGS

(Unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	($ in thousands, except per share amounts)			
Revenues:				
Marine transportation	$ 232,785	$ 227,467	$ 682,603	$ 664,394
Diesel engine services	48,532	44,699	140,636	158,176
Total revenues	281,317	272,166	823,239	822,570
Costs and expenses:				
Costs of sales and operating expenses	172,029	157,186	505,908	486,990
Selling, general and administrative	29,334	27,949	90,366	91,493
Taxes, other than on income	3,092	2,989	10,171	9,267
Depreciation and amortization	24,135	24,929	70,359	69,724
Loss (gain) on disposition of assets	(8)	(753)	55	(1,117)
Total costs and expenses	228,582	212,300	676,859	656,357
Operating income	52,735	59,866	146,380	166,213
Other income	131	189	173	375
Interest expense	(2,750)	(2,781)	(8,115)	(8,387)
Earnings before taxes on income	50,116	57,274	138,438	158,201
Provision for taxes on income	(19,211)	(21,826)	(52,979)	(60,304)
Net earnings	30,905	35,448	85,459	97,897
Less: Net earnings attributable to noncontrolling interests	(218)	(434)	(830)	(1,158)
Net earnings attributable to Kirby	$ 30,687	$ 35,014	$ 84,629	$ 96,739
Net earnings per share attributable to Kirby common stockholders:				
Basic	$ .57	$ .65	$ 1.57	$ 1.80
Diluted	$ .57	$ .65	$ 1.56	$ 1.79

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	($ in thousands)	
Cash flows from operating activities:		
Net earnings	$ 85,459	$ 97,897
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation and amortization	70,359	69,724
Provision for deferred income taxes	28,025	31,907
Amortization of unearned compensation	9,033	6,425
Other	(165)	(816)
Increase (decrease) in cash flows resulting from changes in operating assets and liabilities:		
Accounts receivable	(17,728)	54,723
Other, net	(5,146)	(22,759)
Net cash provided by operating activities	169,837	237,101
Cash flows from investing activities:		
Capital expenditures	(108,036)	(162,972)
Proceeds from disposition of assets	7,501	3,619
Net cash used in investing activities	(100,535)	(159,353)
Cash flows from financing activities:		
Payments on bank credit facilities, net		(46,000)
Payments on long-term debt, net	(88)	(928)
Proceeds from exercise of stock options	3,824	2,056
Purchase of treasury stock	(20,584)	
Excess tax benefit (expense) from equity compensation plans	165	(393)
Other	(1,251)	(1,368)
Net cash used in financing activities	(17,934)	(46,633)
Increase in cash and cash equivalents	51,368	31,115
Cash and cash equivalents, beginning of year	97,836	8,647
Cash and cash equivalents, end of period	$ 149,204	$ 39,762
Supplemental disclosures of cash flow information:		
Cash paid during the period:		
Interest	$ 7,948	$ 8,212
Income taxes	$ 50,253	$ 26,690

See accompanying notes to condensed financial statements.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

In the opinion of management, the accompanying unaudited condensed financial statements of Kirby Corporation and consolidated subsidiaries (the Company) contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2010 and December 31, 2009, and the results of operations for the three months and nine months ended September 30, 2010 and 2009.

(1) BASIS FOR PREPARATION OF THE CONDENSED FINANCIAL STATEMENTS

The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including significant accounting policies normally included in annual financial statements, have been condensed or omitted pursuant to such rules and regulations. It is suggested that these condensed financial statements be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

(2) ACCOUNTING ADOPTION

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

(3) FAIR VALUE MEASUREMENTS

The accounting guidance for using fair value to measure certain assets and liabilities establishes a three tier value hierarchy, which prioritizes the inputs to valuation techniques used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little, if any, market data exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing the asset or liability.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at September 30, 2010 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
Assets:				
Derivatives	$	$ 5	$	$ 5
Liabilities:				
Derivatives	$	$ 20,583	$	$ 20,583

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at December 31, 2009 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
Assets:				
Derivatives	$	$ 138	$	$ 138
Liabilities:				
Derivatives	$	$ 15,301	$	$ 15,301

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

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

Certain assets are measured at fair value on a nonrecurring basis and therefore are not included in the table above. These assets are adjusted to fair value when there is evidence of impairment. During the nine months ended September 30, 2010, there was no indication that the Company s long-lived assets were impaired, and accordingly, measurement at fair value was not required.

