

## 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 and Exchange Act of 1934

For the quarter ended June 30, 1997

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

Commission File Number 1-7615

Kirby Corporation

-----  
(Exact name of registrant as specified in its charter)

Nevada

74-1884980

-----  
(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

1775 St. James Place, Suite 200, Houston, TX 77056-3453

-----  
(Address of principal executive offices) (Zip Code)

(713) 435-1000

-----  
(Registrant's telephone number, including area code)

No Change

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  ]No  ]

The number of shares outstanding of the registrant's Common Stock, \$.10 par value per share, on August 1, 1997 was 24,304,836.

## PART 1 - FINANCIAL INFORMATION

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS  
(Unaudited)

## ASSETS

|  | June 30,<br>1997 | December 31,<br>1996 |
|--|------------------|----------------------|
|--|------------------|----------------------|

-----  
(\$ in thousands)

## Current assets:

|  |          |        |
|--|----------|--------|
| Cash and invested cash                                 | \$ 4,213 | 1,544  |
| Available-for-sale securities - short-term investments | 20,163   | 18,199 |

|   |           |         |
|---|-----------|---------|
| Accounts and notes receivable, net of allowance for doubtful accounts     | 84,401    | 79,866  |
| Inventory - finished goods, at lower of average cost or market            | 18,517    | 16,361  |
| Prepaid expenses and other  | 14,841    | 13,315  |
| Deferred taxes  | 1,018     | 600     |
|   | -----     | -----   |
| Total current assets  | 143,153   | 129,885 |
|   | -----     | -----   |
| Property and equipment, at cost   | 525,770   | 518,773 |
| Less allowance for depreciation   | 213,740   | 200,049 |
|   | -----     | -----   |
|   | 312,030   | 318,724 |
|   | -----     | -----   |
| Investments in affiliates:  |           |         |
| Insurance affiliate   | 43,105    | 44,554  |
| Marine affiliates   | 13,616    | 12,697  |
|   | -----     | -----   |
|   | 56,721    | 57,251  |
|   | -----     | -----   |
| Excess cost of consolidated subsidiaries, net of accumulated amortization | 7,966     | 8,316   |
| Sundry  | 7,426     | 10,354  |
|   | -----     | -----   |
|   | \$527,296 | 524,530 |
|   | =====     | =====   |

See accompanying notes to condensed financial statements.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS  
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

|                                      | June 30,<br>1997  | December 31,<br>1996 |
|--------------------------------------|-------------------|----------------------|
|                                      | -----             | -----                |
|                                      | (\$ in thousands) |                      |
| Current liabilities:                 |                   |                      |
| Current portion of long-term debt    | \$ 5,333          | 5,333                |
| Income taxes payable                 | 2,343             | 4,027                |
| Accounts payable                     | 24,325            | 30,518               |
| Accrued liabilities                  | 50,918            | 44,511               |
| Deferred revenues                    | 3,714             | 5,302                |
|                                      | -----             | -----                |
| Total current liabilities            | 86,633            | 89,691               |
|                                      | -----             | -----                |
| Long-term debt, less current portion | 177,251           | 176,617              |
| Deferred taxes                       | 47,744            | 45,901               |
| Other long-term liabilities          | 7,065             | 6,567                |
|                                      | -----             | -----                |
|                                      | 232,060           | 229,085              |
|                                      | -----             | -----                |

|  |            |          |
|--|------------|----------|
| Contingencies and commitments  | --         | --       |
| Stockholders' equity:  |            |          |
| Preferred stock, \$1.00 par value per share. Authorized<br>20,000,000 shares                       | --         | --       |
| Common stock, \$.10 par value per share. Authorized 60,000,000<br>shares, issued 30,907,000 shares | 3,091      | 3,091    |
| Additional paid-in capital   | 158,575    | 158,712  |
| Unrealized net losses in value of available-for-sale securities                                    | (259)      | (32)     |
| Retained earnings  | 128,107    | 115,263  |
|  | -----      | -----    |
|  | 289,514    | 277,034  |
| Less cost of 6,604,000 shares in treasury (6,129,000 at<br>December 31, 1996)                      | (80,911)   | (71,280) |
|  | -----      | -----    |
|  | 208,603    | 205,754  |
|  | -----      | -----    |
|  | \$ 527,296 | 524,530  |
|  | =====      | =====    |

