UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file no. 1-7615

Kirby Corporation

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code:
(713) 435-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock — $.10 Par Value Per Share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☑ No o

As of March 4, 2005, 25,047,000 shares of common stock were outstanding. The aggregate market value of common stock held by nonaffiliates of the registrant, based on the closing sales price of such stock on the New York Stock Exchange on June 30, 2004 was $857,274,000. For purposes of this computation, all executive officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such executive officers, directors and 10% beneficial owners are affiliates.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

DOCUMENTS INCORPORATED BY REFERENCE

The Company's definitive proxy statement in connection with the Annual Meeting of the Stockholders to be held April 26, 2005, to be filed with the Commission pursuant to Regulation 14A, is incorporated by reference into Part III of this report.

PART I

Item 1. *Business*

THE COMPANY

Kirby Corporation (the “Company”) was incorporated in Nevada on January 31, 1969 as a subsidiary of Kirby Industries, Inc. (“Industries”). The Company became publicly owned on September 30, 1976 when its common stock was distributed pro rata to the stockholders of Industries in connection with the liquidation of Industries. At that time, the Company was engaged in oil and gas exploration and production, marine transportation and property and casualty insurance. Since then, through a series of acquisitions and divestitures, the Company has become primarily a marine transportation company and is no longer engaged in the oil and gas or the property and casualty insurance businesses. In 1990, the name of the Company was changed from “Kirby Exploration Company, Inc.” to “Kirby Corporation” because of the changing emphasis of its business.

Unless the context otherwise requires, all references herein to the Company include the Company and its subsidiaries.

The Company’s principal executive office is located at 55 Waugh Drive, Suite 1000, Houston, Texas 77007, and its telephone number is (713) 435-1000. The Company’s mailing address is P.O. Box 1745, Houston, Texas 77251-1745.

Documents and Information Available on Website

The Internet address of the Company’s website is www.kirbycorp.com. The Company makes available free of charge through its website, all of its filings with the Securities and Exchange Commission (“SEC”), including its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC.

The following documents are available on the Company’s website in the Investor Relations section under Corporate Governance and are available in print to any stockholder on request to the Vice President — Investor Relations, Kirby Corporation, 55 Waugh Drive, Suite 1000, Houston, Texas 77007:

- Audit Committee Charter
- Compensation Committee Charter
- Governance Committee Charter
- Business Ethics Guidelines
- Corporate Governance Guidelines

The Company is required to make prompt disclosure of any amendment to or waiver of any provision of its Business Ethics Guidelines that applies to any director or executive officer or to its chief executive officer, chief financial officer, chief accounting officer or controller or persons performing similar functions. The Company will make any such disclosure that may be necessary by posting the disclosure on its website in the Investor Relations section under Corporate Governance.

BUSINESS AND PROPERTY

The Company, through its subsidiaries, conducts operations in two business segments: marine transportation and diesel engine services.

The Company’s marine transportation segment is engaged in the inland transportation of petrochemicals, black oil products, refined petroleum products and agricultural chemicals by tank barges, and, to a lesser extent, the offshore transportation of dry-bulk cargoes by barge. The segment is a provider of transportation services for its customers and does not assume ownership of the products that it transports. All of the segment's vessels operate under the United States flag and are qualified for domestic trade under the Jones Act.

The Company's diesel engine services segment is engaged in the overhaul and repair of diesel engines and reduction gears, and related parts sales in three distinct markets: the marine market, providing aftermarket service for vessels powered by large medium-speed and high-speed diesel engines utilized in the various inland and offshore marine industries; the power generation market, providing aftermarket service for diesel engines that provide standby, peak and base load power generation, for users of industrial reduction gears and for stand-by generation components of the nuclear industry; and the railroad market, providing aftermarket service and parts for shortline, industrial, Class II and certain transit railroads.

The Company and its marine transportation and diesel engine services segments have approximately 2,375 employees, all of whom are in the United States.

The following table sets forth by segment the revenues, operating profits and identifiable assets attributable to the principal activities of the Company for the years indicated (in thousands):

	2004	2003	2002
Revenues from unaffiliated customers:			
Marine transportation	$ 588,828	$ 530,411	$ 450,280
Diesel engine services	86,491	83,063	85,123
Consolidated revenues	$ 675,319	$ 613,474	$ 535,403
Operating profits:			
Marine transportation	$ 92,535	$ 77,274	$ 74,595
Diesel engine services	8,388	7,890	8,841
General corporate expenses	(7,565)	(6,351)	(5,677)
Impairment of long-lived assets	—	—	(17,712)
Gain (loss) on disposition of assets	(299)	(99)	624
	93,059	78,714	60,671
Equity in earnings of marine affiliates	1,002	2,932	700
Impairment of equity investment	—	—	(1,221)
Other expense	(347)	(119)	(155)
Minority interests	(542)	(902)	(962)
Interest expense	(13,263)	(14,628)	(13,540)
Earnings before taxes on income	$ 79,909	$ 65,997	$ 45,493
Identifiable assets:			
Marine transportation	$ 834,157	$ 779,121	$ 726,353
Diesel engine services	47,158	40,152	45,531
	881,315	819,273	771,884
Investment in marine affiliates	12,205	9,162	10,238
General corporate assets	11,155	26,526	9,636
Consolidated assets	$ 904,675	$ 854,961	$ 791,758

MARINE TRANSPORTATION

The marine transportation segment is primarily a provider of transportation services by barge for the inland and offshore markets. As of March 4, 2005, the equipment owned or operated by the marine transportation segment comprised 885 active inland tank barges, 235 active inland towboats, four offshore dry-cargo barges, four offshore tugboats and one shifting tugboat with the following specifications and capacities:

Class of equipment	Number in class	Average age (in years)	Barrel capacities
Inland tank barges:			
Active:			
Regular double hull:			
20,000 barrels and under	413	26.4	4,827,000
Over 20,000 barrels	350	18.4	9,462,000
Specialty double hull	85	29.7	1,263,000
Double side, single bottom	11	27.6	236,000
Single hull:			
20,000 barrels and under	8	36.1	137,000
Over 20,000 barrels	18	29.0	468,000
Total active inland tank barges	885	23.7	16,393,000
Inactive	56	33.1	1,059,000
Inland towing vessels:			
Inland towboats:			
Active:			
Less than 800 horsepower	1	36.1	
800 to 1300 horsepower	122	27.4	
1400 to 1900 horsepower	81	26.9	
2000 to 2400 horsepower	4	33.6	
2500 to 3200 horsepower	14	31.5	
3300 to 4900 horsepower	10	30.7	
Greater than 5200 horsepower	3	34.1	
Total active inland towboats	235	27.9	
Inactive	6	26.4	

			Deadweight Tonnage
Offshore dry-cargo barges*	4	24.9	70,000
Offshore tugboats*	5	27.7	

* The four barges and five tugboats are owned by Dixie Fuels Limited, a partnership in which the Company owns a 35% interest.

The 235 active inland towboats and five offshore tugboats provide the power source and the 885 active inland tank barges and four offshore dry-cargo barges provide the freight capacity. When the power source and freight capacity are combined, the unit is called a tow. The Company's inland tows generally consist of one towboat and from one to 25 tank barges, depending upon the horsepower of the towboat, the river or canal capacity and conditions, and customer requirements. The Company's offshore tows consist of one tugboat and one dry-cargo barge.

Marine Transportation Industry Fundamentals

The United States inland waterway system, composed of a network of interconnected rivers and canals that serve the nation as water highways, is one of the world's most efficient transportation systems. The nation's waterways are vital to the United States distribution system, with over 1.1 billion short tons of cargo moved annually on United States shallow draft waterways. The inland waterway system extends approximately 26,000 miles, 12,000 miles of which are generally considered significant for domestic commerce, through 40 states, with 635 shallow draft ports. These navigable inland waterways link the United States heartland to the world.

Based on cost and safety, inland barge transportation is often the most efficient and safest means of transporting bulk commodities compared with railroads and trucks. The cargo capacity of a 30,000 barrel inland tank barge is the equivalent of 40 rail tank cars or 150 tractor-trailer tank trucks. A typical Company lower Mississippi River linehaul tow of 15 barges has the carrying capacity of approximately 225 rail tank cars or approximately 870 tractor-trailer tank trucks. The 225 rail cars would require a freight train approximately 2¾ miles long and the 870 tractor-trailer tank trucks would stretch approximately 35 miles, assuming a safety margin of 150 feet between the trucks. The Company's active tank barge fleet capacity of 16.4 million barrels equates to approximately 21,900 rail cars or approximately 82,000 tractor-trailer tank trucks. In addition, in studies comparing inland water transportation to railroads and trucks, shallow draft water transportation has been proven to be the most energy efficient and environmentally friendly method of moving bulk raw materials. One ton of bulk product can be carried 522 miles by inland barge on one gallon of fuel, compared with 403 miles by rail or 80 miles by truck. Per ton mile, railroads produce 3.5 times and trucks 19 times as much oxides of nitrogen, the chemical that produces smog, as inland barge transportation.

Inland barge transportation is also the safest mode of transportation in the United States. It generally involves less urban exposure than rail or truck. It operates on a system with few crossing junctures and in areas relatively remote from population centers. These factors generally reduce both the number and impact of waterway incidents. For the amount of tonnage carried, barge spills generally occur quite infrequently.

Inland Tank Barge Industry

The Company's marine transportation segment operates within the United States inland tank barge industry, a diverse and independent mixture of large integrated transportation companies and small operators, as well as captive fleets owned by United States refining and petrochemical companies. The inland tank barge industry provides marine transportation of bulk liquid cargoes for customers and, in the case of captives, for their own account, along the Mississippi River and its tributaries and the Gulf Intracoastal Waterway. The most significant segments of this industry include the transportation of petrochemicals, refined petroleum products, black oil products and agricultural chemicals. The Company operates in each of these segments. The use of marine transportation by the petroleum and petrochemical industry is a major reason for the location of United States refineries and petrochemical facilities on navigable inland waterways. Texas and Louisiana currently account for approximately 80% of the United States production of petrochemicals. Much of the United States farm belt is likewise situated with access to the inland waterway system, relying on marine transportation of farm products, including agricultural chemicals. The Company's principal distribution system encompasses the Gulf Intracoastal Waterway from Brownsville, Texas, to St. Marks, Florida, the Mississippi River System and the Houston Ship Channel. The Mississippi River System includes the Arkansas, Illinois, Missouri, Ohio, Red, Tennessee, Yazoo, Ouachita and Black Warrior rivers and the Tennessee-Tombigbee Waterway.

