

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, 1999

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 11, 1999 was 20,119,489.

2

PART I - FINANCIAL INFORMATION

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS  
(Unaudited)

ASSETS

June 30, December 31,  
1999 1998

-----  
(\$ in thousands)

Current assets:

Cash and cash equivalents	\$ 882	\$ 861
Available-for-sale securities	17,378	20,795
Accounts receivable:		
Trade - less allowance for doubtful accounts	48,827	53,586
Insurance claims and other	18,243	16,919

Inventory - finished goods	13,323	14,181
Prepaid expenses	6,672	4,829
Deferred income taxes	809	1,187
	-----	-----
Total current assets	106,134	112,358
	-----	-----
Property and equipment, at cost	474,488	466,443
Less accumulated depreciation	221,739	209,544
	-----	-----
	252,749	256,899
	-----	-----
Investments in marine affiliates	13,094	12,795
Goodwill - less accumulated amortization	5,111	5,368
Sundry	2,382	2,879
	-----	-----
	\$379,470	\$390,299
	=====	=====

See accompanying notes to condensed financial statements.

3

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS  
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 1999	December 31, 1998
	-----	-----
	(\$ in thousands)	
Current liabilities:		
Current portion of long-term debt	\$ 5,333	\$ 5,333
Income taxes payable	80	504
Accounts payable	20,182	12,918
Accrued liabilities	41,113	43,305
Deferred revenues	3,665	3,880
	-----	-----
Total current liabilities	70,373	65,940
	-----	-----
Long-term debt - less current portion	122,969	137,552
Deferred income taxes	40,605	40,045
Other long-term liabilities	6,165	5,722
	-----	-----
	169,739	183,319
	-----	-----
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	158,892	159,122
Accumulated other comprehensive income	(241)	338
Retained earnings	157,657	147,054
	-----	-----
	319,399	309,605
Less cost of 10,797,000 shares in treasury (10,137,000 at December 31, 1998)	180,041	168,565
	-----	-----
	139,358	141,040

-----  
 \$379,470      \$390,299  
 =====

See accompanying notes to condensed financial statements.

4

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF EARNINGS  
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	----- 1999 -----	----- 1998 -----	----- 1999 -----	----- 1998 -----
	(\$ in thousands, except per share amounts)			
Revenues:				
Marine transportation	\$63,672	\$62,858	\$121,401	\$122,255
Diesel engine services	20,383	21,466	41,135	44,324
Investment income and other	191	352	346	809
Gain on disposition of assets	3	208	35	244
	-----	-----	-----	-----
	84,249	84,884	162,917	167,632
	-----	-----	-----	-----
Costs and expenses:				
Costs of sales and operating expenses	54,157	53,963	107,095	108,675
Selling, general and administrative	8,661	9,730	17,900	19,306
Taxes, other than on income	1,964	1,978	3,689	3,959
Depreciation and amortization	6,829	6,829	13,509	13,659
	-----	-----	-----	-----
	71,611	72,500	142,193	145,599
	-----	-----	-----	-----
Operating income	12,638	12,384	20,724	22,033
Equity in earnings of insurance affiliate	-	413	-	907
Equity in earnings of marine affiliates	609	1,149	1,490	1,865
Interest expense	(2,569)	(3,232)	(5,114)	(5,999)
	-----	-----	-----	-----
Earnings before taxes on income	10,678	10,714	17,100	18,806
Provision for taxes on income	(4,076)	(4,039)	(6,497)	(7,091)
	-----	-----	-----	-----
Net earnings	\$ 6,602	\$ 6,675	\$ 10,603	\$ 11,715
	=====	=====	=====	=====
Net earnings per share of common stock:				
Basic	\$ .33	\$ .31	\$ .52	\$ .52
	=====	=====	=====	=====
Diluted	\$ .33	\$ .31	\$ .52	\$ .51
	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

5

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six months ended June 30,	
	----- 1999 -----	----- 1998 -----
	(\$ in thousands)	
Cash flows from operating activities:		
Net earnings	\$ 10,603	\$ 11,715
Adjustments to reconcile net earnings to net cash provided by operations:		

Depreciation and amortization	13,509	13,659
Provision for deferred income taxes	1,249	3,988
Gain on disposition of assets	(35)	(244)
Deferred scheduled maintenance costs	(1,047)	(72)
Equity in earnings of insurance affiliate	-	(907)
Equity in earnings of marine affiliates, net of distributions and contributions	(299)	855
Other	(89)	47
Increase in cash flows resulting from changes in operating working capital	8,628	1,632
	-----	-----
Net cash provided by operating activities of continuing operations	32,519	30,673
Net cash provided by operating activities of discontinued operations	-	108
	-----	-----
Net cash provided by operating activities	32,519	30,781
	-----	-----

TABLE CONTINUED ON NEXT PAGE

6

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS, Continued  
(Unaudited)

