

KIRBY CORP
Form 10-Q
May 01, 2008

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 March 31, 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 May 1, 2008 was 53,935,000.

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Part I Financial Information

Item 1. Financial Statements

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS

(Unaudited)

ASSETS

| | March 31, 2008 | December 31, 2007 |
|--|---------------------|-------------------------|
| | (\$ in thousands) | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,689 | \$ 5,117 |
| Accounts receivable: | | |
| Trade – less allowance for doubtful accounts | 186,338 | 175,876 |
| Other | 7,036 | 7,713 |
| Inventory – finished goods | 49,475 | 53,377 |
| Prepaid expenses and other current assets | 21,840 | 18,731 |
| Deferred income taxes | 6,566 | 6,529 |
| Total current assets | 274,944 | 267,343 |
| Property and equipment | 1,538,449 | 1,489,930 |
| Less accumulated depreciation | 603,338 | 583,832 |
| | 935,111 | 906,098 |
| Goodwill – net | 229,292 | 229,292 |
| Other assets | 26,854 | 27,742 |
| | \$ 1,466,201 | \$ 1,430,475 |

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | March 31, 2008 | December 31, 2007 |
|--|---------------------|-------------------------|
| | (\$ in thousands) | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 1,409 | \$ 1,368 |
| Income taxes payable | 20,862 | 9,182 |
| Accounts payable | 100,457 | 100,908 |
| Accrued liabilities | 65,494 | 73,191 |
| Deferred revenues | 7,744 | 6,771 |
| Total current liabilities | 195,966 | 191,420 |
| Long-term debt – less current portion | 281,821 | 296,015 |
| Deferred income taxes | 132,867 | 130,899 |
| Minority interests | 2,859 | 2,977 |
| Other long-term liabilities | 45,253 | 39,334 |
| | 462,800 | 469,225 |
| Contingencies and commitments | — | — |
| Stockholders' equity: | | |
| 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 | 215,263 | 211,983 |
| Accumulated other comprehensive income - net | (26,161) | (22,522) |
| Retained earnings | 684,339 | 647,692 |
| | 879,175 | 842,887 |
| Less cost of 3,613,000 shares in treasury (3,806,000 at December 31, 2007) | 71,740 | 73,057 |
| | 807,435 | 769,830 |
| | \$ 1,466,201 | \$ 1,430,475 |

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF EARNINGS
(Unaudited)

| | Three months ended March 31, | |
|---|--|------------|
| | 2008 | 2007 |
| | (\$ in thousands, except per share amounts) | |
| Revenues: | | |
| Marine transportation | \$ 261,228 | \$ 209,065 |
| Diesel engine services | 69,342 | 65,146 |
| | 330,570 | 274,211 |
| Costs and expenses: | | |
| Costs of sales and operating expenses | 208,346 | 175,599 |
| Selling, general and administrative | 32,872 | 30,506 |
| Taxes, other than on income | 3,533 | 3,134 |
| Depreciation and amortization | 22,327 | 19,587 |
| Loss on disposition of assets | 58 | 499 |
| | 267,136 | 229,325 |
| Operating income | 63,434 | 44,886 |
| Other expense | (257) | (150) |
| Interest expense | (3,782) | (5,154) |
| Earnings before taxes on income | 59,395 | 39,582 |
| Provision for taxes on income | (22,748) | (15,160) |
| Net earnings | \$ 36,647 | \$ 24,422 |
| Net earnings per share of common stock: | | |
| Basic | \$.69 | \$.46 |
| Diluted | \$.68 | \$.46 |

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three months ended March 31, | |
|---|---------------------------------|-----------|
| | 2008 | 2007 |
| | (\$ in thousands) | |
| Cash flows from operating activities: | | |
| Net earnings | \$ 36,647 | \$ 24,422 |
| Adjustments to reconcile net earnings to net cash provided by operations: | | |
| Depreciation and amortization | 22,327 | 19,587 |
| Provision for deferred income taxes | 5,762 | 1,041 |
| Amortization of unearned compensation | 2,158 | 1,320 |
| Other | 188 | 643 |
| Increase (decrease) in cash flows resulting from changes in operating assets and liabilities, net | (5,773) | 127 |
| Net cash provided by operating activities | 61,309 | 47,140 |
| Cash flows from investing activities: | | |
| Capital expenditures | (48,753) | (53,649) |
| Acquisitions of business and marine equipment, net of cash acquired | (1,800) | (47,317) |
| Proceeds from disposition of assets | 42 | 527 |
| Other | — | (45) |
| Net cash used in investing activities | (50,511) | (100,484) |
| Cash flows from financing activities: | | |
| Borrowings (payment) on bank credit facilities, net | (14,150) | 49,200 |
| Borrowings (payments) on long-term debt, net | (26) | 978 |
| Proceeds from exercise of stock options | 2,145 | 1,662 |
| Purchase of treasury stock | (3,175) | — |
| Excess tax benefit from equity compensation plans | 3,260 | 1,911 |
| Other | (280) | (291) |
| Net cash provided by (used in) financing activities | (12,226) | 53,460 |
| Increase (decrease) in cash and cash equivalents | (1,428) | 116 |
| Cash and cash equivalents, beginning of year | 5,117 | 2,653 |
| Cash and cash equivalents, end of period | \$ 3,689 | \$ 2,769 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period: | | |
| Interest | \$ 3,933 | \$ 5,003 |
| Income taxes | \$ 2,046 | \$ 137 |
| Noncash investing activity: | | |
| Accrued payable for working capital adjustment related to acquisition | \$ — | \$ 264 |
| Cash assumed 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 March 31, 2008 and December 31, 2007, and the results of operations for the three months ended March 31, 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 general accepted accounting principles.