The total number of tank barges that operate in the inland waters of the United States declined from approximately 4,200 in 1982 to approximately 2,900 in 1993, and remained relatively constant at 2,900 until 2002, when the number declined slightly to 2,800. In 2004, the total number of tank barges declined to approximately 2,700. The Company believes this decrease primarily resulted from: the increasing age of the domestic tank barge fleet, resulting in scrapping; rates inadequate to justify new construction; a reduction in tax incentives, which previously encouraged speculative construction of new equipment; stringent operating standards to adequately cope with safety and environmental risk; the elimination of government programs supporting small refineries which created a demand for tank barge services; and an increase in environmental regulations that mandate expensive equipment modification, which some owners were unwilling or unable to undertake given capital constraints and the age of their fleets.

The cost of hull work for required annual United States Coast Guard ("USCG") certifications, as well as general safety and environmental concerns, force operators to periodically reassess their ability to recover maintenance costs. The proliferation of small refineries due to government regulations, along with tax and financing incentives to operators and investors to construct tank barges, including short-life tax depreciation, investment tax credits and government guaranteed financing, led to growth in the supply of domestic tank barges to its peak of approximately 4,200 in 1982. The tax incentives have since been eliminated; however, the government guaranteed financing programs, dormant since the mid-eighties, have been more actively used since 1993 to finance the construction of some tank barges. The supply of tank barges resulting from the earlier programs has slowly aligned with demand for tank barge services, primarily through attrition, as discussed above.

Improved technology in steel coating and paint has added to the life expectancy of inland tank barges. The average age of the nation's tank barge fleet is over 22 years old, with 21% of the fleet built in the last 10 years. Single hull barges comprise approximately 9% of the nation's tank barge fleet, with an average age of 31 years. Single hull barges are being driven from the nation's tank barge fleet by market forces, stringent environmental regulations and rising maintenance costs. Single hull tank barges are required by current federal law to be retrofitted with double hulls or phased out of domestic service by 2015.

In September 2002, the USCG issued new regulations that require the installation of tank level monitoring devices on all single hull tank barges by October 17, 2007. With the new regulations, coupled with a market bias against single hull tank barges, the Company plans to retire all of its single hull tank barges by October 17, 2007, and the new regulations and market bias may result in reduced lives for single hull tank barges industry wide. In December 2002, the Company recorded pre-tax non-cash impairment charges totaling $17,712,000, of which single hull tank barges accounted for $11,559,000 of the charges, the result of reduced estimated cash flows resulting from reduced estimated useful lives. During 2004, the Company retired 27 single hull tank barges. As of March 4, 2005, the Company owned 67 single hull tank barges, of which 37 were active.

During the 1970's and early 1980's, the industry overbuilt tank barge capacity. However, the Company believes that the current more consolidated industry will be less prone to overbuilding of the nation's tank barge fleet. Of the estimated 851 tank barges built since 1989, 164, or 19%, were built by the Company and by Hollywood Marine, Inc. ("Hollywood Marine") prior to its merger with the Company effective October 12, 1999. The remaining 687 tank barges were primarily replacement barges for single hull barges removed from service, special purpose barges or barges constructed for specific contracts.

The Company's marine transportation segment, though a partnership in which the Company owns a 35% interest, is also engaged in ocean-going dry-cargo barge operations transporting dry-bulk cargoes. Such cargoes are transported primarily between domestic ports along the Gulf of Mexico.

Competition in the Inland Tank Barge Industry

The inland tank barge industry remains very competitive despite continued consolidation. The Company's inland tank barge fleet has grown from 71 tank barges in 1988 to 885 active tank barges as of March 4, 2005. Competition in this business has historically been based primarily on price; however, the industry's customers, through an increased emphasis on safety, the environment, quality and a greater reliance on a "single source" supply of services, are more frequently requiring that their supplier of inland tank barge services have the capability to handle a variety of tank barge requirements, offer distribution capability throughout the inland waterway system, and offer flexibility, safety, environmental responsibility, financial responsibility, adequate insurance and quality of service consistent with the customer's own operational standards.

The Company's direct competitors are primarily noncaptive inland tank barge operators. "Captive" companies are those companies that are owned by major oil and/or petrochemical companies which occasionally compete in the inland tank barge market, but primarily transport cargoes for their own account. The Company is the largest inland tank barge carrier, both in terms of number of barges and total fleet barrel capacity. It currently operates approximately 33% of the total number of domestic inland tank barges.

While the Company competes primarily with other tank barge companies, it also competes with companies owning refined product and chemical pipelines, rail tank cars and tractor-trailer tank trucks. As noted above, the Company believes that inland marine transportation of bulk liquid products enjoys a substantial cost advantage over rail and truck transportation. The Company believes that refined products and petrochemical pipelines, although often a less expensive form of transportation than inland tank barges, are not as adaptable to diverse products and are generally limited to fixed point-to-point distribution of commodities in high volumes over extended periods of time.

Marine Transportation Acquisitions

In March 2002, the Company purchased the Cargo Carriers fleet of 21 inland tank barges for $2,800,000 in cash from Cargill Corporation (“Cargill”), and resold six of the tank barges for $530,000 in April 2002.

On October 31, 2002, the Company purchased seven inland black oil tank barges and 13 inland towboats from Coastal Towing, Inc. (“Coastal”) for $17,053,000 in cash. In addition, the Company and Coastal entered into a barge management agreement whereby the Company serves as manager of the combined black oil fleet for a period of seven years. The combined black oil fleet consists of 54 barges owned by Coastal, of which 37 are currently active, and the Company’s 68 active black oil barges. In a related transaction, on September 25, 2002, the Company purchased from Coastal three black oil tank barges for $1,800,000 in cash.

On December 15, 2002, the Company purchased from Union Carbide Finance Corporation (“Union Carbide”), 94 double hull inland tank barges for $23,000,000. Nine of the 94 tank barges were out-of-service and eventually sold. The Company had operated the tank barges since February 2001 under a long-term lease agreement between the Company and Union Carbide, following the February 5, 2001 merger between Union Carbide and the Dow Chemical Company (“Dow”). The Company has a long-term contract with Dow to provide for Dow’s bulk liquid inland marine transportation requirements.

On January 15, 2003, the Company purchased from SeaRiver Maritime, Inc. (“SeaRiver”), the U.S. transportation affiliate of Exxon Mobil Corporation (“ExxonMobil”), 45 double hull inland tank barges and seven inland towboats for $32,113,000 in cash, and assumed from SeaRiver the leases of 16 double hull inland tank barges. On February 28, 2003, the Company purchased three double hull inland tank barges, leased by SeaRiver from Banc of America Leasing & Capital, LLC (“Banc of America Leasing”), for $3,453,000 in cash. In addition, the Company entered into a contract to provide inland marine transportation services to SeaRiver.

On April 16, 2004, the Company purchased a one-third interest in Osprey Line, LLC (“Osprey”) for $4,220,000. The purchase price consisted of cash of $2,920,000 and notes payable totaling $1,300,000 due in April 2005. The remaining two-thirds interest is owned by Cooper/ T. Smith Corporation and Richard L. Couch. Osprey, formed in 2000, operates a barge feeder service for cargo containers between Houston, New Orleans and Baton Rouge, several ports located above Baton Rouge on the Mississippi River, as well as coastal service along the Gulf of Mexico. Revenues for Osprey for 2004 were approximately $13,800,000.

Products Transported

During 2004, the Company’s marine transportation segment moved over 61 million tons of liquid cargo on the United States inland waterway system. Products transported for its customers comprised the following: petrochemicals, black oil products, refined petroleum products and agricultural chemicals.

Petrochemicals. Bulk liquid petrochemicals transported include such products as benzene, styrene, methanol, acrylonitrile, xylene and caustic soda, all consumed in the production of paper, fibers and plastics. Pressurized products, including butadiene, isobutane, propylene, butane and propane, all requiring pressurized conditions to remain in stable liquid form, are transported in pressure barges. The transportation of petrochemical products represented approximately 68% of the segment's 2004 revenues. Customers shipping these products are petrochemical companies in the United States.

Black Oil Products. Black oil products transported include such products as asphalt, residual fuels, No. 6 fuel oil, coker feed, vacuum gas oil, crude oil and ship bunkers (ship engine fuel). Such products represented approximately 18% of the segment's 2004 revenues. Black oil customers are United States refining companies, marketers and end users that require the transportation of black oil products between refineries and storage terminals. Ship bunkers customers are oil companies and oil traders in the bunkering business.

Refined Petroleum Products. Refined petroleum products transported include the various blends of gasoline, jet fuel, naphtha and diesel fuel, and represented approximately 10% of the segment's 2004 revenues. Customers are oil and refining companies in the United States.

Agricultural Chemicals. Agricultural chemicals transported represented approximately 4% of the segment's 2004 revenues. They include anhydrous ammonia and nitrogen-based liquid fertilizer, as well as industrial ammonia. Agricultural chemical customers consist mainly of United States and foreign producers of such products.

Demand Drivers in the Inland Tank Barge Industry

Demand for inland tank barge transportation services is driven by the production volumes of the bulk liquid commodities transported by barge. Demand for inland marine transportation of the segment's four primary commodity groups, petrochemicals, black oil products, refined petroleum products and agricultural chemicals, is based on differing circumstances. While the demand drivers of each commodity are different, the Company has the flexibility in many cases of re-allocating equipment to stronger markets as needed.

Bulk petrochemical volumes generally track the general domestic economy and correlate to the United States Gross Domestic Product. These products are used in housing, automobiles, clothing and consumer goods. The other significant component of petrochemical production consists of gasoline additives, the demand for which closely parallels the United States gasoline consumption.

The demand for black oil products, including ship bunkers, varies with the type of product transported. Asphalt shipments are generally seasonal, with higher volumes shipped during April through November, months when weather allows for efficient road construction. Other black oil shipments are more constant and service the United States oil refineries.

Refined petroleum products volumes are driven by United States gasoline consumption, principally vehicle usage, air travel and weather conditions. Volumes also relate to gasoline inventory balances within the United States Midwest. Generally, gasoline, No. 2 oil and heating oil are exported from the Gulf Coast where refining capacity exceeds demand. The Midwest is a net importer of such products. Demand for tank barge transportation from the Gulf Coast to the Midwest region can also be impacted by the gasoline price differential between the Gulf Coast and the Midwest.

