

KIRBY CORP  
Form 10-Q  
August 01, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2008

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1-7615

KIRBY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation or  
organization)

74-1884980  
(IRS Employer Identification No.)

55 Waugh Drive, Suite 1000, Houston, TX  
(Address of principal executive offices)

77007  
(Zip Code)

(713) 435-1000

(Registrant's telephone number, including area code)

No Change

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

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

Indicate by check mark whether the registrant 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

Accelerated filer

Non-accelerated filer

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

The number of shares outstanding of the registrant's Common Stock, \$.10 par value per share, on August 1, 2008 was 54,036,000.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

## CONDENSED BALANCE SHEETS

(Unaudited)

## ASSETS

	June 30, 2008	December 31, 2007
	(\$ in thousands)	
Current assets:		
Cash and cash equivalents	\$ 6,122	\$ 5,117
Accounts receivable:		
Trade – less allowance for doubtful accounts	201,835	175,876
Other	12,841	7,713
Inventory – finished goods	49,471	53,377
Prepaid expenses and other current assets	25,595	18,731
Deferred income taxes	7,645	6,529
<b>Total current assets</b>	<b>303,509</b>	<b>267,343</b>
Property and equipment	1,594,191	1,489,930
Less accumulated depreciation	622,885	583,832
<b>Property and equipment, net</b>	<b>971,306</b>	<b>906,098</b>
Goodwill – net	230,736	229,292
Other assets	27,828	27,742
<b>Total assets</b>	<b>\$ 1,533,379</b>	<b>\$ 1,430,475</b>

See accompanying notes to condensed financial statements.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS  
(Unaudited)

## LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2008	December 31, 2007
	(\$ in thousands)	
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 1,243	\$ 1,368
Income taxes payable	6,464	9,182
Accounts payable	102,154	100,908
Accrued liabilities	67,594	73,191
Deferred revenues	7,920	6,771
<b>Total current liabilities</b>	<b>185,375</b>	<b>191,420</b>
Long-term debt – less current portion	297,646	296,015
Deferred income taxes	141,031	130,899
Minority interests	2,984	2,977
Other long-term liabilities	41,801	39,334
<b>Total long-term liabilities</b>	<b>483,462</b>	<b>469,225</b>
Contingencies and commitments	—	—
<b>Stockholders' equity:</b>		
Preferred stock, \$1.00 par value per share. Authorized 20,000,000 shares	—	—
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	221,130	211,983
Accumulated other comprehensive income – net	(21,439)	(22,522)
Retained earnings	724,673	647,692
	930,098	842,887
Less cost of 3,301,000 shares in treasury (3,806,000 at December 31, 2007)	65,556	73,057
<b>Total stockholders' equity</b>	<b>864,542</b>	<b>769,830</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,533,379</b>	<b>\$ 1,430,475</b>

See accompanying notes to condensed financial statements.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF EARNINGS  
(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
	(\$ in thousands, except per share amounts)			
Revenues:				
Marine transportation	\$ 281,906	\$ 229,745	\$ 543,134	\$ 438,810
Diesel engine services	66,354	58,263	135,696	123,409
Total revenues	348,260	288,008	678,830	562,219
Costs and expenses:				
Costs of sales and operating expenses	220,259	180,608	428,605	356,207
Selling, general and administrative	33,451	29,468	66,323	59,974
Taxes, other than on income	3,455	3,255	6,988	6,389
Depreciation and amortization	22,385	20,280	44,712	39,867
Loss (gain) on disposition of assets	(500)	62	(442)	561
Total costs and expenses	279,050	233,673	546,186	462,998
Operating income	69,210	54,335	132,644	99,221
Other expense	(329)	(55)	(586)	(205)
Interest expense	(3,508)	(5,436)	(7,290)	(10,590)
Earnings before taxes on income	65,373	48,844	124,768	88,426
Provision for taxes on income	(25,039)	(18,707)	(47,787)	(33,867)
Net earnings	\$ 40,334	\$ 30,137	\$ 76,981	\$ 54,559
Net earnings per share of common stock:				
Basic	\$ .75	\$ .57	\$ 1.44	\$ 1.03
Diluted	\$ .74	\$ .56	\$ 1.42	\$ 1.02

See accompanying notes to condensed financial statements.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six months ended June 30,	
	2008	2007
	(\$ in thousands)	
Cash flows from operating activities:		
Net earnings	\$ 76,981	\$ 54,559
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation and amortization	44,712	39,867
Provision for deferred income taxes	10,360	2,257
Amortization of unearned compensation	4,799	2,985
Other	(40)	1,561
Decrease in cash flows resulting from changes in operating assets and liabilities, net	(37,986)	(13,644)
Net cash provided by operating activities	98,826	87,585
Cash flows from investing activities:		
Capital expenditures	(106,511)	(95,572)
Acquisitions of business and marine equipment, net of cash acquired	(5,134)	(49,392)
Proceeds from disposition of assets	1,267	661
Other	—	(52)
Net cash used in investing activities	(110,378)	(144,355)
Cash flows from financing activities:		
Borrowings on bank credit facilities, net	2,500	73,400
Payments on long-term debt, net	(1,035)	(172)
Proceeds from exercise of stock options	8,687	2,759
Purchase of treasury stock	(3,175)	—
Excess tax benefit from equity compensation plans	6,051	1,941
Other	(471)	(363)
Net cash provided by financing activities	12,557	77,565
Increase in cash and cash equivalents	1,005	20,795
Cash and cash equivalents, beginning of year	5,117	2,653
Cash and cash equivalents, end of period	\$ 6,122	\$ 23,448
Supplemental disclosures of cash flow information:		
Cash paid during the period:		
Interest	\$ 7,316	\$ 10,218
Income taxes	\$ 38,800	\$ 29,420
Noncash investing activity:		
Cash acquired in acquisition	\$ —	\$ 10

See accompanying notes to condensed financial statements.



KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS  
(Unaudited)

In the opinion of management, the accompanying unaudited condensed financial statements of Kirby Corporation and consolidated subsidiaries (the "Company") contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2008 and December 31, 2007, and the results of operations for the three months and six months ended June 30, 2008 and 2007.

(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, 2007.

(2) ACCOUNTING ADOPTIONS

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities by defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. In February 2008, the FASB issued a FASB Staff Position ("FSP") on SFAS No. 157 that delays the effective date of SFAS No. 157 by one year for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted SFAS No. 157 effective January 1, 2008, with the exceptions allowed under the FSP described above, with no effect on the Company's financial position or results of operations. The Company is currently evaluating the impact of the adoption of SFAS No. 157 related to the nonfinancial assets and nonfinancial liabilities exceptions allowed under the FSP described above on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

In February 2007, the FASB issued FASB No. 159, "The Fair Value Option of Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure eligible financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Company adopted SFAS No. 159 effective January 1, 2008 with no effect on the Company's financial position or results of operations as the Company has currently chosen not to elect the fair value option for any eligible items that are not already required to be measured at fair value in accordance with generally accepted accounting principles.



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

(2) ACCOUNTING ADOPTIONS – (Continued)

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at June 30, 2008 (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	\$	—\$	1,086	\$ —\$ 1,086
Liabilities:				
Derivatives	\$	—\$	6,736	\$ —\$ 6,736

In December 2007, the FASB issued FASB No. 141R, “Business Combinations” (“SFAS No. 141R”). SFAS No. 141R provides guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS No. 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, goodwill acquired and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for acquisitions beginning in the Company’s fiscal year ending December 31, 2009 and earlier application is prohibited.

In December 2007, the FASB issued FASB No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (“SFAS No. 160”). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements. The Company is currently evaluating the impact of the adoption of SFAS No. 160 on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

In March 2008, the FASB issued FASB No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (“SFAS No. 161”). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement No. 133 with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flows. The Company is currently evaluating the impact of the adoption of SFAS No. 161 on its consolidated financial statements,

which the Company is required to adopt beginning in the first quarter of 2009.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS - (Continued)  
(Unaudited)

(3) ACQUISITIONS

On June 30, 2008, the Company purchased substantially all of the assets of Lake Charles Diesel, Inc. ("Lake Charles Diesel") for \$3,334,000 in cash. In July 2008, an additional \$272,000 in cash was paid for the post-closing inventory adjustment. Lake Charles Diesel is a Gulf Coast high-speed diesel engine services provider operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and Volvo engines, as well as an authorized marine dealer for Caterpillar engines in Louisiana.

On March 18, 2008, the Company purchased six inland tank barges from OFS Marine One, Inc. ("ORIX") for \$1,800,000 in cash. The Company had been leasing the barges from ORIX prior to their purchase.

On October 1, 2007, the Company purchased nine inland tank barges from Siemens Financial, Inc. ("Siemens") for \$4,500,000 in cash. The Company had been leasing the barges since 1994 when the leases were assigned to the Company as part of the Company's purchase of the tank barge fleet of The Dow Chemical Company ("Dow").

On July 20, 2007, the Company purchased substantially all of the assets of Saunders Engine and Equipment Company, Inc. ("Saunders") for \$13,288,000 in cash and the assumption of \$245,000 of debt. Saunders was a Gulf Coast high-speed diesel engine services provider operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere engines, as well as an authorized marine dealer for Caterpillar engines in Alabama.

On February 23, 2007, the Company purchased the assets of P&S Diesel Service, Inc. ("P&S") for \$1,622,000 in cash. P&S was a Gulf Coast high-speed diesel engine services provider operating as a factory-authorized marine dealer for Caterpillar in Louisiana.