(4) DERIVATIVE INSTRUMENTS

The Company recognizes all derivative instruments (including certain derivative instruments embedded in other contracts) at fair value in the balance sheet as either assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception date of a derivative. Special accounting for derivatives qualifying as fair value hedges allows a derivative s gains and losses to offset related results on the hedged item in the statement of earnings. For derivative instruments designated as cash flow hedges,

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DERIVATIVE INSTRUMENTS (CONTINUED)

changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income (OCI) until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the cumulative difference between the fair value of the derivative contract and the hedged item over time. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings.

Interest Rate Risk Management

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

From time to time, the Company hedges its exposure to fluctuations in short-term interest rates under its variable rate bank credit facility and floating rate senior notes by entering into interest rate collar and swap agreements. The interest rate collar and swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the collar and swap agreements are effective, are recognized in OCI until the hedged interest expense is recognized in earnings. The swap agreements effectively convert the Company s interest rate obligation on the Company s variable rate senior notes from quarterly floating rate payments based on the London Interbank Offered Rate (LIBOR) to quarterly fixed rate payments. As of September 30, 2010, the Company had a total notional amount of $200,000,000 of interest rate swaps designated as cash flow hedges for its variable rate senior notes as follows (dollars in thousands):

Notional Amount	Effective date	Termination date	Fixed pay rate	Receive rate
$ 100,000	March 2006	February 2013	5.45%	Three-month LIBOR
$ 50,000	November 2008	February 2013	3.50%	Three-month LIBOR
$ 50,000	May 2009	February 2013	3.795%	Three-month LIBOR

Foreign Currency Risk Management

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

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DERIVATIVE INSTRUMENTS (CONTINUED)

As of September 30, 2010, the Company has forward contracts with notional amounts aggregating $15,537,000 to hedge its exposure to foreign currency rate fluctuations in expected foreign currency transactions. These contracts expire on various dates beginning in the fourth quarter of 2010 and ending in the first quarter of 2014. These forward contracts are designated as cash flow hedges, therefore, the changes in fair value, to the extent the forward contracts are effective, are recognized in OCI until the forward contracts expire and are recognized in cost of sales and operating expenses.

Fair Value of Derivative Instruments

The following table sets forth the fair value of the Company s derivative instruments recorded as assets on the consolidated balance sheet at September 30, 2010 and December 31, 2009 (in thousands):

Asset Derivatives	Balance Sheet Location	September 30, 2010	December 31, 2009
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Prepaid expenses and other current assets	$ 5	$ 138
Total derivatives designated as hedging instruments under ASC 815		$ 5	$ 138
Total asset derivatives		$ 5	$ 138

The following table sets forth the fair value of the Company s derivative instruments recorded as liabilities on the consolidated balance sheet at September 30, 2010 and December 31, 2009 (in thousands):

Liability Derivatives	Balance Sheet Location	September 30, 2010	December 31, 2009
Derivatives designated as hedging instruments under ASC 815:			
Foreign currency contracts	Accrued liabilities	$ 716	$
Foreign currency contracts	Other long-term liabilities	1,032	
Interest rate contracts	Other long-term liabilities	18,835	15,301
Total derivatives designated as hedging instruments under ASC 815		$ 20,583	$ 15,301
Total liability derivatives		$ 20,583	$ 15,301

Fair value amounts were derived as of September 30, 2010 and December 31, 2009 utilizing fair value models of the Company and its counterparties on the Company s portfolio of derivative instruments. These fair value models use the income approach that relies on inputs such as yield curves, currency exchange rates and forward prices. The fair value of the Company s derivative instruments is described above in Note 3, Fair Value Measurements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(4) DERIVATIVE INSTRUMENTS (CONTINUED)

Cash Flow Hedges

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

The following table sets forth the location and amount of gains and losses on the Company s derivative instruments in the consolidated statements of earnings for the three months and nine months ended September 30, 2010 and 2009 (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships:	**Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**	**Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Three months ended September 30, 2010**	**2009**	**Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three months ended September 30, 2010**	**2009**
Interest rate contracts	Interest expense	$ (854)	$ (1,710)	$ (2,089)	$ (2,039)
Foreign exchange contracts	Cost of sales and operating expenses	(1,373)	30	(105)	
Total		$ (2,227)	$ (1,680)	$ (2,194)	$ (2,039)

