
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 quarter ended September 30, 2005

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 an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes

No

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 November 8, 2005 was 25,665,000.

TABLE OF CONTENTS

Part I Financial Information

Item 1. Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II — OTHER INFORMATION

Item 6. Exhibits

SIGNATURES

Certification of CEO Pursuant to Rule 13a-14a

Certification of CFO Pursuant to Rule 13a-14a

Certification Pursuant to Section 906

Part I Financial Information**Item 1. Financial Statements****KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES****CONDENSED BALANCE SHEETS****(Unaudited)****ASSETS**

	<u>September 30,</u> 2005	<u>December 31,</u> 2004
	(\$ in thousands)	
Current assets:		
Cash and cash equivalents	\$ 3,066	\$ 629
Accounts receivable:		
Trade — less allowance for doubtful accounts	106,938	99,355
Other	9,541	6,963
Inventory — finished goods	18,441	15,426
Prepaid expenses and other current assets	20,903	15,110
Deferred income taxes	<u>2,343</u>	<u>2,167</u>
Total current assets	<u>161,232</u>	<u>139,650</u>
Property and equipment	1,072,528	980,464
Less accumulated depreciation	<u>444,454</u>	<u>406,253</u>
	<u>628,074</u>	<u>574,211</u>
Investment in marine affiliates	11,668	12,205
Goodwill — net	160,641	160,641
Other assets	<u>14,622</u>	<u>17,968</u>
	<u>\$ 976,237</u>	<u>\$ 904,675</u>

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED BALANCE SHEETS
(Unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2005	December 31, 2004
	(\$ in thousands)	
Current liabilities:		
Current portion of long-term debt	\$ 4	\$ 1,304
Income taxes payable	693	986
Accounts payable	66,336	41,916
Accrued liabilities	55,682	51,900
Deferred revenues	5,478	8,284
	<u>128,193</u>	<u>104,390</u>
Total current liabilities	128,193	104,390
Long-term debt — less current portion	205,733	217,436
Deferred income taxes	125,583	123,330
Minority interests	3,160	2,840
Other long-term liabilities	18,321	21,444
	<u>352,797</u>	<u>365,050</u>
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 60,000,000 shares, issued 30,907,000 shares	3,091	3,091
Additional paid-in capital	192,179	185,123
Accumulated other comprehensive income — net	(3,060)	(5,672)
Deferred compensation	(5,537)	(2,255)
Retained earnings	409,130	360,119
	<u>595,803</u>	<u>540,406</u>
Less cost of 5,685,000 shares in treasury (6,051,000 at December 31, 2004)	100,556	105,171
	<u>495,247</u>	<u>435,235</u>
	<u>\$ 976,237</u>	<u>\$ 904,675</u>

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED STATEMENTS OF EARNINGS
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(\$ in thousands, except per share amounts)			
Revenues:				
Marine transportation	\$ 172,259	\$ 153,114	\$ 500,211	\$ 437,672
Diesel engine services	<u>26,482</u>	<u>20,275</u>	<u>82,250</u>	<u>63,908</u>
	<u>198,741</u>	<u>173,389</u>	<u>582,461</u>	<u>501,580</u>
Costs and expenses:				
Costs of sales and operating expenses	130,265	108,690	378,459	320,008
Selling, general and administrative	21,600	21,331	64,787	60,775
Taxes, other than on income	3,203	3,398	9,298	10,800
Depreciation and amortization	13,725	14,015	42,670	41,403
Loss (gain) on disposition of assets	<u>24</u>	<u>43</u>	<u>(1,963)</u>	<u>241</u>
	<u>168,817</u>	<u>147,477</u>	<u>493,251</u>	<u>433,227</u>
Operating income	29,924	25,912	89,210	68,353
Equity in earnings (loss) of marine affiliates	1,395	(782)	1,399	534
Loss on debt retirement	—	¾	(1,144)	¾
Other expense	(443)	(415)	(1,159)	(737)
Interest expense	<u>(2,997)</u>	<u>(3,344)</u>	<u>(9,256)</u>	<u>(10,008)</u>
Earnings before taxes on income	27,879	21,371	79,050	58,142
Provision for taxes on income	<u>(10,594)</u>	<u>(8,121)</u>	<u>(30,039)</u>	<u>(22,094)</u>
Net earnings	<u>\$ 17,285</u>	<u>\$ 13,250</u>	<u>\$ 49,011</u>	<u>\$ 36,048</u>
Net earnings per share of common stock:				
Basic	<u>\$.69</u>	<u>\$.54</u>	<u>\$ 1.96</u>	<u>\$ 1.48</u>
Diluted	<u>\$.67</u>	<u>\$.53</u>	<u>\$ 1.91</u>	<u>\$ 1.44</u>

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
	2005	2004
(\$ in thousands)		
Cash flows from operating activities:		
Net earnings	\$ 49,011	\$ 36,048
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation and amortization	42,670	41,403
Deferred income taxes	670	11,715
Loss on debt retirement	1,144	—
Loss (gain) on disposition of assets	(1,963)	241
Equity in earnings of marine affiliates, net of distributions	771	705
Other	2,001	1,360
Increase in cash flows resulting from changes in operating assets and liabilities, net	11,673	8,036
Net cash provided by operating activities	<u>105,977</u>	<u>99,508</u>
Cash flows from investing activities:		
Capital expenditures	(93,118)	(75,810)
Acquisition of businesses and marine equipment	(7,000)	(9,785)
Proceeds from disposition of assets	5,492	2,258
Other	(790)	—
Net cash used in investing activities	<u>(95,416)</u>	<u>(83,337)</u>
Cash flows from financing activities:		
Payments on bank credit facilities, net	(11,700)	(5,000)
Proceeds from senior notes	200,000	¾
Payments on senior notes	(200,000)	¾
Payments on long-term debt, net	(1,303)	(168)
Proceeds from exercise of stock options	5,338	5,298
Other	(459)	(590)
Net cash used in financing activities	<u>(8,124)</u>	<u>(460)</u>
Increase in cash and cash equivalents	2,437	15,711
Cash and cash equivalents, beginning of year	629	4,064
Cash and cash equivalents, end of period	<u>\$ 3,066</u>	<u>\$ 19,775</u>
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period:		
Interest	\$ 9,028	\$ 9,610
Income taxes	\$ 27,762	\$ (3,026)
Noncash investing activity:		
Notes payable issued in acquisition	\$ —	\$ 1,300
Disposition of asset for note receivable	\$ 363	\$ —

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, 2005 and December 31, 2004, and the results of operations for the three months and nine months ended September 30, 2005 and 2004.

(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, 2004.

(2) ACQUISITIONS

On June 24, 2005, the Company purchased American Commercial Lines LLC's ("ACL") black oil products fleet of 10 inland tank barges for \$7,000,000 in cash. Five of the barges are currently in service and the other five barges are being evaluated for renovation versus disposal. Financing for the equipment acquisition was through the Company's revolving credit facility.

On April 7, 2004, the Company purchased from Walker Paducah Corp. ("Walker"), a subsidiary of Ingram Barge Company ("Ingram"), Walker's diesel engine service operation and parts inventory located in Paducah, Kentucky for \$5,755,000 in cash. In addition, the Company entered into a contract to provide diesel engine services to Ingram. Financing of the acquisition was through the Company's revolving credit facility.

On April 16, 2004, the Company purchased a one-third interest in Osprey Line, LLC ("Osprey") for \$4,220,000. The purchase price consisted of cash of \$2,920,000 and notes payable of \$1,300,000 due and paid in April 2005. The remaining two-thirds interest is owned by Cooper/T. Smith Corporation and Richard L. Couch. 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. The purchase will be accounted for under the equity method of accounting and the cash portion of the purchase price was financed through the Company's revolving credit facility.