Demand for marine transportation of agricultural fertilizer is directly related to domestic nitrogen-based liquid fertilizer consumption, driven by the production of corn, cotton and wheat. The nitrogen-based liquid fertilizers carried by the Company are distributed from United States manufacturing facilities, generally located in the southern United States, as well as from imported sources. Such products are delivered to the numerous small terminals and distributors throughout the United States farm belt.

Marine Transportation Operations

The marine transportation segment operates a fleet of 885 active inland tank barges and 235 active inland towboats. Through a partnership, the segment operates four offshore dry-cargo barges, four offshore tugboats and one shifting tugboat. The Company also owns a bulk liquid terminal.

Inland Operations. The segment's inland operations are conducted through a wholly owned subsidiary, Kirby Inland Marine, LP ("Kirby Inland Marine"). Kirby Inland Marine's operations consist of the Canal, Linehaul and River fleets, as well as barge fleeting services.

The Canal fleet transports petrochemical feedstocks, processed chemicals, pressurized products, black oil products and refined petroleum products along the Gulf Intracoastal Waterway, the Mississippi River below Baton Rouge, Louisiana, and the Houston Ship Channel. Petrochemical feedstocks and certain pressurized products are transported from one refinery to another refinery for further processing. Processed chemicals and certain pressurized products are moved to waterfront terminals and chemical plants. Certain black oil products are transported to waterfront terminals and products such as No. 6 fuel oil are transported directly to the end users. Refined petroleum products are transported to waterfront terminals along the Gulf Intracoastal Waterway for distribution.

The Linehaul fleet transports petrochemical feedstocks, processed chemicals, agricultural chemicals and lube oils along the Gulf Intracoastal Waterway, Mississippi River and the Illinois and Ohio Rivers. Loaded tank barges are staged in the Baton Rouge area from Gulf Coast refineries and chemical plants, and are transported from Baton Rouge to waterfront terminals and plants on the Mississippi, Illinois and Ohio Rivers, and along the Gulf Intracoastal Waterway, on regularly scheduled linehaul tows. Barges are dropped off and picked up going up and down river.

The River fleet transports petrochemical feedstocks, processed chemicals, refined petroleum products, agricultural chemicals and black oil products along the Mississippi River System above Baton Rouge. Petrochemical feedstocks and processed chemicals are transported to waterfront petrochemical and chemical plants, while refined petroleum products and agricultural chemicals are transported to waterfront terminals. The River fleet operates unit tows, where a towboat and generally a dedicated group of barges operate on consecutive voyages between loading and discharge points.

The transportation of petrochemical feedstocks, processed chemicals and pressurized products is generally consistent throughout the year. Transportation of refined petroleum products, certain black oil products and agricultural chemicals is generally more seasonal. Movements of black oil products, such as asphalt, generally increase in the spring through fall months. Movements of refined petroleum products, such as gasoline blends, generally increase during the summer driving season, while heating oil movements generally increase during the winter months. Movements of agricultural chemicals generally increase during the spring and fall planting seasons.

The marine transportation segment moves and handles a broad range of sophisticated cargoes. To meet the specific requirements of the cargoes transported, the tank barges may be equipped with self-contained heating systems, high-capacity pumps, pressurized tanks, refrigeration units, stainless steel tanks, aluminum tanks or specialty coated tanks. Of the 885 active tank barges currently operated, 701 are petrochemical and refined products barges, 105 are black oil barges, 63 are pressure barges, 13 are refrigerated anhydrous ammonia barges and three are specialty barges.

The fleet of 235 active inland towboats ranges from 600 to 6100 horsepower. Of the 235 active inland towboats, 151 are owned by the Company and 84 are chartered. Towboats in the 600 to 1900 horsepower classes provide power for barges used by the Canal and Linehaul fleets on the Gulf Intracoastal Waterway and the Houston Ship Channel. Towboats in the 1400 to 6100 horsepower classes provide power for both the River and Linehaul fleets on the Gulf Intracoastal Waterway and the Mississippi River System. Towboats above 3600 horsepower are typically used in the Mississippi River System to move River fleet unit tows and provide Linehaul fleet towing. Based on the capabilities of the individual towboats used in the Mississippi River System, the tows range in size from 10,000 tons to 30,000 tons.

Marine transportation services are conducted under long-term contracts, ranging from one to five years with renewal options, with customers with whom the Company has traditionally had long-standing relationships, as well as under spot contracts. During 2004, approximately 70% of the revenues were derived from term contracts and 30% were derived from spot market movements.

Inland tank barges used in the transportation of petrochemicals are of double hull construction and, where applicable, are capable of controlling vapor emissions during loading and discharging operations in compliance with occupational health and safety regulations and air quality concerns.

The marine transportation segment is one of the few inland tank barge operators with the ability to offer to its customers distribution capabilities throughout the Mississippi River System and the Gulf Intracoastal Waterway. Such distribution capabilities offer economies of scale resulting from the ability to match tank barges, towboats, products and destinations more efficiently.

Through the Company's proprietary vessel management computer system, the fleet of barges and towboats is dispatched from centralized dispatch at the corporate office. The towboats are equipped with satellite positioning and communication systems that automatically transmit the location of the towboat to the Company's traffic department located in its corporate office. Electronic orders are communicated to the vessel personnel, with reports of towing activities communicated electronically back to the traffic department. The electronic interface between the traffic department and the vessel personnel enables more effective matching of customer needs to barge capabilities, thereby maximizing utilization of the tank barge and towboat fleet. The Company's customers are able to access information concerning the movement of their cargoes, including barge locations, through the Company's website.

Kirby Inland Marine operates the largest commercial tank barge fleeting service (temporary barge storage facilities) in numerous ports, including Houston, Corpus Christi and Freeport, Texas, and in numerous ports on the Mississippi River, including Baton Rouge and New Orleans, Louisiana. Kirby Inland Marine provides service for its own barges, as well as outside customers, transferring barges within the areas noted, as well as fleeting barges.

Kirby Inland Marine's Logistics Management division offers barge tankerman services and related distribution services to the Company and to some third parties.

Kirby Inland Marine owns a one-third interest in Osprey. The remaining two-thirds interest is owned by Cooper/T. Smith Corporation and Richard L. Couch. Osprey operates a barge feeder service for cargo containers between Houston, New Orleans and Baton Rouge, several ports above Baton Rouge on the Mississippi River, as well as coastal service along the Gulf of Mexico.

Offshore Operations. The segment's offshore operations are conducted through a wholly owned subsidiary, Dixie Offshore Transportation Company ("Dixie Offshore"). The offshore fleet consists of equipment owned by a limited partnership, Dixie Fuels Limited ("Dixie Fuels"), in which Dixie Offshore owns a 35% interest.

Dixie Offshore, as general partner, manages the operations of Dixie Fuels, which operates a fleet of four ocean-going dry-bulk barges, four ocean-going tugboats and one shifting tugboat. The remaining 65% interest in Dixie Fuels is owned by Progress Fuels Corporation ("PFC"), a wholly owned subsidiary of Progress Energy, Inc. ("Progress Energy"). Dixie Fuels operates primarily under term contracts of affreightment, including a contract that expires in the year 2005 with PFC to transport coal across the Gulf of Mexico to Progress Energy's power generation facility at Crystal River, Florida.

Dixie Fuels also has a long-term contract with Holcim (US) Inc. ("Holcim") to transport Holcim's limestone requirements from a facility adjacent to the Progress Energy facility at Crystal River to Holcim's plant in Theodore, Alabama. The Holcim contract, which expires in 2010, provides cargo for a portion of the return voyage for the vessels that carry coal to Progress Energy's Crystal River facility. Dixie Fuels is also engaged in the transportation of coal, fertilizer and other bulk cargoes on a short-term basis between domestic ports and the transportation of grain from domestic ports to ports primarily in the Caribbean Basin.

Contracts and Customers

Marine transportation services are conducted under long-term contracts, ranging from one to five years with renewal options, with customers with whom the Company has traditionally had long-standing relationships, as well as under short-term and spot contracts. The majority of the marine transportation contracts with its customers are for terms of one year. These customers have generally been customers of the Company's marine transportation segment for several years and management anticipates continued relationships, however, there is no assurance that any individual contract will be renewed.

A term contract is an agreement with a specific customer to transport cargo from a designated origin to a designated destination at a set rate. The rate may or may not escalate during the term of the contract; however, the base rate generally remains constant and contracts often include escalation provisions to recover changes in specific costs such as fuel. Term contracts typically only set agreement as to rates and do not have volume guarantees. A spot contract is an agreement with a customer to move cargo from a specific origin to a designated destination for a rate negotiated at the time the cargo movement takes place. Spot contract rates are at the current “market” rate and are subject to market volatility. The Company typically maintains a higher mix of term contracts to spot contracts to service a large base of steady business which is not subject to short-term market volatility. During 2004, approximately 70% of the marine transportation revenues were derived from term contracts and 30% were derived from spot market movements.

Dow, with which the Company has a contract through 2016, including renewal options, accounted for 12% of the Company’s revenues in 2004, 14% in 2003 and 13% in 2002. SeaRiver, with which the Company has a contract through 2013, including renewal options, accounted for 12% of the Company’s revenues in 2004 and 2003.

Employees

The Company’s marine transportation segment has approximately 2,025 employees, of which approximately 1,350 are vessel crew members. None of the segment’s operations are subject to collective bargaining agreements.

Properties

The principal office of Kirby Inland Marine is located in Houston, Texas, in the Company’s facilities under a lease that expires in April 2006. Kirby Inland Marine’s operating locations are on the Mississippi River at Baton Rouge, Louisiana, New Orleans, Louisiana, and Greenville, Mississippi, two locations in Houston, Texas, on and near the Houston Ship Channel, and in Corpus Christi, Texas. The Baton Rouge, New Orleans and Houston facilities are owned, and the Greenville and Corpus Christi facilities are leased. Kirby Logistics Management’s principal office is located in a facility owned by Kirby Inland Marine in Houston, Texas, near the Houston Ship Channel. The principal office of Dixie Offshore is in Belle Chasse, Louisiana, in owned facilities.