	Six months ended June 30,	
	1999	1998
	-----	-----
	(\$ in thousands)	
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	2,528	1,034
Purchase of investments	-	(1,876)
Capital expenditures	(9,382)	(16,542)
Proceeds from disposition of assets	645	1,259
Proceeds from disposition of business	-	38,600
Investing activities of discontinued operations	-	(275)
	-----	-----
Net cash provided by (used in) investing activities	(6,209)	22,200
	-----	-----
Cash flows from financing activities:		
Borrowings (payments) on bank revolving credit agreements, net	(9,500)	25,400
Payments on long-term debt	(5,083)	(5,167)
Purchase of treasury stock	(11,838)	(75,706)
Proceeds from exercise of stock options	132	1,528
	-----	-----
Net cash used in financing activities	(26,289)	(53,945)
	-----	-----
Increase (decrease) in cash and cash equivalents	21	(964)
Cash and cash equivalents, beginning of year	861	2,043
	-----	-----
Cash and cash equivalents, end of period	\$ 882	\$ 1,079
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the period:		
Interest	\$ 4,886	\$ 5,919
Income taxes	\$ 6,043	\$ 3,374

See accompanying notes to condensed financial statements.

7

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, 1999 and December 31, 1998, and the results of operations for the three months and six months ended June 30, 1999 and 1998.

(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) PENDING ACQUISITION

On July 29, 1999, the Company announced the signing of an Agreement and Plan of Merger with Hollywood Marine, Inc. ("Hollywood") providing for the merger of Hollywood, a privately held, inland tank barge company based in Houston, Texas, into Kirby Inland Marine, Inc., a wholly-owned subsidiary of the Company. The Company will purchase Hollywood for an aggregate consideration of approximately \$325,000,000, consisting of approximately \$90,000,000 in Kirby common stock, approximately \$135,000,000 in cash and the assumption or refinancing of all or part of Hollywood's existing debt of approximately \$100,000,000. The number of shares of Kirby common stock to be issued in the merger will be determined based on the average trading price of the common stock on the New York Stock Exchange during a twenty day period shortly before the closing, with the price used to be not less than \$17.50 per share and not more than \$21.50 per share.

Financing for the cash portion of the transaction will be through the Company's existing \$100,000,000 bank revolving credit agreement with Chase Bank of Texas, N.A. as agent bank and through the Company's existing medium term note program or new bond financing issued through the private and/or public markets. As of August 11, 1999, the Company had \$94,000,000 available under the bank revolving credit agreement and \$121,000,000 available under the medium term note program.

Hollywood is engaged in the inland tank barge transportation of chemicals and petrochemicals, refined petroleum products, black oil and pressurized products primarily along the Gulf Intracoastal Waterway, the Houston Ship Channel and the lower Mississippi River. Hollywood operates a fleet of 256 inland tank barges, with 4.6 million barrels of capacity, and 104 inland towboats.

8

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS - (Continued)

(2) PENDING ACQUISITION - (Continued)

Hollywood recorded total revenues of approximately \$168,000,000 for the year ended December 31, 1998 and approximately \$81,700,000 for the six months ended June 30, 1999. The closing of the transaction is subject to the inspection of Hollywood's inland tank barges and towboats, satisfactory completion of an environmental audit, review of material contracts and the resolution of certain other issues, including a statutory filing under the Hart-Scott-Rodino Antitrust Improvements Act. Consummation of the transaction is expected in October 1999. The transaction will be accounted for using the purchase method of accounting.

(3) ADOPTION OF ACCOUNTING STANDARDS

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133") issued in June 1998, establishes accounting and reporting standards for derivative instruments and hedging activities. This statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Based on the May 1999 announcement by the Financial Accounting Standards Board to delay the

implementation date by one year, SFAS No. 133 is now effective for all quarters of fiscal years beginning after June 15, 2000. SFAS No. 133 is effective for the Company's year ending December 31, 2001 and is not expected to have a material effect on the Company's financial position or results of operations.

(4) COMPREHENSIVE INCOME

The Company's total comprehensive income for the three months and six months ended June 30, 1999 and 1998 were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
Net earnings	\$6,602	\$6,675	\$10,603	\$11,715
Other comprehensive income (loss), net of tax	(241)	356	(579)	256
Total comprehensive income	<u>\$6,361</u>	<u>\$7,031</u>	<u>\$10,024</u>	<u>\$11,971</u>

9

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS - (Continued)