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

(3) ACCOUNTING STANDARDS

In December 2002, Statement of Financial Accounting Standards No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure” (“SFAS No. 148”) was issued. SFAS No. 148 amends Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”) and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

The Company accounts for stock-based compensation utilizing the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB No. 25”). Under the intrinsic value method of accounting for stock-based employee compensation, since the exercise price of the Company’s stock options is the fair market value on the date of grant, no compensation expense is recorded. The Company is required under SFAS No. 123 to disclose pro forma information relating to option grants as if the Company used the fair value method of accounting, which requires the recording of estimated compensation expenses.

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

(3) ACCOUNTING STANDARDS — (Continued)

The following table summarizes pro forma net earnings and earnings per share for the three months and nine months ended September 30, 2005 and 2004 assuming the Company had used the fair value method of accounting for its stock option plans (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net earnings, as reported	\$ 17,285	\$ 13,250	\$ 49,011	\$ 36,048
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(438)	(484)	(1,228)	(1,281)
Pro forma net earnings	<u>\$ 16,847</u>	<u>\$ 12,766</u>	<u>\$ 47,783</u>	<u>\$ 34,767</u>
Earnings per share:				
Basic — as reported	\$.69	\$.54	\$ 1.96	\$ 1.48
Basic — pro forma	\$.67	\$.52	\$ 1.91	\$ 1.42
Diluted — as reported	\$.67	\$.53	\$ 1.91	\$ 1.44
Diluted — pro forma	\$.65	\$.51	\$ 1.86	\$ 1.39

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 123R, “Share-Based Payment” (“SFAS No. 123R”) which is a revision of SFAS No. 123 and supersedes APB No. 25 and its related implementation guidance. SFAS No. 123R requires the Company to expense grants made under the stock option plans. That cost will be recognized over the vesting period of the plans. SFAS No. 123R is effective for the first annual period beginning after December 15, 2005. Upon adoption of SFAS No. 123R, amounts previously disclosed under SFAS No. 123 will be recorded in the consolidated statement of earnings. The Company is evaluating the alternatives allowed under the standard, which the Company is required to adopt beginning in the first quarter of 2006.

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

(4) COMPREHENSIVE INCOME

The Company's total comprehensive income for the three months and nine months ended September 30, 2005 and 2004 were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net earnings	\$ 17,285	\$ 13,250	\$ 49,011	\$ 36,048
Change in fair value of derivative financial instruments, net of tax	<u>2,726</u>	<u>(3,320)</u>	<u>2,612</u>	<u>(593)</u>
Total comprehensive income	<u>\$ 20,011</u>	<u>\$ 9,930</u>	<u>\$ 51,623</u>	<u>\$ 35,455</u>

(5) 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. 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 large 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)

(5) SEGMENT DATA — (Continued)

The following table sets forth the Company's revenues and profit (loss) by reportable segment for the three months and nine months ended September 30, 2005 and 2004, and total assets as of September 30, 2005 and December 31, 2004 (in thousands):

	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:				
Marine transportation	\$ 172,259	\$ 153,114	\$ 500,211	\$ 437,672
Diesel engine services	26,482	20,275	82,250	63,908
	<u>\$ 198,741</u>	<u>\$ 173,389</u>	<u>\$ 582,461</u>	<u>\$ 501,580</u>
Segment profit (loss):				
Marine transportation	\$ 28,744	\$ 26,069	\$ 83,348	\$ 67,804
Diesel engine services	3,231	1,773	10,141	6,396
Other	(4,096)	(6,471)	(14,439)	(16,058)
	<u>\$ 27,879</u>	<u>\$ 21,371</u>	<u>\$ 79,050</u>	<u>\$ 58,142</u>
Total assets:				
Marine transportation			\$ 894,798	\$ 834,157
Diesel engine services			54,442	47,158
Other			26,997	23,360
			<u>\$ 976,237</u>	<u>\$ 904,675</u>

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

(5) SEGMENT DATA — (Continued)

The following table presents the details of “Other” segment profit (loss) for the three months and nine months ended September 30, 2005 and 2004 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
General corporate expenses	\$ (2,027)	\$ (1,887)	\$ (6,242)	\$ (5,606)
Gain (loss) on disposition of assets	(24)	(43)	1,963	(241)
Interest expense	(2,997)	(3,344)	(9,256)	(10,008)
Equity in earnings (loss) of marine affiliates	1,395	(782)	1,399	534
Loss on debt retirement	—	—	(1,144)	—
Other expense	(443)	(415)	(1,159)	(737)
	<u>\$ (4,096)</u>	<u>\$ (6,471)</u>	<u>\$ (14,439)</u>	<u>\$ (16,058)</u>

The following table presents the details of “Other” total assets as of September 30, 2005 and December 31, 2004 (in thousands):

	September 30, 2005	December 31, 2004
General corporate assets	\$ 15,329	\$ 11,155
Investment in marine affiliates	11,668	12,205
	<u>\$ 26,997</u>	<u>\$ 23,360</u>

(6) 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, 2005 and 2004 were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Earnings before taxes on income — United States	<u>\$ 27,879</u>	<u>\$ 21,371</u>	<u>\$ 79,050</u>	<u>\$ 58,142</u>
Provision (credit) for taxes on income:				
Current	\$ 8,498	\$ 2,994	\$ 27,199	\$ 9,521
Deferred	1,092	4,354	(6)	10,480
State and local	1,004	773	2,846	2,093
	<u>\$ 10,594</u>	<u>\$ 8,121</u>	<u>\$ 30,039</u>	<u>\$ 22,094</u>

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

(7) 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, 2005 and 2004 (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net earnings	\$ 17,285	\$ 13,250	\$ 49,011	\$ 36,048
Shares outstanding:				
Weighted average common stock outstanding	25,034	24,507	24,959	24,435
Effect of dilutive securities:				
Employee and director common stock plans	748	683	710	631
	<u>25,782</u>	<u>25,190</u>	<u>25,669</u>	<u>25,066</u>
Basic earnings per share of common stock	\$.69	\$.54	\$ 1.96	\$ 1.48
Diluted earnings per share of common stock	<u>\$.67</u>	<u>\$.53</u>	<u>\$ 1.91</u>	<u>\$ 1.44</u>

No outstanding options to purchase common stock were excluded in the computation of diluted earnings per share as of September 30, 2005 and 2004 as all options were dilutive.

(8) RETIREMENT PLANS

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

The Company's pension plan funding strategy is to contribute an amount equal to the greater of the minimum required contribution under ERISA and 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 \$9,000,000 to \$13,000,000 to its pension plan in November 2005 to fund its 2005 pension plan obligations. As of September 30, 2005, no 2005 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.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act established a prescription drug benefit under Medicare, known as "Medicare Part D," and a federal subsidy to sponsors of retiree health care benefit plans that provide a

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

(8) RETIREMENT PLANS — (Continued)

benefit that is at least actuarially equivalent to Medicare Part D. The Company believes that benefits provided to certain participants will be at least actuarially equivalent to Medicare Part D, and, accordingly, the Company will be entitled to a subsidy.

In May 2004, the FASB issued FASB Staff Position No. FAS 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP 106-2"). FSP 106-2 requires (a) that the effects of the federal subsidy be considered an actuarial gain and recognized in the same manner as other actuarial gains and losses and (b) certain disclosures for employers that sponsor postretirement health care plans that provide prescription drug benefits.

The Company adopted FSP 106-2 at the beginning of its third quarter of 2004 retroactive to the beginning of 2004. The expected subsidy reduced the accumulated postretirement benefit obligation (APBO) at December 1, 2003 by \$275,000 and at November 30, 2004 by \$298,000, and the net periodic cost for 2004 by \$34,000 (as compared with the amount calculated without considering the effects of the subsidy). In addition, the Company expects a reduction in future participation in the postretirement plan, which further reduced the December 1, 2003 APBO by \$1,030,000 and net periodic cost for 2004 by \$262,000.

