KIRBY CORP
Form 10-Q
November 02, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x	**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
	For the quarterly period ended September 30, 2007
¨	**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number	**1-7615**

KIRBY CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**74-1884980**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
55 Waugh Drive, Suite 1000, Houston, TX	**77007**
(Address of principal executive offices)	(Zip Code)

(713) 435-1000

(Registrant's telephone number, including area code)

No Change

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

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

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

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

The number of shares outstanding of the registrant's Common Stock, $.10 par value per share, on November 2, 2007 was 53,478,000.

Part I Financial Information

Item 1. Financial Statements

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS
(Unaudited)

ASSETS

	September 30, 2007	December 31, 2006
	($ in thousands)	
Current assets:		
Cash and cash equivalents	$ 3,930	$ 2,653
Accounts receivable:		
Trade – less allowance for doubtful accounts	183,998	162,809
Other	8,957	20,850
Inventory – finished goods	47,207	41,777
Prepaid expenses and other current assets	17,011	16,426
Deferred income taxes	5,183	5,077
Total current assets	266,286	249,592
Property and equipment	1,444,658	1,280,680
Less accumulated depreciation	564,419	514,074
	880,239	766,606
Investment in marine affiliates	1,881	2,264
Goodwill – net	229,119	223,432
Other assets	29,750	29,225
	$ 1,407,275	$ 1,271,119

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2007	December 31, 2006
	($ in thousands)	
Current liabilities:		
Current portion of long-term debt	$ 1,018	$ 844
Income taxes payable	9,915	3,016
Accounts payable	90,650	88,213
Accrued liabilities	67,154	69,782
Deferred revenues	4,437	5,012
Total current liabilities	173,174	166,867
Long-term debt – less current portion	332,714	309,518
Deferred income taxes	128,229	125,943
Minority interests	2,893	3,018
Other long-term liabilities	38,024	33,778
	501,860	472,257
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	210,443	208,032
Accumulated other comprehensive income - net	(22,654)	(23,087)
Retained earnings	613,340	524,351
	806,863	715,030
Less cost of 3,888,000 shares in treasury (4,354,000 at December 31, 2006)	74,622	83,035
	732,241	631,995
	$ 1,407,275	$ 1,271,119

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENT OF EARNINGS
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006 As Adjusted	2007	2006 As Adjusted
	($ in thousands, except per share amounts)			
Revenues:				
Marine transportation	$ 241,329	$ 211,080	$ 680,139	$ 604,551
Diesel engine services	61,227	53,532	184,636	128,256
	302,556	264,612	864,775	732,807
Costs and expenses:				
Costs of sales and operating expenses	186,338	169,003	542,545	470,587
Selling, general and administrative	31,313	29,321	91,287	79,600
Taxes, other than on income	3,237	3,289	9,626	9,879
Depreciation and amortization	20,407	16,689	60,274	47,294
Loss (gain) on disposition of assets	(30)	(255)	531	(1,197)
	241,265	218,047	704,263	606,163
Operating income	61,291	46,565	160,512	126,644
Equity in earnings of marine affiliates	22	88	225	641
Other expense	(274)	(389)	(682)	(457)
Interest expense	(5,236)	(4,503)	(15,826)	(10,505)
Earnings before taxes on income	55,803	41,761	144,229	116,323
Provision for taxes on income	(21,373)	(15,911)	(55,240)	(44,319)
Net earnings	$ 34,430	$ 25,850	$ 88,989	$ 72,004
Net earnings per share of common stock:				
Basic	$ .65	$ .49	$ 1.68	$ 1.37
Diluted	$ .64	$ .48	$ 1.66	$ 1.35