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at March 31, 2008 (in thousands):

| Significant Other Observable | Total Fair Value Measurements |
|------------------------------------|-------------------------------------|
|------------------------------------|-------------------------------------|

Inputs
(Level 2)

| | | | |
|--------------|----|--------|-----------|
| Assets: | | | |
| None | \$ | — | \$ — |
| Liabilities: | | | |
| Derivatives | \$ | 12,501 | \$ 12,501 |

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.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(2) ACCOUNTING ADOPTIONS – (Continued)

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.

(3) ACQUISITIONS

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.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(3) ACQUISITIONS - (Continued)

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.

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 quarter 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 was \$2,158,000 and \$1,320,000 for the three months ended March 31, 2008 and 2007, respectively. The total income tax benefit recognized in the statement of earnings for stock awards was \$826,000 and \$506,000 for the three months ended March 31, 2008 and 2007, respectively. Compensation cost capitalized as part of inventory is considered immaterial.

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 one 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 March 31, 2008, 1,172,751 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 three months ended March 31, 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 | (254,734) | \$ 14.49 |
| Outstanding March 31, 2008 | 997,643 | \$ 28.23 |

The following table summarizes information about the Company's outstanding and exercisable stock options under the employee plans at March 31, 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 |
| \$ 8.95 - 16.96 - | 18,000 | .80 | \$ 8.95 | | 18,000 | \$ 8.95 | |
| \$ 20.89 - 22.05 - | 275,172 | .95 | \$ 17.45 | | 275,172 | \$ 17.45 | |
| \$ 27.60 - 35.66 - | 368,210 | 2.46 | \$ 25.02 | | 297,070 | \$ 24.49 | |
| \$ 36.94 - 48.00 - | 177,766 | 3.82 | \$ 35.69 | | 61,918 | \$ 35.69 | |
| \$ 48.65 - 8.95 - | 158,495 | 4.84 | \$ 48.18 | | — | — | |
| \$ 48.65 - | 997,643 | 2.62 | \$ 28.23 | \$ 28,707,000 | 652,160 | \$ 22.16 | \$ 22,724,000 |

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 March 31, 2008, 121,562 shares were available for future grants under the 2000 Director Plan. The director stock award plans are intended as an incentive to attract and retain qualified and competent independent directors.

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 director plans described above for the three months ended March 31, 2008:

| | Outstanding Non-Qualified or Nonincentive Stock Awards | Weighted Average Exercise Price |
|-------------------------------|--|--|
| Outstanding December 31, 2007 | 304,342 | \$ 21.66 |
| Exercised | (61,068) | \$ 13.47 |
| Outstanding March 31, 2008 | 243,274 | \$ 23.72 |

The following table summarizes information about the Company's outstanding and exercisable stock options under the director plans at March 31, 2008:

| Range of Exercise Prices | Number Outstanding | Options Outstanding | | | Options Exercisable | | |
|--------------------------------|-----------------------|---|--|----------------------------------|-----------------------|--|----------------------------------|
| | | Options 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 | 1.68 | \$ 9.76 | | 10,564 | \$ 9.76 | |
| \$ 10.07 - \$ 12.75 | 63,046 | 3.51 | \$ 11.21 | | 63,046 | \$ 11.21 | |
| \$ 15.74 - \$ 20.28 | 61,628 | 5.51 | \$ 17.69 | | 61,628 | \$ 17.69 | |
| \$ 35.17 - \$ 36.82 | 108,036 | 8.44 | \$ 35.83 | | 108,036 | \$ 35.83 | |
| \$ 9.69 - \$ 36.82 | 243,274 | 6.14 | \$ 23.72 | \$ 8,096,000 | 243,274 | \$ 23.72 | \$ 8,096,000 |

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 \$11,472,000 and \$6,781,000 for the three months ended March 31, 2008 and 2007, respectively. The actual tax benefit realized for tax deductions from stock award plans was \$4,394,000 and \$2,597,000 for the three months ended

March 31, 2008 and 2007, respectively.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(4) STOCK AWARD PLANS - (Continued)

As of March 31, 2008, there was \$3,491,000 of unrecognized compensation cost related to nonvested stock options and \$16,142,000 related to restricted stock. The stock options are expected to be recognized over a weighted average period of approximately .9 years and restricted stock over approximately 2.6 years. The total fair value of shares vested was \$8,585,000 and \$6,375,000 during the three months ended March 31, 2008 and 2007, respectively.