The following tables present the components of net periodic benefit cost for the three and nine months ended September 30, 2005 and 2004 (in thousands):

	Pension Benefits			
	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2005	2004	2005	2004
Net periodic benefit cost:				
Service cost	\$ 1,152	\$ 1,255	\$ 3,455	\$ 3,082
Interest cost	1,288	1,248	3,864	3,549
Expected return on assets	(1,600)	(1,455)	(4,797)	(4,368)
Amortization of prior service cost	(22)	(22)	(67)	(66)
Amortization of actuarial loss	577	721	1,730	1,708
Net periodic benefit cost	<u>\$ 1,395</u>	<u>\$ 1,747</u>	<u>\$ 4,185</u>	<u>\$ 3,905</u>

	Postretirement Benefits Other Than Pensions			
	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2005	2004	2005	2004
Net periodic benefit cost:				
Service cost	\$ 159	\$ 46	\$ 336	\$ 232
Interest cost	90	66	276	348
Amortization of prior service cost	10	9	30	29
Amortization of actuarial gain	(23)	(81)	(95)	(91)
Net periodic benefit cost	<u>\$ 236</u>	<u>\$ 40</u>	<u>\$ 547</u>	<u>\$ 518</u>

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

(9) 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 \$11,658,000 at September 30, 2005, including \$10,738,000 in letters of credit and debt guarantees, and \$920,000 in performance bonds, of which \$683,000 of these financial instruments 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 five 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 have entered into an agreement with the United States Environmental Protection Agency ("EPA") to perform a remedial investigation and feasibility study. Based on information currently available, the Company is unable to ascertain the extent of its exposure, if any, in this matter.

In 2003, the Company and certain subsidiaries received a Request For Information ("RFI") from the EPA under CERCLA with respect to a Superfund site, the Gulfco site, located in Freeport, Texas. In prior years, a company unrelated to Gulfco operated at the site and provided tank barge cleaning services to various subsidiaries of the Company. 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 2004, the Company and certain subsidiaries received an RFI from the EPA under CERCLA with respect to a Superfund site, the State Marine site, located in Port Arthur, Texas. 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. Based on information currently available, the Company is unable to ascertain the extent of its exposure, if any, in these matters.

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," or "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, including construction with government assisted financing, government and environmental laws and regulations, and the timing, magnitude and number of acquisitions made by the Company. 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 for the third quarter and first nine months of 2005 and 2004 were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Weighted average number of common stock-diluted	<u>25,782</u>	<u>25,190</u>	<u>25,669</u>	<u>25,066</u>

The increase in the weighted average number of common shares for both 2005 periods compared with the 2004 periods primarily reflected the exercise of employee and director stock options, as well as additional dilutive shares applicable to stock plans.

Overview

The Company is the nation's largest domestic inland tank barge operator with a fleet of 889 active tank barges as of September 30, 2005 and operated an average of 243 inland towboats during the 2005 third quarter and 242 during the 2005 first nine months. 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. Through its diesel engine services segment, the Company provides after-market services for large medium-speed and high-speed diesel engines used in marine, power generation and railroad applications.

For the 2005 third quarter, the Company reported net earnings of \$17,285,000, or \$.67 per share, on revenues of \$198,741,000. For the first nine months of 2005, net earnings were \$49,011,000, or \$1.91 per share, on revenues of \$582,461,000.

During the 2005 first nine months, approximately 86% of the Company's revenue was generated by its marine transportation segment. The segment's customers include many of the major United States petrochemical and refining companies. Products transported include raw materials for many of the end products used widely by businesses and consumers every day — plastics, fiber, paints, detergents, oil

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES**Overview — (Continued)**

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 products transported by the Company, the revenue distribution for the first nine months of 2005, the uses of these products and the factors that drive the demand for the products the Company transports:

End Uses of Products Transported

<u>Products Transported</u>	<u>2005 First Nine Months Revenue Distribution</u>	<u>Uses of Products Transported</u>	<u>Drivers</u>
Petrochemicals	67%	Plastics, Fibers, Paper, Gasoline Additives	Housing, Consumer Goods, Autos, Clothing, Vehicle Usage
Black Oil Products	20%	Asphalt, Boiler Fuel, No. 6 Fuel Oil, Coker Feedstocks, Residual Fuel, Crude Oil, Ship Bunkers	Road Construction, Feedstock for Refineries, Fuel for Power Plants and Ships
Refined Petroleum Products	9%	Gasoline Blends, No. 2 Oil, Jet Fuel, Heating Oil	Vehicle Usage, Air Travel, Weather Conditions
Agricultural Chemicals	4%	Liquid Fertilizers, Chemical Feedstocks	Corn, Cotton, Wheat Production

The 2005 third quarter marine transportation segment's revenues and operating income increased 13% and 10%, respectively, compared with the 2004 third quarter. For the 2005 first nine months, revenues and operating income increased 14% and 23%, respectively, compared with the first nine months of 2004. For the 2005 third quarter and first nine months, the Company's petrochemical and black oil products demand remained strong. Refined products demand was strong; however, barge availability remained constrained due to the continued elimination of single hull barges and continued demand for double hull barges in the stronger petrochemical market. Agricultural chemical demand strengthened late in the third quarter with the transportation of imported liquid fertilizer into the Midwest. Despite continued high crude oil and natural gas prices, the Company anticipates that during the 2005 fourth quarter, petrochemical and black oil products volumes transported by the Company's marine transportation segment will remain strong.

Navigating delays for the 2005 first nine months were 23% higher than the corresponding period of 2004. During January, high water conditions existed on the Illinois and Ohio Rivers, and caused high water conditions on the lower Mississippi River in late January and early February. In addition, the upper Ohio River was closed for two weeks in January due to an accident at the Belleville Lock. The Gulf Coast had numerous fog days in January and February. During March, weather conditions improved significantly. Navigating delays for the 2005 second quarter were down significantly and in line with delay days for the 2004 second quarter.

The 2005 third quarter and first nine months were negatively impacted by Hurricanes Katrina and Rita. The Company estimates the impact was \$.10 per share. Hurricane Katrina made landfall east of New Orleans on August 29 and Hurricane Rita made landfall on the Texas — Louisiana border on September 24. Petrochemical and refinery facilities located in the paths or projected paths of the hurricanes shut down operations in advance of the storms. Waterways in the hurricane affected areas

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Overview — (Continued)

were closed and Kirby's equipment was moved out of the path of the storms. The hurricanes caused no notable damage to Kirby's tank barge and towboat fleet or its facilities. All waterways in the hurricane affected areas are currently open and operating normally.

The Company was successful in continuing to raise marine transportation rates on contracts renewed during the 2005 first nine months. Contracts renewed in the 2005 first nine months increased in the 4% to 5% average range. Spot market rates for most product lines were generally higher than contract rates and for the 2005 third quarter were approximately 20% higher than spot market rates for the 2004 third quarter. In addition, January 1, 2005 escalators in the 3% to 4% range for labor and the producer price index on numerous multi-year contracts also positively impacted the 2005 first nine months. The Company adjusts term contract rates for fuel on a monthly or quarterly basis, depending on the specific contract. During the 2005 first nine months, approximately 70% of the Company's marine transportation revenue was under term contracts with the remaining 30% in the spot market.

The marine transportation operating margin for the 2005 third quarter and first nine months was 16.7% compared with operating margins of 17.0% for the 2004 third quarter and 15.5% for the 2004 first nine months. Improved demand, higher contract and spot market rates, and January 1, 2005 escalators on long-term contracts all contributed to the higher operating margins.

The Company's diesel engine services segment's 2005 third quarter revenues and operating income increased 31% and 82%, respectively, compared with the corresponding quarter of 2004. The segment's revenues for the 2005 first nine months increased 29% and operating income increased 59% compared with the 2004 first nine months. The results for both periods reflected continued strong marine, power generation and railroad markets, as well as the acquisition of Walker in April 2004. In addition, service rates and parts pricing improved during the 2005 first nine months.

The diesel engine services operating margin for the 2005 third quarter was 12.2% compared with 8.7% for the 2004 third quarter. For the first nine months of 2005, the operating margin was 12.3% compared with 10.0% for the first nine months of 2004. The improved operating margin for both 2005 periods resulted from higher service activities, which generally earn a higher operating margin than parts sales, increased pricing for service and parts, and better labor utilization.