On February 13, 2007, the Company purchased from NAK Engineering, Inc. ("NAK") for a net \$3,540,000 in cash, the assets and technology to support the Nordberg medium-speed diesel engines used in nuclear applications. As part of the transaction, Progress Energy Carolinas, Inc. ("Progress Energy") and Duke Energy Carolinas, LLC ("Duke Energy") made payments to the Company for non-exclusive rights to the technology and entered into ten-year exclusive parts and service agreements with the Company. Nordberg engines are used to power emergency diesel generators used in nuclear power plants owned by Progress Energy and Duke Energy.

On January 3, 2007, the Company purchased the stock of Coastal Towing, Inc. ("Coastal"), the owner of 37 inland tank barges, for \$19,474,000 in cash. The Company had been operating the Coastal tank barges since October 2002 under a barge management agreement.

On January 2, 2007, the Company purchased 21 inland tank barges from Cypress Barge Leasing, LLC ("Cypress") for \$14,965,000 in cash. The Company had been leasing the barges since 1994 when the leases were assigned to the Company as part of the Company's purchase of the tank barge fleet of Dow.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS - (Continued)  
(Unaudited)

## (3) ACQUISITIONS – (Continued)

On October 4, 2006, the Company signed agreements to purchase 11 inland tank barges from Midland Marine Corporation (“Midland”) and Shipyard Marketing, Inc. (“Shipyard”) for \$10,600,000 in cash. The Company purchased four of the barges during 2006 for \$3,300,000 and the remaining seven barges on February 15, 2007 for \$7,300,000. The Company had been leasing the barges from Midland and Shipyard prior to their purchase.

On July 24, 2006, the Company signed an agreement to purchase the assets of Capital Towing Company (“Capital”), consisting of 11 towboats, for \$15,000,000 in cash. The Company purchased nine of the towboats during 2006 for \$13,299,000 and the remaining two towboats on May 21, 2007 for \$1,701,000. The Company and Capital entered into a vessel operating agreement whereby Capital will continue to crew and operate the towboats for the Company.

Pro forma results of the acquisitions made in the 2008 first half and the 2007 year have not been presented, as the pro forma revenues, earnings before taxes on income, net earnings and net earnings per share would not be materially different from the Company’s actual results.

## (4) 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 six months ended June 30, 2008 and 2007 were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Compensation cost	\$ 2,641	\$ 1,665	\$ 4,799	\$ 2,985
Income tax benefit	1,012	637	1,838	1,143

The Company has four employee stock award plans for selected officers and other key employees which provide for the issuance of stock options and restricted stock. No additional options or restricted stock can be granted under two of the plans. For all 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 February 10, 2000 are ten years and the options vest ratably over four years. Options granted on and after February 10, 2000 have terms of five years and vest ratably over three years. At June 30, 2008, 2,172,751 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.

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

(4) STOCK AWARD PLANS – (Continued)

The following is a summary of the stock award activity under the employee plans described above for the six months ended June 30, 2008:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
Outstanding December 31, 2007	930,450	\$ 23.48
Granted	321,927	\$ 48.18
Exercised	(553,614)	\$ 20.06
Outstanding June 30, 2008	698,763	\$ 30.99

The following table summarizes information about the Company's outstanding and exercisable stock options under the employee plans at June 30, 2008:

Range of Exercise Prices	Number Outstanding	Options Outstanding			Options Exercisable		
		Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregated Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregated Intrinsic Value
\$ 16.96 - \$ 20.89	166,256	.69	\$ 17.41	\$ 17.41	166,256	\$ 17.41	
\$ 22.05 - \$ 27.60	219,874	2.31	\$ 25.57	\$ 25.57	148,734	\$ 24.77	
\$ 35.66 - \$ 36.94	154,138	3.56	\$ 35.69	\$ 35.69	38,290	\$ 35.70	
\$ 48.00 - \$ 48.65	158,495	4.59	\$ 48.18	\$ 48.18	—	—	
\$ 16.96 - \$ 48.65	698,763	2.72	\$ 30.99	\$ 30.99	\$11,886,000	\$ 22.49	\$9,012,000

On March 6, 2008, the Board of Directors approved amendments to the Company's 2005 Employee Stock and Incentive Plan ("2005 Plan") to (1) increase the number of shares that may be issued under the plan from 2,000,000 to 3,000,000 shares and (2) increase the maximum amount of cash that may be paid to any participant pursuant to any performance award under the 2005 Plan during any calendar year from \$2,000,000 to \$3,000,000, subject to stockholder approval. The amendments were approved by the stockholders at the Annual Meeting of Stockholders held on April 22, 2008.

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 or restricted stock 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 provides for the issuance of stock options or restricted stock in lieu of cash for all or part of the annual director fee. 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 as 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 June 30, 2008, 442,707 shares were available for future grants under the 2000

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

(4) STOCK AWARD PLANS – (Continued)

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 award activity under the director plans described above for the six months ended June 30, 2008:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
Outstanding December 31, 2007	304,342	\$ 21.66
Granted	78,855	\$ 55.49
Exercised	(73,625)	\$ 13.43
Outstanding June 30, 2008	309,572	\$ 30.94

The following table summarizes information about the Company's outstanding and exercisable stock options under the director plans at June 30, 2008:

Range of Exercise Prices	Number Outstanding	Options Outstanding			Options Exercisable		
		Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregated Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregated Intrinsic Value
9.69 - \$ 9.86	10,564	1.43	\$ 9.76		10,564	\$ 9.76	
10.06 - \$ 12.69	60,046	3.45	\$ 11.14		60,046	\$ 11.14	
15.74 - \$ 20.28	61,628	5.26	\$ 17.69		61,628	\$ 17.69	
35.17 - \$ 55.49	177,334	8.82	\$ 43.51		128,360	\$ 38.94	
9.69 - \$ 55.49	309,572	6.80	\$ 30.94	\$5,282,000	260,598	\$ 26.33	\$5,648,000

On March 6, 2008, the Board of Directors approved an amendment to the Company's 2000 Director Plan to increase the number of shares that may be issued under the plan from 600,000 to 1,000,000 shares, subject to stockholder approval. The amendment was approved by the stockholders at the Annual Meeting of Stockholders held on April 22, 2008.

The total intrinsic value of all options exercised and restricted stock vestings under all of the Company's plans was \$22,101,000 and \$8,534,000 for the six months ended June 30, 2008 and 2007, respectively. The actual tax benefit realized for tax deductions from stock award plans was \$8,465,000 and \$3,268,000 for the six months ended June 30, 2008 and 2007, respectively.

As of June 30, 2008, there was \$3,760,000 of unrecognized compensation cost related to nonvested stock options and \$15,316,000 related to restricted stock. The stock options are expected to be recognized over a weighted average period of approximately .7 years and restricted stock over approximately 2.3 years. The total fair value of shares vested was \$9,071,000 and \$6,397,000 during the six months ended June 30, 2008 and 2007, respectively.



## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS - (Continued)  
(Unaudited)

## (4) STOCK AWARD PLANS – (Continued)

The weighted average fair value of options granted during the six months ended June 30, 2008 and 2007 was \$15.42 and \$11.73 per share, respectively. The fair value of the options granted during the six months ended June 30, 2008 and 2007 was \$3,513,000 and \$2,578,000, respectively.

The fair value of each option was determined using the Black-Scholes option pricing model. The key input variables used in valuing the options granted during the six months ended June 30, 2008 and 2007 were as follows:

	Six months ended June 30,	
	2008	2007
Dividend yield	None	None
Average risk-free interest rate	3.3%	4.4%
Stock price volatility	26%	25%
Estimated option term	Four or eight years	Four or nine years

## (5) COMPREHENSIVE INCOME

The Company's total comprehensive income for the three months and six months ended June 30, 2008 and 2007 was as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net earnings	\$ 40,334	\$ 30,137	\$ 76,981	\$ 54,559
Pension and postretirement benefit adjustments, net of taxes	269	610	538	1,045
Change in fair value of derivative financial instruments, net of taxes	4,453	1,844	545	1,363
Total comprehensive income	\$ 45,056	\$ 32,591	\$ 78,064	\$ 56,967

## (6) SEGMENT DATA

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

Marine Transportation – Marine transportation by United States flag vessels on the United States inland waterway system and, to a lesser extent, offshore transportation of dry-bulk cargoes. The principal products transported on the United States inland waterway system include petrochemicals, black oil products, refined petroleum products and agricultural chemicals.



## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS - (Continued)  
(Unaudited)

## (6) SEGMENT DATA— (Continued)

Diesel Engine Services – Overhaul and repair of medium-speed and high-speed diesel engines, reduction gear repair, and sale of related parts and accessories for customers in the marine, power generation and railroad industries.