See accompanying notes to condensed financial statements.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF EARNINGS  
(Unaudited)

|  | Three months ended<br>June 30,              |         | Six months ended<br>June 30, |         |
|--|---|---------|------------------------------|---------|
|  | 1997  | 1996    | 1997                         | 1996    |
|  | -----                                       | -----   | -----                        | -----   |
|  | (\$ in thousands, except per share amounts) |         |                              |         |
| Revenues:  |   |         |                              |         |
| Transportation   | \$ 83,996                                   | 81,312  | 161,908                      | 158,784 |
| Diesel repair  | 20,406                                      | 14,630  | 40,950                       | 29,565  |
| Investment income and other                                      | 142   | 195     | 618                          | 707     |
| Gain on disposition of assets                                    | 174   | 1,764   | 157                          | 1,748   |
|  | -----                                       | -----   | -----                        | -----   |
|  | 104,718                                     | 97,901  | 203,633                      | 190,804 |
|  | -----                                       | -----   | -----                        | -----   |
| Costs and expenses:  |   |         |                              |         |
| Costs of sales and operating expenses (except as<br>shown below) | 69,658                                      | 62,565  | 136,857                      | 124,027 |
| Selling, general and administrative                              | 11,388                                      | 10,632  | 22,710                       | 20,783  |
| Taxes, other than on income                                      | 2,053                                       | 1,904   | 3,878                        | 3,829   |
| Depreciation and amortization                                    | 8,738                                       | 8,267   | 17,534                       | 17,655  |
|  | -----                                       | -----   | -----                        | -----   |
|  | 91,837                                      | 83,368  | 180,979                      | 166,294 |
|  | -----                                       | -----   | -----                        | -----   |
| Operating income   | 12,881                                      | 14,533  | 22,654                       | 24,510  |
| Equity in earnings of insurance affiliate                        | 2,911                                       | 382     | 3,312                        | 1,351   |
| Equity in earnings of marine affiliates                          | 531   | 1,166   | 1,394                        | 1,914   |
| Interest expense   | (3,450)                                     | (3,161) | (6,824)                      | (6,476) |
|  | -----                                       | -----   | -----                        | -----   |
| Earnings before taxes on income                                  | 12,873                                      | 12,920  | 20,536                       | 21,299  |
| Provision for taxes on income                                    | (4,768)                                     | (4,694) | (7,692)                      | (7,833) |
|  | -----                                       | -----   | -----                        | -----   |

|  |          |       |        |        |
|--|----------|-------|--------|--------|
| Net earnings                           | \$ 8,105 | 8,226 | 12,844 | 13,466 |
|  | =====    | ===== | =====  | =====  |
| Net earnings per share of common stock | \$ .33   | .31   | .52    | .51    |
|  | =====    | ===== | =====  | =====  |

See accompanying notes to condensed financial statements.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | Six months ended June 30, |          |
|---|---------------------------|----------|
|   | 1997                      | 1996     |
|   | -----                     | -----    |
| Cash flows from operating activities:   |                           |          |
| Net earnings  | \$ 12,844                 | 13,466   |
| Adjustments to reconcile net earnings to net cash provided by operating activities:   |                           |          |
| Depreciation and amortization   | 17,534                    | 17,655   |
| Provision for deferred income taxes   | 1,548                     | 2,775    |
| Gain on disposition of assets   | (157)                     | (1,748)  |
| Deferred scheduled maintenance costs  | 4,672                     | 2,475    |
| Equity in earnings of insurance affiliate, net of redemption                          | 1,188                     | (1,351)  |
| Equity in earnings of marine affiliates, net of distributions                         | (919)                     | (426)    |
| Other   | 2                         | 92       |
| Increase (decrease) in cash flows resulting from changes in operating working capital | (13,446)                  | 861      |
|   | -----                     | -----    |
| Net cash provided by operating activities   | 23,266                    | 33,799   |
|   | -----                     | -----    |
| Cash flows from investing activities:   |                           |          |
| Proceeds from sale and maturities of investments                                      | 1,935                     | --       |
| Purchase of investments   | (3,987)                   | (1,283)  |
| Capital expenditures  | (11,351)                  | (23,679) |
| Proceeds from disposition of assets   | 1,940                     | 5,100    |
|   | -----                     | -----    |
| Net cash used in investing activities   | (11,463)                  | (19,862) |
|   | -----                     | -----    |
| Cash flows from financing activities:   |                           |          |
| Payments on bank revolving credit agreements, net                                     | (10,200)                  | (8,400)  |
| Increase in long-term debt  | 50,000                    | --       |
| Payments on long-term debt  | (39,166)                  | (5,513)  |
| Purchase of treasury stock  | (10,887)                  | --       |
| Proceeds from exercise of stock options   | 1,119                     | 417      |
|   | -----                     | -----    |
| Net cash used in financing activities   | (9,134)                   | (13,496) |
|   | -----                     | -----    |
| Increase in cash and invested cash  | 2,669                     | 441      |
| Cash and invested cash, beginning of year   | 1,544                     | 1,457    |
|   | -----                     | -----    |
| Cash and invested cash, end of period   | \$ 4,213                  | 1,898    |
|   | =====                     | =====    |

Supplemental disclosures of cash flow information: Cash paid during the period for:

|              |          |       |
|--------------|----------|-------|
| Interest     | \$ 6,155 | 6,510 |
| Income taxes | \$ 6,314 | 4,487 |

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS

In the opinion of management, the accompanying unaudited condensed financial statements of Kirby Corporation and consolidated subsidiaries (the "Company") contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 1997 and December 31, 1996, and the results of operations for the three months and six months ended June 30, 1997 and 1996.

(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 latest Annual Report on Form 10-K.