The Company continued to generate strong operating cash flow during the first nine months of 2005, with net cash provided by operating activities of \$105,977,000. In addition, the Company generated cash from the disposition of assets of \$5,492,000 and \$5,338,000 from the exercise of stock options. The cash was used for capital expenditures of \$93,118,000 for fleet replacement, enhancement and expansion, \$7,000,000 for the acquisition of the black oil products tank barge fleet of ACL and debt reduction of \$13,003,000. The Company reduced its debt-to-capitalization ratio from 33.4% at December 31, 2004 to 29.3% at September 30, 2005.

Capital expenditures were \$93,118,000 for the 2005 first nine months and included \$50,321,000 for new tank barge construction and \$42,797,000 primarily for upgrading the existing marine transportation fleet. The Company projects that capital expenditures for 2005 will be in the \$115,000,000 to \$120,000,000 range, including \$65,000,000 for new tank barge construction. The 2005 tank barge construction program includes seventeen 30,000 barrel capacity tank barges at a cost of \$37,000,000, subject to adjustment for the price of steel. The Company has taken delivery and placed into service 15 of the barges with the remaining two scheduled for delivery from November 2005 through February 2006. These 17 barges are replacement barges for older barges removed from service.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Overview — (Continued)

The 2005 program also includes twenty 10,000 barrel capacity tank barges and one 30,000 barrel capacity specialty barge at a cost of \$28,000,000, subject to adjustment for the price of steel. The Company has taken delivery and placed into service 13 of the barges with the remaining eight barges scheduled for delivery in November and December 2005. These 21 barges are additional capacity, positioning the Company to obtain petrochemical movements it currently does not have the capacity to handle.

In July 2005, the Company entered into contracts for the construction of twenty-three 30,000 barrel capacity tank barges at a cost of \$45,000,000, subject to adjustment for the price of steel. The 23 barges will be a combination of replacement and expansion barges with delivery scheduled throughout 2006, with the final barge scheduled for delivery in January 2007.

Acquisitions

On June 24, 2005, the Company purchased ACL's black oil products fleet of 10 inland tank barges for \$7,000,000 in cash. Five of the barges are currently in service and the other five barges are being evaluated for renovation versus disposal.

On April 7, 2004, the Company purchased from Walker, a subsidiary of Ingram, Walker's diesel engine service operation and parts inventory located in Paducah, Kentucky for \$5,755,000 in cash. In addition, the Company entered into a contract to provide diesel engine services to Ingram's inland towboat fleet.

On April 16, 2004, the Company purchased a one-third interest in Osprey for \$4,220,000. The purchase price consisted of cash of \$2,920,000 and notes payable of \$1,300,000 due and paid in April 2005. The remaining two-thirds interest is owned by Cooper/T. Smith Corporation and Richard L. Couch. Osprey, formed in 2000, operates a feeder service for cargo containers on barges between Houston, New Orleans and Baton Rouge, as well as several ports located above Baton Rouge on the Mississippi River.

Results of Operations

The Company reported third quarter 2005 net earnings of \$17,285,000, or \$.67 per share, on revenues of \$198,741,000, compared with third quarter 2004 net earnings of \$13,250,000, or \$.53 per share, on revenues of \$173,389,000. Net earnings for the 2005 first nine months were \$49,011,000, or \$1.91 per share, on revenues of \$582,461,000, compared with net earnings of \$36,048,000, or \$1.44 per share, on revenues of \$501,580,000 for the first nine months of 2004.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES
Results of Operations — (Continued)

The following table sets forth the Company's marine transportation and diesel engine services revenues for the 2005 third quarter compared with the third quarter of 2004, the first nine months of 2005 compared with the first nine months of 2004 and the percentage of each to total revenues for the comparable periods (dollars in thousands):

	Three months ended September 30,				Nine months ended September 30,			
	2005	%	2004	%	2005	%	2004	%
Marine transportation	\$ 172,259	87%	\$ 153,114	88%	\$ 500,211	86%	\$ 437,672	87%
Diesel engine services	26,482	13	20,275	12	82,250	14	63,908	13
	<u>\$ 198,741</u>	<u>100%</u>	<u>\$ 173,389</u>	<u>100%</u>	<u>\$ 582,461</u>	<u>100%</u>	<u>\$ 501,580</u>	<u>100%</u>

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 September 30, 2005, the marine transportation segment operated 889 active inland tank barges, with a total capacity of 16.6 million barrels, compared with 888 active inland tank barges at September 30, 2004, with a total capacity of 16.4 million barrels. The segment also operated an average of 243 inland towboats during the 2005 third quarter and 242 during the 2005 first nine months compared with an average of 237 inland towboats operated during the third quarter of 2004 and 235 during the first nine months of 2004. The marine transportation segment is also the managing partner of a 35% owned offshore marine partnership, consisting of four dry-bulk barge and tug units, and owns a 33% interest in Osprey, operator of a barge feeder service for cargo containers, both of which are accounted for under the equity method of accounting.

The following table sets forth the Company's marine transportation segment's revenues, costs and expenses, operating income and operating margins for the three months and nine months ended September 30, 2005 compared with the three months and nine months ended September 30, 2004 (dollars in thousands):

	Three months ended September 30,		% Change	Nine months ended September 30,		% Change
	2005	2004		2005	2004	
Marine transportation revenues	\$ 172,259	\$ 153,114	13%	\$ 500,211	\$ 437,672	14%
Costs and expenses:						
Costs of sales and operating expenses	110,776	93,579	18	317,223	272,626	16
Selling, general and administrative	16,663	16,887	(1)	50,235	47,619	5
Taxes, other than on income	3,077	3,293	(7)	8,884	10,475	(15)
Depreciation and amortization	12,999	13,286	(2)	40,521	39,148	4
	<u>143,515</u>	<u>127,045</u>	<u>13</u>	<u>416,863</u>	<u>369,868</u>	<u>13</u>
Operating income	<u>\$ 28,744</u>	<u>\$ 26,069</u>	<u>10%</u>	<u>\$ 83,348</u>	<u>\$ 67,804</u>	<u>23%</u>
Operating margins	16.7%	17.0%		16.7%	15.5%	

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Marine Transportation Revenues

Marine transportation revenues for the 2005 third quarter and first nine months increased 13% and 14%, respectively, compared with the corresponding periods of 2004, reflecting continued strong petrochemical and black oil products demand. Both 2005 periods were positively impacted by contract and spot market increases, term contract fuel adjustments, as well as labor and consumer price index escalators effective January 1, 2005 on numerous multi-year contracts. In addition, both 2005 periods were negatively impacted by Hurricanes Katrina and Rita, more fully discussed below. The Company estimates that the two back to back Gulf Coast hurricanes negatively impacted the 2005 third quarter and first nine months by \$.10 per share.

Petrochemical transportation demand during the 2005 third quarter and first nine months remained strong as term contract customers continued to operate their plants at high utilization rates, resulting in high barge utilization for most products. Black oil products demand during the 2005 third quarter and first nine months was strong as refineries operated at close to full capacity, which generated demand for waterborne transportation of heavier refinery residual oil by-products. Refined products volumes transported into the Midwest during the first quarter were at lower winter weather levels and improved in the second and third quarters with the summer driving season; however, the segment's presence in the refined products market was reduced during the 2005 first nine months as barges have been diverted to the stronger Gulf Intracoastal Waterway petrochemical market to meet term contract requirements. The segment's refined products tank barge capacity has been reduced by the Company's continued retirement of its single hull barges. Agricultural demand was higher than normal during the first, second and third quarters as a result of strong demand for movements of imported liquid fertilizer into the Midwest.

For the first nine months of 2005, the marine transportation segment incurred 7,159 delay days, a 23% increase over the 5,839 delay days recorded in the 2004 first nine months. For the 2005 third quarter, the segment incurred 2,080 delay days, 25% higher than the 1,658 delay days incurred in the 2004 third 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 adverse navigating conditions.