The following table sets forth the Company's revenues and profit or loss by reportable segment for the three months and six months ended June 30, 2008 and 2007 and total assets as of June 30, 2008 and December 31, 2007 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
<b>Revenues:</b>				
Marine transportation	\$ 281,906	\$ 229,745	\$ 543,134	\$ 438,810
Diesel engine services	66,354	58,263	135,696	123,409
	\$ 348,260	\$ 288,008	\$ 678,830	\$ 562,219
<b>Segment profit (loss):</b>				
Marine transportation	\$ 62,154	\$ 48,169	\$ 117,670	\$ 86,730
Diesel engine services	10,356	9,324	21,461	19,221
Other	(7,137)	(8,649)	(14,363)	(17,525)
	\$ 65,373	\$ 48,844	\$ 124,768	\$ 88,426
<b>Total assets:</b>				
Marine transportation			\$ 1,287,770	\$ 1,199,869
Diesel engine services			217,354	213,062
Other			28,255	17,544
			\$ 1,533,379	\$ 1,430,475

The following table presents the details of "Other" segment loss for the three months and six months ended June 30, 2008 and 2007 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
General corporate expenses	\$ (3,800)	\$ (3,096)	\$ (6,929)	\$ (6,169)
Gain (loss) on disposition of assets	500	(62)	442	(561)
Interest expense	(3,508)	(5,436)	(7,290)	(10,590)
Other expense	(329)	(55)	(586)	(205)
	\$ (7,137)	\$ (8,649)	\$ (14,363)	\$ (17,525)



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

(6) SEGMENT DATA – (Continued)

The following table presents the details of “Other” total assets as of June 30, 2008 and December 31, 2007 (in thousands):

	June 30, 2008	December 31, 2007	
General corporate assets	\$ 26,216	\$ 15,623	
Investment in affiliates	2,039	1,921	
	\$ 28,255	\$ 17,544	

(7) TAXES ON INCOME

Earnings before taxes on income and details of the provision for taxes on income for the three months and six months ended June 30, 2008 and 2007 were as follows (in thousands):

	Three months ended June 30, 2008		Six months ended June 30, 2007		
Earnings before taxes on income – United States Provision					
for taxes on income:	\$ 65,373	\$ 48,844	\$ 124,768	\$ 88,426	
Federal					
Current	\$ 17,760	\$ 15,488	\$ 32,311	\$ 27,984	
Deferred	4,598	1,216	10,360	2,257	
State and local	2,681	2,003	5,116	3,626	
	\$ 25,039	\$ 18,707	\$ 47,787	\$ 33,867	

(8) EARNINGS PER SHARE OF COMMON STOCK

The following table presents the components of basic and diluted earnings per share of common stock for the three months and six months ended June 30, 2008 and 2007 (in thousands, except per share amounts):

	Three months ended June 30, 2008		Six months ended June 30, 2007		
Net earnings	\$ 40,334	\$ 30,137	\$ 76,981	\$ 54,559	
Shares outstanding:					
Weighted average common stock outstanding	53,483	52,849	53,377	52,802	
Effect of dilutive securities:					

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Employee and director common stock plans	798	882	792	860
	54,281	53,731	54,169	53,662
Basic earnings per share of common stock	\$ .75	\$ .57	\$ 1.44	\$ 1.03
Diluted earnings per share of common stock	\$ .74	\$ .56	\$ 1.42	\$ 1.02

Certain outstanding options to purchase approximately 208,000 and 220,000 shares of common stock were excluded in the computation of diluted earnings per share as of June 30, 2008 and 2007, respectively, as such stock options would have been antidilutive.

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

(9) RETIREMENT PLANS

The Company sponsors a defined benefit plan for vessel personnel and shore based tankermen. The plan benefits are based on an employee's years of service and compensation. The plan assets consist primarily of equity and fixed income securities.

The Company's pension plan funding strategy is to contribute an amount equal to the greater of the minimum required contribution under ERISA or the amount necessary to fully fund the plan on an Accumulated Benefit Obligation ("ABO") basis at the end of the fiscal year. The ABO is based on a variety of demographic and economic assumptions, and the pension plan assets' returns are subject to various risks, including market and interest rate risk, making the prediction of the pension plan contribution difficult. Based on current pension plan assets and market conditions, the Company expects to contribute between \$10,000,000 and \$15,000,000 to its pension plan in December 2008 to fund its 2008 pension plan obligations. As of June 30, 2008, no 2008 year contributions have been made.

The Company sponsors an unfunded defined benefit health care plan that provides limited postretirement medical benefits to employees who meet minimum age and service requirements, and to eligible dependents. The plan limits cost increases in the Company's contribution to 4% per year. The plan is contributory, with retiree contributions adjusted annually. The Company also has an unfunded defined benefit supplemental executive retirement plan ("SERP") that was assumed in an acquisition in 1999. That plan ceased to accrue additional benefits effective January 1, 2000.

The components of net periodic benefit cost for the Company's defined benefit plans for the three months and six months ended June 30, 2008 and 2007 were as follows (in thousands):

	Pension Benefits			
	Pension Plan		SERP	
	Three months ended June 30, 2008	2007	Three months ended June 30, 2008	2007
Components of net periodic benefit cost:				
Service cost	\$ 1,736	\$ 1,506	\$ —	\$ —
Interest cost	2,047	1,700	24	22
Expected return on plan assets	(2,021)	(1,924)	—	—
Amortization:				
Actuarial loss	634	552	2	2
Prior service credit	(22)	(23)	—	—
Net periodic benefit cost	\$ 2,374	\$ 1,811	\$ 26	\$ 24

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

## (9) RETIREMENT PLANS – (Continued)

	Pension Benefits			
	Pension Plan		SERP	
	Six months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Components of net periodic benefit cost:				
Service cost	\$ 3,265	\$ 2,997	\$ —	\$ —
Interest cost	3,963	3,403	48	48
Expected return on plan assets	(4,043)	(3,847)	—	—
Amortization:				
Actuarial loss	1,110	1,292	5	7
Prior service credit	(44)	(45)	—	—
Net periodic benefit cost	\$ 4,251	\$ 3,800	\$ 53	\$ 55

The components of net periodic benefit cost for the Company's postretirement benefit plan for the three months and six months ended June 30, 2008 and 2007 were as follows (in thousands):

	Other Postretirement Benefits		Other Postretirement Benefits	
	Postretirement Welfare Plan		Postretirement Welfare Plan	
	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Components of net periodic benefit cost:				
Service cost	\$ 123	\$ 129	\$ 245	\$ 253
Interest cost	120	99	241	213
Amortization:				
Actuarial gain	(31)	(30)	(62)	(58)
Prior service credit	10	10	20	20
Net periodic benefit cost	\$ 222	\$ 208	\$ 444	\$ 428

## (10) CONTINGENCIES

The Company has issued guaranties or obtained standby letters of credit and performance bonds supporting performance by the Company and its subsidiaries of contractual or contingent legal obligations of the Company and its subsidiaries incurred in the ordinary course of business. The aggregate notional value of these instruments was \$5,914,000 at June 30, 2008, including \$5,478,000 in letters of credit and debt guarantees, and \$436,000 in performance bonds. All of these instruments have an expiration date within four years. The Company does not believe demand for payment under these instruments is likely and expects no material cash outlays to occur in connection with these instruments.





KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS - (Continued)  
(Unaudited)

(10) CONTINGENCIES – (Continued)

In 2000, the Company and a group of approximately 45 other companies were notified that they are Potentially Responsible Parties (“PRPs”) under the Comprehensive Environmental Response, Compensation and Liability Act with respect to a Superfund site, the Palmer Barge Line 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 United States Environmental Protection Agency (“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 PRP’s entered into an agreement with the EPA in regard 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 \$2,916,000 of costs it incurred in relation to the site. The Company and the other PRPs have not yet met with the EPA to discuss the nature of the costs, so the Company is unable to estimate its potential liability, if any, for any portion of such costs.

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.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Statements contained in this Form 10-Q 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," "continue" or 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-Q could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are: adverse economic conditions, industry competition and other competitive factors, adverse weather conditions such as high water, low water, tropical storms, hurricanes, fog and ice, marine accidents, lock delays, fuel costs, interest rates, construction of new equipment by competitors, government and environmental laws and regulations, and the timing, magnitude and number of acquisitions made by the Company. For a more detailed discussion of factors that could cause actual results to differ from those presented in forward-looking statements, see Item 1A-Risk Factors found in the Company's annual report on Form 10-K for the year ended December 31, 2007. Forward-looking statements are based on currently available information and the Company assumes no obligation to update any such statements.

For purposes of the Management's Discussion, all earnings per share are "Diluted earnings per share." The weighted average number of common shares applicable to diluted earnings per share for the three months and six months ended June 30, 2008 and 2007 were as follows (in thousands):

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Weighted average number of common stock-diluted	54,281	53,731	54,169	53,662

The increase in the weighted average number of common shares for both 2008 periods compared with the 2007 periods primarily reflected the issuance of restricted stock and the exercise of stock options, partially offset by common stock repurchases in the first quarter of 2008.

## Overview

The Company is the nation's largest domestic inland tank barge operator with a fleet of 918 active tank barges, of which 43 are leased, and 259 towing vessels, of which 84 are chartered. The Company uses the United States inland waterway system to transport bulk liquids including petrochemicals, black oil products, refined petroleum products and agricultural chemicals. The Company also owns and operates four ocean-going barge and tug units transporting dry-bulk commodities in United States coastwise trade. Through its diesel engine services segment, the Company provides after-market services for medium-speed and high-speed diesel engines used in marine, power generation and railroad applications.

For the 2008 second quarter, the Company reported net earnings of \$40,334,000, or \$.74 per share, on revenues of \$348,260,000, compared with 2007 second quarter net earnings of \$30,137,000, or \$.56 per share, on revenues of \$288,008,000. For the 2008 first six months, the Company reported net earnings of \$76,981,000, or \$1.42 per share, on revenues of \$678,830,000, compared with 2007 first six months net earnings of \$54,559,000, or \$1.02 per share, on revenues of \$562,219,000. The 2008 second quarter and first half performance reflected continued favorable petrochemical demand in its marine transportation segment, and the favorable impact of higher term contract rate renewals during the 2007 year and the 2008 first half, as well as higher spot market pricing, partially offset by inefficiencies from operating in more difficult winter weather conditions during the 2008 first quarter and high water

conditions in the 2008 second quarter throughout the lower Mississippi River and its tributaries.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

The diesel engine services segment's medium-speed market also performed at strong levels in the 2008 second quarter and first half, while the high-speed market was slower due to softness in the Gulf Coast oil service market. In addition, the segment benefited from higher service rates and parts pricing, and continued high labor utilization in its medium-speed markets.