The weighted average fair value of options granted during the three months ended March 31, 2008 and 2007 was \$12.39 and \$10.73 per share, respectively. The fair value of the options granted during the three months ended March 31, 2008 and 2007 was \$1,964,000 and \$1,908,000, 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 during the three months ended March 31, 2008 and 2007 were as follows:

| | Three months ended March 31, | |
|---------------------------------|---------------------------------|--------------------------|
| | 2008 | 2007 |
| Dividend yield | None | None |
| Average risk-free interest rate | 2.8% | 4.8% |
| Stock price volatility | 26% | 25% |
| Estimated option term | Four or nine years | Four or nine years |

(5) COMPREHENSIVE INCOME

The Company's total comprehensive income for the three months ended March 31, 2008 and 2007 was as follows (in thousands):

| | Three months ended March 31, | |
|--|---------------------------------|-----------|
| | 2008 | 2007 |
| Net earnings | \$ 36,647 | \$ 24,422 |
| Pension and postretirement benefit adjustments, net of tax | 269 | 435 |
| Change in fair value of derivative financial instruments, net of tax | (3,908) | (481) |
| Total comprehensive income | \$ 33,008 | \$ 24,376 |

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(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.

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 ended March 31, 2008 and 2007 and total assets as of March 31, 2008 and December 31, 2007 (in thousands):

| | Three months ended March 31, | |
|-------------------------------|---------------------------------|--------------|
| | 2008 | 2007 |
| Revenues: | | |
| Marine transportation | \$ 261,228 | \$ 209,065 |
| Diesel engine services | 69,342 | 65,146 |
| | \$ 330,570 | \$ 274,211 |
| Segment profit (loss): | | |
| Marine transportation | \$ 55,516 | \$ 38,561 |
| Diesel engine services | 11,105 | 9,897 |
| Other | (7,226) | (8,876) |
| | \$ 59,395 | \$ 39,582 |
| Total assets: | | |
| | March 31, | December |
| | 2008 | 31, 2007 |
| Marine transportation | \$ 1,231,692 | \$ 1,199,869 |
| Diesel engine services | 215,973 | 213,062 |
| Other | 18,536 | 17,544 |
| | \$ 1,466,201 | \$ 1,430,475 |

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(6) SEGMENT DATA – (Continued)

The following table presents the details of “Other” segment loss for the three months ended March 31, 2008 and 2007 (in thousands):

| | Three months ended March 31, | |
|-------------------------------|---------------------------------|------------|
| | 2008 | 2007 |
| General corporate expenses | \$ (3,129) | \$ (3,073) |
| Loss on disposition of assets | (58) | (499) |
| Interest expense | (3,782) | (5,154) |
| Other expense | (257) | (150) |
| | \$ (7,226) | \$ (8,876) |

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

| | March 31, | December |
|--------------------------|-----------|-------------|
| | 2008 | 31, 2007 |
| General corporate assets | \$ 16,559 | \$ 15,623 |
| Investment in affiliates | 1,977 | 1,921 |
| | \$ 18,536 | \$ 17,544 |

(7) TAXES ON INCOME

Earnings before taxes on income and details of the provision for taxes on income for the three months ended March 31, 2008 and 2007 were as follows (in thousands):

| | Three months ended March 31, | |
|---|---------------------------------|-----------|
| | 2008 | 2007 |
| Earnings before taxes on income – United States | \$ 59,395 | \$ 39,582 |
| Provision for taxes on income: | | |
| Federal | | |
| Current | \$ 14,551 | \$ 12,496 |
| Deferred | 5,762 | 1,041 |
| State and local | 2,435 | 1,623 |
| | \$ 22,748 | \$ 15,160 |

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(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 ended March 31, 2008 and 2007 (in thousands, except per share amounts):

| | Three months ended March 31, | |
|--|---------------------------------|-----------|
| | 2008 | 2007 |
| Net earnings | \$ 36,647 | \$ 24,422 |
| Shares outstanding: | | |
| Weighted average common stock outstanding | 53,222 | 52,713 |
| Effect of dilutive securities: | | |
| Employee and director common stock plans | 829 | 878 |
| | 54,051 | 53,591 |
| Basic earnings per share of common stock | \$.69 | \$.46 |
| Diluted earnings per share of common stock | \$.68 | \$.46 |

Certain outstanding options to purchase approximately 158,000 and 178,000 shares of common stock were excluded in the computation of diluted earnings per share as of March 31, 2008 and 2007, respectively, as such stock options would have been antidilutive.

(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 \$5,000,000 and \$10,000,000 to its pension plan in December 2008 to fund its 2008 pension plan obligations. As of March 31, 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.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(9) RETIREMENT PLANS – (Continued)

The components of net periodic benefit cost for the Company's defined benefit plans for the three months ended March 31, 2008 and 2007 were as follows (in thousands):

| | Pension Benefits | | | |
|--|--------------------|----------|--------------------|-------|
| | Pension Plan | | SERP | |
| | Three months ended | | Three months ended | |
| | March 31, | | March 31, | |
| | 2008 | 2007 | 2008 | 2007 |
| Components of net periodic benefit cost: | | | | |
| Service cost | \$ 1,529 | \$ 1,491 | \$ — | \$ — |
| Interest cost | 1,916 | 1,703 | 24 | 26 |
| Expected return on plan assets | (2,022) | (1,923) | — | — |
| Amortization: | | | | |
| Actuarial loss | 476 | 740 | 3 | 5 |
| Prior service credit | (22) | (22) | — | — |
| Net periodic benefit cost | \$ 1,877 | \$ 1,989 | \$ 27 | \$ 31 |