During January 2005, the marine transportation segment experienced high water conditions on the Ohio and Illinois Rivers and the run-off of these rivers caused high water conditions on the lower Mississippi River in late January and early February. In addition, the upper Ohio River was closed for two weeks in January due to an accident at the Belleville Lock. During January and February, the segment also encountered numerous fog days along the Gulf Coast. The inclement weather conditions during the first two months of 2005 resulted in longer transit times, which delayed customer deliveries and created operating inefficiencies.

During March, weather conditions throughout the Mississippi River System and the Gulf Intracoastal Waterway improved significantly, allowing the segment to efficiently meet the current demand, as well as the backlog from February. Weather conditions during the 2005 second quarter were also favorable, allowing for better asset utilization through faster barge turnarounds and more efficient use of horsepower.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Marine Transportation Revenues — (Continued)

Hurricanes Katrina and Rita negatively impacted the 2005 third quarter and first nine months. Hurricane Katrina made landfall east of New Orleans on August 29 and Hurricane Rita made landfall on the Texas — Louisiana border on September 24. Petrochemical and refinery facilities located in the paths or projected paths of the hurricanes shutdown operations in advance of the storms. Waterways in the hurricane affected areas were closed and Kirby's equipment was moved out of the path of the storms. The hurricanes caused no notable damage to Kirby's tank barge and towboat fleet or its facilities. All waterways in the hurricane affected areas are currently open and operating normally. Almost all of the petrochemical and refinery facilities impacted by the hurricanes have resumed full production. The impact of the hurricanes was mitigated to some degree by risk sharing provisions in many of the segment's contracts, enabling the Company to recover some of the costs related to navigational delays beyond the Company's control. In addition, some customers opted to place equipment on a time charter basis prior to the hurricanes, and remained on charter through the storms.

During the 2005 third quarter and first nine months, approximately 70% of marine transportation revenues were under term contracts and 30% were spot market revenues. The 70% contract and 30% spot market mix provides the Company with a stable revenue stream with less exposure to day-to-day pricing fluctuations. Contracts renewed in the third quarter and first nine months of 2005 increased in the 4% to 5% average range, primarily the result of strong industry demand and higher utilization of tank barges. Spot market rates, including fuel, for most product lines were generally higher than contract rates and for the 2005 third quarter were approximately 20% higher than spot market rates for the 2004 third quarter. Effective January 1, 2005, escalators for labor and the producer price index on numerous multi-year contracts increased such contracts by 3% to 4%.

Marine Transportation Costs and Expenses

Costs and expenses for the 2005 third quarter and first nine months increased 13% when compared with the corresponding periods of 2004, reflecting the higher costs and expenses associated with increased transportation demand, as well as increased navigating delays.

Costs of sales and operating expenses for the 2005 third quarter and first nine months increased 18% and 16%, respectively, compared with the corresponding periods of 2004. The increase for both 2005 periods reflected higher salaries and related expenses, effective January 1, 2005, additional expenses associated with the increased demand, and higher towboat and tank barge maintenance expenditures due to the substantial increase in the cost of steel during 2004 and the 2005 first nine months. In addition, the higher price of diesel fuel consumed, as noted below, resulted in higher fuel costs. During the 2005 third quarter, the segment operated an average of 243 towboats compared with an average of 237 during the 2004 third quarter. For the first nine months of 2005, the segment operated an average of 242 towboats compared with 235 for the 2004 first nine months. The number of towboats operated and crews required fluctuates daily, depending on the volumes moved, weather conditions and voyage times. The segment consumed 13.9 million gallons of diesel fuel during the 2005 third quarter, or 3% less than the 14.3 million gallons consumed during the 2004 third quarter. For the first nine months of 2005, the segment consumed 41.0 million gallons of diesel fuel, or 4% less than the 42.5 million gallons consumed during the 2004 first nine months. The decrease for both 2005 comparable periods was attributable to product mix and increased navigating delays.

For the 2005 third quarter, the average price per gallon of diesel fuel consumed was \$1.75, up 51% from the 2004 third quarter average of \$1.16. The average price per gallon for the 2005 first nine

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Marine Transportation Costs and Expenses — (Continued)

months was \$1.55, up 49% from the 2004 first nine months average of \$1.04. Term contracts contain fuel escalation clauses 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 2005 third quarter decreased 1% compared with the 2004 third quarter and increased 5% compared with the 2004 first nine months. The third quarter decrease primarily reflected lower professional and legal fees partially offset by increases in salaries and related expenses, effective January 1, 2005. The first nine months increase reflected salary increases and related expenses, effective January 1, 2005, and higher incentive compensation accruals and increased employee medical costs partially offset by lower professional and legal fees.

Taxes, other than on income, for the 2005 third quarter and first nine months decreased 7% and 15%, respectively, compared with the corresponding periods of 2004. The decline for both 2005 periods reflected decreased waterway use taxes from less gallons burned in applicable waterways and a lower waterway use tax rate, partially offset by higher property taxes on new and existing inland tank barges and towboats. The 2005 first nine months also reflected the favorable settlement in the 2005 second quarter of a multiple year property tax issue.

Depreciation and amortization for the 2005 third quarter decreased 2% and increased 4% for the first nine months compared with the corresponding 2004 periods. The 2% decrease for the 2005 third quarter reflected the adjustment of the useful lives of certain equipment and the sale of equipment during the second quarter of 2005. The increase for the 2005 first nine months was attributable to new tank barges and increased capital expenditures during the period and the 2004 year.

Marine Transportation Operating Income and Operating Margins

The marine transportation operating income for the 2005 third quarter increased 10% compared with the third quarter of 2004. For the first nine months of 2005, the operating income for the segment increased 23% compared with the first nine months of 2004. The operating margin for the 2005 third quarter declined to 16.7% compared with the third quarter of 2004 of 17.0%. The operating margin for the 2005 first nine months increased to 16.7% compared with 15.5% for the first nine months of 2004. Hurricanes Katrina and Rita negatively impacted the operating margins for the 2005 periods, however, improved demand, higher contract and spot market rates, and the January 1, 2005 escalators on numerous multi-year contracts positively impacted the operating margins.

Diesel Engine Services

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

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Diesel Engine Services — (Continued)

The following table sets forth the Company's diesel engine services segment's revenues, costs and expenses, operating income and operating margins for the three months and nine months ended September 30, 2005 compared with the three months and nine months ended September 30, 2004 (dollars in thousands):

	Three months ended September 30,		% Change	Nine months ended September 30,		% Change
	2005	2004		2005	2004	
Diesel engine services revenues	\$ 26,482	\$ 20,275	31%	\$ 82,250	\$ 63,908	29%
Costs and expenses:						
Costs of sales and operating expenses	19,489	15,102	29	61,231	47,269	30
Selling, general and administrative	3,391	3,041	12	9,741	9,092	7
Taxes, other than on income	91	95	(4)	296	268	10
Depreciation and amortization	280	264	6	841	883	(5)
	<u>23,251</u>	<u>18,502</u>	<u>26</u>	<u>72,109</u>	<u>57,512</u>	<u>25</u>
Operating income	\$ 3,231	\$ 1,773	82%	\$ 10,141	\$ 6,396	59%
Operating margins	12.2%	8.7%		12.3%	10.0%	

Diesel Engine Services Revenues

Revenues for the 2005 third quarter increased 31% compared with the 2004 third quarter and 29% for the first nine months of 2005 when compared with the 2004 first nine months. During both 2005 periods, the segment was positively impacted by strong service activity and direct parts sales in the majority of its markets. The East Coast and West Coast offshore towing market, Midwest inland marine market and power generation market reflected the most strength during the 2005 third quarter and first nine months. The Gulf Coast marine market, driven by the offshore oil service market, was negatively impacted by the two hurricanes, as its Houma, Louisiana facility was closed for several days due to the impact of the storms. For the first nine months of 2005, the segment was positively impacted by the April 2004 purchase of the Midwest diesel engine services operation of Walker. The segment also benefited from higher service rates and parts pricing for both the 2005 third quarter and first nine months.