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
	2007	**2006 As Adjusted**
	($ in thousands)	
Cash flows from operating activities:		
Net earnings	$ 88,989	$ 72,004
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation and amortization	60,274	47,294
Deferred income taxes	690	(2,935)
Loss (gain) on disposition of assets	531	(1,197)
Equity in earnings of marine affiliates, net of distributions	435	(641)
Amortization of unearned compensation	4,823	5,440
Other	743	452
Decrease in cash flows resulting from changes in operating assets and liabilities, net	(647)	(17,216)
Net cash provided by operating activities	155,838	103,201
Cash flows from investing activities:		
Capital expenditures	(123,027)	(110,114)
Acquisitions of businesses and marine equipment, net of cash acquired	(61,766)	(139,425)
Proceeds from disposition of assets	813	2,654
Other	(51)	(7,313)
Net cash used in investing activities	(184,031)	(254,198)
Cash flows from financing activities:		
Borrowings on bank credit facilities, net	23,250	123,900
Payments on long-term debt, net	(212)	(72)
Proceeds from exercise of stock options	4,706	12,108
Purchase of treasury stock	—	(4,789)
Tax benefit from equity compensation plans	2,422	5,304
Other	(696)	826
Net cash provided by financing activities	29,470	137,277
Increase (decrease) in cash and cash equivalents	1,277	(13,720)
Cash and cash equivalents, beginning of year	2,653	17,838
Cash and cash equivalents, end of period	$ 3,930	$ 4,118
Supplemental disclosures of cash flow information:		
Cash paid during the period:		
Interest	$ 15,614	$ 10,272
Income taxes	$ 42,892	$ 43,040
Non-cash investing activity:		
Disposition of assets for note receivables	$ —	$ 1,310
Cash acquired in acquisitions	$ 10	$ 2,790
Debt assumed in acquisitions	$ 245	$ 2,625
Accrued payable for working capital adjustment related to acquisition	$ 869	$

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 September 30, 2007 and December 31, 2006, and the results of operations for the three months and nine months ended September 30, 2007 and 2006.

(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, 2006.

On April 25, 2006, the Board of Directors declared a two-for-one stock split of the Company’s common stock. Stockholders of record on May 10, 2006 received one additional share of common stock for each share of common stock held on that day, with a distribution date of May 31, 2006. All references to number of shares and per share information in the accompanying unaudited condensed financial statements have been adjusted to reflect the stock split.

(2) ACCOUNTING ADOPTIONS

Accounting for Planned Major Maintenance Activities

Effective January 1, 2007, the Company transitioned to the direct expense method of accounting for planned major maintenance on its marine transportation equipment. Previously, the Company used the accrue-in-advance method of accounting for planned major maintenance activities in its interim reporting periods. Issued in September 2006, Financial Accounting Standards Board (“FASB”) Staff Position No. AUG AIR-1, “Accounting for Planned Major Maintenance Activities” prohibits the accrue-in-advance method in interim and annual financial reporting periods because an obligation has not occurred and therefore a liability should not be recognized. This change was applied retrospectively for all consolidated financial statements presented. The change had no impact on the annual consolidated financial statements but did result in the adjustment of prior year interim unaudited condensed financial statements. The effect of adopting AUG AIR-1 on individual line items in the condensed statement of earnings for the three months and nine months ended September 30, 2006 is as follows (in thousands, except per share amounts):

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(2) ACCOUNTING ADOPTIONS – (Continued)

	Three months ended September 30, 2006			Nine months ended September 30, 2006		
	Before AUG AIR-1 Adoption	Adjust- ments	After AUG AIR-1 Adoption	Before AUG AIR-1 Adoption	Adjust- ments	After AUG AIR-1 Adoption
Costs of sales and operating expenses	$ 169,407	$ (404)	$ 169,003	$ 471,380	$ (793)	$ 470,587
Total costs and expenses	218,451	(404)	218,047	606,956	(793)	606,163
Operating income	46,161	404	46,565	125,851	793	126,644
Earnings before taxes on income	41,357	404	41,761	115,530	793	116,323
Provision for taxes on income	(15,757)	(154)	(15,911)	(44,017)	(302)	(44,319)
Net earnings	$ 25,600	$ 250	$ 25,850	$ 71,513	$ 491	$ 72,004
Net earnings per share of common stock:						
Basic	$ .49	$	$ .49	$ 1.36	$ .01	$ 1.37
Diluted	$ .48	$	$ .48	$ 1.34	$ .01	$ 1.35