Derivatives in ASC 815 Cash Flow Hedging Relationships:	**Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)**	**Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Nine months ended September 30, 2010**	**2009**	**Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Nine months ended September 30, 2010**	**2009**
Interest rate contracts	Interest expense	$ (3,534)	$ 4,041	$ (6,356)	$ (5,201)
Foreign exchange contracts	Cost of sales and operating expenses	(1,921)	(35)	(83)	
Total		$ (5,455)	$ 4,006	$ (6,439)	$ (5,201)

The Company anticipates $5,214,000 of net losses on interest rate swap agreements included in accumulated OCI will be transferred into earnings over the next year based on current interest rates. Gains or losses on interest rate swap agreements offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company also expects $498,000 of net losses on foreign currency contracts included in accumulated OCI will be transferred into earnings over the next year based on current spot rates.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(5) STOCK AWARD PLANS

The Company has share-based compensation plans which are described below. The compensation cost that has been charged against earnings for the Company s stock award plans and the income tax benefit recognized in the statement of earnings for stock awards for the three months and nine months ended September 30, 2010 and 2009 were as follows (in thousands):

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Compensation cost	$ 2,291	$ 2,406	$ 9,033	$ 6,425
Income tax benefit	882	924	3,478	2,467

The Company has two employee stock award plans for selected officers and other key employees which provide for the issuance of stock options and restricted stock. For both of the plans, the exercise price for each option equals the fair market value per share of the Company s common stock on the date of grant. The terms of the options granted prior to January 25, 2010 are five years and vest ratably over three years. Options granted on or after January 25, 2010 have terms of seven years and vest ratably over three years. At September 30, 2010, 1,454,352 shares were available for future grants under the employee plans and no outstanding stock options under the employee plans were issued with stock appreciation rights.

The following is a summary of the stock option activity under the employee plans described above for the nine months ended September 30, 2010:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
Outstanding at December 31, 2009	640,483	$ 33.39
Granted	103,999	$ 32.60
Exercised	(192,543)	$ 28.16
Canceled or expired	(81,492)	$ 45.73
Outstanding at September 30, 2010	470,447	$ 33.22

The following table summarizes information about the Company s outstanding and exercisable stock options under the employee plans at September 30, 2010:

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

$23.98 - $27.60	180,587	2.54	$ 24.74		87,752	$ 25.54	
$31.35 - $34.40	119,999	5.81	$ 32.78		6,666	$ 34.40	
$35.66 - $36.94	77,658	1.59	$ 35.76		73,658	$ 35.73	
$48.00 - $48.65	92,203	2.36	$ 48.28		61,467	$ 48.28	
$23.98 - $48.65	470,447	3.17	$ 33.22	$ 3,217,000	229,543	$ 35.16	$ 1,126,000

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(5) STOCK AWARD PLANS (CONTINUED)

The following is a summary of the restricted stock award activity under the employee plans described above for the nine months ended September 30, 2010:

	Unvested Restricted Stock Award Shares	Weighted Average Grant Date Fair Value Per Share
Nonvested balance at December 31, 2009	542,679	$ 30.70
Granted	197,494	$ 33.40
Vested	(233,031)	$ 39.42
Forfeited	(2,843)	$ 31.69
Nonvested balance at September 30, 2010	504,299	$ 31.96

The Company has two director stock award plans for nonemployee directors of the Company which provide for the issuance of stock options and restricted stock. No additional options can be granted under one of the plans. The 2000 Director Plan provides for the automatic grants of stock options and restricted stock to nonemployee directors on the date of first election as a director and after each annual meeting of stockholders. In addition, the 2000 Director Plan allows for the issuance of stock options or restricted stock in lieu of cash for all or part of the annual director fee at the option of the director. The exercise prices for all options granted under the plans are equal to the fair market value per share of the Company s common stock on the date of grant. The terms of the options are ten years. The options granted when first elected a director vest immediately. The options granted and restricted stock issued after each annual meeting of stockholders vest six months after the date of grant. Options granted and restricted stock issued in lieu of cash director fees vest in equal quarterly increments during the year to which they relate. At September 30, 2010, 324,766 shares were available for future grants under the 2000 Director Plan. The director stock award plans are intended as an incentive to attract and retain qualified and competent independent directors.

The following is a summary of the stock option activity under the director plans described above for the nine months ended September 30, 2010:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
Outstanding December 31, 2009		