Diesel Engine Services Costs and Expenses

Costs and expenses for the 2005 third quarter and first nine months increased 26% and 25%, respectively, when compared with corresponding periods of 2004. Costs of sales and operating expenses increased 29% for the 2005 third quarter and 30% for the 2005 first nine months, reflecting the higher service and parts sales activity noted above, increased salaries and other related expenses effective January 1, 2005, as well as the impact of the April 2004 Walker acquisition. Selling, general and administrative expenses increased 12% for the 2005 third quarter and 7% for the first nine months of 2005, reflecting increased salaries and related expenses, as well as higher incentive compensation accruals.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES***Diesel Engine Services Operating Income and Operating Margins***

Operating income for the diesel engine services segment for the 2005 third quarter and first nine months increased 82% and 59%, respectively, compared with the corresponding periods of 2004. The significant increase for both 2005 periods was a result of the stronger markets, as well as larger service revenue versus parts revenue mix. During the 2005 third quarter and first nine months, 60% and 58%, respectively, of the segment's revenue was from service versus 45% and 48%, respectively, for the corresponding periods of 2004. The higher operating margin, 12.2% for the 2005 third quarter and 12.3% for the 2005 first nine months, versus 8.7% for the 2004 third quarter and 10.0% for the 2004 first nine months, was primarily a reflection of the change in the revenue mix, with a higher margin generally earned on service revenue, increased pricing for service and parts, and better labor utilization.

General Corporate Expenses

General corporate expenses for the 2005 third quarter were \$2,027,000, or 7% higher than the third quarter of 2004. For the first nine months of 2005, general corporate expenses were \$6,242,000, an 11% increase compared with the 2004 first nine months. The increase for both comparable periods reflected increases in salaries and related expenses effective January 1, 2005, higher employee incentive compensation accruals and higher employee medical costs.

Other Income and Expenses

The following table sets forth the gain (loss) on disposition of assets, equity in earnings (loss) of marine affiliates, loss on debt retirement, other expense and interest expense for the three months and nine months ended September 30, 2005 compared with the three months and nine months ended September 30, 2004 (dollars in thousands):

	Three months ended September 30,		% Change	Nine months ended September 30,		% Change
	2005	2004		2005	2004	
Gain (loss) on disposition of assets	\$ (24)	\$ (43)	44%	\$ 1,963	\$ (241)	915%
Equity in earnings (loss) of marine affiliates	\$ 1,395	\$ (782)	278%	\$ 1,399	\$ 534	162%
Loss on debt retirement	\$ —	\$ —	N/A	\$ (1,144)	\$ —	N/A
Other expense	\$ (443)	\$ (415)	7%	\$ (1,159)	\$ (737)	57%
Interest expense	\$ (2,997)	\$ (3,344)	(10)%	\$ (9,256)	\$ (10,008)	(8)%

Gain (Loss) on Disposition of Assets

The Company reported a net loss on disposition of assets of \$24,000 for the 2005 third quarter and a net gain on disposition of assets of \$1,963,000 for the 2005 first nine months, compared with a net loss on disposition of assets of \$43,000 and \$241,000 for the corresponding periods of 2004, respectively. The 2005 first nine months net gain was predominately from the sale in the second quarter of marine equipment, including four towboats.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Equity in Earnings (Loss) of Marine Affiliates

Equity in earnings (loss) of marine affiliates consists primarily of a 35% owned offshore marine partnership, operating four offshore dry-cargo barge and tug units, and a 33% interest in Osprey, a barge feeder service for cargo containers. For the 2005 third quarter, equity in earnings (loss) of marine affiliates was \$1,395,000, a 278% increase compared with the 2004 third quarter. The 2005 third quarter results were positively impacted by full utilization of the 35% owned partnership equipment during July and the majority of August, with Hurricanes Katrina and Rita causing delay days in late August and late September, respectively. The \$782,000 loss in the 2004 third quarter was attributable to a \$598,000 pre-tax loss on the sale of the Company's 50% interest in a Shreveport, Louisiana liquid products terminal, as well as the negative impact of Hurricanes Ivan, Frances and Jeanne during August and September 2004, which resulted in delay days for the Company's 35% owned offshore marine equipment. For the first nine months of 2005, equity in earnings (loss) of marine affiliates was \$1,399,000, a 162% increase compared with the first nine months of 2004. The Company reported a \$703,000 loss for the 2005 first quarter, attributable to a heavy maintenance shipyard schedule for the 35% owned offshore marine partnership, as well as start-up costs for Osprey's coastal service along the Gulf of Mexico, which began in late 2004 and ended in October 2005.

Loss on Debt Retirement

On May 31, 2005, the Company issued \$200,000,000 of unsecured floating rate 2005 Senior Notes, more fully described under Long-Term Financing below. The proceeds were used to repay \$200,000,000 of 2003 Senior Notes due in February 2013. With the early extinguishment, the Company expensed \$1,144,000 of unamortized financing costs associated with the retired 2003 Senior Notes during the 2005 second quarter.

Interest Expense

Interest expense for the 2005 third quarter decreased 10% compared with the 2004 third quarter. For the 2005 first nine months, interest expense decreased 8% compared with the 2004 first nine months. The decrease for both comparable periods reflected lower average debt partially offset by higher average interest rates. The average debt and average interest rate for the third quarter of 2005 and 2004, including the effect of interest rate swaps, were \$211,898,000 and 5.6%, and \$251,452,000 and 5.3%, respectively. For the first nine months of 2005 and 2004, the average debt and average interest rate, including the effect of interest rate swaps, were \$210,761,000 and 5.9%, and \$256,423,000 and 5.3%, respectively.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Financial Condition, Capital Resources and Liquidity

Balance Sheet

Total assets as of September 30, 2005 were \$976,237,000, an 8% increase compared with \$904,675,000 as of December 31, 2004. The following table sets forth the significant components of the balance sheet as of September 30, 2005 compared with December 31, 2004 (dollars in thousands):

	September 30, 2005	December 31, 2004	% Change
Assets:			
Current assets	\$ 161,232	\$ 139,650	15%
Property and equipment, net	628,074	574,211	9
Investment in marine affiliates	11,668	12,205	(4)
Goodwill, net	160,641	160,641	—
Other assets	14,622	17,968	(19)
	<u>\$ 976,237</u>	<u>\$ 904,675</u>	<u>8%</u>
Liabilities and stockholders' equity:			
Current liabilities	\$ 128,193	\$ 104,390	23%
Long-term debt — less current portion	205,733	217,436	(5)
Deferred income taxes	125,583	123,330	2
Minority interest and other long-term liabilities	21,481	24,284	(12)
Stockholders' equity	495,247	435,235	14
	<u>\$ 976,237</u>	<u>\$ 904,675</u>	<u>8%</u>

Current assets as of September 30, 2005 increased 15% compared with December 31, 2004, primarily reflecting an 8% increase in trade accounts receivable resulting from increased revenue during the 2005 third quarter over the fourth quarter of 2004 for both the marine transportation and diesel engine services segments. Inventory — finished goods increased 20%, reflecting additional inventory to support the stronger service activity and direct parts sales during 2005 in the majority of the diesel engine services markets, as well as service projects to be delivered in the 2005 fourth quarter. Prepaid expenses and other current assets increased 43%, primarily reflecting the timing of the payments of insurance premiums and an increase in prepaid fuel inventory as a result of higher diesel fuel prices.

Property and equipment, net of accumulated depreciation, at September 30, 2005 increased 9% compared with December 31, 2004. The increase reflected \$93,118,000 of capital expenditures for the 2005 first nine months, more fully described under Capital Expenditures below, and \$7,000,000 for the acquisition of the black oil products fleet of ACL, less \$42,363,000 of depreciation expense and \$3,892,000 of disposals for the 2005 first nine months.

Investment in marine affiliates as of September 30, 2005 decreased 4% compared with December 31, 2004, reflecting \$2,170,000 of distributions received during the 2005 first nine months offset by equity in earnings of marine affiliates of \$1,399,000 for the first nine months of 2005.