## Marine Transportation

For the 2008 second quarter and first half, approximately 81% and 80%, respectively, of the Company's revenue was generated by its marine transportation segment. The segment's customers include many of the major petrochemical and refining companies that operate in the United States. Products transported include raw materials for many of the end products used widely by businesses and consumers every day – plastics, fiber, paints, detergents, oil additives and paper, among others. Consequently, the Company's business tends to mirror the general performance of the United States economy and volumes produced by the Company's customer base. The following table shows the marine transportation markets serviced by the Company, the marine transportation revenue distribution for the first six months of 2008, products moved and the drivers of the demand for the products the Company transports:

Markets Serviced	2008 Six Months Revenue Distribution	Products Moved	Drivers
Petrochemicals	66%	Benzene, Styrene, Methanol, Acrylonitrile, Xylene, Caustic Soda, Butadiene, Propylene	Consumer Goods, Automobiles, Housing, Textiles
Black Oil Products	19%	Residual Fuel Oil, Coker Feedstock, Vacuum Gas Oil, Asphalt, Carbon Black Feedstock, Crude Oil, Ship Bunkers	Fuel for Power Plants and Ships, Feedstock for Refineries, Road Construction
Refined Petroleum Products	10%	Gasoline, No. 2 Oil, Jet Fuel, Heating Oil, Naphtha, Diesel Fuel	Vehicle Usage, Air Travel, Weather Conditions, Refinery Utilization
Agricultural Chemicals	5%	Anhydrous Ammonia, Nitrogen-Based Liquid Fertilizer, Industrial Ammonia	Corn, Cotton and Wheat Production, Chemical Feedstock Usage

The Company's marine transportation segment's revenue and operating income for the 2008 second quarter increased 23% and 29%, respectively, when compared with the second quarter of 2007. For the 2008 first six months, revenue and operating income increased 24% and 36%, respectively, compared with the first six months of 2007. The petrochemical market, the Company's largest market, contributed 66% of the marine transportation revenue for the 2008 first six months. During the 2008 second quarter and first six months, the demand for the movement of petrochemical products remained strong, with term contract customers continuing to operate their plants and facilities at high utilization rates, resulting in high tank barge utilization. The black oil products market contributed 19% of the 2008 first six months marine transportation revenue with demand reflecting some temporary market decline in the second quarter due to a slowdown in gasoline refinery production. Refined petroleum products contributed 10% of

2008 first six months marine transportation revenue, experiencing continued softness in the movement of products from the Gulf Coast to the Midwest, driven by higher gasoline prices and resulting lower gasoline demand. The agricultural chemical market, which contributed 5% of 2008 first six months marine transportation revenue, was unseasonably strong during the first quarter in advance of the traditional spring planting season and remained strong during the first two months of the second quarter. Upper Mississippi River flooding in June 2008 curtailed the traditional spring planting season.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

During the 2008 second quarter and first six months, the marine transportation segment operated an average of 259 towboats compared with 252 during the 2007 second quarter and 250 during the 2007 first six months. This increase in towboats resulted from placing in service two new towboats during the 2008 first half, as well as an increase in the availability of chartered-in towboats. The Company also continued to make significant progress in the crewing of its towboats as essentially all of the Company owned towboats were fully crewed during the 2008 second quarter and first six months.

During the 2008 second quarter and first six months, approximately 80% of the marine transportation revenues were under term contracts and 20% were spot market revenues. Time charters, which insulate the Company from revenue fluctuations caused by weather and navigational delays and temporary market declines, averaged 55% and 56%, of the revenues under term contracts during the 2008 second quarter and first six months, respectively. Rates on term contract renewals, net of fuel, increased during the 2008 second quarter and first six months in the 9% to 11% average range, with some contracts increasing by a higher percentage and some by a lower percentage compared with the same 2007 periods. Effective January 1, 2008, annual escalators for labor and the producer price index on a number of multi-year contracts resulted in rate increases on those contracts by 5% to 6%, excluding fuel. For the 2008 second quarter, spot market rates, which include the cost of fuel, increased in the 11% to 13% average range compared with the 2007 second quarter.

During the 2008 second quarter, the Company consumed 12.6 million gallons of diesel fuel compared with 13.6 million gallons consumed during the 2007 second quarter. The average cost per gallon of diesel fuel consumed for the 2008 second quarter was \$3.56, 83% higher than the \$1.95 for the second quarter of 2007. For the 2008 first six months, the Company consumed 25.4 million gallons of diesel fuel compared with 26.4 million gallons consumed during the 2007 first six months. The average price per gallons of diesel fuel consumed for the 2008 first six months was \$3.13, 71% higher than the \$1.83 for the first six months of 2007. The lower fuel consumption was a reflection of less black oil and refined products movements into the Midwest from the Gulf Coast, as discussed above. Fuel escalation clauses that allow the Company to recover increases in the cost of fuel are included in all term contracts; however, there is generally a 30 to 90 day delay before contracts are adjusted.

Navigational delays for the 2008 second quarter were 1,914 days, an increase of 6% compared with 1,802 delay days recorded in the 2007 second quarter. For the first six months of 2008, 4,912 delay days occurred, 12% higher than the 4,402 delay days incurred in the 2007 first half. Delay days measure the lost time incurred by a tow (towboat and one or more barges) during transit when the tow is stopped. The measure includes transit delays caused by weather, lock congestion or closure and other navigational factors. The increase for both 2008 periods reflected the high water and icing issues in the Midwest, and fog and winds along the Gulf Coast during the first quarter and high water throughout the Mississippi River System in the second quarter compared with more typical weather conditions and water levels during the 2007 comparable periods. Delay days recorded in the 2008 second quarter do not reflect the slower transit speeds caused by weather issues and high water conditions, which in some cases, resulted in the deployment of additional towboats in order to meet customer delivery schedules.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

The marine transportation operating margin for the 2008 second quarter and first six months were 22.0% and 21.7%, respectively, compared with operating margins of 21.0% for the 2007 second quarter and 19.8% for the 2007 first six months. Continued strong demand in the petrochemical sector, contract and spot market rate increases, the January 1, 2008 annual escalators on multi-year contracts, increased equipment on time charters which are insulated from revenue fluctuations caused by weather and navigational delays and temporary market declines, and improved operating efficiencies from continued improvement in vessel crewing and operating additional towboats contributed to the higher 2008 operating margins for both comparable periods.

## Diesel Engine Services

For the 2008 second quarter and first six months, approximately 19% and 20%, respectively, of the Company's revenue was generated by its diesel engine services segment, of which 63% was generated through service and 37% from direct parts sales. The results of the diesel engine services segment are largely influenced by the economic cycles of the industries it serves. The following table shows the markets serviced by the Company, the revenue distribution for the first six months of 2008 and the customers for each market:

Markets Serviced	2008	
	Six Months Revenue Distribution	Customers
Marine	77%	Inland River Carriers – Dry and Liquid, Offshore Towing – Dry and Liquid, Offshore Oilfield Services – Drilling Rigs & Supply Boats, Harbor Towing, Dredging, Great Lake Ore Carriers
Power Generation	15%	Standby Power Generation, Pumping Stations
Railroad	8%	Passenger (Transit Systems), Class II Shortline, Industrial

The Company's diesel engine services segment's 2008 second quarter revenue and operating income increased 14% and 11%, respectively, compared with the second quarter of 2007. For the first half of 2008, revenue and operating income increased 10% and 12%, respectively, compared with the first half of 2007. The results were positively impacted from strong engine overhaul and field repair activity and direct parts sales in its medium-speed market, benefiting from a seasonally higher first quarter volume of work for Midwest and Great Lakes marine customers, strong demand from Gulf Coast and Midwest marine customers in the second quarter and several large power generation modification projects during the first six months. The high-speed market, including the acquisition of Saunders in July 2007, experienced softness in the Gulf Coast oil service market during the 2008 first six months. The diesel engine services segment benefited from continued high labor utilization in its medium-speed market, and higher service rates and parts pricing implemented during 2007 and in the 2008 first six months.

The diesel engine services segment's operating margin for the 2008 second quarter was 15.6%, a slight decline when compared with 16.0% for the second quarter of 2007. For the 2008 first six months, the operating margin was 15.8%, a slight increase when compared with 15.6% for the first six months of 2007. The 2008 second quarter and first six months reflected higher operating margins in the medium-speed markets, the result of strong demand, high labor utilization and stronger pricing, partially offset by lower operating margins in the high-speed markets, the result of softness in the oil service market and lower labor utilization.





## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

### Cash Flow and Capital Expenditures

The Company continued to generate strong operating cash flow during the 2008 first six months, with net cash provided from operations of \$98,826,000, a 13% increase compared to net cash provided from operations for the 2007 first six months of \$87,585,000. In addition, during the 2008 and 2007 first six months, the Company generated cash of \$8,687,000 and \$2,759,000, respectively, from the exercise of stock options. Cash and borrowings under the revolving credit facility were used for capital expenditures of \$106,511,000, including \$63,454,000 for new tank barge and towboat construction and \$43,057,000 primarily for upgrading the existing marine transportation fleet, \$5,134,000 for the acquisitions of ORIX and Lake Charles Diesel, and for purchases of the Company's common stock totaling \$3,175,000. The Company's debt-to-capitalization ratio decreased to 25.7% at June 30, 2008 from 27.9% at December 31, 2007, primarily due to the increase in stockholders' equity attributable to net earnings for the 2008 first six months of \$76,981,000, the exercise of stock options and the issuance of restricted stock.

The Company projects that capital expenditures for 2008 will be in the \$165,000,000 to \$175,000,000 range, including approximately \$90,000,000 for new tank barge and towboat construction. The 2008 new construction will consist of 26 barges with a total capacity of 580,000 barrels and four 1800 horsepower towboats. During the 2008 first six months, the Company took delivery of 20 new barges with a total capacity of 480,000 barrels and two 1800 horsepower towboats.