The effect of adopting AUG AIR-1 on individual line items in the condensed statement of cash flows for the nine months ended September 30, 2006 is as follows (in thousands):

	Nine months ended September 30, 2006		
	Before AUG AIR-1 Adoption	Adjustments	After AUG AIR-1 Adoption
Net earnings	$ 71,513	$ 491	$ 72,004
Decrease in cash flows resulting from changes in operating assets and liabilities, net	(16,725)	(491)	(17,216)

Accounting for Uncertainty in Income Taxes

In June 2006, FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN No. 48") was issued. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's consolidated financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN No. 48 effective January 1, 2007 with no effect on the Company's financial position or results of operations.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(2) ACCOUNTING ADOPTIONS – (Continued)

As of January 1, 2007, the Company has provided a liability of approximately $3,400,000 for unrecognized tax benefits related to various income tax issues which includes approximately $1,300,000 of interest and penalties. The amount that would impact the Company's effective tax rate, if recognized, is $2,200,000, with the difference between the total amount of unrecognized tax benefits and the amount that would impact the effective tax rate being primarily related to the federal tax benefit of state income tax items. The Company accounts for interest and penalties related to uncertain tax positions as part of its provision for federal and state income taxes.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the 2002 through 2006 tax years. The Company's and its subsidiaries' state income tax returns are open to audit under the statute of limitations for the 2000 through 2006 tax years. It is not reasonably possible to determine if the liability for unrecognized tax benefits will significantly change prior to September 30, 2008 due to the uncertainty of possible examination results.

(3) ACQUISITIONS

On July 20, 2007, the Company purchased substantially all of the assets of Saunders Engine and Equipment Company, Inc. ("Saunders") for $12,369,000 in cash, subject to post-closing inventory and other adjustments, 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 and Detroit Diesel 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, subject to post-closing inventory adjustments. P&S was a Gulf Coast high-speed diesel engine services provider operating as a factory-authorized marine dealer for Caterpillar in Louisiana.

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

On January 3, 2007, the Company purchased the stock of Coastal Towing, Inc. ("Coastal"), the owner of 37 inland tank barges, for $19,474,000 in cash, subject to post-closing working capital adjustments. 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 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 The Dow Chemical Company ("Dow").

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(3) ACQUISITIONS– (Continued)

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

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

On July 21, 2006, the Company purchased the assets of Marine Engine Specialists, Inc. ("MES") for $6,863,000 in cash. MES was a Gulf Coast high-speed diesel engine services provider, operating a factory-authorized full service dealership for John Deere, as well as a service provider for Detroit Diesel.

On June 7, 2006, the Company purchased the stock of Global Power Holding Company, a privately held company that owned all of the outstanding equity of Global Power Systems, L.L.C. ("Global"). The Company purchased Global for an aggregate consideration of $101,720,000, consisting of $98,657,000 in cash, the assumption of $2,625,000 of debt and $438,000 of merger costs. Global was a Gulf Coast high-speed diesel engine services provider, operating factory-authorized marine market dealerships for Cummins, Detroit Diesel and John Deere high-speed diesel engines, and Allison transmissions, as well as an authorized marine dealer for Caterpillar in Louisiana. As a result of the acquisition, the Company recorded $55,705,000 of goodwill and $16,292,000 of intangibles. The intangibles have a weighted average amortization period of approximately 16 years.

On April 5, 2006, the Company purchased Gulf Coast Fire & Safety Service Co. ("Gulf Coast Fire & Safety") for $1,008,000 in cash. Gulf Coast Fire & Safety provided sales and rental of equipment and various technical services related to fire suppression and protection, and is part of Kirby Logistics Management Division ("KLM"), the Company's shore tankering and in-plant operations group. During the 2007 first quarter, the Company ended its third party fire suppression and protection operations and will provide internal services exclusively.

On March 1, 2006, the Company purchased from Progress Fuels Corporation ("PFC") the remaining 65% interest in Dixie Fuels Limited ("Dixie Fuels") for $15,818,000 in cash. The Dixie Fuels partnership, formed in 1977, was 65% owned by PFC and 35% owned by the Company. As part of the transaction, the Company extended the expiration date of its marine transportation contract with PFC from 2008 to 2010.