Current liabilities as of September 30, 2005 increased 23% compared with December 31, 2004, primarily reflecting a 58% increase in accounts payable, attributable to increased marine transportation and diesel engine services business levels, higher shipyard maintenance accruals and higher accrued

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Balance Sheet — (Continued)

payables due to delays in processing accounts payables as a result of business office closures related to Hurricane Rita in late September 2005. Accrued liabilities increased 7%, primarily from higher casualty loss accruals. In addition, accruals for employee incentive compensation for the first nine months of 2005 was offset by the payment of 2004 incentive compensation accruals during the first half of 2005. Deferred revenue decreased 34%, primarily from the completion of a large diesel engine services power generation project in Europe.

Long-term debt, less current portion, as of September 30, 2005 decreased 5% compared with December 31, 2004. During the 2005 first nine months, the Company reduced long-term debt using net cash provided by operating activities of \$105,977,000, proceeds from the disposition of assets of \$5,492,000 and \$5,338,000 of proceeds from the exercise of stock options. Long-term debt borrowings during the 2005 first nine months were used for capital expenditures of \$93,118,000 and a marine equipment acquisition of \$7,000,000.

Minority interest and other long-term liabilities as of September 30, 2005 decreased 12% compared with December 31, 2004, primarily due to the recording of a \$3,693,000 decrease in the fair value of the interest rate swap agreements for the 2005 first nine months, more fully described under Long-Term Financing below, partially offset by an increase in accruals for postretirement benefits and long-term incentive compensation.

Stockholders' equity as of September 30, 2005 increased 14% compared with December 31, 2004. The increase was primarily attributable to \$49,011,000 of net earnings for the 2005 first nine months, a \$4,615,000 decrease in treasury stock, an increase of \$7,056,000 in additional paid-in capital, a increase in accumulated other comprehensive income of \$2,612,000 and the recording of \$3,282,000 of net deferred compensation related to restricted stock awards. The decrease in treasury stock and increase in additional paid-in capital were attributable to the exercise of stock options and the issuance of restricted stock. The increase in accumulated other comprehensive income resulted from the net changes in fair value of interest rate swaps agreements, net of taxes, more fully described under Long-Term Financing below.

Long-Term Financing

The Company has a \$150,000,000 unsecured revolving credit facility ("Revolving Credit Facility") with a syndicate of banks, with JP Morgan Chase Bank as the agent bank, and with a maturity date of December 9, 2007. The Revolving Credit Facility allows for an increase in bank commitments from \$150,000,000 up to a maximum of \$225,000,000 without further amendments to the agreement. As of September 30, 2005, \$4,000,000 was outstanding under the Revolving Credit Facility. The Revolving Credit Facility includes a \$10,000,000 commitment which may be used for standby letters of credit of which \$7,612,000 was outstanding as of September 30, 2005. The Company was in compliance with all Revolving Credit Facility covenants as of September 30, 2005.

On May 31, 2005, the Company issued \$200,000,000 of unsecured floating rate 2005 Senior Notes due February 28, 2013. The 2005 Senior Notes have an interest rate equal to the LIBOR plus a margin of 0.5%. The 2005 Senior Notes are callable, at the Company's option, with a 2% prepayment premium during the first year, 1% during the second year and at par thereafter. No principal payments are required until maturity in February 2013. As of September 30, 2005, \$200,000,000 was outstanding under the 2005 Senior Notes and the Company was in compliance with all 2005 Senior Notes covenants.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES**Long-Term Financing — (Continued)**

Proceeds of the 2005 Senior Notes were used to repay the Company's \$200,000,000 unsecured floating rate 2003 Senior Notes due February 2013. The 2003 Senior Notes had an interest rate equal to LIBOR plus a margin of 1.2%. With the early extinguishment, the Company expensed \$1,144,000 of unamortized financing costs associated with the retired 2003 Senior Notes during the 2005 second quarter.

The Company has a \$10,000,000 line of credit ("Credit Line") with Bank of America, N.A. for short-term liquidity needs and letters of credit. The Credit Line matures on July 11, 2006. As of September 30, 2005, \$700,000 was outstanding under the Credit Line and outstanding letters of credit were \$638,000. Amounts borrowed on the Credit Line were classified as long-term at September 30, 2005, as the Company has the ability and intent through the Revolving Credit Facility to refinance the short-term notes on a long-term basis.

The Company has a \$5,000,000 revolving credit note ("Credit Note") with BNP Paribas ("BNP") for short-term liquidity needs. The Credit Note matures on December 31, 2005. As of September 30, 2005, \$1,000,000 was outstanding under the Credit Note. Amounts borrowed on the Credit Note were classified as long-term at September 30, 2005, as the Company has the ability and intent through the Revolving Credit Facility to refinance the short-term notes on a long-term basis.

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. As of September 30, 2005, \$121,000,000 was available under the shelf registration, subject to mutual agreement to terms, to provide financing for future business or equipment acquisitions, working capital requirements and reductions of the Company's Revolving Credit Facility and 2005 Senior Notes. As of September 30, 2005, 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 Revolving Credit Facility and 2005 Senior Notes by entering into interest rate swap agreements. The interest rate swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of September 30, 2005, the Company had a notional amount of \$150,000,000 of interest rate swaps designated as cash flow hedges for its variable rate 2005 Senior Notes as follows (dollars in thousands):

<u>Notional amount</u>	<u>Trade date</u>	<u>Effective date</u>	<u>Termination date</u>	<u>Fixed pay rate</u>	<u>Receive rate</u>
\$ 100,000	February 2001	March 2001	March 2006	5.64%	One-month LIBOR
\$ 100,000	September 2003	March 2006	February 2013	5.45%	Three-month LIBOR
\$ 50,000	April 2004	April 2004	May 2009	4.00%	Three-month LIBOR

These interest rate swaps hedge a majority of the Company's long-term debt and only an immaterial loss on ineffectiveness was recognized in the 2005 third quarter and first nine months. At September 30, 2005, the fair value of the interest rate swap agreements was \$4,170,000, of which \$330,000 and \$747,000 were recorded as other current assets and other accrued liability, respectively, for swap maturities within the next twelve months, and \$889,000 and \$4,642,000 was recorded as other assets and other long-term liability, respectively, for swap maturities greater than twelve months. The Company has recorded, in interest expense, losses related to the interest rate swap agreements of

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Long-Term Financing — (Continued)

\$619,000 and \$1,403,000 for the three months ended September 30, 2005 and 2004, respectively, and \$2,366,000 and \$4,597,000 for the nine months ended September 30, 2005 and 2004, respectively. Gains or losses on the interest rate swap contracts offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company anticipates \$855,000 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 September 30, 2005 and 2004 based on quoted market values of the Company's portfolio of derivative instruments.

Capital Expenditures

Capital expenditures for the 2005 first nine months were \$93,118,000, of which \$50,321,000 was for construction of new tank barges, and \$42,797,000 was primarily for upgrading of the existing marine transportation fleet.

In October 2003, the Company entered into a contract for the construction of nine 30,000 barrel capacity inland tank barges, with five for use in the transportation of petrochemicals and refined petroleum products and four for use in the transportation of black oil products. Four barges were delivered in the 2004 third quarter, four in the 2004 fourth quarter and one in the first quarter of 2005. The purchase price of the nine barges was \$15,700,000, of which \$14,091,000 was expended in 2004 and \$1,609,000 in the 2005 first quarter. Financing of the construction of the nine barges was through operating cash flows and available credit under the Company's Revolving Credit Facility.

In June 2004, the Company entered into a contract for the construction of eleven 30,000 barrel capacity inland tank barges. Four of the barges will be for use in the transportation of petrochemicals and refined petroleum products and seven for use in the transportation of black oil products. Three of the barges were delivered in the 2005 first quarter and the remaining eight were delivered in the 2005 second quarter. The purchase price of the 11 barges was \$24,613,000, all of which was expended in the 2005 first six months. Financing of the construction of the 11 barges was through operating cash flows and available credit under the Company's Revolving Credit Facility.