The Company's strong cash flow and unutilized loan facilities position the Company to take advantage of internal and external growth opportunities in its marine transportation and diesel engine services segments. The marine transportation segment's external growth opportunities include potential acquisitions of independent inland tank barge operators and captive fleet owners seeking to outsource tank barge requirements. Increasing the fleet size would allow the Company to improve asset utilization through more backhaul opportunities, faster barge turnarounds, more efficient use of horsepower, barges positioned closer to cargos, less cleaning due to operating more barges with compatible prior cargos, lower incremental costs due to enhanced purchasing power and minimal incremental administrative staff. The diesel engine services segment's external growth opportunities include further consolidation of strategically located diesel service providers, and expanded service capability for other engine and marine gear related products.

The Company anticipates that its marine transportation business levels in the 2008 third quarter will remain similar to the 2008 second quarter, but with better operating conditions and an improvement in refined products demand into the Midwest. Business levels in the diesel engine services markets are also anticipated to remain favorable, with some improvement in the oil service market as Gulf Coast offshore drilling increases.

### Acquisitions

On June 30, 2008, the Company purchased substantially all of the assets of Lake Charles Diesel for \$3,334,000 in cash. In July 2008, an additional \$272,000 in cash was paid for the post-closing inventory adjustment. Lake Charles Diesel is a Gulf Coast high-speed diesel engine services provider operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and Volvo engines, as well as an authorized marine dealer for Caterpillar engines in Louisiana. Financing of the acquisition was through the Company's revolving credit facility.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

On March 18, 2008, the Company purchased six inland tank barges from ORIX for \$1,800,000 in cash. The Company had been leasing the barges from ORIX prior to their purchase. Financing of the equipment acquisition was through the Company's revolving credit facility.

On October 1, 2007, the Company purchased nine inland tank barges from Siemens for \$4,500,000 in cash. The Company had been leasing the barges since 1994 when the leases were assigned to the Company as part of the Company's purchase of the tank barge fleet of Dow. Financing of the equipment acquisition was through the Company's revolving credit facility.

On July 20, 2007, the Company purchased substantially all of the assets of Saunders for \$13,288,000 in cash and the assumption of \$245,000 of debt. Saunders was a Gulf Coast high-speed diesel engine services provider operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere engines, as well as an authorized marine dealer for Caterpillar engines in Alabama. Financing of the cash portion of the acquisition was through the Company's revolving credit facility.

On February 23, 2007, the Company purchased the assets of P&S for \$1,622,000 in cash. P&S was a Gulf Coast high-speed diesel engine services provider operating as a factory-authorized marine dealer for Caterpillar in Louisiana. Financing of the acquisition was through the Company's revolving credit facility.

On February 13, 2007, the Company purchased from NAK Engineering for a net \$3,540,000 in cash, the assets and technology necessary to support the Nordberg medium-speed diesel engines used in nuclear applications. As part of the transaction, Progress Energy and Duke Energy made payments to the Company for non-exclusive rights to the technology and entered into ten-year exclusive parts and service agreements with the Company. Nordberg engines are used to power emergency diesel generators used in nuclear power plants owned by Progress Energy and Duke Energy. Financing of the acquisition was through the Company's revolving credit facility.

On January 3, 2007, the Company purchased the stock of Coastal, the owner of 37 inland tank barges, for \$19,474,000 in cash. The Company had been operating the Coastal tank barges since October 2002 under a barge management agreement. Financing of the acquisition was through the Company's revolving credit facility.

On January 2, 2007, the Company purchased 21 inland tank barges from Cypress for \$14,965,000 in cash. The Company had been leasing the barges since 1994 when the leases were assigned to the Company as part of the Company's purchase of the tank barge fleet of Dow. Financing of the equipment acquisition was through the Company's revolving credit facility.

On October 4, 2006, the Company signed agreements to purchase 11 inland tank barges from Midland and Shipyard for \$10,600,000 in cash. The Company purchased four of the barges during 2006 for \$3,300,000 and the remaining seven barges on February 15, 2007 for \$7,300,000. The Company had been leasing the barges from Midland and Shipyard prior to their purchase. Financing of the equipment acquisition was through the Company's revolving credit facility.

On July 24, 2006, the Company signed an agreement to purchase the assets of Capital, consisting of 11 towboats, for \$15,000,000 in cash. The Company purchased nine of the towboats during 2006 for \$13,299,000 and the remaining two towboats on May 21, 2007 for \$1,701,000. The Company and Capital entered into a vessel operating agreement whereby Capital will continue to crew and operate the towboats for the Company. Financing of the equipment acquisition was through the Company's revolving credit facility.



## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

## Results of Operations

The Company reported second quarter 2008 net earnings of \$40,334,000, or \$.74 per share, on revenues of \$348,260,000, compared with 2007 second quarter net earnings of \$30,137,000, or \$.56 per share, on revenues of \$288,008,000. Net earnings for the 2008 first six months were \$76,981,000, or \$1.42 per share, on revenues of \$678,830,000, compared with 2007 first six months net earnings of \$54,559,000, or \$1.02 per share, on revenues of \$562,219,000.

The following table sets forth the Company's marine transportation and diesel engine services revenues for the 2008 second quarter compared with the second quarter of 2007, the first six months of 2008 compared with the first six months of 2007 and the percentage of total revenues contributed by each segment for the comparable periods (dollars in thousands):

	Three months ended June 30,				Six months ended June 30,			
	2008	%	2007	%	2008	%	2007	%
Marine transportation	\$ 281,906	81%	\$ 229,745	80%	\$ 543,134	80%	\$ 438,810	78%
Diesel engine services	66,354	19	58,263	20	135,696	20	123,409	22
	\$ 348,260	100%	\$ 288,008	100%	\$ 678,830	100%	\$ 562,219	100%

## Marine Transportation

The Company, through its marine transportation segment, is a provider of marine transportation services, operating inland tank barges and towing vessels transporting petrochemicals, black oil products, refined petroleum products and agricultural chemicals along the United States inland waterways. As of June 30, 2008, the Company operated 918 active inland tank barges, with a total capacity of 17.5 million barrels, compared with 915 active inland tank barges at June 30, 2007, with a total capacity of 17.4 million barrels. The Company operated an average of 259 active inland towing vessels during the 2008 second quarter and first six months compared with an average of 252 during the 2007 second quarter and 250 during the 2007 first six months. The marine transportation segment also owns and operates four offshore dry-bulk barge and tug units engaged in the offshore transportation of dry-bulk cargoes. The segment also owns a two-thirds interest in Osprey Line, L.L.C., operator of a barge feeder service for cargo containers between Houston and New Orleans, as well as several ports located above Baton Rouge on the Mississippi River.

The following table sets forth the Company's marine transportation segment's revenues, costs and expenses, operating income and operating margins for the three months and six months ended June 30, 2008 compared with the three months and six months ended June 30, 2007 (dollars in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2008	2007	% Change	2008	2007	% Change
Marine transportation revenues	\$ 281,906	\$ 229,745	23%	\$ 543,134	\$ 438,810	24%

Costs and expenses:

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Costs of sales and operating expenses	174,185	139,237	25	333,834	268,067	25
Selling, general and administrative	21,597	20,391	6	43,905	40,871	7
Taxes, other than on income	3,188	3,003	6	6,423	5,881	9
Depreciation and amortization	20,782	18,945	10	41,302	37,261	11
	219,752	181,576	21	425,464	352,080	21
Operating income	\$ 62,154	\$ 48,169	29%	\$ 117,670	\$ 86,730	36%
Operating margins	22.0%	21.0%		21.7%	19.8%	

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

### Marine Transportation Revenues

Marine transportation revenues for the 2008 second quarter and first six months increased 23% and 24%, respectively, compared with the corresponding 2007 periods, reflecting continued strong petrochemical demand, the recovery of higher diesel fuel costs, the increased equipment on time charters, 2007 year and 2008 first half contract and spot market rate increases, and labor and producer price index escalators effective January 1, 2008 on multi-year contracts.

Petrochemical transportation demand for the 2008 second quarter and first six months remained strong as term contract customers, primarily large United States petrochemical companies, continued to operate their plants and facilities at high utilization rates, resulting in continued high barge utilization for most products and trade lanes. Black oil products demand was strong during the 2008 first quarter but did experience some softness in the 2008 second quarter, the result of lower refinery utilization. Demand for transportation of refined products into the Midwest during the 2008 second quarter and first six months did reflect a slowdown, driven by higher gasoline prices and resulting lower gasoline demand; however, certain refined products equipment was transferred to the stronger petrochemical market. Agricultural chemical demand was unseasonably strong during the first quarter in advance of the traditional spring planting season and remained strong during the first two months of the second quarter. Upper Mississippi River flooding in June 2008 curtailed the traditional spring planting season.

The marine transportation segment operated an average of 259 towboats during the 2008 second quarter and first six months, seven more than the 252 the segment operated during the 2007 second quarter and nine more than the 250 towboats the segment operated during the 2007 first half. The Company also continued to make significant progress in the crewing of its towboats as essentially all of the Company owned towboats were fully crewed during the 2008 second quarter and first six months.

For the second quarter of 2008, the marine transportation segment incurred 1,914 delay days, 6% more than the 2007 second quarter delay days of 1,802. For the 2008 first six months, 4,912 delay days occurred, 12% higher than the 4,402 delay days that occurred in the 2007 first half. The 2008 second quarter and first six months delay days reflected ice and high water conditions in the Midwest and frontal systems along the Gulf Coast in the first quarter and high water conditions throughout the Mississippi River System during the majority of the 2008 second quarter compared with the 2007 second quarter and first six months which reflected milder winter weather conditions and more normal water levels. The delay days recorded in the 2008 second quarter did not reflect the slower transit times caused by weather issues and high water conditions, which in some cases, resulted in the deployment of additional towboats in order to meet customer delivery schedules.