The components of net periodic benefit cost for the Company's postretirement benefit plan for the three months ended March 31, 2008 and 2007 were as follows (in thousands):

| | Other Postretirement Benefits | |
|--|-------------------------------|--------|
| | Postretirement Welfare Plan | |
| | Three months ended March 31, | |
| | 2008 | 2007 |
| Components of net periodic benefit cost: | | |
| Service cost | \$ 122 | \$ 124 |
| Interest cost | 121 | 114 |
| Amortization: | | |
| Actuarial gain | (31) | (28) |
| Prior service credit | 10 | 10 |
| Net periodic benefit cost | \$ 222 | \$ 220 |

(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 is \$6,049,000 at March 31, 2008, including \$5,613,000 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 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

Part I Financial Information

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 first quarter of 2008 and 2007 were 54,051,000 and 53,591,000, respectively. The increase in the weighted average number of common shares for the 2008 first quarter compared with the 2007 first quarter 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 912 active tank barges, of which 43 are leased, and 260 towing vessels, of which 90 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 first quarter, the Company reported net earnings of \$36,647,000, or \$.68 per share, on revenues of \$330,570,000, compared with 2007 first quarter net earnings of \$24,422,000, or \$.46 per share, on revenues of \$274,211,000. The 2008 first quarter performance reflected continued favorable petrochemical, black oil products and agricultural chemical demand in its marine transportation segment, expected first quarter winter weather conditions and the favorable impact of higher term contract rate renewals during the 2007 year and the 2008 first quarter, as well as higher spot market pricing.

The diesel engine services segment's medium-speed market also performed at strong levels in the 2008 first quarter, while the high-speed market was, as expected, slower due to seasonal softness in the Gulf Coast oil service market. In addition, the segment benefited from higher service rates and parts pricing, continued high labor utilization and accretive earnings from the Saunders acquisition in July 2007.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Marine Transportation

For the 2008 first quarter, approximately 79% 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 quarter of 2008, products moved and the drivers of the demand for the products the Company transports:

| Markets Serviced | 2008 First Qtr. 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 first quarter increased 25% and 44%, respectively, when compared with the first quarter of 2007. The petrochemical market, the Company's largest market, contributed 66% of the marine transportation revenue for the 2008 first quarter. During the 2008 first quarter, the demand for the movement of petrochemical products and gasoline blending components 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 first quarter 2008 marine transportation revenue with demand remaining strong. Refined petroleum products contributed 10% of 2008 first quarter marine transportation revenue, experiencing seasonal softness in the movement of products from the Gulf Coast to the Midwest. The agricultural chemical market, which contributed 5% of 2008 first quarter marine transportation revenue, was unseasonably strong during the first quarter, in advance of the traditional spring planting season.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

The marine transportation segment operated an average of 260 towboats during the 2008 first quarter, 12 more than the 248 the segment operated during the 2007 first quarter. The segment 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 first quarter.

During the 2008 first quarter, 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 56% of the revenues under term contracts during the 2008 first quarter. Rates on term contract renewals, net of fuel, increased during the 2008 first quarter in the 9% to 11% average range, with some contracts increasing by a higher percentage and some by a lower percentage compared with the 2007 first quarter. 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 first quarter, spot market rates, which include the cost of fuel, increased in the 13% to 15% average rate compared with the 2007 first quarter.

During the 2008 first quarter, the Company consumed 12.8 million gallons of diesel fuel compared with 12.7 million gallons consumed during the 2007 first quarter. The average cost per gallon of diesel fuel consumed for the 2008 first quarter was \$2.71, 58% higher than the \$1.71 for the first quarter of 2007. Fuel escalation clauses are included in term contracts that allow the Company to recover increases in the cost of fuel; however, there is generally a 30 to 90 day delay before contracts are adjusted.

Navigational delays for the 2008 first quarter were 2,998 days, an increase of 15% compared with 2,600 delay days recorded in the 2007 first quarter. Delay days measure the lost time incurred by a tow (towboat and one or more barges) during transit. The measure includes transit delays caused by weather, lock congestion or closure and other navigational factors. The 15% increase reflected high water and icing issues in the Midwest, and fog and frontal systems along the Gulf Coast compared with milder winter weather conditions during the 2007 first quarter.

The marine transportation operating margin for the 2008 first quarter was 21.3% compared with 18.4% for the 2007 first quarter. Continued strong demand, 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 improved operating efficiencies from operating additional towboats contributed to the higher 2008 operating margin.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Diesel Engine Services

For the 2008 first quarter, approximately 21% 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 quarter of 2008 and the customers for each market:

| Markets Serviced | 2008 First Qtr. 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 first quarter revenue and operating income increased 6% and 12%, respectively, compared with the first quarter of 2007. The results were positively impacted from strong in-house and in-field service activity and direct parts sales in its medium-speed market, benefiting from a seasonally higher volume of work for Midwest and Great Lakes customers, and a large power generation modification project. The high-speed market, benefiting from the accretive acquisition of Saunders in July 2007, was seasonally slow due to the softness in the Gulf Coast oil service market. The segment also benefited from continued high labor utilization, and higher service rates and parts pricing implemented during 2007 and in the 2008 first quarter.