(2) ADOPTION OF ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings per Share. This statement establishes standards for computing and presenting earnings per share and requires, among other things, dual presentation of basic and diluted earnings per share on the face of the statements of earnings. The statement is effective for financial statements for periods ending after December 15, 1997. The Company will adopt SFAS No. 128 by December 31, 1997 and does not expect the adoption to have a material impact on its calculation of earnings per share.

(3) TAXES ON INCOME

Earnings before taxes on income and details of the provision for taxes on income for the three months and six months ended June 30, 1997 and 1996 were as follows (in thousands):

|                                  | THREE MONTHS ENDED<br>JUNE 30, |        | SIX MONTHS ENDED<br>JUNE 30, |        |
|----------------------------------|--------------------------------|--------|------------------------------|--------|
|                                  | 1997                           | 1996   | 1997                         | 1996   |
| Earnings before taxes on income: |                                |        |                              |        |
| United States                    | \$ 9,962                       | 12,538 | 17,224                       | 19,948 |
| Foreign                          | 2,911                          | 382    | 3,312                        | 1,351  |
|                                  | \$ 12,873                      | 12,920 | 20,536                       | 21,299 |
| Provision for taxes on income:   |                                |        |                              |        |
| United States                    |                                |        |                              |        |
| Current                          | \$ 3,052                       | 2,755  | 4,779                        | 4,771  |

|                       |          |       |       |       |
|-----------------------|----------|-------|-------|-------|
| Deferred              | 691      | 1,792 | 1,518 | 2,775 |
| State and municipal   | 300      | 147   | 470   | 287   |
|                       | -----    | ----- | ----- | ----- |
|                       | 4,043    | 4,694 | 6,767 | 7,833 |
| Puerto Rico - Current | 725      | --    | 925   | --    |
|                       | -----    | ----- | ----- | ----- |
|                       | \$ 4,768 | 4,694 | 7,692 | 7,833 |
|                       | =====    | ===== | ===== | ===== |

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS

(4) LONG-TERM DEBT

The Company has on file a shelf registration on Form S-3 with the Securities and Exchange Commission providing for the issue of up to \$250,000,000 of medium term notes ("Medium Term Notes") at fixed or floating interest rates with maturities of nine months or longer. In January 1997, the Company issued \$50,000,000 of the authorized Medium Term Notes at a fixed interest rate of 7.05%, due January 29, 2002. Proceeds from the issuance were used to retire \$34,000,000 of Medium Term Notes due March 10, 1997, with the balance used to reduce the Company's revolving credit agreement (the "Credit Agreement") with Texas Commerce Bank National Association, as agent bank. As of June 30, 1997, \$121,000,000 was available under the Medium Term Notes program and \$39,800,000 was available for takedown under the Credit Agreement. Both issues are available to provide financing for future business and equipment acquisitions and working capital requirements.

(5) INSURANCE DISCLOSURE

The Company's investment in Universal Insurance Company ("Universal"), a property and casualty insurance company operating exclusively in the Commonwealth of Puerto Rico, is accounted for under the equity method of accounting. Currently, the Company owns 45% of Universal's voting common stock and 55% is owned by Eastern America Financial Group, Inc. ("Eastern America"). In March 1997, Universal redeemed \$2,000,000 of Universal's voting common stock from the Company, reducing the Company's voting common stock investment in Universal from 47% to 45%.

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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, fog and ice, marine accidents, 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.

The Company is a provider of marine transportation services for both the inland and offshore marine markets. The marine transportation segment is divided into two divisions, organized around the markets they serve. The Inland Division serves the inland industrial chemical, petrochemical, agricultural chemical and refined products markets. The Offshore Division serves the offshore refined products, dry-bulk, container and palletized cargo markets. The Offshore Division also serves as managing partner of two offshore marine partnerships, of which the Company has a 35% and 50% ownership, respectively. The partnerships are accounted for under the equity method of accounting.

The Company is engaged through its Diesel Repair Division in the sale, overhaul and repair of large medium-speed diesel engines in marine, power generation and rail applications. The Company's 45% voting common stock investment in Universal is accounted for under the equity method of accounting.

#### RESULTS OF OPERATIONS

The Company reported net earnings for the 1997 second quarter of \$8,105,000, or \$.33 per share, on revenues of \$104,718,000, compared with net earnings of \$8,226,000, or \$.31 per share, on revenues of \$97,901,000 for the second quarter of 1996. The 1997 second quarter net earnings included the receipt from Universal of \$2,500,000, or \$.06 per share after taxes, the result of a resolution of a previously reserved Universal contingency for outstanding litigation. Net earnings for the 1997 first six months totaled \$12,844,000, or \$.52 per share, on revenues of \$203,633,000. Net earnings for the 1996 first six months totaled \$13,466,000, or \$.51 per share, on revenues of \$190,804,000.