(5) SEGMENT INFORMATION

The following table sets forth the Company's summarized financial information by reportable segment for the three months and six months ended June 30, 1999 and 1998 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
Revenues:				
Marine transportation	\$63,672	\$62,858	\$121,401	\$122,255
Diesel engine services	20,383	21,466	41,135	44,324
Other	194	560	381	1,053
	<u>\$84,249</u>	<u>\$84,884</u>	<u>\$162,917</u>	<u>\$167,632</u>
Segment profit (loss):				
Marine transportation	\$11,415	\$10,675	\$ 18,318	\$ 18,819
Diesel engine services	2,164	2,355	4,281	4,528
Other	(2,901)	(2,316)	(5,499)	(4,541)
	<u>\$10,678</u>	<u>\$10,714</u>	<u>\$ 17,100</u>	<u>\$ 18,806</u>
Total assets:				
Marine transportation			\$295,149	\$314,370
Diesel engine services			37,399	47,614
Other			46,922	98,742
			<u>\$379,470</u>	<u>\$460,726</u>

10

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS - (Continued)

(5) SEGMENT INFORMATION - (Continued)

The following table presents the details of "Other" segment profit (loss) for the three months and six months ended June 30, 1999 and 1998 (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
General corporate expenses	\$ (1,135)	\$ (1,206)	\$ (2,256)	\$ (2,367)
Interest expense	(2,569)	(3,232)	(5,114)	(5,999)
Equity in earnings of affiliates	609	1,562	1,490	2,772
Gain on sale of assets	3	208	35	244
Other	191	352	346	809
	-----	-----	-----	-----
	\$ (2,901)	\$ (2,316)	\$ (5,499)	\$ (4,541)
	=====	=====	=====	=====

The following table presents the details of "Other" total assets as of June 30, 1999 and 1998 (in thousands):

	June 30,	
	1999	1998
General corporate assets	\$33,828	\$36,868
Investments in affiliates	13,094	61,874
	-----	-----
	\$46,922	\$98,742
	=====	=====

11

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS - (Continued)

(6) 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, 1999 and 1998 were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
Earnings before taxes on income:				
United States	\$10,678	\$10,301	\$17,100	\$17,899
Puerto Rico	-	413	-	907
	-----	-----	-----	-----
	\$10,678	\$10,714	\$17,100	\$18,806
	=====	=====	=====	=====
Provision for taxes on income:				
United States:				
Current	\$ 3,341	\$ 2,120	\$ 4,747	\$ 2,625

Deferred	495	1,700	1,249	3,988
State and local	240	219	501	478
	-----	-----	-----	-----
	4,076	4,039	6,497	7,091
Puerto Rico - current	-	-	-	-
	-----	-----	-----	-----
	\$ 4,076	\$ 4,039	\$ 6,497	\$ 7,091
	=====	=====	=====	=====

12

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, operating a fleet of 511 inland tank barges and 126 inland towing vessels, transporting industrial chemicals and petrochemicals, refined petroleum products and agricultural chemicals along the United States inland waterways. The Company also serves as managing partner of a 35% owned offshore marine partnership, consisting of four dry-bulk barge and tug units, and as managing partner of a 50% owned offshore marine partnership, consisting of one dry-bulk barge and tug unit. The partnerships are accounted for under the equity method of accounting.

The Company is engaged through its diesel engine services segment in the overhaul and servicing of large medium-speed diesel engines employed in marine, power generation and railroad applications.

RESULTS OF OPERATIONS

The Company reported net earnings of \$6,602,000, or \$.33 per share, on revenues of \$84,249,000 for the 1999 second quarter, compared with net earnings of \$6,675,000, or \$.31 per share, on revenues of \$84,884,000 for the 1998 second quarter. Net earnings for the six months ended June 30, 1999 were \$10,603,000, or \$.52 per share, on revenues of \$162,917,000, compared with net earnings of \$11,715,000, or \$.51 per share, on revenues of \$167,632,000 for the 1998 first six months. For purposes of this Management's Discussion, all earnings per share amounts presented are "Diluted Earnings Per Share." The weighted average number of common shares applicable to diluted earnings for the second quarter of 1999 and 1998 were 20,220,000 and 21,738,000, respectively, and for the 1999 and 1998 first half were 20,341,000 and 23,021,000, respectively. The reduction in common shares for the 1999 periods compared with the applicable 1998 periods primarily reflected the acquisition of treasury stock under the Company's Dutch Auction self-tender offer completed on March 23, 1998 and through open market repurchases during 1998 and the first six months of 1999, more fully discussed below.

13

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)



RESULTS OF OPERATIONS - (Continued)

The following table sets forth the Company's revenues and percentage of such revenues for the three months and six months ended June 30, 1999 compared with the three months and six months ended June 30, 1998 (dollars in thousands):

	Three months ended June 30,					
	1999		1998		Increase (decrease)	
	Amounts	%	Amounts	%	Amounts	%
Revenues:						
Marine transportation	\$63,672	76%	\$62,858	74%	\$ 814	1 %
Diesel engine services	20,383	24	21,466	25	(1,083)	(5)
Other income	194	-	560	1	(366)	(65)
	-----	---	-----	---	-----	---
	\$84,249	100%	\$84,884	100%	\$ (635)	(1)%
	=====	===	=====	===	=====	===