During the 2008 second quarter and first six months, approximately 80% of marine transportation revenues were under term contracts and 20% were spot market revenues, compared with a 75% term contract and 25% spot market mix for the 2007 second quarter and first six months. Time charters, which insulate the Company from revenue fluctuations caused by winter weather and navigational delays and temporary market declines, averaged 55% and 56% of the revenues under term contracts during the 2008 second quarter and first six months, respectively. The increase in the term contract percentage was attributable to heavier demand for transportation services by the Company's term contract customers. The 80% contract and 20% spot market mix provides the Company with a predictable revenue stream while maintaining spot market exposure to take advantage of new business opportunities and existing customers' peak demands. Rates on term contract renewals, net of fuel, increased during the 2008 second quarter and first six months in the 9% to 11% average range, primarily the result of continued strong industry demand and high utilization of tank barges compared with the 2007 second quarter and first six months. Spot market rates, which include fuel, for the 2008 second quarter and first six months increased in the 11% to 15% range when compared with

the 2007 second quarter and first six months. Effective January 1, 2008, escalators for labor and the producer price index on a number of multi-year contracts increased rates on those contracts by 5% to 6%.



## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

### Marine Transportation Costs and Expenses

Costs and expenses for the 2008 second quarter and first six months increased 21% compared with the corresponding periods 2007 periods, primarily reflecting the higher costs and expenses associated with increased marine transportation demand noted above.

Costs of sales and operating expenses for the 2008 second quarter and first six months increased 25% compared with the second quarter and first six months of 2007, reflecting increased salaries and related expenses, additional expenses associated with the increased demand, additional towboats being operated, higher maintenance expenditures, and increased rates for chartered towboats. The significantly higher price of diesel fuel consumed, as noted below, resulted in higher fuel costs during the 2008 second quarter and first six months. During the 2008 second quarter and first half the Company operated an average of 259 towboats compared with 252 operated during the 2007 second quarter and 250 during for the 2007 first half.

During the 2008 second quarter, the Company consumed 12.6 million gallons of diesel fuel compared with 13.6 million gallons consumed during the 2007 second quarter. For the 2008 first half, the Company consumed 25.4 million gallons of diesel fuel compared with 26.4 million gallons consumed during the 2007 first half. The lower fuel consumption was a reflection of less black oil and refined products movements into the Midwest from the Gulf Coast, as discussed above. The average price per gallon of diesel fuel consumed during the 2008 second quarter was \$3.56, an increase of 83% compared with \$1.95 per gallon for the second quarter of 2007, and \$3.13 per gallon for the 2008 first half, a 71% increase when compared with \$1.83 per gallon for the 2007 first six months. Fuel escalation clauses that allow the Company to recover increases in the cost of fuel are included in all term contracts; however, there is generally a 30 to 90 day delay before contracts are adjusted.

Selling, general and administrative expenses for the 2008 second quarter and first six months increased 6% and 7%, respectively, compared with the corresponding 2007 periods. The increases primarily were a result of the January 1, 2008 salary increases and related expenses, and higher employee incentive compensation accruals.

Taxes, other than on income, for the 2008 second quarter and first six months increased 6% and 9%, respectively, compared with the corresponding periods of 2007, primarily the reflection of higher property taxes.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Depreciation and amortization for the 2008 second quarter and first six months increased 10% and 11%, respectively, compared with the corresponding periods of 2007. The increases were primarily attributable to increased capital expenditures, including new tank barges and towboats, and the acquisitions in 2007 and 2008 of marine equipment that was previously leased.

## Marine Transportation Operating Income and Operating Margins

The marine transportation operating income for the 2008 second quarter increased 29% compared with the 2007 second quarter. For the 2008 first six months, the segment's operating income increased 36% compared with the first half of 2007. The marine transportation operating margin for the 2008 second quarter increased to 22.0% compared with 21.0% for the second quarter of 2007 and 21.7% for the 2008 first six months compared with 19.8% for the 2007 first six months. Continued strong demand in the petrochemical market, higher term contract and spot market pricing, the January 1, 2008 escalators on numerous multi-year contracts, operating efficiencies from continued improvement in vessel crewing and operating additional towboats and the increased percentage of time charters which protects revenues from navigational and weather delays and temporary market declines, had a positive impact on the operating income and operating margin.

## Diesel Engine Services

The Company, through its diesel engine services segment, sells genuine replacement parts, provides service mechanics to overhaul and repair medium-speed and high-speed diesel engines and reduction gears, and maintains facilities to rebuild component parts or entire medium-speed and high-speed diesel engines, and entire reduction gears. The segment services the marine, power generation and railroad markets.

The following table sets forth the Company's diesel engine services segment's revenues, costs and expenses, operating income and operating margins for the three months and six months ended June 30, 2008 compared with the three months and six months ended June 30, 2007 (dollars in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2008	2007	% Change	2008	2007	% Change
Diesel engine services revenues	\$ 66,354	\$ 58,263	14%	\$ 135,696	\$ 123,409	10%
Costs and expenses:						
Costs of sales and operating expenses	46,074	41,371	11	94,771	88,140	8
Selling, general and administrative	8,510	6,412	33	16,342	13,722	19
Taxes, other than on income	254	191	33	528	435	21
Depreciation and amortization	1,160	965	20	2,594	1,891	37
	55,998	48,939	14	114,235	104,188	10
Operating income	\$ 10,356	\$ 9,324	11%	\$ 21,461	\$ 19,221	12%

Operating margins	15.6%	16.0%	15.8%	15.6%
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## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

### Diesel Engine Services Revenues

Diesel engine services revenues for the 2008 second quarter and first six months increased 14% and 10%, respectively, compared with the corresponding periods of 2007. The results were positively impacted by strong engine overhaul and field repair activity and direct parts sales in its medium-speed market, benefiting from a seasonally higher first quarter volume of work for Midwest and Great Lakes marine customers, strong demand from Gulf Coast and Midwest marine customers in the second quarter and several large power generation modification projects during the first six months. The high-speed market, including the acquisition of Saunders in July 2007, experienced continued softness in the Gulf Coast oil service market during the first six months. In addition, the segment benefited from higher service rates and parts pricing implemented in both its medium-speed and high-speed markets during 2007 and the first six months of 2008.

### Diesel Engine Services Costs and Expenses

Costs and expenses for the 2008 second quarter increased 14% compared with the 2007 second quarter and 10% for the 2008 first six months compared with the 2007 first half. The increase in costs of sales and operating expenses reflected the higher service and parts sales activity noted above, as well as increases in salaries and other related benefit expenses effective January 1, 2008. Selling, general and administrative expenses also reflected increased salaries and related benefit expenses effective January 1, 2008. The increase in each cost and expense category was also attributable to the Saunders acquisition in July 2007.

### Diesel Engine Services Operating Income and Operating Margins

Operating income for the diesel engine services segment for the 2008 second quarter and first six months increased 11% and 12%, respectively, compared with the 2007 corresponding periods. The improved operating income primarily reflected the continued strong medium-speed service activity and direct parts sales in the majority of its markets, continued high labor utilization and higher service rates and parts pricing implemented during 2007 and the 2008 first half. The high-speed market, including the acquisition of Saunders in July 2007, experienced continued softness in the Gulf Coast oil service market during the 2008 first six months. The operating margin for the 2008 second quarter was 15.6%, a slight decline when compared with 16.0% for the second quarter of 2007, and 15.8% for the 2008 first six months, a slight increase when compared with 15.6% for the 2007 first half. The 2008 second quarter and first six months reflected higher operating margins in the medium-speed markets, the result of strong demand, high labor utilization and stronger pricing, partially offset by lower operating margins in the high-speed markets, due to softness in the oil service market and lower labor utilization.

### General Corporate Expenses

General corporate expenses for the 2008 second quarter were \$3,800,000, 23% higher than the second quarter of 2007. For the first six months of 2008, general corporate expenses were \$6,929,000, a 12% increase compared with the first six months of 2007. The increases in both 2008 comparable periods primarily reflected increases in salaries and related expenses effective January 1, 2008 and higher employee incentive compensation accruals.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

## Loss (Gain) on Disposition of Assets

The Company reported a net gain on disposition of assets of \$500,000 for the 2008 second quarter compared with a net loss on disposition of assets of \$62,000 for the 2007 second quarter. For the 2008 first six months, the Company reported a net gain on disposition of assets of \$442,000 compared with a net loss on disposition of assets of \$561,000 for the first six months of 2007. The net gain and loss were predominantly from the sale of marine equipment.

## Other Expenses

The following table sets forth equity in earnings of marine affiliates, other income (expense) and interest expense for the three months and six months ended June 30, 2008 compared with the three months and six months ended June 30, 2007 (dollars in thousands):

	Three months ended June 30,			Six months ended June 30,		
	2008	2007	% Change	2008	2007	% Change
Other expense	\$ (329)	\$ (55)	498%	\$ (586)	\$ (205)	186%
Interest expense	\$ (3,508)	\$ (5,436)	(35)%	\$ (7,290)	\$ (10,590)	(31)%

## Interest Expense

Interest expense for the 2008 second quarter and first six months decreased 35% and 31%, respectively, compared with the second quarter and first six months of 2007, primarily the result of lower average debt levels and lower average interest rates. The average debt and average interest rate for the 2008 and 2007 second quarters, including the effect of interest rate collar and swaps, were \$289,448,000 and 4.9%, and \$368,187,000 and 5.9%, respectively. For the first six months of 2008 and 2007, the average debt and average interest rate, including the effect of interest rate collar and swaps, were \$286,083,000 and 5.1%, and \$361,000,000 and 5.9%, respectively.