The following tables set forth the Company's revenues from its principal operating divisions and percentage of such revenues for the three months and six months ended June 30, 1997 compared with the three months and six months ended June 30, 1996 (dollars in thousands):

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#### KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

|                        | THREE MONTHS ENDED JUNE 30, |      |          |      |                     |      |
|------------------------|-----------------------------|------|----------|------|---------------------|------|
|                        | 1997                        |      | 1996     |      | INCREASE (DECREASE) |      |
|                        | Amounts                     | %    | Amounts  | %    | Amounts             | %    |
| Revenues:              |                             |      |          |      |                     |      |
| Inland Division        | \$62,948                    | 60%  | \$62,123 | 63%  | \$825               | 1%   |
| Offshore Division      | 21,048                      | 20   | 19,189   | 20   | 1,859               | 10   |
| Diesel Repair Division | 20,406                      | 19   | 14,630   | 15   | 5,776               | 39   |
| Other income           | 316                         | 1    | 1,959    | 2    | (1,643)             | (84) |
|                        | \$104,718                   | 100% | \$97,901 | 100% | \$6,817             | 7%   |

|                   | SIX MONTHS ENDED JUNE 30, |     |           |     |                     |      |
|-------------------|---------------------------|-----|-----------|-----|---------------------|------|
|                   | 1997                      |     | 1996      |     | INCREASE (DECREASE) |      |
|                   | Amounts                   | %   | Amounts   | %   | Amounts             | %    |
| Revenues:         |                           |     |           |     |                     |      |
| Inland Division   | \$117,759                 | 58% | \$118,977 | 62% | \$ (1,218)          | (1)% |
| Offshore Division | 44,149                    | 22  | 39,807    | 21  | 4,342               | 11   |

|                        |           |       |           |       |           |       |
|------------------------|-----------|-------|-----------|-------|-----------|-------|
| Diesel Repair Division | 40,950    | 20    | 29,565    | 16    | 11,385    | 39    |
| Other income           | 775       | --    | 2,455     | 1     | (1,680)   | (68)  |
|                        | -----     | ----- | -----     | ----- | -----     | ----- |
|                        | \$203,633 | 100%  | \$190,804 | 100%  | \$ 12,829 | 7 %   |
|                        | =====     | ===== | =====     | ===== | =====     | ===== |

Revenues for the Inland Division for both comparable periods remained relatively constant. During the 1997 second quarter and first six months utilization was enhanced and spot market rates increased; however, such improvements were offset by the impact of the flooding on the Mississippi River System during the months of February through April. During the majority of the 1997 first quarter, the upper Mississippi River and Ohio River experienced high water and flooding conditions, with river closures in selected areas and mandated regulatory operating restrictions. During the month of March, and extending into April, the lower Mississippi River, the Company's principal area of operations, experienced high water not seen in such severity since 1983. The loss of revenue, estimated at approximately \$750,000 for the 1997 second quarter and approximately \$3,450,000 for the 1997 first six months, was the result of delays, diversions and limitations on night passages, horsepower requirements and size of tows. The effects of the flooding throughout the Mississippi River System, which reduced the Company's revenues and increased its expenses, resulted in a reduction in net earnings by an estimated \$.03 per share for the 1997 second quarter and \$.10 per share for the 1997 first six months.

During the latter part of the 1997 first quarter and during the second quarter, fleet utilization and spot market pricing remained strong due to inefficiencies in the river system. Volumes also improved in the inland chemical, petrochemical and refined products markets. In addition, revenue for the Inland Division for the 1996 second quarter and 1996 first six months included approximately \$2,100,000 and \$3,900,000, respectively, of revenue from the Company's harbor services operation. Revenue from the harbor services operation for the 1997 second quarter and 1997 first six months of approximately \$2,400,000 and \$4,700,000, respectively, was included in the Offshore Division.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

The Offshore Division's 10% increase for the 1997 second quarter and 11% increase for the 1997 first six months was primarily attributable to the addition of the harbor services operation's revenue of approximately \$2,400,000 for the 1997 second quarter and \$4,700,000 for the 1997 first six months, as previously noted. During the 1997 second quarter, the Division's liquid tanker fleet experienced a significant decline in spot market rates and utilization when compared with the 1997 first quarter, when the fleet experienced full utilization at adequate rates. During the 1997 first quarter, the tankers moved heating oil to the Northeast and refined products to the West Coast. During the 1997 second quarter, higher MTBE imports, record clean petroleum production by middle Atlantic and California refineries and additional capacity competing for spot market movements resulted in the lay-up of certain spot market tankers for a portion of the quarter and lower spot market rates.

The Offshore Division's two preference food aid freighters were only partially employed during the 1997 second quarter and first six months. During the corresponding periods of the prior year, the Division averaged only one of their vessels being employed. In May 1997, one of the Division's freighters was scrapped following a preference food aid trip to North Korea. The Division had previously scrapped one freighter in September 1996. Lack of available movements and corresponding low rates continue to effect this segment of the Offshore Division.