	Six months ended June 30,					
	1999		1998		Increase (decrease)	
	Amounts	%	Amounts	%	Amounts	%
Revenues:						
Marine transportation	\$121,401	75%	\$122,255	73%	\$ (854)	(1)%
Diesel engine services	41,135	25	44,324	26	(3,189)	(7)
Other income	381	-	1,053	1	(672)	(64)
	-----	---	-----	---	-----	---
	\$162,917	100%	\$167,632	100%	\$ (4,715)	(3)%
	=====	===	=====	===	=====	===

Revenues for the marine transportation segment increased 1% for the 1999 second quarter and decreased 1% for the 1999 first six months compared with the 1998 corresponding periods. The 1998 second quarter and first six months results included approximately \$1,800,000 and \$3,600,000, respectively, of revenues from two offshore tank barge and tug units which were sold in October 1998.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

RESULTS OF OPERATIONS - (Continued)

During the 1999 second quarter and first six months, chemical and petrochemical volumes were solid. Refined product volumes increased in May and June in anticipation of the summer driving season. Liquid fertilizer and ammonia volumes, which normally represent approximately 15% of marine transportation revenues, historically increase during the second quarter with the spring planting season. Volumes in the 1999 second quarter fell below normal expectations due to high inventory levels in the Midwest. Overproduction of nitrogen in 1998 and 1999, coupled with a 30-year low corn price, which deterred farmers from planting corn, have resulted in producers curtailing plant output of nitrogen products. The result was decreased shipments by barge into the Midwest in the 1999 second quarter compared with the traditional fertilizer season. Spot market rates continued to reflect modest quarter-to-quarter increases during 1999 and term contracts are generally being renewed at higher levels. During the 1999 second quarter, operating conditions improved over the 1999 first quarter when navigational delays (weather, locks and other restrictions) lowered the quarter's revenues due to increased transit times.

For the 1998 second quarter and first half, chemical and petrochemical volumes were firm and refined product volumes increased in May and June in anticipation of the summer driving season. Liquid fertilizer volumes were down, as the Company experienced a short fertilizer season due to high inventory levels in the Midwest distribution terminals. Spot market rates and contract renewals reflected slight increases.

The diesel engine services segment's revenues for the 1999 second quarter and first six months decreased 5% and 7%, respectively, compared with the 1998 corresponding periods. The prior year's first quarter and first half, included approximately \$1,500,000 and \$2,800,000, respectively, of revenues from a product line that the segment sold in September 1998. During the 1999 second quarter, continued strong Midwest and East Coast engine overhauls and parts sales primarily offset the weak Gulf Coast market, which continued to be negatively impacted by reduced service work in the offshore oil and gas services sector in the Gulf of Mexico, and slower activity in the shortline and industrial railroad market. During the 1999 second quarter and first six months, Gulf Coast mechanics were dispatched to the Midwest and East Coast to meet the increased demands of those markets.

The diesel engine services segment's revenues for the 1998 second quarter and first six months reflected strong engine overhauls and parts sales in each of the segment's markets, including the Gulf Coast market, which continued to benefit from enhanced drilling and related oil and gas service activities in the Gulf of Mexico. The diesel engine services segment's decline in activity in its Gulf Coast market began in the 1998 third quarter as drilling activities declined.

15

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

RESULTS OF OPERATIONS - (Continued)

Other income, comprised primarily of investment income and gain on disposition of assets, declined 65% for the 1999 second quarter and 64% for the 1999 first six months when compared with the 1998 corresponding periods. The declines primarily reflected lower investment income from securities of the Company's wholly-owned captive insurance subsidiary in 1999 when compared with 1998 and the recognition of gains from the sale of marine transportation equipment during the 1998 first and second quarters.

The following table sets forth the costs and expenses and percentage of each for the three months and six months ended June 30, 1999 compared with the three months and six months ended June 30, 1998 (dollars in thousands):

	Three months ended June 30,				Increase (decrease)	
	1999		1998			
	Amounts	%	Amounts	%	Amounts	%
Costs and expenses:						
Costs of sales and operating expenses	\$54,157	76%	\$53,963	74%	\$ 194	- %
Selling, general and administrative	8,661	12	9,730	13	(1,069)	(11)
Taxes, other than on income	1,964	3	1,978	3	(14)	(1)
Depreciation and amortization	6,829	9	6,829	10	-	-
	\$71,611	100%	\$72,500	100%	\$ (889)	(1)%
	=====	===	=====	===	=====	===

16

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

## RESULTS OF OPERATIONS - (Continued)

	Six months ended June 30,					
	1999		1998		Increase (decrease)	
	Amounts	%	Amounts	%	Amounts	%
Costs and expenses:						
Costs of sales and operating expenses	\$107,095	75%	\$108,675	75%	\$(1,580)	(1)%
Selling, general and administrative	17,900	13	19,306	13	(1,406)	(7)
Taxes, other than on income	3,689	3	3,959	3	(270)	(7)
Depreciation and amortization	13,509	9	13,659	9	(150)	(1)
	\$142,193	100%	\$145,599	100%	\$(3,406)	(2)%
	=====	===	=====	===	=====	==

Costs of sales and operating expenses for the 1999 second quarter increased less than one percent compared with the 1998 second quarter and decreased 1% for the 1999 first six months as compared with the first six months of 1998. The 1998 second quarter and first six months included costs and expenses associated with the revenues generated from the two offshore tank barge and tug units sold in October 1998 and the diesel engine services product line sold in September 1998. The costs of sales and operating expenses applicable to the assets sold totaled approximately \$2,414,000 and \$4,981,000 during the 1998 second quarter and first six months, respectively.