Governmental Regulations

General. The Company’s marine transportation operations are subject to regulation by the USCG, federal laws, state laws and certain international conventions.

Most of the Company’s inland tank barges are inspected by the USCG and carry certificates of inspection. The Company’s inland and offshore towing vessels and offshore dry-bulk barges are not currently subject to USCG inspection requirements; however, regulations are currently under development that would subject inland and offshore towing vessels to USCG inspection requirements. The Company’s offshore towing vessels and offshore dry-bulk barges are built to American Bureau of Shipping (“ABS”) classification standards and are inspected periodically by ABS to maintain the vessels in class. The crews employed by the Company aboard vessels, including captains, pilots, engineers, tankermen and ordinary seamen, are licensed by the USCG.

The Company is required by various governmental agencies to obtain licenses, certificates and permits for its vessels depending upon such factors as the cargo transported, the waters in which the vessels operate and other factors. The Company is of the opinion that the Company’s vessels have obtained and can maintain all required licenses, certificates and permits required by such governmental agencies for the foreseeable future.

The Company believes that additional security and environmental related regulations may be imposed on the marine industry in the form of contingency planning requirements. Generally, the Company endorses the anticipated additional regulations and believes it is currently operating to standards at least the equal of such anticipated additional regulations.

Jones Act. The Jones Act is a federal cabotage law that restricts domestic marine transportation in the United States to vessels built and registered in the United States, manned by United States citizens, and owned and operated by United States citizens. For corporations to qualify as United States citizens for the purpose of domestic trade, 75% of the corporations' beneficial stockholders must be United States citizens. The Company presently meets all of the requirements of the Jones Act for its owned vessels.

Compliance with United States ownership requirements of the Jones Act is important to the operations of the Company, and the loss of Jones Act status could have a significant negative effect for the Company. The Company monitors the citizenship requirements under the Jones Act of its employees and beneficial stockholders, and will take action as necessary to ensure compliance with the Jones Act requirements.

The requirements that the Company's vessels be United States built and manned by United States citizens, the crewing requirements and material requirements of the USCG, and the application of United States labor and tax laws significantly increase the cost of U.S. flag vessels when compared with comparable foreign flag vessels. The Company's business could be adversely affected if the Jones Act were to be modified so as to permit foreign competition that is not subject to the same United States government imposed burdens.

User Taxes. Federal legislation requires that inland marine transportation companies pay a user tax based on propulsion fuel used by vessels engaged in trade along the inland waterways that are maintained by the United States Army Corps of Engineers. Such user taxes are designed to help defray the costs associated with replacing major components of the inland waterway system, such as locks and dams. A significant portion of the inland waterways on which the Company's vessels operate is maintained by the Army Corps of Engineers.

The Company presently pays a federal fuel tax of 23.4 cents per gallon, reflecting a 3.3 cents per gallon transportation fuel tax for deficit reduction, reducing to 2.3 cents per gallon effective July 1, 2005 and eliminated entirely December 31, 2006, a .1 cent per gallon leaking underground storage tank tax and a 20 cents per gallon waterway use tax. There can be no assurance that additional user taxes may not be imposed in the future.

Security Requirements. The Maritime Transportation Security Act of 2002 requires, among other things, submission to and approval by the USCG of vessel and waterfront facility security plans ("VSP" and "FSP", respectively). The VSP and FSP were to be submitted for approval no later than December 31, 2003 and a company must be operating in compliance with the VSP and FSP by June 30, 2004. The Company timely submitted the required VSP and FSP for all vessels and facilities subject to the requirements, substantially the entire fleet of vessels operated by the Company and the terminal and barge fleeting facilities operated by the Company. The Company's VSP and FSP have been approved and the Company is operating in compliance with the plans.

Environmental Regulations

The Company's operations are affected by various regulations and legislation enacted for protection of the environment by the United States government, as well as many coastal and inland waterway states.

Water Pollution Regulations. The Federal Water Pollution Control Act of 1972, as amended by the Clean Water Act of 1977, the Comprehensive Environmental Response, Compensation and Liability Act of 1981 ("CERCLA") and the Oil Pollution Act of 1990 ("OPA") impose strict prohibitions against the discharge of oil and its derivatives or hazardous substances into the navigable waters of the United States. These acts impose civil and criminal penalties for any prohibited discharges and impose substantial strict liability for cleanup of these discharges and any associated damages. Certain states also have water pollution laws that prohibit discharges into waters that traverse the state or adjoin the state, and impose civil and criminal penalties and liabilities similar in nature to those imposed under federal laws.

The OPA and various state laws of similar intent substantially increased over historic levels the statutory liability of owners and operators of vessels for oil spills, both in terms of limit of liability and scope of damages.

One of the most important requirements under the OPA is that all newly constructed tank barges engaged in the transportation of oil and petroleum in the United States be double hulled, and all existing single hull tank barges be retrofitted with double hulls or phased out of domestic service by 2015. In September 2002, the USCG issued new regulations that require the installation of tank level monitoring devices on all single hull tank barges by October 17, 2007, although pursuant to the Coast Guard and Maritime Transportation Act of 2004 the USCG may rescind the requirement.

The Company manages its exposure to losses from potential discharges of pollutants through the use of well maintained and equipped vessels, the safety, training and environmental programs of the Company, and the Company's insurance program. In addition, the Company uses double hull barges in the transportation of more hazardous chemical substances. There can be no assurance, however, that any new regulations or requirements or any discharge of pollutants by the Company will not have an adverse effect on the Company.

Financial Responsibility Requirement. Commencing with the Federal Water Pollution Control Act of 1972, as amended, vessels over 300 gross tons operating in the Exclusive Economic Zone of the United States have been required to maintain evidence of financial ability to satisfy statutory liabilities for oil and hazardous substance water pollution. This evidence is in the form of a Certificate of Financial Responsibility ("COFR") issued by the USCG. The majority of the Company's tank barges are subject to this COFR requirement, and the Company has fully complied with this requirement since its inception. The Company does not foresee any current or future difficulty in maintaining the COFR certificates under current rules.

Clean Air Regulations. The Federal Clean Air Act of 1979 ("Clean Air Act") requires states to draft State Implementation Plans ("SIPs") designed to reduce atmospheric pollution to levels mandated by this act. Several SIPs provide for the regulation of barge loading and discharging emissions. The implementation of these regulations requires a reduction of hydrocarbon emissions released into the atmosphere during the loading of most petroleum products and the degassing and cleaning of barges for maintenance or change of cargo. These regulations require operators who operate in these states to install vapor control equipment on their barges. The Company expects that future toxic emission regulations will be developed and will apply this same technology to many chemicals that are handled by barge. Most of the Company's barges engaged in the transportation of petrochemicals, chemicals and refined products are already equipped with vapor control systems. Additionally, in Texas, an SIP calling for voluntary reductions in towboat diesel engine exhaust emissions for the Houston-Galveston area has been approved. Although a risk exists that new regulations could require significant capital expenditures by the Company and otherwise increase the Company's costs, the Company believes that, based upon the regulations that have been proposed thus far, no material capital expenditures beyond those currently contemplated by the Company and no material increase in costs are likely to be required.

Contingency Plan Requirement. The OPA and several state statutes of similar intent require the majority of the vessels and terminals operated by the Company to maintain approved oil spill contingency plans as a condition of operation. The Company has approved plans that comply with these requirements. The OPA also requires development of regulations for hazardous substance spill contingency plans. The USCG has not yet promulgated these regulations; however, the Company anticipates that they will not be significantly more difficult to comply with than the oil spill plans.

Occupational Health Regulations. The Company's inspected vessel operations are primarily regulated by the USCG for occupational health standards and uninspected vessel operations and the Company's shore personnel are subject to the United States Occupational Safety and Health Administration regulations. The Company believes that it is in compliance with the provisions of the regulations that have been adopted and does not believe that the adoption of any further regulations will impose additional material requirements on the Company. There can be no assurance, however, that claims will not be made against the Company for work related illness or injury, or that the further adoption of health regulations will not adversely affect the Company.

Insurance. The Company's marine transportation operations are subject to the hazards associated with operating vessels carrying large volumes of bulk cargo in a marine environment. These hazards include the risk of loss of or damage to the Company's vessels, damage to third parties as a result of collision, fire or explosion, loss or contamination of cargo, personal injury of employees and third parties, and pollution and other environmental damages. The Company maintains insurance coverage against these hazards. Risk of loss of or damage to the Company's vessels is insured through hull insurance currently insuring approximately $850 million in hull values. Liabilities such as collision, cargo, environmental, personal injury and general liability are insured up to $500 million per occurrence.

Environmental Protection. The Company has a number of programs that were implemented to further its commitment to environmental responsibility in its operations. In addition to internal environmental audits, one such program is environmental audits of barge cleaning vendors principally directed at management of cargo residues and barge cleaning wastes. Others are the participation by the Company in the American Waterways Operators Responsible Carrier program and the American Chemistry Council Responsible Care program, both of which are oriented towards continuously reducing the barge industry's and chemical and petroleum industries' impact on the environment, including the distribution services area.

Safety. The Company manages its exposure to the hazards associated with its business through safety, training and preventive maintenance efforts. The Company places considerable emphasis on safety through a program oriented toward extensive monitoring of safety performance for the purpose of identifying trends and initiating corrective action, and for the purpose of rewarding personnel achieving superior safety performance. The Company believes that its safety performance consistently places it among the industry leaders as evidenced by what it believes are lower injury frequency and pollution incident levels than many of its competitors.

Training. The Company believes that among the major elements of a successful and productive work force are effective training programs. The Company also believes that training in the proper performance of a job enhances both the safety and quality of the service provided. New technology, regulatory compliance, personnel safety, quality and environmental concerns create additional demands for training. The Company fully endorses the development and institution of effective training programs.

Centralized training is provided through the training department, which is charged with developing, conducting and maintaining training programs for the benefit of all of the Company's operating entities. It is also responsible for ensuring that training programs are both consistent and effective. The Company's owned and operated facility includes state-of-the-art equipment and instruction aids, including a working towboat, three tank barges and a tank barge simulator for tankerman training. During 2004, approximately 1,950 certificates were issued for the completion of courses at the training facility.