The Diesel Repair Division's revenue for the 1997 second quarter and first six months reflected a 39% increase for both periods when compared with the corresponding periods of the 1996 year. The increases were primarily due to the inclusion of MKW Power Systems, Inc. ("MKW"), whose operating assets were



acquired in July 1996. Such acquisition generated approximately \$7,800,000 and \$15,200,000, respectively, of revenue during the 1997 second quarter and 1997 first six months. During the months of February through April 1997, the Diesel Repair Division's Midwest facility was negatively impacted by the lingering effect of the Mississippi River flooding and a disappointing inland dry cargo barge market.

The decrease in other income for both the 1997 second quarter and first six months compared with the 1996 corresponding periods primarily reflected the realized gain for the sale of two inland towboats of \$1,769,000 during the 1996 second quarter.

The following tables set forth the costs and expenses and percentage of each for the three months and six months ended June 30, 1997 compared with the three months and six months ended June 30, 1996 (dollars in thousands):

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

|                                       | THREE MONTHS ENDED JUNE 30, |             |                  |             |                     |            |
|---------------------------------------|-----------------------------|-------------|------------------|-------------|---------------------|------------|
|                                       | 1997                        |             | 1996             |             | INCREASE (DECREASE) |            |
|                                       | AMOUNTS                     | %           | AMOUNTS          | %           | AMOUNTS             | %          |
| Costs and expenses:                   |                             |             |                  |             |                     |            |
| Costs of sales and operating expenses | \$ 69,658                   | 76%         | \$ 62,565        | 75%         | \$ 7,093            | 11%        |
| Selling, general and administrative   | 11,388                      | 12          | 10,632           | 13          | 756                 | 7          |
| Taxes, other than on income           | 2,053                       | 2           | 1,904            | 2           | 149                 | 8          |
| Depreciation and amortization         | 8,738                       | 10          | 8,267            | 10          | 471                 | 6          |
|                                       | <u>\$ 91,837</u>            | <u>100%</u> | <u>\$ 83,368</u> | <u>100%</u> | <u>\$ 8,469</u>     | <u>10%</u> |

|                                       | SIX MONTHS ENDED JUNE 30, |             |                  |             |                     |           |
|---------------------------------------|---------------------------|-------------|------------------|-------------|---------------------|-----------|
|                                       | 1997                      |             | 1996             |             | INCREASE (DECREASE) |           |
|                                       | AMOUNTS                   | %           | AMOUNTS          | %           | AMOUNTS             | %         |
| Costs and expenses:                   |                           |             |                  |             |                     |           |
| Costs of sales and operating expenses | \$136,857                 | 76%         | \$124,027        | 75%         | \$ 12,830           | 10%       |
| Selling, general and administrative   | 22,710                    | 12          | 20,783           | 12          | 1,927               | 9         |
| Taxes, other than on income           | 3,878                     | 2           | 3,829            | 2           | 49                  | 1         |
| Depreciation and amortization         | 17,534                    | 10          | 17,655           | 11          | (121)               | (1)       |
|                                       | <u>\$180,979</u>          | <u>100%</u> | <u>\$166,294</u> | <u>100%</u> | <u>\$ 14,685</u>    | <u>9%</u> |

The 11% increase for the 1997 second quarter and 10% increase for the 1997 first half in costs of sales and operating expenses primarily reflected the increased Diesel Repair Division's costs and expenses of approximately \$6,100,000 and \$11,000,000, respectively, generated from acquiring the operating assets of MKW. In addition, the Inland Division's operating expenses increased for the 1997 second quarter and first half by an estimated \$250,000, reflecting the high costs and equipment utilization associated with the flooding.

Selling, general and administrative expenses increased 7% for the 1997 second quarter and 9% for the first six months when compared with the corresponding periods of 1996. The increases were largely due to approximately \$1,500,000 of additional expenses for the 1997 second quarter and approximately

\$3,400,000 for the 1997 first half of additional expenses associated with the Diesel Repair Division's acquisition of MKW. Selling, general and administrative expenses for the Inland Division and corporate activities declined approximately \$850,000 for the 1997 second quarter and \$1,950,000 for the 1997 first half, when compared with the corresponding periods of 1996, primarily reflecting the savings from the 1996 reorganization, which reduced administrative costs.

Depreciation and amortization for the 1997 second quarter increased 6% and for the 1997 first half decreased 1% when compared with the corresponding 1996 periods. The 6% increase for the 1997 second quarter was primarily attributable to the Company's change in the estimated depreciable lives of its inland tank barges and towboats. The change, recorded in the 1996 second quarter, was effective as of January 1, 1996 and decreased depreciation expense for the 1996 second quarter and first six months by \$1,261,000. The change in the estimated lives provided a more consistent matching of revenues and depreciation expense over the economic useful lives of

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KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations

the inland tank barges and towboats. Partially offsetting the decrease associated with the change in the estimated depreciable lives was the depreciation of new inland tank barges, 14 of which were added in 1996 and two were added in 1997.