17

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

## RESULTS OF OPERATIONS - (Continued)

As noted above, the marine transportation navigational delays incurred during the 1999 first quarter not only negatively impacted revenues, but also increased operating expenses. The ice and high water conditions required additional horsepower to complete the movements, additional fuel and other variable expenses. Costs of sales and operating expenses for the 1999 second quarter and first six months also reflected the full impact of the overall 20% afloat wage increases implemented during 1998, the result of a tight afloat labor market. During 1998, the Company increased afloat compensation by 6% effective March 1, by 11% effective August 1, as well as incurred additional costs from expanded longevity pay, trip pay, travel pay and mileage reimbursement. The 20% increase was necessary not only to retain current employees, but also to increase compensation to levels that were competitive with other industries so as to attract new afloat personnel. During the 1999 second quarter and first six months, the marine transportation segment benefited from lower maintenance costs and diesel fuel prices compared with the corresponding periods of 1998. Maintenance and repair expenditures for the 1999 periods are lower as the segment is not competing for shipyard space with companies participating in the oil and gas drilling activities in the Gulf of Mexico. The segment also continued to benefit from continued costs savings from its ongoing cost reduction procurement program.

Selling, general and administrative expenses decreased 11% for the 1999 second quarter and 7% for the 1999 first half compared with the corresponding periods of 1998. The decrease primarily reflects savings in administrative expenses due to the relocation of facilities, continuing cost reduction efforts and the elimination of offshore and diesel engine services business lines.

18

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

RESULTS OF OPERATIONS - (Continued)

The following table sets forth the operating income and operating margins by segment for the three months and six months ended June 30, 1999 compared with the three months and six months ended June 30, 1998 (dollars in thousands):

	Three months ended June 30,				Increase (decrease)	
	1999		1998		Amounts	%
	Operating income (loss)	Operating margin	Operating income (loss)	Operating margin		
Marine transportation	\$11,415	17.9%	\$10,675	17.0%	\$ 740	7 %
Diesel engine services	2,164	10.6%	2,355	11.0%	(191)	(8)
Corporate	(1,135)		(1,206)		71	6
	\$12,444		\$11,824		\$ 620	5 %
	=====		=====		=====	==

	Six months ended June 30,				Increase (decrease)	
	1999		1998		Amounts	%
	Operating income (loss)	Operating margin	Operating income (loss)	Operating margin		
Marine transportation	\$18,318	15.1%	\$18,819	15.4%	\$ (501)	(3) %
Diesel engine services	4,281	10.4%	4,528	10.2%	(247)	(5)
Corporate	(2,256)		(2,367)		111	5
	\$20,343		\$20,980		\$ (637)	(3) %
	=====		=====		=====	==

19

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

RESULTS OF OPERATIONS - (Continued)

The following table sets forth the equity in earnings of affiliates and interest expense for the three months and six months ended June 30, 1999 compared with the three months and six months ended June 30, 1998 (dollars in thousands):

	Three months ended		Increase (decrease)	
	June 30,		Amount	%
	1999	1998		
Equity in earnings of insurance affiliate	\$ -	\$ 413	\$ (413)	(100) %
Equity in earnings of marine affiliates	\$ 609	\$ 1,149	\$ (540)	(47) %
Interest expense	\$ (2,569)	\$ (3,232)	\$ (663)	(21) %

Six months ended

	June 30,		Increase (decrease)	
	1999	1998	Amount	%
Equity in earnings of insurance affiliate	\$ -	\$ 907	\$ (907)	(100)%
Equity in earnings of marine affiliates	\$ 1,490	\$ 1,865	\$ (375)	(20)%
Interest expense	\$ (5,114)	\$ (5,999)	\$ (885)	(15)%

The 1998 second quarter and first six months included \$413,000 and \$907,000, respectively, of equity in earnings from the Company's 45% voting common stock interest and its 100% non-voting preferred stock interest in Universal Insurance Company ("Universal"). Universal, a property and casualty insurance company, operates exclusively in the Commonwealth of Puerto Rico. Effective September 30, 1998, the Company sold its remaining 45% voting common stock interest and its 100% non-voting preferred stock interest in Universal for \$36,000,000 in cash.