The diesel engine services segment's operating margin for the 2008 first quarter was 16.0% compared with 15.2% for the first quarter of 2007. The higher 2008 first quarter operating margin reflected the overall favorable markets, increased pricing for service and parts, and high labor utilization.

Cash Flow and Capital Expenditures

The Company continued to generate strong operating cash flow during the 2008 first quarter, with net cash provided from operations of \$61,309,000, a 30% increase when compared with net cash provided from operations for the 2007 first quarter of \$47,140,000. In addition, during the 2008 and 2007 first three months, the Company generated cash of \$2,145,000 and \$1,662,000, respectively, from the exercise of stock options. Cash and borrowings under the revolving credit facility were used for capital expenditures of \$48,753,000, including \$27,426,000 for new tank barge and towboat construction and \$21,327,000 primarily for upgrading the existing marine transportation fleet, and for purchases of the Company's common stock totaling \$3,175,000. The Company's debt-to-capitalization ratio decreased to 26.0% at March 31, 2008 from 27.9% at December 31, 2007, primarily due to the increase in stockholders' equity attributable to net earnings for the 2008 first quarter of \$36,647,000, the exercise of stock options and the issuance of restricted stock, and lower borrowings under the Company's revolving credit facility.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

The Company projects that capital expenditures for 2008 will be in the \$150,000,000 to \$160,000,000 range, including approximately \$80,000,000 for new tank barge and towboat construction. The 2008 new construction will consist of 26 barges with a total capacity of 570,000 barrels and five 1800 horsepower towboats. During the 2008 first quarter, the Company took delivery of nine new barges with a total capacity of 225,000 barrels and one 1800 horsepower towboat.

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 continued strong demand for its marine transportation segment in the 2008 second quarter with favorable contract and spot market rates. Additionally, the Company anticipates that the diesel engine services segment will continue to perform well, with strong service activity and direct parts sales.

Acquisitions

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.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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.

Results of Operations

The Company reported first quarter 2008 net earnings of \$36,647,000, or \$.68 per share, on revenues of \$330,570,000, compared with 2007 first quarter net earnings of \$24,422,000, or \$.46 per share, on revenues of \$274,211,000.

Marine transportation revenues for the 2008 first quarter were \$261,228,000, or 79% of total revenues, compared with \$209,065,000, or 76% of total revenues for the 2007 first quarter. Diesel engine services revenues for the 2008 first quarter were \$69,342,000, or 21% of total revenues, compared with \$65,146,000, or 24% of total revenues for the 2007 first quarter.

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 March 31, 2008, the Company operated 912 active inland tank barges, with a total capacity of 17.3 million barrels, compared with 913 active inland tank barges at March 31, 2007, with a total capacity of 17.3 million barrels. The Company operated an average of 260 active inland towing vessels during the 2008 first quarter compared with 248 during the first quarter of 2007. 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.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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 ended March 31, 2008 compared with the three months ended March 31, 2007 (dollars in thousands):

| | Three months ended March 31, | | |
|---------------------------------------|---------------------------------|------------|----------|
| | 2008 | 2007 | % Change |
| Marine transportation revenues | \$ 261,228 | \$ 209,065 | 25% |
| Costs and expenses: | | | |
| Costs of sales and operating expenses | 159,649 | 128,830 | 24 |
| Selling, general and administrative | 22,308 | 20,480 | 9 |
| Taxes, other than on income | 3,235 | 2,878 | 12 |
| Depreciation and amortization | 20,520 | 18,316 | 12 |
| | 205,712 | 170,504 | 21 |
| Operating income | \$ 55,516 | \$ 38,561 | 44% |
| Operating margins | 21.3% | 18.4% | |

Marine Transportation Revenues

Marine transportation revenues for the 2008 first quarter increased 25% compared with the 2007 first quarter, reflecting continued strong petrochemical, black oil products and agricultural chemical demand, the recovery of higher diesel fuel costs, the increased equipment on time charters, 2007 year and 2008 first quarter 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 first quarter remained strong as term contract customers, primarily large United States petrochemical and refining 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 during the 2008 first quarter also remained strong. Refined petroleum products demand for transportation into the Midwest during the 2008 first quarter did reflect a seasonal slowdown; however, certain equipment was transferred to the stronger petrochemical trade. Agricultural chemical demand was unseasonably strong during the 2008 first quarter in advance of the traditional spring planting season.

The marine transportation segment operated an average of 260 towboats during the 2008 first quarter, 12 more than the 248 the segment operated during the 2007 first quarter. The segment 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 first quarter.

For the first quarter of 2008, the marine transportation segment incurred 2,998 delay days, 15% more than the 2007 first quarter delay days of 2,600. The 2008 first quarter delay days reflected ice and high water conditions in the Midwest and frontal systems along the Gulf Coast compared with the 2007 first quarter which reflected milder winter weather conditions.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

During the 2008 first quarter, 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 first quarter. Time charters, which insulate the Company from revenue fluctuations caused by winter weather and navigational delays and temporary market declines, averaged 56% of the revenues under term contracts during the 2008 first quarter. 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 first quarter 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 first quarter. Spot market rates, which include fuel, for the 2008 first quarter increased in the 13% to 15% range when compared with the 2007 first quarter. 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%.