## Financial Condition, Capital Resources and Liquidity

## Balance Sheet

Total assets as of June 30, 2008 were \$1,533,379,000, a 7% increase compared with \$1,430,475,000 as of December 31, 2007. The following table sets forth the significant components of the balance sheet as of June 30, 2008 compared with December 31, 2007 (dollars in thousands):

	June 30, 2008	December 31, 2007	% Change
Assets:			
Current assets	\$ 303,509	\$ 267,343	14%
Property and equipment, net	971,306	906,098	7
Goodwill, net	230,736	229,292	1
Other assets	27,828	27,742	—
	\$ 1,533,379	\$ 1,430,475	7%

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Liabilities and stockholders' equity:

Current liabilities	\$	185,375	\$	191,420	(3)%
Long-term debt – less current portion		297,646		296,015	1
Deferred income taxes		141,031		130,899	8
Minority interests and other long-term liabilities		44,785		42,311	6
Stockholders' equity		864,542		769,830	12
	\$	1,533,379	\$	1,430,475	7%

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Current assets as of June 30, 2008 increased 14% compared with December 31, 2007, primarily reflecting a 15% increase in trade accounts receivable due to increased marine transportation and diesel engine services revenues related to higher business activity levels. This increase was partially offset by a decrease of 7% in inventory - finished goods as increased inventory purchases in the 2007 fourth quarter were utilized in 2008 first quarter service projects.

Property and equipment, net of accumulated depreciation, at June 30, 2008 increased 7% compared with December 31, 2007. The increase reflected \$106,511,000 of capital expenditures for the 2008 first half, more fully described under Capital Expenditures below, the fair value of the equipment and property acquired in the Lake Charles Diesel and ORIX acquisitions of \$1,900,000, less \$43,001,000 of depreciation expense for the first six months of 2008 and \$202,000 of property disposals during the 2008 first six months.

Current liabilities as of June 30, 2008 decreased 3% compared with December 31, 2007. Accrued liabilities decreased 8%, primarily from the payment during the 2008 first half of employee incentive compensation accrued during 2007, partially offset by employee incentive compensation accrued during the first six months of 2008 and increased marine and medical insurance claims.

Long-term debt, less current portion, as of June 30, 2008 increased 1% compared with December 31, 2007. During the 2008 first six months, the Company had net cash provided by operating activities of \$98,826,000 and proceeds from the exercise of stock options of \$8,687,000, partially offset by capital expenditures of \$106,511,000, and spent \$5,134,000 on the Lake Charles Diesel and ORIX acquisitions and \$3,175,000 on treasury stock purchases.

Deferred income taxes as of June 30, 2008 increased 8% compared with December 31, 2007, primarily due to the 2008 first six months deferred tax provision of \$10,360,000, partially offset by the recording of a deferred tax asset related to the Company's equity compensation plans. The higher deferred tax provision was primarily due to bonus tax depreciation on qualifying expenditures due to the Economic Stimulus Act of 2008.

Stockholders' equity as of June 30, 2008 increased 12% compared with December 31, 2007. The increase was the result of \$76,981,000 of net earnings for the first six months of 2008, an increase in additional paid-in capital of \$9,147,000, a \$7,501,000 decrease in treasury stock and an increase of \$1,083,000 in accumulated other comprehensive income. The increase in additional paid-in capital was attributable to the exercise of stock options and the issuance of restricted stock. The decrease in treasury stock was attributable to the exercise of stock options and the issuance of restricted stock, partially offset by the purchase during the 2008 first quarter of \$3,175,000 of Company common stock, more fully described under Treasury Stock Purchases below. The increase in accumulated other comprehensive income primarily resulted from the net change in fair value of interest rate collar and swap agreements, net of taxes, more fully described under Long-Term Financing below.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

## Long-Term Financing

The Company has a \$250,000,000 unsecured revolving credit facility (“Revolving Credit Facility”) with a syndicate of banks, with JPMorgan Chase Bank as the agent bank, with a maturity date of June 14, 2011. The Revolving Credit Facility allows for an increase in the commitments of the banks from \$250,000,000 up to a maximum of \$325,000,000, subject to the consent of each bank that elects to participate in the increased commitment. The unsecured Revolving Credit Facility has a variable interest rate based on the London Interbank Offered Rate (“LIBOR”) that varies with the Company’s senior debt rating and the level of debt outstanding. As of June 30, 2008, the Company had \$97,550,000 of borrowings outstanding under the Revolving Credit Facility. The average borrowing under the Revolving Credit Facility during the 2008 second quarter and first six months was \$87,581,000 and \$83,985,000, respectively, computed by averaging the daily balance. The weighted average interest rate was 3.1% and 3.7%, respectively, for the 2008 second quarter and first six months, computed by dividing the interest expense under the Revolving Credit Facility by the average Revolving Credit facility borrowing. The Revolving Credit Facility includes a \$25,000,000 commitment which may be used for standby letters of credit, of which \$1,294,000 was outstanding as of June 30, 2008. The Company was in compliance with all Revolving Credit Facility covenants as of June 30, 2008.

The Company has \$200,000,000 of unsecured floating rate senior notes (“2005 Senior Notes”) due February 28, 2013. The 2005 Senior Notes pay interest quarterly at a rate equal to the LIBOR plus a margin of 0.5%. The 2005 Senior Notes are callable, at the Company’s option, at par. No principal payments are required until maturity in February 2013. As of June 30, 2008, \$200,000,000 was outstanding under the 2005 Senior Notes and the average interest rate for the 2008 second quarter and first six months was 3.5% and 4.2%, respectively. The Company was in compliance with all 2005 Senior Notes covenants at June 30, 2008.

The Company has a \$5,000,000 line of credit (“Credit Line”) with Bank of America, N.A. (“Bank of America”) for short-term liquidity needs and letters of credit, with a maturity date of June 30, 2009. The Credit Line allows the Company to borrow at an interest rate agreed to by Bank of America and the Company at the time each borrowing is made or continued. The Company did not have any borrowings outstanding under the Credit Line as of June 30, 2008. Outstanding letters of credit under the Credit Line were \$524,000 as of June 30, 2008.

The Company has on file with the Securities and Exchange Commission a shelf registration for the issuance of up to \$250,000,000 of debt securities, including medium term notes, providing for the issuance of fixed rate or floating rate debt with a maturity of nine months or longer. The current \$121,000,000 available balance, subject to mutual agreement to terms, as of June 30, 2008 may be used for future business or equipment acquisitions, working capital requirements and reductions of the Company’s Revolving Credit Facility and 2005 Senior Notes. As of June 30, 2008, there were no outstanding debt securities under the shelf registration.

From time to time, the Company hedges its exposure to fluctuations in short-term interest rates under its variable rate bank credit facility and floating rate senior notes by entering into interest rate collar and swap agreements. The interest rate collar and swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the collar and swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of June 30, 2008, the Company had a total notional amount of \$150,000,000 of interest rate swaps designated as cash flow hedges for its variable rate senior notes as follows (dollars in thousands):

Notional amount	Effective date	Fixed pay rate	Receive rate
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			Termination date		
\$	50,000	April 2004	May 2009	4.00%	Three-month LIBOR
\$	100,000	March 2006	February 2013	5.45%	Three-month LIBOR

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

On February 1, 2008, the Company entered into an interest rate swap agreement in a notional amount of \$50,000,000 with a fixed rate of 3.795% for the purpose of extending an existing hedge of its exposure to interest rate fluctuations on floating rate interest payments on the Company's variable rate senior notes. The term of the new swap agreement starts on May 28, 2009, which is the maturity date on two existing swaps with the same total notional amount of \$50,000,000, and ends on February 28, 2013, the maturity date of the Company's variable rate senior notes. The swap agreement effectively converts the Company's interest rate obligation on a portion of the Company's variable rate senior notes from quarterly floating rate payments based on LIBOR to quarterly fixed rate payments. The swap agreement is designated as a cash flow hedge for the Company's variable rate senior notes.

On November 14, 2006, the Company entered into a \$50,000,000 two-year zero-cost interest rate collar agreement. The collar uses LIBOR as its interest rate basis. The cap rate is set at 5.375% and the floor is set at 4.33%. When LIBOR is above the cap, the Company will receive the difference between LIBOR and the cap. When LIBOR is below the floor, the Company will pay the difference between LIBOR and the floor. When LIBOR is between the cap rate and the floor, no payments are required. The collar is designated as a cash flow hedge for the Company's variable rate senior notes.

The interest rate collar and swap agreements hedge a majority of the Company's long-term debt and only an immaterial loss on ineffectiveness was recognized in the 2008 and 2007 first six months. At June 30, 2008, the fair value of the interest rate collar and swap agreements was \$5,650,000, of which \$874,000 was recorded as other accrued liabilities for the collar maturing within the next twelve months and \$1,086,000 and \$5,862,000 was recorded as other assets and other long-term liabilities, respectively, for swap maturities greater than twelve months. At June 30, 2007, the fair value of the interest rate collar and swap agreements was \$991,000, of which \$1,215,000 and \$224,000 were recorded as other assets and other long-term liabilities respectively, for swap maturities greater than twelve months. The Company has recorded in interest expense, net losses related to the interest rate collar and swap agreements of \$950,000 and \$149,000 for the three months ended June 30, 2008 and 2007, respectively, and \$1,233,000 and \$300,000 for the six months ended June 30, 2008 and 2007, respectively. Gains or losses on the interest rate collar and swap agreements offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company anticipates \$2,077,000 of net losses included in accumulated other comprehensive income will be transferred into earnings over the next year based on current interest rates. Fair value amounts were derived as of June 30, 2008 and 2007 utilizing fair value models of the Company and its counterparties on the Company's portfolio of derivative instruments.