20

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

RESULTS OF OPERATIONS - (Continued)

Equity in earnings of marine affiliates reflected a 47% decrease for the 1999 second quarter compared with the second quarter of 1998, and a 20% decrease for the 1999 first six months compared with the first six months of 1998. During the 1999 second quarter, a higher percentage of the partnership's offshore dry-cargo barge and tug units were operating in the spot market at lower rates, as compared with the 1998 second quarter, when the majority of the units were employed under the partnership's coal and rock contracts at higher rates.

Interest expense reflected a 21% decrease for the 1999 second quarter compared with the second quarter of 1998, and a 15% decrease for the 1999 first half compared with the 1998 first half. The average debt and average interest rate for the 1999 second quarter was \$132,100,000 and 7.27%, compared with \$177,400,000 and 7.08% for the second quarter of 1998, respectively. For the 1999 first six months, the average debt was \$134,000,000 and average interest rate was 7.25%. This compared favorably with average debt of \$162,300,000 and average interest rate of 7.17% for the 1998 first six months. The higher average interest rate for the 1999 second quarter and first six months when compared with the average interest rate for the corresponding periods reflects the significant reduction in the Company's revolving credit agreement which carries a lower variable interest rate.

21

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

FINANCIAL CONDITIONS, CAPITAL RESOURCES AND LIQUIDITY

BALANCE SHEET

Total assets as of June 30, 1999 were \$379,470,000, a decrease of 3% compared with \$390,299,000 as of December 31, 1998. The following table sets forth the significant components of the balance sheet as of June 30, 1999 compared with December 31, 1998 (dollars in thousands):

June 30,	December 31,	Increase (decrease)	
		Amount	%
1999	1998		

Assets:

Current assets	\$106,134	\$112,358	\$ (6,224)	(6)%
Property and equipment, net	252,749	256,899	(4,150)	(2)
Investments in marine affiliates	13,094	12,795	299	2
Other assets	7,493	8,247	(754)	(9)
	-----	-----	-----	---
	\$379,470	\$390,299	\$ (10,829)	(3)%
	=====	=====	=====	===
Liabilities and stockholders' equity:				
Current liabilities	\$ 70,373	\$ 65,940	\$ 4,433	7 %
Long-term debt	122,969	137,552	(14,583)	(11)
Deferred taxes	40,605	40,045	560	1
Other long-term liabilities	6,165	5,722	443	8
Stockholders' equity	139,358	141,040	(1,682)	(1)
	-----	-----	-----	---
	\$379,470	\$390,299	\$ (10,829)	(3)%
	=====	=====	=====	===

Working capital as of June 30, 1999 totaled \$35,761,000, a 23% decrease compared with \$46,418,000 at December 31, 1998. Available-for-sale securities decreased 16% due to the Company's use of its captive insurance subsidiary during 1999 for only the procurement of reinsurance in international markets. Trade accounts receivable decreased 9%, reflecting the Company's continuing emphasis on reducing collection time on trade accounts receivable. Diesel engine services inventories decreased 6%, reflecting the Company's emphasis on inventory management. Trade accounts payable increased 56%, principally the result of accruals for reinsurance premiums and marine transportation shipyard invoices.

22

#### KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

#### Management's Discussion and Analysis of Financial Condition and Results of Operations - (Continued)

#### FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY - (Continued)

Long-term debt, less current portion, decreased 11%, the result of favorable net cash provided by operating activities during the 1999 first half of \$32,519,000. During the 1999 first half, the Company incurred \$9,382,000 of capital expenditures. In addition, the Company purchased \$11,838,000 of treasury stock through open market common stock repurchases, more fully described below.

Stockholders' equity as of June 30, 1999 decreased 1% during the 1999 first half, reflecting the \$11,838,000 of treasury stock purchases, more fully described below, net of \$10,603,000 of net earnings.

#### TREASURY STOCK PURCHASES

During the 1999 first half, the Company purchased in the open market 683,000 shares of its common stock at a total price of \$11,838,000, for an average price of \$17.33 per share. During the 1999 second quarter, the Company purchased 22,000 shares of its common stock at a total purchase price of \$409,000, for an average price of \$18.56 per share. The treasury stock purchases were financed by borrowing under the Company's revolving credit agreement.

On April 20, 1999, the Board of Directors increased the Company's common stock repurchase authorization to 6,250,000 shares, an increase of 2,000,000 shares over the 2,250,000 shares authorized in October 1995 and 2,000,000 shares authorized in August 1994. The Company, as of August 11, 1999, had 2,392,000 shares available under the repurchase authorization. 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, in future acquisitions for stock or for other appropriate corporate purposes.

#### LIQUIDITY

The Company generated net cash provided by operating activities of \$32,519,000 and \$30,781,000 for the six months ended June 30, 1999 and 1998, respectively. The 1999 first half was positively impacted by an \$8,628,000

increase in cash flow, resulting from changes in working capital, compared with a \$1,632,000 increase in the 1998 first six months. For the 1999 and 1998 first six months, the Company received net cash from the marine partnerships of \$1,191,000 and \$2,720,000, respectively.