Marine Transportation Costs and Expenses

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

Costs of sales and operating expenses for the 2008 first quarter increased 24% compared with the first quarter of 2007, reflecting increased salaries and related expenses, additional expenses associated with the increased demand including additional towboats being operated, higher maintenance expenditures, and increased rates for chartered towboats. The significantly high price of diesel fuel consumed, as noted below, resulted in higher fuel costs during the 2008 first quarter. During the 2008 first quarter, the Company operated an average of 260 towboats compared with 248 during the 2007 first quarter.

During the 2008 first quarter, the Company consumed 12.8 million gallons of diesel fuel compared with 12.7 million gallons consumed during the 2007 first quarter. The average price per gallon of diesel fuel consumed during the 2008 first quarter was \$2.71, an increase of 58% compared with \$1.71 per gallon for the first quarter of 2007. Fuel escalation clauses are included in term contracts that allow the Company to recover increases in the cost of fuel; however, there is generally a 30 to 90 day delay before contracts are adjusted.

Selling, general and administrative expenses for the 2008 first quarter increased 9% compared with the 2007 first quarter, primarily the result of the January 1, 2008 salary increases and related expenses, and higher employee incentive compensation accruals.

Taxes, other than on income, increased 12% for the 2008 first quarter compared with the first quarter of 2007, primarily the reflection of higher property taxes.

Depreciation and amortization for the 2008 first quarter increased 12% compared with the 2007 first quarter. The increase was primarily attributable to increased capital expenditures, including new tank barges and towboats, and the acquisitions in 2007 of marine equipment that was previously leased.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Marine Transportation Operating Income and Operating Margins

The marine transportation operating income for the 2008 first quarter increased 44% compared with the 2007 first quarter. The operating margin was 21.3% for the 2008 first quarter compared with 18.4% for the 2007 first quarter. Continued strong demand, higher term contract and spot market pricing, the January 1, 2008 escalators on numerous multi-year contracts, operating efficiencies from operating additional towboats and the increased percentage of time charters which protects revenues from navigational and weather delays, positively impacted 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 ended March 31, 2008 compared with the three months ended March 31, 2007 (dollars in thousands):

| | Three months ended March 31, | | % Change |
|---------------------------------------|---------------------------------|-----------|----------|
| | 2008 | 2007 | |
| Diesel engine services revenues | \$ 69,342 | \$ 65,146 | 6% |
| Costs and expenses: | | | |
| Costs of sales and operating expenses | 48,697 | 46,769 | 4 |
| Selling, general and administrative | 7,832 | 7,310 | 7 |
| Taxes, other than on income | 274 | 244 | 12 |
| Depreciation and amortization | 1,434 | 926 | 55 |
| | 58,237 | 55,249 | 5 |
| Operating income | \$ 11,105 | \$ 9,897 | 12% |
| Operating margins | 16.0% | 15.2% | |

Diesel Engine Services Revenues

Diesel engine services revenues for the 2008 first quarter increased 6% compared with the first quarter of 2007, positively impacted by strong medium-speed service to upper Mississippi River and Great Lakes customers who tend to schedule maintenance during the winter months when their business levels are typically slower, and strong medium-speed power generation modification projects, partially offset by a seasonal slowdown in demand in the Gulf Coast high-speed oil service market. In addition, the segment benefited from higher service rates and parts pricing implemented in both its medium-speed and high-speed markets during 2007, as well as from the acquisition of Saunders in July 2007.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Diesel Engine Services Costs and Expenses

Costs and expenses for the 2008 first quarter increased 4% compared with the 2007 first quarter. 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 an increase in salaries and related benefit expenses effective January 1, 2008, and higher employee incentive compensation accruals. 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 first quarter increased 12% compared with the 2007 first quarter, primarily reflecting 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 quarter. The operating margin for the 2008 first quarter was 16.0% compared with 15.2% for the 2007 first quarter, primarily a reflection of increased pricing for service and parts and improved product mix.

General Corporate Expenses

General corporate expenses for the 2008 first quarter were \$3,129,000 compared with \$3,073,000 for the first quarter of 2007. The 2% increase primarily reflected increases in salaries and related expenses effective January 1, 2008 and higher employee incentive compensations accruals.

Loss on Disposition of Assets

The Company reported a net loss on disposition of assets of \$58,000 for the 2008 first quarter compared with a net loss on disposition of assets of \$499,000 for the 2007 first quarter. The net losses were predominantly from the sale of marine equipment.