Quality. The Company has made a substantial commitment to the implementation, maintenance and improvement of Quality Assurance Systems in compliance with the International Quality Standard, ISO 9002. Currently, all of the Company's marine transportation units have been certified. These Quality Assurance Systems have enabled both shore and vessel personnel to effectively manage the changes which occur in the working environment. In addition, such Quality Assurance Systems have enhanced the Company's already excellent safety and environmental performance.

DIESEL ENGINE SERVICES

The Company is engaged in the overhaul and repair of large medium-speed and high-speed diesel engines and reduction gears, and related parts sales through Kirby Engine Systems, Inc. ("Kirby Engine Systems"), a wholly owned subsidiary of the Company, and its three wholly owned operating subsidiaries, Marine Systems, Inc. ("Marine Systems"), Engine Systems, Inc. ("Engine Systems") and Rail Systems, Inc. ("Rail Systems"). Through these three operating subsidiaries, the Company sells Original Equipment Manufacturers (OEM) replacement parts, provides service mechanics to overhaul and repair engines and reduction gears, and maintains facilities to rebuild component parts or entire engines and entire reduction gears. The Company serves the marine market and stand-by power generation market throughout the United States and parts of the Caribbean, the shortline, industrial, Class II and certain transit railroad markets throughout the United States, components of the nuclear industry worldwide and to a lesser extent other industrial markets such as cement, paper and mining in the Midwest. No single customer of the diesel engine services segment accounted for more than 10% of the Company's revenues in 2004, 2003, or 2002. The diesel engine services segment also provides service to the Company's marine transportation segment, which accounted for approximately 2% of the diesel engine services segment's total 2004 revenues, approximately 5% for 2003 and approximately 2% for 2002. Such revenues are eliminated in consolidation and not included in the table below.

The following table sets forth the revenues for the diesel engine services segment for the periods indicated (dollars in thousands):

	Year Ended December 31,					
	2004		2003		2002	
	Amounts	%	Amounts	%	Amounts	%
Overhaul and repairs	$ 42,098	49%	$ 38,045	46%	$ 43,100	51%
Direct parts sales	44,393	51	45,018	54	42,023	49
	$ 86,491	100%	$ 83,063	100%	$ 85,123	100%

Diesel Engine Services Acquisition

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

Marine Operations

The Company is engaged in the overhaul and repair of medium-speed and high-speed diesel engines and reduction gears, line boring, block welding services and related parts sales for customers in the marine industry. The Company services tugboats and towboats powered by large diesel engines utilized in the inland and offshore barge industries. It also services marine equipment and offshore drilling equipment used in the offshore petroleum exploration and oil service industry, marine equipment used in the offshore commercial fishing industry and vessels owned by the United States government.

The Company has marine operations throughout the United States providing in-house and in-field repair capabilities and related parts sales. These operations are located in Houma, Louisiana, Chesapeake, Virginia, Paducah, Kentucky, Seattle, Washington and Tampa, Florida. The operations based in Chesapeake, Virginia and Tampa, Florida are authorized distributors for 17 eastern states and the Caribbean for the Electro-Motive Division of General Motors ("EMD"). The marine operations based in Houma, Louisiana, Paducah, Kentucky and Seattle, Washington are nonexclusive authorized service centers for EMD providing service and related parts sales. In the 2004 third quarter, the Paducah, Kentucky operation became an authorized marine dealer for Caterpillar, Cummins and Detroit Diesel high-speed engines. All of the marine locations are authorized distributors for Falk Corporation ("Falk") reduction gears, and authorized distributors for Alco engines. The Chesapeake, Virginia operation concentrates on East Coast inland and offshore dry-bulk, tank barge and harbor docking operators, the USCG and United States Navy ("Navy"). The Houma, Louisiana operation concentrates on the inland and offshore barge and oil services industries. The Tampa, Florida operation concentrates on Gulf of Mexico offshore dry-bulk, tank barge and harbor docking operators. The Paducah, Kentucky operation concentrates on the inland river towboat and barge operators and the Great Lakes carriers. The Seattle, Washington operation primarily concentrates on the offshore commercial fishing industry, tugboat and barge industry, the USCG and Navy, and other customers in Alaska, Hawaii and the Pacific Rim. The Company's emphasis is on service to its customers, and it sends its crews from any of its locations to service customers' equipment anywhere in the world.

Marine Customers

The Company's major marine customers include inland and offshore barge operators, oil service companies, petrochemical companies, offshore fishing companies, other marine transportation entities, and the USCG and Navy.

Since the marine business is linked to the relative health of the diesel power tugboat and towboat industry, the offshore supply boat industry, the oil and gas drilling industry, the military and the offshore commercial fishing industry, there is no assurance that its present gross revenues can be maintained in the future. The results of the diesel engine services industry are largely tied to the industries it serves and, therefore, are influenced by the cycles of such industries.

Marine Competitive Conditions

The Company's primary competitors are approximately 10 independent diesel services companies and other EMD authorized distributors and authorized service centers. Certain operators of diesel powered marine equipment also elect to maintain in-house service capabilities. While price is a major determinant in the competitive process, reputation, consistent quality, expeditious service, experienced personnel, access to parts inventories and market presence are significant factors. A substantial portion of the Company's business is obtained by competitive bids. However, the Company has entered into preferential service agreements with certain large operators of diesel powered marine equipment. These agreements provide such operators with one source of support and service for all of their requirements at pre-negotiated prices.

Many of the parts sold by the Company are generally available from other service providers, but the Company is one of a limited number of authorized resellers of EMD parts. The Company is also the only marine distributor for Falk reduction gears and the only distributor for Alco engines throughout the United States. Although the Company believes it is unlikely, termination of its distributorship relationship with EMD or its authorized service center relationships with other EMD distributors could adversely affect its business.

Power Generation Operations

The Company is engaged in the overhaul and repair of diesel engines and reduction gears, line boring, block welding service and related parts sales for power generation customers. The Company is also engaged in the sale and distribution of parts for diesel engines and governors to the nuclear industry. The Company services users of diesel engines that provide standby, peak and base load power generation, as well as users of industrial reduction gears such as the cement, paper and mining industries.

The Company has power generation operations providing in-house and in-field repair capabilities and safety-related products to the nuclear industry. These operations are located in Rocky Mount, North Carolina, Medley, Florida, Paducah, Kentucky and Seattle, Washington. The operations based in Rocky Mount, North Carolina and Medley, Florida are EMD authorized distributors for 17 eastern states and the Caribbean for power generation applications, and provide in-house and in-field service. The Rocky Mount operation is also the exclusive worldwide distributor of EMD products to the nuclear industry, the exclusive worldwide distributor for Woodward Governor ("Woodward") products to the nuclear industry and the exclusive worldwide distributor of Cooper Energy Services, Inc. ("Cooper") products to the nuclear industry. The Paducah, Kentucky operation provides in-house and in-field repair services for Falk industrial reduction gears in the Midwest. The Seattle, Washington operation provides in-house and in-field repair services for Alco engines located on the West Coast and the Pacific Rim.

Power Generation Customers

The Company's major power generation customers are Miami-Dade County, Florida Water and Sewer Authority, Progress Energy and the worldwide nuclear power industry.

Power Generation Competitive Conditions

The Company's primary competitors are other independent diesel services companies and industrial reduction gear repair companies and manufacturers. While price is a major determinant in the competitive process, reputation, consistent quality, expeditious service, experienced personnel, access to parts inventories and market presence are significant factors. A substantial portion of the Company's business is obtained by competitive bids. The Company has entered into preferential service agreements with certain large operators of diesel powered generation equipment, providing such operations with one source of support and service for all of their requirements at pre-negotiated prices.

The Company is also the exclusive worldwide distributor of EMD, Cooper and Woodward parts for the nuclear industry. Specific regulations relating to equipment used in nuclear power generation require extensive testing and certification of replacement parts. Non-genuine parts and parts not properly tested and certified cannot be used in the nuclear applications.

Engine Distribution Agreement

Engine Systems has an agreement with Stewart & Stevenson Services, Inc., allowing Stewart & Stevenson to sell EMD engines in certain applications within Engine Systems' distributorship territory encompassing 17 eastern states and the Caribbean. Engine Systems receives an annual fee based on sales within the distributorship territory.

Railroad Operations

The Company is engaged in the overhaul and repair of locomotive diesel engines and the sale of replacement parts for locomotives serving shortline, industrial, Class II and certain transit railroads within the continental United States. The Company serves as an exclusive distributor for EMD providing replacement parts, service and support to these markets. EMD is the world's largest manufacturer of diesel-electric locomotives, a position it has held for over 82 years.

Railroad Customers

The Company's railroad customers are United States shortline, industrial, Class II and transit operators. The shortline and industrial operators are located throughout the United States, and are primarily branch or spur rail lines that provide the final connection between the plants or mines and the major railroad operators. The shortline railroads are independent operators. The plants and mines own the industrial railroads. The Class II railroads are larger regionally operated railroads. The transit railroads are primarily located in larger cities in the Northeast and West Coast of the United States. Transit railroads are operated by cities, states and Amtrak.

Railroad Competitive Conditions

As an exclusive United States distributor for EMD parts, the Company provides all EMD parts sales to the shortline, industrial, Class II and certain transit railroads, as well as providing rebuilt parts and service work. There are several other companies providing service for shortline and industrial locomotives. In addition, the industrial companies, in some cases, provide their own service.

Employees

Marine Systems, Engine Systems and Rail Systems together have approximately 250 employees.

Properties

The principal offices of the diesel engine services segment are located in Houma, Louisiana. The Company also operates eight parts and service facilities, with two facilities located in Houma, Louisiana, and one facility each located in Chesapeake, Virginia, Rocky Mount, North Carolina, Paducah, Kentucky, Medley, Florida, Tampa, Florida and Seattle, Washington. All of these facilities are located on leased property except the Houma, Louisiana facilities are situated on approximately seven acres of Company owned land.

Item 2. ***Properties***

The information appearing in Item 1 is incorporated herein by reference. The Company and Kirby Inland Marine currently occupy leased office space at 55 Waugh Drive, Suite 1000, Houston, Texas, under a lease that expires in April 2006. The Company believes that its facilities at 55 Waugh Drive are adequate for its needs and additional facilities would be available if required.