The following tables set forth the operating income and operating margin by division for the three months and six months ended June 30, 1997 compared with the three months and six months ended June 30, 1996 (dollars in thousands):

|                        | THREE MONTHS ENDED JUNE 30,   |                     |                               |                     |          |           |
|------------------------|-------------------------------|---------------------|-------------------------------|---------------------|----------|-----------|
|                        | 1997                          |                     | 1996                          |                     | INCREASE | DECREASE) |
|                        | OPERATING<br>INCOME<br>(LOSS) | OPERATING<br>MARGIN | OPERATING<br>INCOME<br>(LOSS) | OPERATING<br>MARGIN | AMOUNTS  | %         |
| Inland Division        | \$ 11,004                     | 17.5%               | \$ 11,524                     | 18.6%               | \$ (520) | (5)%      |
| Offshore Division      | 1,361                         | 6.5%                | 1,477                         | 7.7%                | (116)    | (8)       |
| Diesel Repair Division | 1,667                         | 8.2%                | 1,313                         | 9.0%                | 354      | 27        |
| Corporate expenses     | (1,467)                       |                     | (1,740)                       |                     | 273      | 16        |
|                        | \$ 12,565                     |                     | \$ 12,574                     |                     | \$ (9)   | -- %      |
|                        | =====                         |                     | =====                         |                     | =====    | =====     |

|                   | SIX MONTHS ENDED JUNE 30,     |                     |                               |                     |            |           |
|-------------------|-------------------------------|---------------------|-------------------------------|---------------------|------------|-----------|
|                   | 1997                          |                     | 1996                          |                     | INCREASE   | DECREASE) |
|                   | OPERATING<br>INCOME<br>(LOSS) | OPERATING<br>MARGIN | OPERATING<br>INCOME<br>(LOSS) | OPERATING<br>MARGIN | AMOUNTS    | %         |
| Inland Division   | \$ 16,795                     | 14.3%               | \$ 18,732                     | 15.7%               | \$ (1,937) | (10)%     |
| Offshore Division | 4,465                         | 10.1%               | 4,041                         | 10.1%               | 424        | 10        |

|                        |           |      |           |      |          |       |
|------------------------|-----------|------|-----------|------|----------|-------|
| Diesel Repair Division | 3,214     | 7.8% | 2,496     | 8.4% | 718      | 29    |
| Corporate expenses     | (2,595)   |      | (3,214)   |      | 619      | 19    |
|                        | -----     |      | -----     |      | -----    | ----- |
|                        | \$ 21,879 |      | \$ 22,055 |      | \$ (176) | (1)%  |
|                        | =====     |      | =====     |      | =====    | ===== |

As previously discussed, flooding on the entire Mississippi River System during the 1997 first quarter, and continued flooding on the lower Mississippi River during the month of April, resulted in estimated reductions in the Inland Division's operating profit for the 1997 second quarter and first six months of approximately \$1,000,000 and \$3,700,000, respectively. Adding back the flooding impact, the Inland Division's 1997 second quarter and first six months operating margin would have been approximately 19% and 17%, respectively, an improvement over the 17.5% operating margin reported for the 1997 second quarter and 14.3% reported for the 1997 first six months.

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The following tables set forth the equity in earnings of affiliates and interest expense for the three months and six months ended June 30, 1997 compared with the three months and six months ended June 30, 1996 (dollars in thousands):

|   | THREE MONTHS ENDED JUNE 30, |         | INCREASE (DECREASE) |       |
|---|-----------------------------|---------|---------------------|-------|
|   | 1997                        | 1996    | AMOUNT              | %     |
|   | -----                       | -----   | -----               | ----- |
| Equity in earnings of insurance affiliate | \$ 2,911                    | \$ 382  | \$ 2,529            | 662%  |
| Equity in earnings of marine affiliates   | 531                         | 1,166   | (635)               | (54)  |
| Interest expense                          | (3,450)                     | (3,161) | 289                 | 9     |

|   | SIX MONTHS ENDED JUNE 30, |          | INCREASE (DECREASE) |       |
|---|---------------------------|----------|---------------------|-------|
|   | 1997                      | 1996     | AMOUNT              | %     |
|   | -----                     | -----    | -----               | ----- |
| Equity in earnings of insurance affiliate | \$ 3,312                  | \$ 1,351 | \$ 1,961            | 145%  |
| Equity in earnings of marine affiliates   | 1,394                     | 1,914    | (520)               | (27)  |
| Interest expense                          | (6,824)                   | (6,476)  | 348                 | 5     |

The Company currently has a 45% voting common stock investment in Universal. The amount recorded by the Company as equity in earnings for the Company's investment in Universal is influenced to the extent that anticipated future redemptions by Universal of its common stock exceeds the Company's investment in Universal's stock. The Company also has a 100% investment in Universal's nonvoting preferred stock. Because the preferred stock controls a separate portfolio of U.S. Treasury Securities, the Company accounts for this preferred stock under SFAS 115. Therefore, the interest earned, as well as the realized gains from the sale of U.S. Treasury Securities collateralizing the preferred stock, were included as part of equity in earnings of the insurance affiliate. For the 1997 and 1996 second quarters and first six months, the Company recorded \$261,000 and \$232,000, and \$512,000 and \$469,000, respectively, of interest earned from its investment in U.S. Treasury Securities, and recognized during the 1996 first quarter \$582,000 of realized gains from the sale of such U.S. Treasury Securities, which were included in

equity in earnings of insurance affiliate.