23

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY - (Continued)

Funds generated are available for capital construction projects, treasury stock repurchases, acquisitions, repayment of borrowings associated with each of the above and for other operating requirements. In addition to its net cash flow provided by operating activities, the Company also has available as of August 11, 1999, \$94,000,000 under its Credit Agreement and \$121,000,000 available under its medium term note program. The Company's scheduled principal payments during the next 12 months are \$50,333,000. On June 1, 2000, \$45,000,000 of the Company's medium term notes mature. These notes were classified as long-term at June 30, 1999 as the Company has the ability and intent to refinance the notes through available credit facilities.

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. The repair portion of the diesel engine services segment is based on prevailing current market rates.

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

YEAR 2000

Certain computer systems, software programs and semiconductors are not capable of recognizing certain dates in 1999 and after December 31, 1999, and will read dates in the year 2000 and thereafter as if those dates represent the year 1900 or thereafter, or will fail to process those dates. This "Year 2000 Issue" could result in the failure of certain systems or other errors that could disrupt normal business activities.

The Company has designed and implemented an action plan to determine the likely exposures of the Company and its subsidiaries to the Year 2000 Issue and to take the necessary action to minimize the impact of those exposures. The Company's Year 2000 action plan addresses both internal and external exposures to the Year 2000 Issue.

With respect to the Company's internal Year 2000 Issue exposures, the action plan addresses both land-based and vessel-based systems. The land-based systems include all of the Company's network components, core corporate software applications, personal computers, telephone systems, building management control systems and critical office equipment. The vessel-based systems include electronic navigation equipment, diesel engine controlling systems, and fire and other emergency monitors and alarms.

24

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY - (Continued)

The Company's external exposures to the Year 2000 Issue include vendors and suppliers of critical services including communications, fuel and supplies, barge cleaning and repair, and government waterways maintenance and management. The Company's external exposures also include general business support systems such as electric power, telephone and banking services, as well as customers' accounts payable systems. The Company may experience Year 2000 problems as a result of these external exposures. The Company is attempting to address all

Year 2000 exposures in advance; however, the Company could potentially experience temporary disruptions to certain aspects of activities or operations as a result of the external exposures noted above. It is not possible to determine whether, or to what extent, any or all of these exposures are likely to occur or the costs involved in any of the exposures. However, the costs to the Company could be material.

The Company's Year 2000 action plan divides the Company's actions with respect to its internal and external exposures to the Year 2000 Issue into three sequential stages:

- \* INVESTIGATION. This stage, substantially completed in the 1999 first quarter, included a complete physical inventorying of all computer systems, software applications, and equipment relying on computer software or embedded semiconductors. The Company has completed the process of mailing requests for Year 2000 Issues to the manufacturers and distributors of the systems and equipment. Responses have been positive, as most manufacturers and distributors have indicated the Year 2000 status of their equipment or systems as Year 2000 compliant.
- \* REMEDIATION. This stage involves the repair or replacement of the Company's equipment and systems which have been identified as not being Year 2000 compliant in the investigation stage and the validation of the compliance of the equipment and systems which have been repaired or replaced. This stage has been substantially completed. The Company continues to be proactive in additional communication with key systems' manufacturers and distributors to ensure awareness of any unanticipated problems that have not been previously addressed.
- \* CONTINGENCY PLANNING. Based on the findings of the investigation stage, the Company's actions in this stage include the development of business scenarios likely to result from Year 2000 compliance failures by external suppliers or their equipment, systems or services, and the development of remedies to minimize the consequences of such failures on the Company's business. Those remedies may include preventative measures and "work around" solutions. This stage is expected to be complete by October 1999.

25

#### KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

##### Management's Discussion and Analysis of Financial Condition and Results of Operations - (Continued)

##### FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY - (Continued)

While the Company expects that the remediation and contingency planning stages of its Year 2000 action plan will be completed as indicated above, the Company must rely on third parties including government agencies, manufacturers, distributors, vendors and suppliers, to provide information and to take actions which are beyond the Company's control. While the responses to the investigation stage have been positive, it is not possible for the Company to predict either the timeliness of the manufacturers or distributors who have not responded to the Company's requests, or the substance of the information and actions provided by third parties. Accordingly, the Company can not predict whether or to what extent the information provided by third parties will affect the timely completion of each stage of the Year 2000 action plan, as the information provided by third parties may require additional investigation, remediation, and/or contingency planning. Further, the Company's ability to timely complete its Year 2000 action plan is dependent upon the ability of third party manufacturers and distributors to provide necessary replacement equipment during the remediation stage.