Item 3. *Legal Proceedings*

In 2000, the Company and a group of approximately 45 other companies were notified that they are Potentially Responsible Parties ("PRPs") under CERCLA with respect to a Superfund site, the Palmer Barge Line Site ("Palmer"), located in Port Arthur, Texas. In prior years, Palmer had provided tank barge cleaning services to various subsidiaries of the Company. The Company and three other PRPs have entered into an agreement with the United States Environmental Protection Agency ("EPA") to perform a remedial investigation and feasibility study. Based on information currently available, the Company is unable to ascertain the extent of its exposure, if any, in this matter.

In 2003, the Company and certain subsidiaries received a Request For Information ("RFI") from the EPA under CERCLA with respect to a Superfund site, the Gulfco site, located in Freeport, Texas. In prior years, a company unrelated to Gulfco operated at the site and provided tank barge cleaning services to various subsidiaries of the Company. An RFI is not a determination that a party is responsible or potentially responsible for contamination at a site, but is only a request seeking any information a party may have with respect to a site as part of an EPA investigation into such site. In addition, in 2004, the Company and certain subsidiaries received an RFI from the EPA under CERCLA with respect to a Superfund site, the State Marine site, located in Port Arthur, Texas. Based on information currently available, the Company is unable to ascertain the extent of its exposure, if any, in these matters.

In addition, the Company is involved in various legal and other proceedings which are incidental to the conduct of its business, none of which in the opinion of management will have a material effect on the Company's financial condition, results of operations or cash flows. Management believes that it has recorded adequate reserves and believes that it has adequate insurance coverage or has meritorious defenses for these other claims and contingencies.

Item 4. *Submission of Matters to a Vote of Security Holders*

During the fourth quarter of the fiscal year ended December 31, 2004, no matter was submitted to a vote of security holders through solicitation of proxies or otherwise.

Executive Officers of the Registrant

The executive officers of the Company are as follows:

Name	Age	Positions and Offices
C. Berdon Lawrence	62	Chairman of the Board of Directors
Joseph H. Pyne	57	President, Director and Chief Executive Officer
Norman W. Nolen	62	Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary
Steven P. Valerius	50	President — Kirby Inland Marine
Dorman L. Strahan	48	President — Kirby Engine Systems
Mark R. Buese	49	Senior Vice President — Administration
Jack M. Sims	62	Vice President — Human Resources
Howard G. Runser	54	Vice President — Information Technology
G. Stephen Holcomb	59	Vice President — Investor Relations and Assistant Secretary
Ronald A. Dragg	41	Controller

No family relationship exists among the executive officers or among the executive officers and the directors. Officers are elected to hold office until the annual meeting of directors, which immediately follows the annual meeting of stockholders, or until their respective successors are elected and have qualified.

C. Berdon Lawrence holds an M.B.A. degree and a B.B.A. degree in business administration from Tulane University. He has served the Company as Chairman of the Board since October 1999. Prior to joining the Company in October 1999, he served for 30 years as President of Hollywood Marine, an inland tank barge company of which he was the founder and principal shareholder and which was acquired by the Company in October 1999.

Joseph H. Pyne holds a degree in liberal arts from the University of North Carolina and has served as President and Chief Executive Officer of the Company since April 1995. He has served the Company as a Director since 1988. He served as Executive Vice President of the Company from 1992 to April 1995 and as President of Kirby Inland Marine from 1984 to November 1999. He also served in various operating and administrative capacities with Kirby Inland Marine from 1978 to 1984, including Executive Vice President from January to June 1984. Prior to joining the Company, he was employed by Northrop Services, Inc. and served as an officer in the Navy.

Norman W. Nolen is a Certified Public Accountant and holds an M.B.A. degree from the University of Texas and a degree in electrical engineering from the University of Houston. He has served the Company as Executive Vice President, Chief Financial Officer and Treasurer since October 1999 and served as Senior Vice President, Chief Financial Officer and Treasurer from February 1999 to October 1999. Prior to joining the Company, he served as Senior Vice President, Treasurer and Chief Financial Officer of Weatherford International, Inc. from 1991 to 1998. He served as Corporate Treasurer of Cameron Iron Works from 1980 to 1990 and as a corporate banker with Texas Commerce Bank from 1968 to 1980.

Steven P. Valerius holds a J.D. degree from South Texas College of Law and a degree in business administration from the University of Texas. He has served the Company as President of Kirby Inland Marine since November 1999. Prior to joining the Company in October 1999, he served as Executive Vice President of Hollywood Marine. Prior to joining Hollywood Marine in 1979, he was employed by KPMG LLP.

Dorman L. Strahan attended Nicholls State University and has served the Company as President of Kirby Engine Systems since May 1999, President of Marine Systems since 1986, President of Rail Systems since 1993 and President of Engine Systems since 1996. After joining the Company in 1982 in connection with the acquisition of Marine Systems, he served as Vice President of Marine Systems until 1985.

Mark R. Buese holds a degree in business administration from Loyola University and has served the Company as Senior Vice President — Administration since October 1999. He served the Company or one of its subsidiaries as Vice President — Administration from 1993 to October 1999. He also served as Vice President of Kirby Inland Marine from 1985 to 1999 and served in various sales, operating and administrative capacities with Kirby Inland Marine from 1978 through 1985.

Jack M. Sims holds a degree in business administration from the University of Miami and has served the Company, or one of its subsidiaries, as Vice President — Human Resources since 1993. Prior to joining the Company in March 1993, he served as Vice President — Human Resources for Virginia Indonesia Company from 1982 through 1992, Manager — Employee Relations for Houston Oil and Minerals Corporation from 1977 through 1981 and in various professional and managerial positions with Shell Oil Company from 1967 through 1977.

Howard G. Runser holds an M.B.A. degree from Xavier University and a Bachelor of Science degree from Penn State University. He has served the Company as Vice President — Information Technology since January 2000. He is a Certified Data Processor and a Certified Computer Programmer. Prior to joining the Company in January 2000, he was Vice President of Financial Information Systems for Petroleum Geo-Services, and previously held management positions with Weatherford International, Inc. and Compaq Computer Corporation.

G. Stephen Holcomb holds a degree in business administration from Stephen F. Austin State University and has served the Company as Vice President — Investor Relations and Assistant Secretary since November 2002. He also served as Vice President, Controller and Assistant Secretary from 1989 to November 2002, Controller from 1987 through 1988 and as Assistant Controller from 1976 through 1986. Prior to that, he was

Assistant Controller of Kirby Industries from 1973 to 1976. Prior to joining the Company in 1973, he was employed by Cooper Industries, Inc.

Ronald A. Dragg is a Certified Public Accountant and holds a Master of Science in Accountancy degree from the University of Houston and a degree in finance from Texas A&M University. He has served the Company as Controller since November 2002, Controller — Financial Reporting from January 1999 to October 2002, and Assistant Controller — Financial Reporting from October 1996 to December 1998. Prior to joining the Company, he was employed by Baker Hughes Incorporated.

PART II

Item 5. *Market for Registrant's Common Equity and Related Stockholder Matters*

The Company's common stock is traded on the New York Stock Exchange under the symbol KEX. The following table sets forth the high and low sales prices per share for the common stock for the periods indicated:

	Sales Price	
	High	**Low**
2005		
First Quarter (through March 4, 2005)	$ 45.57	$ 39.76
2004		
First Quarter	36.54	30.19
Second Quarter	39.09	33.20
Third Quarter	40.38	33.65
Fourth Quarter	46.48	38.87
2003		
First Quarter	29.25	21.62
Second Quarter	28.44	24.28
Third Quarter	30.68	25.93
Fourth Quarter	35.75	28.40

As of March 4, 2005, the Company had 25,047,000 outstanding shares held by approximately 900 stockholders of record; however, the Company believes the number of beneficial owners of common stock exceeds this number.

The Company does not have an established dividend policy. Decisions regarding the payment of future dividends will be made by the Board of Directors based on the facts and circumstances that exist at that time. Since 1989, the Company has not paid any dividends on its common stock.

Item 6. *Selected Financial Data*

The comparative selected financial data of the Company and consolidated subsidiaries is presented for the five years ended December 31, 2004. The information should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company and the Financial Statements included under Item 8 elsewhere herein (in thousands, except per share amounts):

	December 31, 2004	2003	2002	2001*	2000*
Revenues:					
Marine transportation	$ 588,828	$ 530,411	$ 450,280	$ 481,283	$ 443,203
Diesel engine services	86,491	83,063	85,123	85,601	69,441
	$ 675,319	$ 613,474	$ 535,403	$ 566,884	$ 512,644
Net earnings	$ 49,544	$ 40,918	$ 27,446	$ 39,603	$ 34,113
Earnings per share of common stock:					
Basic	$ 2.02	$ 1.69	$ 1.14	$ 1.65	$ 1.40
Diluted	$ 1.97	$ 1.67	$ 1.13	$ 1.63	$ 1.39
Weighted average shares outstanding:					
Basic	24,505	24,153	24,061	24,027	24,401
Diluted	25,157	24,506	24,394	24,270	24,566

	December 31, 2004	2003	2002	2001*	2000*
Property and equipment, net	$ 574,211	$ 536,512	$ 486,852	$ 466,239	$ 453,807
Total assets	$ 904,675	$ 854,961	$ 791,758	$ 752,435	$ 746,541
Long-term debt, including current portion	$ 218,740	$ 255,265	$ 266,001	$ 249,737	$ 293,372
Stockholders' equity	$ 435,235	$ 372,132	$ 323,311	$ 301,022	$ 262,649

* Comparability with prior periods is affected by the amortization of goodwill of $6,253, and $5,844 in 2001 and 2000, respectively.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Statements contained in this Form 10-K 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-K could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are: adverse economic conditions, industry competition and other competitive factors, adverse weather conditions such as high water, low water, tropical storms, hurricanes, fog and ice, marine accidents, lock delays, fuel costs, interest rates, construction of new equipment by competitors, including construction with government assisted financing, government and environmental laws and regulations, and the timing, magnitude and number of acquisitions made by the Company.

Overview

The Company is the nation's largest domestic inland tank barge operator with a fleet of 885 active tank barges and 235 towing vessels. The Company uses the inland waterway system of the U.S. to transport bulk liquids including petrochemicals, black oil products, refined petroleum products and agricultural chemicals. Through its diesel engine services segment, the Company provides after-market services for large medium-speed and high-speed diesel engines used in marine, power generation and railroad applications.