The Company recognized in the 1997 second quarter \$2,911,000 of equity in earnings of insurance affiliate, including the \$2,500,000 of cash received from Universal as the result of a resolution of a previously reserved Universal contingency for outstanding litigation. The litigation was fully reserved on Universal's financial records and was set aside as part of the merger in 1992 of Universal with Eastern America.

Equity in earnings of marine affiliates reflected a 54% decrease for the 1997 second quarter compared with the 1996 second quarter, and a 27% decrease for the 1997 first six months compared with the first six months of

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1996. During the 1997 second quarter, two of the partnership's barge and tug units were in the shipyard for maintenance for the majority of the quarter.

Interest expense reflected a 9% increase for the 1997 second quarter compared with the second quarter of 1996, and a 5% increase for the 1997 first six months compared with the first six months of 1996. Long-term debt was increased to finance the purchase of treasury stock discussed below, and the recently completed barge construction project also discussed below. Excess cash flows from operating activities were used to pay down the long-term debt.

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

BALANCE SHEET

Total assets as of June 30, 1997 were \$527,296,000, an increase of 1% compared with \$524,530,000 as of December 31, 1996. The following table sets forth the significant components of the balance sheet as of June 30, 1997 compared with December 31, 1996 (dollars in thousands):

|  | JUNE 30,<br>1997  | DECEMBER 31,<br>1996 | INCREASE (DECREASE) |           |
|--|-------------------|----------------------|---------------------|-----------|
|  |                   |                      | AMOUNT              | %         |
| <b>Assets:</b>                               |                   |                      |                     |           |
| Current assets                               | \$ 143,153        | \$ 129,885           | \$ 13,268           | 10%       |
| Property and equipment, net                  | 312,030           | 318,724              | (6,694)             | (2)       |
| Investments in affiliates                    | 56,721            | 57,251               | (530)               | (1)       |
| Other assets                                 | 15,392            | 18,670               | (3,278)             | (18)      |
|  | <u>\$ 527,296</u> | <u>\$ 524,530</u>    | <u>\$ 2,766</u>     | <u>1%</u> |
| <b>Liabilities and Stockholders' equity:</b> |                   |                      |                     |           |
| Current liabilities                          | \$ 86,633         | \$ 89,691            | \$ (3,058)          | (3)%      |
| Long-term debt                               | 177,251           | 176,617              | 634                 | --        |
| Deferred taxes                               | 47,744            | 45,901               | 1,843               | 4         |
| Other long-term liabilities                  | 7,065             | 6,567                | 498                 | 8         |
| Stockholders' equity                         | 208,603           | 205,754              | 2,849               | 1         |
|  | <u>\$ 527,296</u> | <u>\$ 524,530</u>    | <u>\$ 2,766</u>     | <u>1%</u> |

The 10% increase in current assets primarily reflected an increase in cash and available-for-sale securities of \$4,633,000, accounts receivable of \$4,535,000 and finished goods inventory for the Diesel Repair Division of \$2,156,000. The increase in accounts receivable was due primarily to higher

trade accounts receivable recorded in May and June, reflecting the strong inland equipment utilization. The increase in inventory reflected higher inventory levels in the Gulf Coast due to a strong offshore oilfield services market. The 2% decrease in property and equipment primarily reflected the depreciation for the 1997 first six months of approximately \$16,300,000,

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

offset by approximately \$11,400,000 of capital additions. Other assets decreased 18% primarily from the amortization of excess costs of consolidated subsidiaries and other intangibles of approximately \$1,300,000 and approximately \$2,300,000 of amortization of prepaid maintenance costs of ocean-going vessels.

Current liabilities reflected a 3% decrease primarily due to a 20% decrease in accounts payable. Partially offsetting the decrease in accounts payable was a 14% increase in accrued liabilities, the majority of which was an increase in accruals for scheduled repair and maintenance, which are charged to operating expense based on estimated annual expenditures.

Long-term debt, more fully described below, remained relatively flat during the 1997 first half, reflecting the additional long-term borrowings associated with the treasury stock acquisitions and barge construction project, more fully described below, less paydown on debt from the operating cash flow generated during the 1997 first half. Stockholders' equity increased 1% during the 1997 first half, reflecting the net earnings of \$12,844,000, offset by the purchase of treasury stock during the year of \$10,900,000 and a small decrease in the unrealized value of investments associated with the Universal preferred stock.

#### LONG-TERM DEBT

In January 1997, the Company issued \$50,000,000 of Medium Term Notes at a fixed interest rate of 7.05% due January 29, 2002. Proceeds from the issuance were used to retire the \$34,000,000 of Medium Term Notes due March 10, 1997, with the balance used to reduce the Company's \$100,000,000 revolving Credit Agreement. As of June 30, 1997, \$95,000,000 was outstanding under the Medium Term Notes program and \$60,200,000 was outstanding under the Credit Agreement.