Effective January 1, 2006, the Company acquired an additional one-third interest in Osprey Line, L.L.C. ("Osprey"), increasing the Company's ownership to a two-thirds interest. Osprey, formed in 2000, operates a barge feeder service for cargo containers between Houston, New Orleans and Baton Rouge, as well as several ports located above Baton Rouge on the Mississippi River.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(3) ACQUISITIONS– (Continued)

Pro forma results of the acquisitions made in 2006 and 2007 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– (Continued)

The Company has share-based compensation plans which are described below. The compensation cost that has been charged against earnings for the Company's stock award plans and the income tax benefit recognized in the statement of earnings for stock awards for the three months and nine months ended September 30, 2007 and 2006 were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	**2006**	**2007**	**2006**
Compensation cost	$ 1,838	$ 2,110	$ 4,823	$ 5,440
Income tax benefit	704	804	1,847	2,073

Compensation cost capitalized as part of inventory is considered immaterial.

The Company has six employee stock award plans for selected officers and other key employees which provide for the issuance of stock options and restricted stock. 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 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 September 30, 2007, 1,490,318 shares were available for future grants under the employee plans and no outstanding stock options under the employee plans were issued with stock appreciation rights.

The following is a summary of the stock award activity under the employee plans described above for the nine months ended September 30, 2007:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
Outstanding December 31, 2006	1,072,317	$ 18.80
Granted	350,980	$ 35.69
Exercised	(420,671)	$ 15.11
Canceled or expired	(668)	$ 16.96
Outstanding September 30, 2007	1,001,958	$ 22.71

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(4) STOCK AWARD PLANS– (Continued)

The following table summarizes information about the Company's outstanding and exercisable stock options under the employee plans at September 30, 2007:

		Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	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	38,000	1.30	$ 8.95		38,000	$ 8.95	
$ 12.78 - $16.96	383,648	1.09	$ 16.01		383,648	$ 16.01	
$ 20.89 - $22.05	189,668	2.40	$ 21.84		119,196	$ 21.86	
$ 25.69 - $27.60	212,876	3.37	$ 27.20		67,264	$ 27.18	
$ 35.66 - $36.94	177,766	4.33	$ 35.69		—	—	
$ 8.95 - $36.94	1,001,958	2.42	$ 22.71	$ 21,469,000	608,108	$ 17.95	$ 15,927,000

The Company has three director stock award plans for nonemployee directors of the Company which provide for the issuance of stock options and restricted stock. No additional options can be granted under two of the plans. The third plan, 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 September 30, 2007, 121,562 shares were available for future grants under the nonemployee director plans. The director stock award plans are intended as an incentive to attract and retain qualified and competent independent directors.

The following is a summary of the stock award activity under the director plans described above for the nine months ended September 30, 2007:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
Outstanding December 31, 2006	343,316	$ 17.81
Granted	52,128	$ 36.82
Exercised	(81,102)	$ 13.63
Outstanding September 30, 2007	314,342	$ 21.29

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(4) STOCK AWARD PLANS– (Continued)

The following table summarizes information about the Company's outstanding and exercisable stock options under the director plans at September 30, 2007:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregated Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregated Intrinsic Value
\$ 9.69 - \$ 9.94	28,128	1.58	\$ 9.83		28,128	\$ 9.83	
\$ 10.07 - \$12.75	94,736	3.88	\$ 11.31		94,736	\$ 11.31	
\$ 15.74 - \$20.28	83,442	6.00	\$ 17.66		83,442	\$ 17.66	
\$ 35.17 - \$36.82	108,036	8.96	\$ 35.83		66,036	\$ 35.20	
\$ 9.69 - \$36.82	314,342	5.97	\$ 21.29	\$ 7,182,000	272,342	\$ 18.90	\$ 6,875,000

The total intrinsic value of all options exercised and restricted stock vestings under all of the Company's plans was \$11,742,000 and \$20,595,000 for the nine months ended September 30, 2007 and 2006, respectively. The actual tax benefit realized for tax deductions from stock award plans was \$4,497,000 and \$7,847,000 for the nine months ended September 30, 2007 and 2006, respectively.