During 2004, approximately 87% of the Company's revenue was generated by its marine transportation segment. The segment's customers include many of the major petrochemical and refining companies in the U.S. Products transported include raw materials for many of the end products used widely by businesses and consumers every day — plastics, fiber, paints, detergents, oil additives and paper, among others. Consequently, the Company's business tends to mirror the general performance of the U.S. economy and the performance of the Company's customer base. The following table shows the products transported by the Company, the revenue distribution for 2004, the uses of these products and the factors that drive the demand for the products the Company transports:

End Uses of Products Transported

Products Moved	2004 Revenue Distribution	Uses of Products Moved	Drivers
Petrochemicals	68%	Plastics, Fibers, Paper, Gasoline Additives	Housing, Consumer Goods, Autos, Clothing, Vehicle Usages
Black Oil Products	18%	Asphalt, Boiler Fuel, No. 6 Fuel Oil, Coker Feedstocks, Residual Fuel, Crude Oil, Ship Bunkers	Road Construction, Feedstock for Refineries, Fuel for Power Plants and Ships
Refined Petroleum Products	10%	Gasoline Blends, No. 2 Oil, Jet Fuel, Heating Oil	Vehicle Usage, Air Travel, Weather Conditions
Agricultural Chemicals	4%	Liquid Fertilizers, Chemical Feedstocks	Corn, Cotton, Wheat Production

For 2004, the Company reported the highest revenue, net earnings, and earnings per share in its history. The Company reported net earnings of $49,544,000, or $1.97 per share, on revenues of $675,319,000. The record setting results reflect the improvement during 2004 in the U.S. and global economies, as the U.S. petrochemical industry and U.S. refining industry operated their plants and refineries at higher utilization rates, which generated increased volumes for the marine transportation segment. The 2004 results also reflect the full impact of the Company's January 15, 2003 acquisition of the SeaRiver inland marine transportation fleet, more fully described under "Acquisitions" below.

The Company's marine transportation segment revenue and operating income for 2004 increased 11% and 20%, respectively, when compared with 2003. The Company's largest marine transportation market is the petrochemical market, which contributed 68% of 2004 marine transportation revenue. During 2004, the petrochemical market remained firm, as contract customers continued to operate their plants at high utilization rates, generating strong volumes. The black oil products market, which contributed 18% of 2004 marine transportation revenue, also remained strong, the result of high U.S. refinery production and resulting greater volumes of heavier refinery residual oil by-products. Refined petroleum products contributed 10% of 2004 marine transportation revenue and experienced typical Gulf Coast to Midwest demand during 2004. The agricultural chemical market, which contributed 4% of 2004 marine transportation revenue, remained weak for most of 2004 despite low Midwest inventory levels, as high prices for liquid fertilizer products curtailed demand.

The Company was successful in modestly raising marine transportation rates on contract renewals during 2004, generally on average of 3% to 4%, a continuation of a trend that started during the 2003 fourth quarter. Depending on when the contract was priced to market, some contracts were increased by a higher percentage, while others were adjusted by a lower percentage. In addition, effective January 1, 2004, contract escalators for labor and the producer price index on numerous multiyear contracts resulted in a rate increase for those contracts of approximately 2%. The Company adjusts contract rates for fuel on either a monthly or quarterly basis, depending on the specific contract. Spot market rates during the 2004 year were 15% to 20% higher than 2003 for most marine transportation markets and above contract rates. During 2004, approximately 70% of the Company's marine transportation revenue was under term contracts with the remaining 30% in the spot market. The 70% contract and 30% spot market mix provides the Company with a stable revenue stream with less exposure to day-to-day pricing fluctuations.

The marine transportation segment's 2004 results were negatively impacted by record setting navigational delays, creating major logistic challenges for the segment. Delay days measure the lost time incurred by a tow (towboat and barge) during transit. The measure includes transit delays caused by weather, lock congestion or closure and other navigational factors. Delay days for 2004 totaled 8,392, a 30% increase over 6,462 days experienced for 2003. The 2004 delay days included key lock closures for repairs on the Gulf Intracoastal Waterway and the Ohio River, high water conditions during the second and fourth quarters, Hurricane Ivan in September, and a significant number of fog days along the Gulf Coast in the first and fourth quarters.

The marine transportation segment's operating margin improved to 15.7% in 2004 compared with 14.6% in 2003. The improved margin reflected the additional volumes transported, the contract rate increases and higher spot market rates, partially offset by the operating inefficiencies caused by the record delay days. The higher 2004 operating margin also reflected the Company's on-going effort to eliminate unnecessary costs and improve the management of towing requirements, including more efficient use of horsepower, faster barge turnarounds and increased backhaul opportunities.

The Company's diesel engine services segment's 2004 revenue and operating income increased 4% and 6%, respectively, when compared with 2003. The results reflect the April 2004 acquisition of Walker's operations and parts inventory, partial recovery in the Midwest dry cargo market, and increased direct parts sales to nuclear power generation and railroad customers. The East Coast and West Coast marine markets were weak for the majority of 2004, but showed some improvement in the fourth quarter. The Gulf Coast offshore well service market remained weak during all of 2004. Operating margin for the diesel engine services segment for 2004 was 9.7% compared with 9.5% for 2003.

The Company continued to generate strong operating cash flow during 2004, with net cash provided from operations totaling $126,751,000, an increase of $14,521,000 over 2003. The cash was used for acquisitions totaling $10,174,000, including the Walker and Osprey acquisitions described under "Acquisitions" below, and the purchase of three pre-owned tank barges, capital expenditures totaling $93,604,000, primarily for fleet replacement and enhancement, and long-term debt reduction of $37,825,000. The Company reduced its debt-to-capitalization ratio from 40.7% to 33.4% during 2004.

In November 2004, the Company prepaid $50,000,000 of its $250,000,000 private placement loan. At December 31, 2004, $150,000,000 million of the remaining $200,000,000 outstanding was hedged against interest rate exposure with interest rate swaps. At December 31, 2004, $15,000,000 was outstanding under the Company's $150,000,000 unsecured revolving credit facility.

Capital expenditures totaled $93,604,000 in 2004 and included $43,606,000 for new tank barge construction and $49,998,000 primarily for upgrading the existing marine transportation fleet. The Company's new barge construction program for 2004 replaced older tank barges retired from service without adding additional capacity. For 2005, the Company projects that capital expenditures will total $110,000,000 to $120,000,000, including $65,000,000 for new tank barge construction. The 2005 program includes the construction of 17 double hull, 30,000 barrel capacity, tank barges at a cost of $37,000,000, subject to adjustment for the price of steel. These 17 tank barges, 16 of which are scheduled for delivery in 2005 and one in 2006, are replacement barges for older tank barges scheduled to be removed from service. In addition, the 2005 program will also include 20 double hull, 10,000 barrel capacity, tank barges and one double hull, 30,000 barrel capacity, specialty tank barge at a cost of $28,000,000, subject to adjustment for the price of steel. These 21 tank barges, scheduled for delivery primarily in the second half of 2005, will be additional capacity, positioning the Company to obtain petrochemical movements it currently does not have the capacity to handle.

The Company is in excellent financial position to take advantage of internal and external growth opportunities in a consolidating marine transportation industry. External growth opportunities include potential acquisitions of inland tank barge operations that become available as a result of fleet replacement decisions faced by other operators, and outsourcing by shippers and customers seeking to single source tank barge requirements. Increasing the fleet size would allow the Company to improve asset utilization through more backhaul opportunities, faster barge turnarounds, more efficient use of horsepower, barges positioned closer to cargos, lower incremental costs due to enhanced purchasing power, minimal incremental administrative staff and less cleaning due to operating more barges with compatible prior cargoes.

The Company anticipates that during 2005, the U.S. and global economies will be stable to modestly improving, which may lead to an increase in petrochemical volumes transported by the Company's marine transportation segment. However, continued high and volatile feedstock and energy costs could slow down or delay any improvement in petrochemical volumes. Industry wide, tank barge capacity declined during 2001 and 2002, and remained relatively constant in 2003. In 2004, some incremental capacity was added to the industry fleet. A smaller industry-wide tank barge capacity supports higher industry utilization and an improved pricing environment.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company evaluates its estimates and assumptions on an ongoing basis based on a combination of historical information and various other assumptions that are believed to be reasonable under the particular circumstances. Actual results may differ from these estimates based on different assumptions or conditions. The Company believes the critical accounting policies that most impact the consolidated financial statements are described below. It is also suggested that the Company's significant accounting policies, as described in the Company's financial statements in Note 1, Summary of Significant Accounting Policies, be read in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Accounts Receivable. The Company extends credit to its customers in the normal course of business. The Company regularly reviews its accounts and estimates the amount of uncollectable receivables each period and establishes an allowance for uncollectable amounts. The amount of the allowance is based on the age of unpaid amounts, information about the current financial strength of customers, and other relevant information. Estimates of uncollectable amounts are revised each period, and changes are recorded in the period they become known. Historically, credit risk with respect to these trade receivables has generally been considered minimal because of the financial strength of the Company's customers; however, a significant change in the level of uncollectable amounts could have a material effect on the Company's results of operations.

Property, Maintenance and Repairs. Property is recorded at cost. Improvements and betterments are capitalized as incurred. Depreciation is recorded on the straight-line method over the estimated useful lives of the individual assets. When property items are retired, sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts with any gain or loss on the disposition included in the statement of earnings. Routine maintenance and repairs are charged to operating expense as incurred on an annual basis. The Company reviews long-lived assets for impairment by vessel class whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability of the assets is measured by a comparison of the carrying amount of the assets to future net cash expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There are many assumptions and estimates underlying the determination of an impairment event or loss, if any. The assumptions and estimates include, but are not limited to, estimated fair market value of the assets and estimated future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service the asset will be used, and estimated salvage values. Although the Company believes its assumptions and estimates are reasonable, deviations from the assumptions and estimates could produce a materially different result.

Goodwill. The excess of the purchase price over the fair value of identifiable net assets acquired in transactions accounted for as a purchase are included in goodwill. Management monitors the recoverability of goodwill on an annual basis, or whenever events or circumstances indicate that interim impairment testing is necessary. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average weighted cost of capital. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved. There are many assumptions and estimates underlying the determination of an impairment event or loss, if any. Although the Company believes its assumptions and estimates are reasonable, deviations from the assumptions and estimates could produce a materially different result.