#### CAPITAL EXPENDITURES

The Company continued to enhance its existing operations through the construction of new equipment. During the 1997 first quarter, the final two new inland tank barges were placed in service, completing the order of 24 double-skin 29,000 barrel capacity barges. The construction project cost approximately \$1,500,000 per barge. Funds for the construction project were available through the Company's Credit Agreement and cash provided by operating activities.

#### TREASURY STOCK PURCHASES

During the 1997 first quarter, the Company purchased 564,450 shares of its own common stock at a total purchase price of \$10,608,000, for an average price of \$18.80 per share. In the 1997 second quarter, the Company purchased 16,200 shares of its common stock at a total purchase price of \$279,000, for an average price of \$17.20 per share. As of August 1, 1997, the Company had 1,859,000 shares available under the 6,250,000 total repurchase authorization. The treasury stock purchases were financed by borrowing under the Company's Credit Agreement. 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

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volume and other market considerations. Shares purchased may be used for reissuance upon the exercise of stock options, in future acquisitions for stock or for other appropriate corporate purposes.

## LIQUIDITY

The Company generated net cash provided by operating activities of \$23,266,000 for the first six months of 1997 compared with \$33,799,000 for the 1996 first six months. The 1997 first half was negatively impacted by a \$13,446,000 decrease in cash flow resulting from changes in operating working capital, compared with an \$861,000 increase for the first six months of 1996. The 1997 first six months net cash provided by operating activities included a \$2,000,000 redemption of Universal's common stock and the \$2,500,000 of cash received from Universal for the lawsuit ruling.

Funds generated are available for capital projects, treasury stock repurchases, asset acquisitions, repayment of borrowings and for other operating requirements. In addition to its net cash provided by operating activities, the Company also has available as of July 31, 1997, \$45,200,000 under its revolving credit agreement and \$121,000,000 available under its Medium Term Notes program. The Company's fixed principal payments during the next 12 months are \$5,333,000.

During the last three years, inflation has had a relatively minor effect on the financial results of the Company. The marine transportation segment has long-term contracts which generally contain cost escalation clauses whereby certain costs, including fuel, can be passed through to its customers, while the transportation assets acquired and accounted for using the purchase method of accounting were adjusted to a fair market value and, therefore, the cumulative long-term effect on inflation was reduced. The repair portion of the diesel repair segment is based on prevailing current market rates or on negotiated service contracts with its customers. The Company does not presently use financial derivatives, but uses a mix of floating and fixed rate debt. The Company has no foreign exchange risks.

The Company has no present plan to pay dividends on its common stock.

## ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, Earnings per Share. This statement establishes standards for computing and presenting earnings per share and requires, among other things, dual presentation of basic and diluted earnings per share on the face of the statements of earnings. The statement is effective for financial statements for periods ending after December 15, 1997. The Company will adopt SFAS No. 128 by December 31, 1997 and does not expect the adoption to have a material impact on its calculation of earnings per share.

Item 1. Legal Proceedings

For a detailed explanation of the material pending legal proceedings against the Company, please refer to the Form 10-K for the year ended December 31, 1996.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

11.0 Computation of Earnings per Common Share.

27.0 Financial Data Schedule

(b) Reports on Form 8-K:

There were no reports on Form 8-K filed for the six months ended June 30, 1997.

SIGNATURES

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

Kirby Corporation  
(Registrant)

By: /s/ G. Stephen Holcomb  
-----  
G. Stephen Holcomb  
Vice President and Controller

Date: August 4, 1997

EXHIBIT INDEX

| EXHIBIT NUMBER | DESCRIPTION                               |
|----------------|---|
| -----          | -----                                     |
| 11.0           | Computation of Earnings per Common Share. |
| 27.0           | Financial Data Schedule                   |

## EXHIBIT 11.0

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

## COMPUTATION OF EARNINGS PER COMMON SHARE

|  | Three months ended June 30,                           |        | Six months ended June 30, |        |
|--|---|--------|---------------------------|--------|
|  | 1997  | 1996   | 1997                      | 1996   |
|  | -----   |        |                           |        |
|  | (\$ and shares in thousands, except per share amount) |        |                           |        |
| Net earnings   | \$ 8,105  | 8,226  | 12,844                    | 13,466 |
|  | =====   | =====  | =====                     | =====  |
| Shares:  |   |        |                           |        |
| Weighted average number of common shares<br>outstanding                              | 24,298  | 26,280 | 24,451                    | 26,270 |
| Common equivalent shares for dilutive effect<br>of assumed exercise of stock options | 309   | 324    | 297                       | 323    |
|  | -----   | -----  | -----                     | -----  |
|  | 24,607  | 26,604 | 24,748                    | 26,593 |
|  | =====   | =====  | =====                     | =====  |
| Net earnings per share of common stock   | \$ .33  | .31    | .52                       | .51    |
|  | =====   | =====  | =====                     | =====  |



<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM CONDENSED CONSOLIDATED BALANCE SHEETS AND STATEMENTS OF EARNINGS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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