As of September 30, 2007, there was \$2,606,000 of unrecognized compensation cost related to nonvested stock options and \$11,294,000 related to restricted stock. The stock options are expected to be recognized over a weighted average period of approximately 0.9 years and restricted stock over approximately 2.4 years. The total fair value of shares vested was \$6,427,000 and \$5,317,000 during the nine months ended September 30, 2007 and 2006, respectively.

The weighted average fair value of options granted during the nine months ended September 30, 2007 and 2006 was \$11.85 and \$10.18 per share, respectively. The fair value of the options granted during the nine months ended September 30, 2007 and 2006 was \$2,604,000 and \$2,945,000, 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 nine months ended September 30, 2007 and 2006 were as follows:

	Nine months ended September 30,	
	2007	2006
Dividend yield	None	None
Average risk-free interest rate	4.6%	4.9%
Stock price volatility	25%	25%
Estimated option term	Four or nine years	Four or nine years

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(5) COMPREHENSIVE INCOME

The Company's total comprehensive income for the three months and nine months ended September 30, 2007 and 2006 was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006 As Adjusted	2007	2006 As Adjusted
Net earnings	$ 34,430	$ 25,850	$ 88,989	$ 72,004
Pension and postretirement benefit adjustments, net of taxes	375		1,420	
Change in fair value of derivative financial instruments, net of taxes	(2,350)	(2,483)	(987)	786
Total comprehensive income	$ 32,455	$ 23,367	$ 89,422	$ 72,790

(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.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(6) SEGMENT DATA – (Continued)

The following table sets forth the Company's revenues and profit or loss by reportable segment for the three months and nine months ended September 30, 2007 and 2006 and total assets as of September 30, 2007 and December 31, 2006 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006 As Adjusted	2007	2006 As Adjusted
Revenues:				
Marine transportation	$ 241,329	$ 211,080	$ 680,139	$ 604,551
Diesel engine services	61,227	53,532	184,636	128,256
	$ 302,556	$ 264,612	$ 864,775	$ 732,807
Segment profit (loss):				
Marine transportation	$ 55,213	$ 41,317	$ 141,943	$ 114,645
Diesel engine services	9,475	8,192	28,696	19,832
Other	(8,885)	(7,748)	(26,410)	(18,154)
	$ 55,803	$ 41,761	$ 144,229	$ 116,323

	September 30, 2007	December 31, 2006
Total assets:		
Marine transportation	$ 1,173,100	$ 1,047,264
Diesel engine services	217,145	205,281
Other	17,030	18,574
	$ 1,407,275	$ 1,271,119

The following table presents the details of "Other" segment profit (loss) for the three months and nine months ended September 30, 2007 and 2006 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
General corporate expenses	$ (3,427)	$ (3,199)	$ (9,596)	$ (9,030)
Gain (loss) on disposition of assets	30	255	(531)	1,197
Interest expense	(5,236)	(4,503)	(15,826)	(10,505)
Equity in earnings of marine affiliates	22	88	225	641
Other expense	(274)	(389)	(682)	(457)
	$ (8,885)	$ (7,748)	$ (26,410)	$ (18,154)

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(6) SEGMENT DATA – (Continued)

The following table presents the details of "Other" total assets as of September 30, 2007 and December 31, 2006 (in thousands):

	September 30, 2007	December 31, 2006
General corporate assets	$ 15,149	$ 16,310
Investment in marine affiliates	1,881	2,264
	$ 17,030	$ 18,574

(7) TAXES ON INCOME

Earnings before taxes on income and details of the provision (credit) for taxes on income for the three months and nine months ended September 30, 2007 and 2006 were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006 As Adjusted	2007	2006 As Adjusted
Earnings before taxes on income – United States	$ 55,803	$ 41,761	$ 144,229	$ 116,323
Provision (credit) for taxes on income:				
Federal				
Current	$ 20,652	$ 16,826	$ 48,636	$ 42,585
Deferred	(1,567)	(2,502)	690	(2,686)
State and local	2,288	1,587	5,914	4,420
	$ 21,373	$ 15,911	$ 55,240	$ 44,319