The total amount expended on the Year 2000 action plan through June 30, 1999 is approximately \$100,000. Remaining costs related to the Year 2000 action plan are not expected to be material. The Company will continue to utilize internal resources to assist in the implementation of the Year 2000 action plan. The costs expended to date, and the costs anticipated to be expended in the second half of 1999, do not include the Company's internal costs, as the Company does not track such costs separately. The costs also do not include software upgrades that, while Year 2000 compliant, were not specifically upgraded for the Year 2000 Issue. The completion of the Year 2000 action plan is expected to significantly reduce both the level of uncertainty



related to the Company's reliance on third parties for Year 2000 compliance and the possibility of significant interruptions of normal business operations. The forward-looking statements contained in this discussion should be read in conjunction with the Company's disclosure in the opening paragraph of this Management's Discussion and Analysis.

#### ACCOUNTING STANDARDS

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," issued in June 1998, establishes accounting and reporting standards for derivative instruments and hedging activities. This statement requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Based on the May 1999 announcement by the Financial Accounting Standards Board to delay the implementation date by one year, SFAS No. 133 is now effective for all quarters of fiscal years beginning after June 15, 2000. SFAS No. 133 is effective for the Company's year ending December 31, 2001 and is not expected to have a material effect on the Company's financial position or results of operations.

26

#### KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Management's Discussion and Analysis of  
Financial Condition and Results of Operations - (Continued)

#### FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY - (Continued)

#### SUBSEQUENT EVENT

On July 29, 1999, the Company announced the signing of an Agreement and Plan of Merger with Hollywood providing for the merger of Hollywood, a privately held, inland tank barge company based in Houston, Texas, into Kirby Inland Marine, Inc., a wholly-owned subsidiary of the Company. The Company will purchase Hollywood for an aggregate consideration of approximately \$325,000,000, consisting of approximately \$90,000,000 in Kirby common stock, approximately \$135,000,000 in cash and the assumption or refinancing of all or part of Hollywood's existing debt of approximately \$100,000,000. The number of shares of Kirby common stock to be issued in the merger will be determined based on the average trading price of the common stock on the New York Stock Exchange during a twenty day period shortly before the closing, with the price used to be not less than \$17.50 per share and not more than \$21.50 per share.

Financing for the cash portion of the transaction will be through the Company's existing \$100,000,000 bank revolving credit agreement with Chase Bank of Texas, N.A. as agent bank and through the Company's existing medium term note program or new bond financing issued through the private and/or public markets. As of August 11, 1999, the Company had \$94,000,000 available under the bank revolving credit agreement and \$121,000,000 available under the medium term note program.

Hollywood is engaged in the inland tank barge transportation of chemicals and petrochemicals, refined petroleum products, black oil and pressurized products primarily along the Gulf Intracoastal Waterway, the Houston Ship Channel and the lower Mississippi River. Hollywood operates a fleet of 256 inland tank barges, with 4.6 million barrels of capacity, and 104 inland towboats.

Hollywood recorded total revenues of approximately \$168,000,000 for the year ended December 31, 1998 and approximately \$81,700,000 for the six months ended June 30, 1999. The closing of the transaction is subject to the inspection of Hollywood's inland tank barges and towboats, satisfactory completion of an environmental audit, review of material contracts and the resolution of certain other issues, including a statutory filing under the Hart-Scott-Rodino Antitrust Improvements Act. Consummation of the transaction is expected in October 1999. The transaction will be accounted for using the purchase method of accounting.

27

#### KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES PART II - OTHER INFORMATION

Item 1. Legal Proceedings  
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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, 1998.

Item 6. Exhibits and Reports on Form 8-K  
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(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 three months ended June 30, 1999. On July 30, 1999, the Company filed a report on Form 8-K reporting the signing of an Agreement and Plan of Merger with Hollywood Marine, Inc. for the merger of Hollywood into Kirby Inland Marine, Inc., a wholly-owned subsidiary of Kirby.

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

Dated: August 11, 1999

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

## COMPUTATION OF EARNINGS PER COMMON SHARE

	Three months ended June 30,		Six months ended June 30,	
	1999	1998	1999	1998
	(in thousands, except per share amounts)			
Net earnings	\$ 6,602	\$ 6,675	\$10,603	\$11,715
	=====	=====	=====	=====
Basic earnings per share:				
Weighted average number of common shares outstanding	20,103	21,394	20,230	22,701
	=====	=====	=====	=====
Basic earnings per share	\$ .33	\$ .31	\$ .52	\$ .52
	=====	=====	=====	=====
Diluted earnings per share:				
Weighted average number of common shares outstanding	20,103	21,394	20,230	22,701
Dilutive shares applicable to stock options	117	344	111	320
	-----	-----	-----	-----
Shares applicable to diluted earnings	20,220	21,738	20,341	23,021
	=====	=====	=====	=====
Diluted earnings per share	\$ .33	\$ .31	\$ .52	\$ .51
	=====	=====	=====	=====

<ARTICLE> 5

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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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