Other Expenses

The following table sets forth other expense and interest expense for the three months ended March 31, 2008 compared with the three months ended March 31, 2007 (dollars in thousands):

| | Three months ended | | % Change |
|------------------|--------------------|------------|----------|
| | March 31, 2008 | 2007 | |
| Other expense | \$ (257) | \$ (150) | 71 |
| Interest expense | \$ (3,782) | \$ (5,154) | (27)% |

Interest Expense

Interest expense for the 2008 first quarter decreased 27% compared with the first quarter of 2007, the result of lower average debt levels and lower average interest rates. The average debt and average interest rate for the 2008 and 2007 first quarters, including the effect of interest rate collar and swaps, were \$282,718,000 and 5.4%, and \$353,812,000

and 5.9%, respectively.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Financial Condition, Capital Resources and Liquidity

Balance Sheet

Total assets as of March 31, 2008 were \$1,466,201,000, a 2% 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 March 31, 2008 compared with December 31, 2007 (dollars in thousands):

| | March 31, 2008 | December 31, 2007 | % Change |
|--|-------------------|-------------------------|----------|
| Assets: | | | |
| Current assets | \$ 274,944 | \$ 267,343 | 3% |
| Property and equipment, net | 935,111 | 906,098 | 3 |
| Goodwill, net | 229,292 | 229,292 | — |
| Other assets | 26,854 | 27,742 | (3) |
| | \$ 1,466,201 | \$ 1,430,475 | 2% |
| Liabilities and stockholders' equity: | | | |
| Current liabilities | \$ 195,966 | \$ 191,420 | 2% |
| Long-term debt – less current portion | 281,821 | 296,015 | (5) |
| Deferred income taxes | 132,867 | 130,899 | 2 |
| Minority interests and other long-term liabilities | 48,112 | 42,311 | 14 |
| Stockholders' equity | 807,435 | 769,830 | 5 |
| | \$ 1,466,201 | \$ 1,430,475 | 2% |

Current assets as of March 31, 2008 increased 3% compared with December 31, 2007, primarily reflecting a 6% 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 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 March 31, 2008 increased 3% compared with December 31, 2007. The increase reflected \$48,753,000 of capital expenditures for the 2008 first quarter, more fully described under Capital Expenditures below, the fair value of the ORIX acquisition of \$1,800,000, less \$21,440,000 of depreciation expense for the first three months of 2008 and \$100,000 of property disposals during the 2008 first quarter.

Current liabilities as of March 31, 2008 increased 2% compared with December 31, 2007. Income taxes payable increased 127% primarily reflecting the current federal tax provision for the 2008 first quarter, with the first 2008 federal quarterly tax payment not due until April 2008. Accrued liabilities decreased 11%, primarily from the payment during the 2008 first quarter of employee incentive compensation bonuses accrued during 2007, partially offset by increased marine and medical insurance claims.

Long-term debt, less current portion, as of March 31, 2008 decreased 5% compared with December 31, 2007. During the 2008 first quarter, the Company had net cash provided by operating activities of \$61,309,000 and proceeds from the exercise of stock options of \$2,145,000, partially offset by capital expenditures of \$48,753,000, and spent \$1,800,000 on the ORIX acquisition of six inland tank barges and treasury stock purchases of \$3,175,000.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Deferred income taxes as of March 31, 2008 increased 2% compared with December 31, 2007, primarily due to the 2008 first quarter deferred tax provision of \$5,762,000, partially offset by the recording of a deferred tax asset related to the Company's equity compensation plans and additional deferred tax assets related to the unrealized losses on the fair value of the Company's interest rate swaps and collar. 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 March 31, 2008 increased 5% compared with December 31, 2007. The increase was the result of \$36,647,000 of net earnings for the first three months of 2008, an increase in additional paid-in capital of \$3,280,000, a \$1,317,000 decrease in treasury stock and a decrease of \$3,639,000 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 decrease 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.

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 March 31, 2008, the Company had \$80,900,000 of borrowings outstanding under the Revolving Credit Facility. The average borrowing under the Revolving Credit Facility during the 2008 first quarter was \$80,389,000, computed by averaging the daily balance, and the weighted average interest rate was 4.4%, 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 March 31, 2008. The Company was in compliance with all Revolving Credit Facility covenants as of March 31, 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 March 31, 2008, \$200,000,000 was outstanding under the 2005 Senior Notes and the average interest rate was 4.9%. The Company was in compliance with all 2005 Senior Notes covenants at March 31, 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, 2008. 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 March 31, 2008. Outstanding letters of credit under the Credit Line were \$659,000 as of March 31, 2008.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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 March 31, 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 March 31, 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 March 31, 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.

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 quarters. At March 31, 2008, the fair value of the interest rate collar and swap agreements was \$12,501,000, of which \$684,000 was recorded as other accrued liabilities for the collar maturing within the next twelve months and \$11,817,000 was recorded as other long-term liabilities, for swap maturities greater than twelve months. At March 31, 2007, the fair value of the interest rate collar and swap agreements was \$1,846,000, of which \$940,000 was recorded as other assets and \$2,786,000 was recorded as other long-term liabilities, 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 \$283,000 and \$151,000 for the

three months ended March 31, 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 \$2,688,000 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 determined as of March 31, 2008 and 2007 based on quoted prices of the Company's portfolio of derivative instruments.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Capital Expenditures

Capital expenditures for the 2008 first quarter were \$48,753,000, of which \$27,426,000 was for construction of new tank barges and towboats, and \$21,327,000 was primarily for upgrading of the existing marine transportation fleet. Capital expenditures for the 2007 first quarter were \$53,649,000, of which \$31,413,000 was for construction of new tank barges and towboats, and \$22,236,000 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.