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 and nine months ended September 30, 2007 and 2006 (in thousands, except per share amounts):

	Three months ended September 30, 2007	Three months ended September 30, 2006 As Adjusted	Nine months ended September 30, 2007	Nine months ended September 30, 2006 As Adjusted
Net earnings	$ 34,430	$ 25,850	$ 88,989	$ 72,004
Shares outstanding:				
Weighted average common stock outstanding	52,983	52,587	52,892	52,400
Effect of dilutive securities:				
Employee and director common stock plans	819	805	817	869
	53,802	53,392	53,709	53,269
Basic earnings per share of common stock	$ .65	$ .49	$ 1.68	$ 1.37
Diluted earnings per share of common stock	$ .64	$ .48	$ 1.66	$ 1.35

Certain outstanding options to purchase approximately 178,000 and 195,000 shares of common stock were excluded in the computation of diluted earnings per share as of September 30, 2007 and 2006, 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 consists 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 up to $5,000,000 to its pension plan in December 2007 to fund its 2007 pension plan obligations. As of September 30, 2007, no 2007 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 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.

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 and nine months ended September 30, 2007 and 2006 were as follows (in thousands):

	Pension Benefits			
	Pension Plan Three months ended September 30,		SERP Three months ended September 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost:				
Service cost	$ 1,498	$ 1,476	$ —	$ —
Interest cost	1,701	1,601	22	27
Expected return on plan assets	(1,923)	(1,835)	—	—
Amortization:				
Actuarial loss	646	952	3	6
Prior service credit	(22)	(22)	—	—
Net periodic benefit cost	$ 1,900	$ 2,172	$ 25	$ 33

	Pension Benefits			
	Pension Plan Nine months ended September 30,		SERP Nine months ended September 30,	
	2007	2006	2007	2006
Components of net periodic benefit cost:				
Service cost	$ 4,495	$ 4,171	$ —	$ —
Interest cost	5,104	4,551	70	76
Expected return on plan assets	(5,770)	(5,521)	—	—
Amortization:				
Actuarial loss	1,938	2,467	10	16
Prior service credit	(67)	(67)	—	—
Net periodic benefit cost	$ 5,700	$ 5,601	$ 80	$ 92

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 postretirement benefit plan for the three months and nine months ended September 30, 2007 and 2006 were as follows (in thousands):

	Other Postretirement Benefits Postretirement Welfare Plan Three months ended September 30, 2007	2006	Other Postretirement Benefits Postretirement Welfare Plan Nine months ended September 30, 2007	2006
Components of net periodic benefit cost:				
Service cost	$ 126	$ 116	$ 379	$ 313
Interest cost	105	84	318	304
Amortization:				
Actuarial gain	(28)	(57)	(86)	(79)
Prior service credit	10	10	30	30
Net periodic benefit cost	$ 213	$ 153	$ 641	$ 568

(10) CONTINGENCIES

The Company has issued guaranties or obtained stand-by 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 $6,228,000 at September 30, 2007, including $5,101,000 in letters of credit and debt guarantees, and $1,127,000 in performance bonds, of which $683,000 relates to contingent legal obligations which are covered by the Company's liability insurance program in the event the obligations are incurred. 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.

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 ("CERCLA") 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 which is now complete. During the 2007 third quarter, five new PRP's entered into an agreement with the EPA in regards to the Palmer site. The Company believes it has no further material exposure with respect to this site.