In July 2004, the Company entered into a contract for the construction of six 30,000 barrel capacity inland tank barges for use in the transportation of petrochemicals and refined petroleum products, and one 30,000 barrel capacity specialty petrochemical barge. One barge was delivered in the 2005 second quarter, four in the 2005 third quarter, one is scheduled for delivery in the 2005 fourth quarter and one in the 2006 first quarter. The purchase price of the seven barges is approximately \$15,000,000, subject to adjustment based on steel prices and any scrap surcharges that apply at the time the steel is shipped, of which \$3,874,000 was expended in 2004 and \$9,303,000 in the 2005 first nine months. Financing of the construction of the seven barges will be through operating cash flows and available credit under the Company's Revolving Credit Facility.

In November 2004, the Company entered into a contract for the construction of twenty 10,000 barrel capacity inland tank barges for use in the transportation of petrochemicals and refined petroleum products. Eight of the barges were delivered in the 2005 third quarter, four in October 2005 and the remaining eight barges are scheduled for delivery in the 2005 fourth quarter. The purchase price of the 20 barges is approximately \$24,500,000, subject to adjustment based on steel prices, of which \$12,463,000 was expended in the 2005 first nine months. Financing of the construction of the 20 barges will be through operating cash flows and available credit under the Company's Revolving Credit Facility.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Capital Expenditures — (Continued)

In July 2005, the Company entered into a contract for the construction of ten 30,000 barrel capacity inland tank barges for use in the transportation of petrochemicals and refined petroleum products. Delivery of the 10 barges is scheduled for March 2006 through January 2007. The purchase price of the 10 barges is approximately \$18,000,000, subject to adjustment based on steel prices, of which \$2,330,000 was expended in the 2005 first nine months. Financing of the construction of the 10 barges will be through operating cash flows and available credit under the Company's Revolving Credit Facility.

In July 2005, the Company entered into a contract for the construction of thirteen 30,000 barrel capacity inland tank barges for use in the transportation of petrochemicals and refined petroleum products. Delivery of the 13 barges is scheduled for June through November 2006. The purchase price of the 13 barges is approximately \$27,000,000 subject to adjustment based on steel prices. Financing of the construction of the 13 barges will be through operating cash flows and available credit under the Company's Revolving Credit Facility.

A number of barges in the combined black oil fleet of the Company and Coastal Towing, Inc. ("Coastal") are scheduled to be retired and replaced with new barges. Under the Company's barge management agreement with Coastal, Coastal has the right to maintain its same capacity share of the combined fleet by building replacement barges as older barges are retired.

Funding for future capital expenditures and new barge 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 2005 first nine months, the Company did not purchase any treasury stock. As of November 8, 2005, the Company had 1,210,000 shares available under its common stock 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 \$105,977,000 during the nine months ended September 30, 2005, 7% higher than the \$99,508,000 generated during the nine months ended September 30, 2004. The increase in 2005 versus 2004 reflected stronger earnings and more cash flows resulting from changes in operating assets and liabilities offset by a lower deferred tax provision for 2005. The cash flows from changes in operating assets and liabilities were higher in 2005 than 2004 primarily due to increases in accounts payable in 2005 attributable to increased marine transportation and diesel engine services business levels, higher shipyard maintenance accruals, and higher accrued payables due to delays in processing accounts payables as a result of business office closures related to Hurricane Rita in late September 2005. The increase in operating assets and liabilities in 2004 was primarily due to IRS federal income tax refunds for the 2002 and 2003 tax years of approximately \$12,500,000 received in 2004. The deferral of federal income taxes was related to

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Liquidity — (Continued)

additional bonus tax depreciation on qualifying capital expenditures that the Company utilized in 2004, which is not effective for 2005, which resulted in the lower deferred tax provision in 2005.

The Company accounts for its ownership in its four marine partnerships under the equity method of accounting, recognizing cash flow upon the receipt or distribution of cash from the partnerships. For the nine months ended September 30, 2005 and 2004, the Company received net cash of \$2,170,000 and \$1,239,000, respectively, from the partnerships.

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 November 8, 2005, \$142,388,000 under its Revolving Credit Facility and \$121,000,000 under its shelf registration program, subject to mutual agreement to terms. As of November 7, 2005, the Company had \$9,362,000 available under its Credit Line and \$5,000,000 under the Credit Note.

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

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

The Company has issued guaranties or obtained 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 \$11,658,000 at September 30, 2005, including \$10,738,000 in letters of credit and debt guarantees, and \$920,000 in performance bonds, of which \$683,000 of these financial instruments 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 five 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.

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 that generally contain cost escalation clauses whereby certain costs, including fuel, can be passed through to its customers; however, there is typically a 30 to 90 day delay before contracts are adjusted for fuel prices. Spot market rates are at the current market rate, including 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 2005 interest expense by approximately \$337,000, based on balances outstanding at December 31, 2004, 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 swap agreements which 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 2005 Senior Notes and variable rate bank credit facilities. 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 Revolving Credit Facility and 2005 Senior Notes by entering into interest rate swap agreements. The interest rate swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent to the swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of September 30, 2005, the Company had a total notional amount of \$150,000,000 of interest rate swaps designated as cash flow hedges for its variable rate 2005 Senior Notes as follows (dollars in thousands):

<u>Notional amount</u>	<u>Trade date</u>	<u>Effective date</u>	<u>Termination date</u>	<u>Fixed pay rate</u>	<u>Receive rate</u>
\$ 100,000	February 2001	March 2001	March 2006	5.64%	One-month LIBOR
\$ 100,000	September 2003	March 2006	February 2013	5.45%	Three-month LIBOR
\$ 50,000	April 2004	April 2004	May 2009	4.00%	Three-month LIBOR

These interest rate swaps hedge a majority of the Company's long-term debt and only an immaterial loss on ineffectiveness was recognized in the 2005 third quarter and first nine months. At September 30, 2005, the fair value of the interest rate swap agreements was \$4,170,000, of which \$330,000 and \$747,000 were recorded as other current assets and other accrued liability, respectively, for swap maturities within the next twelve months, and \$889,000 and \$4,642,000 was recorded as other assets and other long-term liability, respectively, for swap maturities greater than twelve months. The Company has recorded, in interest expense, losses related to the interest rate swap agreements of \$619,000 and \$1,403,000 for the three months ended September 30, 2005 and 2004, respectively, and \$2,366,000 and \$4,597,000 for the nine months ended September 30, 2005 and 2004, respectively. Gains or losses on the interest rate swap contracts offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company anticipates \$855,000 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 September 30, 2005 and 2004 based on quoted market values of the Company's portfolio of derivative instruments.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Item 4. Controls and Procedures

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

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES
PART II — OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits:

31.1 — Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).

31.2 — Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).

32 — Certification Pursuant to 13 U.S.C. Section 1350 (As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

Certification of Chief Executive Officer

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 by Kirby Corporation, Joseph H. Pyne, President and Chief Executive Officer, certifies that:

1. I have reviewed this quarterly report on Form 10-Q of Kirby Corporation (the "Company");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Company and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) Disclosed in this quarterly report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ JOSEPH H. PYNE
Joseph H. Pyne
President and Chief Executive Officer

Dated: November 8, 2005

Certification of Chief Financial Officer

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 by Kirby Corporation, Norman W. Nolen, Executive Vice President, Treasurer and Chief Financial Officer, certifies that:

1. I have reviewed this quarterly report on Form 10-Q of Kirby Corporation (the "Company");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this quarterly report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Company and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) Disclosed in this quarterly report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

/s/ NORMAN W. NOLEN

Norman W. Nolen
*Executive Vice President, Treasurer and Chief Financial
Officer*

Dated: November 8, 2005

**Certification Pursuant to Section 13 U.S.C. Section 1350
(As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)**

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 (the "Report") by Kirby Corporation (the "Company"), each of the undersigned hereby certifies that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOSEPH H. PYNE

Joseph H. Pyne
President and Chief Executive Officer

/s/ NORMAN W. NOLEN

Norman W. Nolen
Executive Vice President, Treasurer and Chief Financial Officer

Dated: November 8, 2005