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 | 225,000 | 1.4 | 9.9 | 1.6 | 15.3 Est. | — | 85 | 140 | — |
| June 2006 | 2 | 21,000 | 1.8 | .9 | — | 2.7 | — | 21 | — | — |
| October 2006 | 6 | 65,000 | 1.7 | 6.2 | .4 | 8.3 | — | 44 | 21 | — |
| February 2007 | 1 | 19,000 | — | 2.9 | — | 2.9 | — | 19 | — | — |
| February 2007 | 12 | 336,000 | — | — | 20.5 | 36.0 Est. | — | — | 336 | — |
| August 2007 | 6 | 63,000 | — | 2.2 | 2.5 | 10.0 Est. | — | — | 63 | — |
| December 2007 | 2 | 21,000 | — | — | .3 | 3.1 Est. | — | — | 10 | 11 |
| January 2008 | 14 | 322,000 | — | — | — | 37.7 Est. | — | — | — | 322 |

* Based on current or expected construction schedule

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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 | 1.3 | 14.2 | Est. | — | 1 | 3 | — | |
| Mar. 2007 | 4 | 1800 | Canal | — | 1.2 | .6 | 14.2 | Est. | — | — | 2 | 2 | |
| June 2007 | 2 | 1800 | Canal | — | .3 | .1 | 7.1 | Est. | — | — | — | 2 | |
| Aug. 2007 | 2 | 1800 | Canal | — | .1 | .1 | 7.1 | Est. | — | — | — | 2 | |

* 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.

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 May 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 \$61,309,000 during the three months ended March 31, 2008, 30% higher than the \$47,140,000 generated during the three months ended March 31, 2007. The 2008 first quarter experienced a net decrease in cash flows from changes in operating assets and liabilities versus a net increase in the 2007 first quarter 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 quarter and larger incentive compensation payments in 2008 versus 2007.

Funds generated are available 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 April 30, 2008, \$161,506,000 under its Revolving Credit Facility and \$121,000,000 under its shelf registration program, subject to mutual agreement on terms, and \$4,341,000 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.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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 is \$6,049,000 at March 31, 2008, including \$5,613,000 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.

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

Part I Financial Information

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 March 31, 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.

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 quarters. At March 31, 2008, the fair value of the interest rate collar and swap agreements was \$12,501,000, of which \$684,000 was recorded as other accrued liabilities for the collar maturing within the next twelve months and \$11,817,000 was recorded as other long-term liabilities, for swap maturities greater than twelve months. At March 31, 2007, the fair value of the interest rate collar and swap agreements was \$1,846,000, of which \$940,000 was recorded as other assets and \$2,786,000 was recorded as other long-term liabilities, 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 \$283,000 and \$151,000 for the three months ended March 31, 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 \$2,688,000 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 determined as of March 31, 2008 and 2007 based on quoted prices of 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 13(a) - 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 4. Results of Votes of Security Holders

The Company held its Annual Meeting of Stockholders on April 22, 2008, at which the stockholders voted on the following matters:

- a) Class I Directors elected to serve until the 2011 Annual Meeting of Stockholders are James R. Clark, David L. Lemmon, George A. Peterkin, Jr. and Richard R. Stewart. Class II Directors continuing to serve until the 2009 Annual Meeting of Stockholders are Bob G. Gower, Monte J. Miller and Joseph H. Pyne. Class III Directors continuing to serve until the 2010 Annual Meeting of Stockholders are C. Sean Day, William M. Lamont, Jr. and C. Berdon Lawrence.

The number of for, against and abstain votes with respect to the election of the Class I Directors was as follows:

| | | | |
|-------------------------|----------------|--------------------|----------------|
| James R. Clark | For 49,100,893 | Against 696,602 | Abstain 17,033 |
| David L. Lemmon | For 49,097,089 | Against 701,071 | Abstain 16,368 |
| George A. Peterkin, Jr. | For 35,123,853 | Against 14,666,088 | Abstain 24,587 |
| Richard R. Stewart | For 49,100,113 | Against 698,347 | Abstain 16,068 |

- b) A proposal to approve amendments to the Company's 2005 Stock and Incentive Plan to (1) increase the number of shares of the Company's common stock 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 plan during any calendar year from \$2,000,000 to \$3,000,000. The number of for, against and abstain votes with respect to the matter was as follows:

| | |
|---------|------------|
| For | 42,108,311 |
| Against | 2,998,839 |
| Abstain | 31,655 |
| Non | 4,675,723 |
| votes | |

- c) A proposal to approve an amendment to the Company's 2000 Nonemployee Director Stock Option Plan to increase the number of shares that may be issued under the plan from 600,000 to 1,000,000 shares. The number of for, against and abstain votes with respect to the matter was as follows:

| | |
|---------|------------|
| For | 42,558,107 |
| Against | 2,535,202 |
| Abstain | 45,496 |
| Non | 4,675,723 |
| votes | |

- d) A proposal to ratify the Audit Committee's selection of KPMG LLP as the Company's independent registered public accounting firm for 2008. The number of for, against and abstain votes with respect to the matter was as follows:

| | |
|---------|------------|
| For | 48,794,716 |
| Against | 1,008,018 |
| Abstain | 11,794 |

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES
PART II - OTHER INFORMATION

Item 6. Exhibits

10.1† – Nonemployee Director Compensation Program

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).

† Management contract, compensatory plan or arrangement

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: May 1, 2008