In 2004, the Company and certain subsidiaries received a Request For Information ("RFI") from the EPA under CERCLA with respect to a Superfund site, the State Marine site, located in Port Arthur, Texas. An RFI is not a determination that a party is responsible or potentially responsible for contamination at a site, but is only a request seeking any information a party may have with respect to a site as part of an EPA investigation into such site. In July

2005, a subsidiary of the Company received a notification of potential responsibility from the EPA and a request for voluntary participation in funding potential remediation activities at the SBA Shipyards, Inc. ("SBA") property located in Jennings, Louisiana. In prior years, SBA had provided tank barge cleaning services to the subsidiary. In July 2006, the Company received a RFI from the United States Department of Agriculture – Forest Service under CERCLA with respect to a former mine site in South Dakota. Based on information currently available, the Company is unable to ascertain the extent of its exposure, if any, in these matters.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(10) CONTINGENCIES – (Continued)

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.

(11) Subsequent Event

On October 1, 2007, the Company purchased nine 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 Dow.

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," or "continu 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, 2006. Forward-looking statements are based on currently available information and the Company assumes no obligation to update any such statements.

On April 25, 2006, the Board of Directors declared a two-for-one stock split of the Company's common stock. Stockholders of record on May 10, 2006 received one additional share of common stock for each share of common stock held on that day, with a distribution date of May 31, 2006. All references to number of shares and per share information in this discussion have been adjusted to reflect the stock split.

For purposes of the Management's Discussion, all earnings per share are "Diluted earnings per share." The weighted average number of common shares applicable to diluted earnings per share for the three months and nine months ended September 30, 2007 and 2006 were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Weighted average number of common stock-diluted	53,802	53,392	53,709	53,269

The increase in the weighted average number of common shares for both 2007 periods compared with the 2006 periods primarily reflected the issuance of restricted stock and the exercise of stock options, partially offset by common stock repurchases in the third quarter of 2006.

Overview

The Company is the nation's largest domestic inland tank barge operator with a fleet of 913 active tank barges, of which 49 are leased, and 255 towing vessels, of which 90 are chartered. The Company uses the inland waterway system of the United States 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 is engaged in the overhaul and repair of medium-speed and high-speed diesel engines and reduction gears, and related parts sales for engines used in marine, power generation and railroad applications.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

For the 2007 third quarter, the Company reported net earnings of $34,430,000, or $.64 per share, on revenues of $302,556,000, compared with 2006 third quarter net earnings of $25,850,000, or $.48 per share, on revenues of $264,612,000. For the first nine months of 2007, the Company reported net earnings of $88,989,000, or $1.66 per share, on revenues of $864,775,000, compared with 2006 first nine months net earnings of $72,004,000, or $1.35 per share, on revenues of $732,807,000. The marine transportation segment's performance in the 2007 third quarter and first nine months reflected continued strong petrochemical, black oil products and refined products demand, the favorable impact of contract rate increases and higher spot market prices, operating efficiencies from additional horsepower, and typical weather and water levels. The 2007 second and third quarters also benefited from strong agricultural chemical demand.

The diesel engine services segment was also a strong performer in the 2007 third quarter and first nine months, reflecting the accretive acquisitions of Global in June 2006, MES in July 2006, P&S in February 2007 and Saunders in July 2007, as well as continued strong in-house and in-field service activity and direct parts sales in its marine, power generation and railroad markets. In addition, the segment benefited from higher service rates and parts pricing implemented during 2006 and in the 2007 first nine months, and continued high labor utilization.

Marine Transportation

For the 2007 third quarter and first nine months, approximately 80% and 79%, respectively, of the Company's revenue was generated by its marine transportation segment. The segment's customers include many of the major petrochemical and refining companies 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 the performance of 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 nine months of 2007, products moved and the drivers of the demand for the products the Company transports:

Markets Serviced	2007 Nine Months Revenue Distribution	Products Moved	Drivers
Petrochemicals	66%	Benzene, Styrene, Methanol, Acrylonitrile, Xylene, Caustic Soda, Butadiene, Propylene	Housing, Consumer Goods, Clothing, Automobiles
Black Oil Products	19%	Residual Fuel Oil, No. 6 Fuel Oil, Coker Feedstocks, Vacuum Gas Oil, Asphalt, Boiler Fuel, Crude Oil, Ship Bunkers	Road Construction, Feedstock for Refineries, Fuel for Power Plants and Ships
Refined Petroleum Products	11%	Gasoline Blends, No. 2 Oil, Jet Fuel, Heating Oil, Naphtha	Vehicle Usage, Air Travel, Weather Conditions, Refinery Utilization
Agricultural Chemicals	4%	Anhydrous Ammonia, Nitrogen-Based Liquid Fertilizer, Industrial Ammonia	Corn, Cotton and Wheat Production, Chemical Feedstock Usage