## Capital Expenditures

Capital expenditures for the 2008 first six months were \$106,511,000, of which \$63,454,000 was for construction of new tank barges and towboats, and \$43,057,000 was primarily for upgrading of the existing marine transportation fleet. Capital expenditures for the 2007 first six months were \$95,572,000, of which \$49,443,000 was for construction of new tank barges and towboats, and \$46,129,000 was primarily for upgrading of the existing marine transportation fleet. Financing of the construction of the new tank barges and towboats was through operating cash flows and available credit under the Company's Revolving Credit Facility.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

A summary of the new tank barge construction follows:

Contract Date	No. of Barges	Total Capacity	Expended				Placed In Service			
			2006	2007	2008	Total	2006	2007	2008*	2009*
			(\$ in millions)				(Barrels in thousands)			
June 2004	11	311,000	\$ .1	\$ —	\$ —	\$ 24.7	—	—	—	—
July 2004	7	199,000	.2	—	—	15.0	28	—	—	—
November 2004	20	221,000	1.4	—	—	23.3	—	—	—	—
July 2005	10	285,000	11.6	4.3	—	19.6	171	114	—	—
July 2005	13	368,000	28.4	—	—	28.4	368	—	—	—
March 2006	12	347,000	2.4	28.0	—	30.4	—	347	—	—
April 2006	8	226,000	1.4	9.9	3.7	16.4	Est.	—	85	141
June 2006	2	21,000	1.8	.9	—	2.7	—	21	—	—
October 2006	6	66,000	1.7	6.2	.4	8.3	—	44	22	—
February 2007	1	19,000	—	2.9	—	2.9	—	19	—	—
February 2007	12	340,000	—	—	36.3	36.3	—	—	340	—
August 2007	6	67,000	—	2.2	5.3	8.7	Est.	—	—	67
December 2007	2	21,000	—	—	.8	2.9	Est.	—	—	11
January 2008	14	322,000	—	—	—	37.7	Est.	—	—	—
April 2008	6	63,000	—	—	1.1	10.8	Est.	—	—	—
May 2008	5	104,000	—	—	7.7	29.0	Est.	—	—	—
May 2008	6	168,000	—	—	1.6	16.4	Est.	—	—	—

\* Based on current or expected construction schedule

A summary of the new towboat construction follows:

Contract Date	No. of Towboats	Horsepower	Market	Expended				Placed in Service			
				2006	2007	2008	Total	2006	2007	2008*	2009*
				(\$ in millions)							
Dec. 2005	4	2100	River	\$ 6.8	\$ 4.9	\$ —	\$ 14.9	1	3	—	—
Aug. 2006	4	1800	Canal	2.8	7.0	2.5	12.8	Est.	—	1	3
Mar. 2007	4	1800	Canal	—	1.2	3.3	14.9	Est.	—	—	1
June 2007	2	1800	Canal	—	.3	.6	7.4	Est.	—	—	—
Aug. 2007	2	1800	Canal	—	.1	.1	7.4	Est.	—	—	—

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\* Based on current or expected construction schedule

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

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## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

### Treasury Stock Purchases

During the 2008 first quarter, the Company purchased in the open market 80,500 shares of common stock at a total purchase price of \$3,175,000, for an average price of \$39.45 per share. As of August 1, 2008, the Company had 2,177,000 shares available under its existing repurchase authorization. Historically, treasury stock purchases have been financed through operating cash flows and borrowing under the Company's Revolving Credit Facility. The Company is authorized to purchase its common stock on the New York Stock Exchange and in privately negotiated transactions. When purchasing its common stock, the Company is subject to price, trading volume and other market considerations. Shares purchased may be used for reissuance upon the exercise of stock options or the granting of other forms of incentive compensation, in future acquisitions for stock or for other appropriate corporate purposes.

### Liquidity

The Company generated net cash provided by operating activities of \$98,826,000 during the six months ended June 30, 2008, 13% higher than the \$87,585,000 generated during the six months ended June 30, 2007. The 2008 first six months experienced a larger net decrease in cash flows from changes in operating assets and liabilities than the first six months of 2007 primarily due to a larger increase in receivables in 2008 versus 2007 as a result of stronger business activity levels and increased revenues due to fuel cost recovery, increases in prepaid fuel inventory due to the sharp increase in fuel prices in the 2008 first half and larger employee incentive compensation payments in the 2008 first half versus the 2007 first half.

Funds generated from operating activities were used for acquisitions, capital expenditure projects, treasury stock repurchases, repayments of borrowings associated with each of the above and other operating requirements. In addition to net cash flow provided by operating activities, the Company also had available as of July 31, 2008, \$172,956,000 under its Revolving Credit Facility and \$121,000,000 under its shelf registration, subject to mutual agreement on terms, and \$4,473,000 available under its Credit Line.

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

The Company expects to continue to fund expenditures for acquisitions, capital construction projects, treasury stock repurchases, repayment of borrowings, and for other operating requirements from a combination of funds generated from operating activities and available financing arrangements.

The Company has issued guaranties or obtained standby letters of credit and performance bonds supporting performance by the Company and its subsidiaries of contractual or contingent legal obligations of the Company and its subsidiaries incurred in the ordinary course of business. The aggregate notional value of these instruments was \$5,914,000 at June 30, 2008, including \$5,478,000 in letters of credit and debt guarantees, and \$436,000 in performance bonds. All of these instruments have an expiration date within four years. The Company does not believe demand for payment under these instruments is likely and expects no material cash outlays to occur in connection with these instruments.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

All marine transportation term contracts contain fuel escalation clauses. However, there is generally a 30 to 90 day delay before contracts are adjusted depending on the specific contract. In general, the fuel escalation clauses are effective over the long-term in allowing the Company to recover changes in fuel costs due to fuel price changes; however, the short-term effectiveness of the fuel escalation clauses can be affected by a number of factors including, but not limited to, fuel price volatility, navigating conditions, tow sizes, trip routing, and the location of loading and discharge ports that may result in the Company over or under recovering its fuel costs. Spot contract rates generally reflect current fuel prices at the time the contract is signed but do not have escalators for fuel.

During the last three years, inflation has had a relatively minor effect on the financial results of the Company. The marine transportation segment has long-term contracts which generally contain cost escalation clauses whereby certain costs, including fuel as noted above, can be passed through to its customers. Spot market rates include the cost of fuel and are subject to market volatility. The repair portion of the diesel engine services segment is based on prevailing current market rates.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to risk from changes in interest rates on certain of its outstanding debt. The outstanding loan balances under the Company's bank credit facilities bear interest at variable rates based on prevailing short-term interest rates in the United States and Europe. A 10% change in variable interest rates would impact the 2008 interest expense by approximately \$626,000, based on balances outstanding at December 31, 2007, and change the fair value of the Company's debt by less than 1%.

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 major financial institutions. 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. The Company does not enter into derivative financial instrument transactions for speculative purposes.

From time to time, the Company hedges its exposure to fluctuations in short-term interest rates under its variable rate bank credit facility and floating rate senior notes by entering into interest rate collar and swap agreements. The interest rate collar and swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the collar and swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of June 30, 2008, the Company had a total notional amount of \$150,000,000 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
\$ 50,000	April 2004	May 2009	4.00%	Three-month LIBOR
\$ 100,000	March 2006	February 2013	5.45%	Three-month LIBOR

On February 1, 2008, the Company entered into an interest rate swap agreement in a notional amount of \$50,000,000 with a fixed rate of 3.795% for the purpose of extending an existing hedge of its exposure to interest rate fluctuations on floating rate interest payments on the Company's variable rate senior notes. The term of the new swap agreement starts on May 28, 2009, which is the maturity date on two existing swaps with the same total notional amount of \$50,000,000, and ends on February 28, 2013, the maturity date of the Company's variable rate senior notes. The swap agreement effectively converts the Company's interest rate obligation on a portion of the Company's variable rate senior notes from quarterly floating rate payments based on LIBOR to quarterly fixed rate payments. The swap agreement is designated as a cash flow hedge for the Company's variable rate senior notes.

On November 14, 2006, the Company entered into a \$50,000,000 two-year zero-cost interest rate collar agreement. The collar uses LIBOR as its interest rate basis. The cap rate is set at 5.375% and the floor is set at 4.33%. When LIBOR is above the cap, the Company will receive the difference between LIBOR and the cap. When LIBOR is below the floor, the Company will pay the difference between LIBOR and the floor. When LIBOR is between the cap rate and the floor, no payments are required. The collar is designated as a cash flow hedge for the

Company's variable rate senior notes.

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## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

The interest rate collar and swap agreements hedge a majority of the Company's long-term debt and only an immaterial loss on ineffectiveness was recognized in the 2008 and 2007 first six months. At June 30, 2008, the fair value of the interest rate collar and swap agreements was \$5,650,000, of which \$874,000 was recorded as other accrued liabilities for the collar maturing within the next twelve months and \$1,086,000 and \$5,862,000 was recorded as other assets and other long-term liabilities, respectively, for swap maturities greater than twelve months. At June 30, 2007, the fair value of the interest rate collar and swap agreements was \$991,000, of which \$1,215,000 and \$224,000 were recorded as other assets and other long-term liabilities respectively, for swap maturities greater than twelve months. The Company has recorded in interest expense, net losses related to the interest rate collar and swap agreements of \$950,000 and \$149,000 for the three months ended June 30, 2008 and 2007, respectively, and \$1,233,000 and \$300,000 for the six months ended June 30, 2008 and 2007, respectively. Gains or losses on the interest rate collar and swap agreements offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company anticipates \$2,077,000 of net losses included in accumulated other comprehensive income will be transferred into earnings over the next year based on current interest rates. Fair value amounts were derived as of June 30, 2008 and 2007 utilizing fair value models of the Company and its counterparties on the Company's portfolio of derivative instruments.

### Item 4. Controls and Procedures

Based on their evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this quarterly report, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
PART II - OTHER INFORMATION

Item 6. Exhibits

- 31.1 – Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).  
31.2 – Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).  
32 – Certification Pursuant to 13 U.S.C. Section 1350 (As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KIRBY CORPORATION  
(Registrant)

By:

/s/ NORMAN W. NOLEN  
Norman W. Nolen  
Executive Vice President,  
Chief Financial Officer and Treasurer

Dated: August 1, 2008