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

The Company's marine transportation segment's revenue and operating income for the 2007 third quarter increased 14% and 34%, respectively, when compared with the third quarter of 2006. For the 2007 first nine months, revenue and operating income increased 13% and 24%, respectively, compared with the first nine months of 2006. The petrochemical market is the Company's largest market, contributing 66% of the marine transportation revenue for the 2007 first nine months. During the 2007 third quarter and first nine months, the demand for the movement of petrochemicals 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 the 2007 first nine months marine transportation revenue. This market also remained strong as refineries continued to operate at close to full capacity, generating high demand for the transportation of heavier residual oil by-products. Refined petroleum products contributed 11% of 2007 first nine months marine transportation revenue, experiencing strong demand for the movement of products from the Gulf Coast to the Midwest. The agricultural chemical market, which contributed 4% of 2007 first nine months marine transportation revenue, was seasonally weak during the first quarter and strong during the second and third quarters, fueled by the heavy demand for the movement of liquid fertilizer from the Gulf Coast to the Midwest.

During the 2007 third quarter, approximately 80% of the 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 first six months of 2007. Rate renewals under term contracts, net of fuel, increased during the 2007 third quarter and first nine months in the 6% to 10% average range, with some contracts increasing by a higher percentage and some by a lower percentage. Effective January 1, 2007, annual escalators for labor and the producer price index on a number of multi-year contracts resulted in rate increases on those contracts by 4% to 5%. For the 2007 third quarter, spot market rates, which include the cost of fuel, increased approximately 13% compared with the 2006 third quarter.

The average cost per gallon of diesel fuel consumed for the 2007 third quarter was $2.21 compared with $2.08 for the third quarter of 2006. For the 2007 first nine months, the average cost per gallon of diesel fuel consumed was $1.96 compared with $1.97 for the 2006 first nine months. The Company adjusts contract rates for fuel on either a monthly or quarterly basis, depending on the specific contract. Spot market contracts do not have escalators for fuel.

Navigational delays for the 2007 third quarter were 1,444 days, an increase of 20% compared with 1,200 days recorded in the 2006 third quarter. For the 2007 first nine months, navigational delays were 5,846 days, an increase of 16% compared with 5,049 days recorded in the 2006 first nine months. 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 20% increase for the 2007 third quarter and 16% for the 2007 first nine months reflected more normal 2007 weather conditions and water levels compared with unusually favorable weather conditions and water levels during the 2006 third quarter and first nine months.

The marine transportation operating margins for the 2007 third quarter and first nine months were 22.9% and 20.9%, respectively, compared with operating margins of 19.6% for the 2006 third quarter and 19.0% for the 2006 first nine months. Continued strong demand, contract and spot market rate increases, the January 1, 2007 annual escalators on a number of multi-year contracts and improved operating efficiencies from additional horsepower contributed to the higher 2007 operating margins for both comparable periods.

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Diesel Engine Services

For the 2007 third quarter and first nine months, approximately 20% and 21%, respectively, of the Company’s revenue was generated by its diesel engine services segment, of which 65% was generated through service and 35% 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 nine months of 2007 and the customers for each market:

Markets Serviced	2007 Nine Months Revenue Distribution	Customers
Marine	78%	Inland River Carriers – Dry and Liquid, Offshore Towing – Dry and Liquid, Offshore Oilfield Services – Drilling Rigs & Supply Boats, Harbor Towing, Dredging, Great Lakes Ore Carriers
Power Generation	13%	Standby Power Generation, Pumping Stations
Railroad	9%	Passenger (Transit Systems), Class II Shortline, Industrial

The Company’s diesel engine services segment’s 2007 third quarter revenue and operating income increased 14% and 16%, respec