Accrued Insurance. The Company is subject to property damage and casualty risks associated with operating vessels carrying large volumes of bulk cargo in a marine environment. The Company maintains insurance coverage against these risks subject to a deductible, below which the Company is liable. In addition to expensing claims below the deductible amount as incurred, the Company also maintains a reserve for losses that may have occurred but have not been reported to the Company. The Company uses historic experience and actuarial analysis by outside consultants to estimate an appropriate level of reserves. If the actual number of claims and magnitude were substantially greater than assumed, the required level of reserves for claims incurred but not reported could be materially understated. The Company records receivables from its insurers for incurred claims above the Company's deductible. If the solvency of the insurers became impaired, there could be an adverse impact on the accrued receivables and the availability of insurance.

Acquisitions

In March 2002, the Company purchased the Cargo Carriers fleet of 21 inland tank barges for $2,800,000 in cash from Cargill, and resold six of the tank barges for $530,000 in April 2002.

On October 31, 2002, the Company completed the acquisition of seven inland tank barges and 13 inland towboats from Coastal for $17,053,000 in cash. In addition, the Company and Coastal entered into a barge management agreement whereby the Company will serve as manager of the two companies' combined black oil fleet for a period of seven years. The combined black oil fleet consists of 54 barges owned by Coastal, of which 37 are currently active, and the Company's 68 active black oil barges. In a related transaction, on September 25, 2002, the Company purchased from Coastal three black oil tank barges for $1,800,000 in cash.

On December 15, 2002, the Company purchased 94 double hull inland tank barges from Union Carbide for $23,000,000. In February 2001, the Company had entered into a long-term lease with Union Carbide for the 94 inland tank barges. The inland tank barges were acquired by Dow as part of the February 5, 2001 merger between Union Carbide and Dow. Nine of the 94 inland tank barges were out-of-service and subsequently sold.

On January 15, 2003, the Company purchased from SeaRiver, the U.S. transportation affiliate of ExxonMobil, 45 double hull inland tank barges and seven inland towboats for $32,113,000 in cash, and assumed from SeaRiver the leases of 16 double hull inland tank barges. On February 28, 2003, the Company purchased three double hull inland tank barges leased by SeaRiver from Banc of America Leasing for $3,453,000 in cash. In addition, the Company entered into a contract to provide inland marine transportation services to SeaRiver.

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

On April 16, 2004, the Company purchased a one-third interest in Osprey for $4,220,000. The purchase price consisted of cash of $2,920,000 and notes payable totaling $1,300,000 due in April 2005. The remaining two-thirds interest is owned by Cooper/ T. Smith Corporation and Richard L. Couch. Osprey, formed in 2000, operates a barge feeder service for cargo containers between Houston, New Orleans and Baton Rouge, several ports located above Baton Rouge on the Mississippi River, as well as coastal service along the Gulf of Mexico. Revenues for Osprey for 2004 were approximately $13,800,000.

Results of Operations

The Company reported 2004 net earnings of $49,544,000, or $1.97 per share on revenues of $675,319,000, compared with net earnings of $40,918,000, or $1.67 per share, on revenues of $613,474,000 for 2003, and net earnings of $27,446,000, or $1.13 per share, on revenues of $535,403,000 for 2002. The 2002 year included $18,933,000 before taxes, $12,498,000 after taxes, or $.51 per share, non-cash impairment of long-lived assets and an equity investment.

Marine transportation revenues for 2004 totaled $588,828,000, or 87% of total revenues, compared with $530,411,000, or 86% of total revenues for 2003 and $450,280,000, or 84% of total revenues for 2002. Diesel engine services revenues for 2004 totaled $86,491,000, or 13% of total revenues, compared $83,063,000, or 14% of total revenues for 2003 and $85,123,000, or 16% of total revenues for 2002.

For purposes of the Management's Discussion, all earnings per share are "Diluted earnings per share." The weighted average number of common shares applicable to diluted earnings for 2004, 2003 and 2002 were 25,157,000, 24,506,000, and 24,394,000, respectively.

Marine Transportation

The Company, through its marine transportation segment, is a provider of marine transportation services, operating a current fleet of 885 active inland tank barges and 235 active inland towing vessels, transporting petrochemicals, black oil products, refined petroleum products and agricultural chemicals along the United States inland waterways. The marine transportation segment is also the managing partner of a 35% owned offshore marine partnership, consisting of four dry-bulk barge and tug units. The partnership is accounted for under the equity method of accounting.

The following table sets forth the Company's marine transportation segment's revenues, costs and expenses, operating income and operating margins for the three years ended December 31, 2004 (dollars in thousands):

	2004	2003	% Change 2004 to 2003	2002	% Change 2003 to 2002
Marine transportation revenues	$ 588,828	$ 530,411	11%	$ 450,280	18%
Costs and expenses:					
Costs of sales and operating expenses	365,590	332,600	10	269,838	23
Selling, general and administrative	65,278	57,271	14	52,967	8
Taxes, other than on income	13,349	12,824	4	10,548	22
Depreciation and amortization	52,076	50,442	3	42,332	19
	496,293	453,137	10	375,685	21
Operating income	$ 92,535	$ 77,274	20%	$ 74,595	4%
Operating margins	15.7%	14.6%		16.6%	

2004 Compared with 2003

Marine Transportation Revenues

Marine transportation revenues for 2004 increased 11% compared with 2003, reflecting stronger petrochemical and black oil products volumes, modest contract rate increases, and labor and producer price index escalators effective January 1, 2004 on numerous multi-year contracts. In addition, the 2004 year reflected the full 2004 first quarter impact of the January 15, 2003 purchase of the inland tank barge fleet of SeaRiver.

Petrochemical volumes transported were strong for all of 2004, due primarily to the improved U.S. and global economies. Contract customers operated their plants at high utilization rates throughout 2004, resulting in high barge utilization for most products and trade lanes.

Black oil volumes during 2004 were higher than 2003, reflecting increased refinery production generating demand for waterborne transportation of heavier refinery residual oil by-products. In addition, the continued high natural gas prices during 2004 resulted in the continued use of residual fuel as a substitute for natural gas for the production of refined products.

Refined products volumes transported into the Midwest from the Gulf Coast during 2004 were generally at normal seasonal levels, with demand stronger in April through August, the typical summer driving season.

Agricultural chemical volumes were weak throughout 2004, with some improvement in the 2004 fourth quarter. High Midwest inventory levels and high product prices during the 2004 first six months caused volumes to be weak. During the 2004 third quarter, despite low Midwest inventory levels, volumes transported were reduced from 2003 levels as high prices for liquid fertilizer products curtailed demand.

The Company incurred a record 8,392 delay days during 2004, a 30% increase over 6,462 delay days incurred in 2003. The 2004 delay days included the closure of a major lock for repair on the Gulf Intracoastal Waterway in May and the closure of a major lock on the Ohio River for repair in August. The delay days also included high water conditions, principally during the second and fourth quarters, a significant number of fog days along the Gulf Coast in the first and fourth quarters, and Hurricane Ivan in September.

Hurricane Ivan, which made landfall near Gulf Shores, Alabama on September 16, 2004, adversely affected the Company’s operations. The initial projected path was from New Orleans to the Florida panhandle. In anticipation of Hurricane Ivan, most petrochemical plants and refineries in the projected path closed. Additionally, the Company moved equipment out of the projected path of the storm, disrupting the Company’s distribution systems and resulting in repositioning costs. Hurricane Ivan’s impact was an estimated $.02 per share, including the impact on the operations of the Company’s 35% owned offshore partnership with a Florida utility accounted for under the equity method of accounting.

During 2004, approximately 70% of marine transportation volumes were under term contracts and 30% were spot market volumes. Contracts renewed during 2004 increased on average of 3% to 4%, primarily the result of stronger industry demand and higher utilization of tank barges. Depending on when the contract was priced, some contracts were increased by a higher percentage, while others were adjusted by a lower percentage. Effective January 1, 2004, escalators for labor and the producer price index on numerous multi-year contracts increased term contract rates by approximately 2%. During 2004, spot market rates were 15% to 20% higher for most product lines when compared with 2003 and were above contract rates.

Marine Transportation Costs and Expenses

Total costs and expenses for 2004 increased 10% compared with 2003, reflecting increased volumes noted above and the full year impact of the January 15, 2003 acquisition of the SeaRiver fleet.

Costs of sales and operating expenses for 2004 increased 10% over 2003. The increase reflected wage increases and related expenses effective January 1, 2004, as well as additional expenses associated with the increased volumes transported. During 2004, the segment operated an average of 235 inland towboats compared with an average of 225 during 2003. The number of towboats operated and crews required fluctuates daily, depending on the volumes moved, weather conditions and voyage times. The segment consumed 56.2 million gallons of diesel fuel during 2004 compared with 56.0 million gallons consumed in 2003.

The average cost of diesel fuel continued to increase during 2004. For 2004, the average price per gallon consumed was $1.13, a 27% increase over 2003 average price of 89 cents. Term contracts contain fuel escalation clauses that allow the Company to recover increases in the cost of fuel; however, there is generally a 30 to 90 day delay before contracts are adjusted.

Selling, general and administrative expenses for 2004 increased 14% compared with 2003. The increase reflected salary increases and related expenses, effective January 1, 2004, higher incentive compensation accruals, higher medical costs and increased professional and legal fees.

Taxes, other than on income, for 2004 increased 4% compared with 2003. The increase was primarily attributable to higher waterway use taxes from increased business activity levels and higher property taxes on new and existing inland tank barges and towboats.

Depreciation and amortization for 2004 increased 3% compared with 2003. The increase was attributable to new tank barges and increased capital expenditures in 2004 and 2003.

Marine Transportation Operating Income and Operating Margins

The marine transportation operating income for 2004 increased 20% compared with 2003. The operating margin increased to 15.7% for 2004 compared with 14.6% for 2003. The higher operating margin for 2004 reflected improved volumes, the January 1, 2004 labor and producer price index escalators on numerous multi-year contracts, the renewal of contracts with rate increases on average of 3% and 4%, and the 15% to 20% increase in spot market rates.

2003 Compared With 2002

Marine Transportation Revenues

Revenues for 2003 compared with 2002 increased 18%, reflecting revenues generated from the October 2002 acquisition of 10 inland black oil tank barges and 13 towboats from Coastal and the signing of a barge management agreement to manage Coastal’s remaining 54 black oil barges, of which 37 are currently active. Revenues from the managed Coastal tank barges were included in marine transportation revenues. The increase also reflected revenues generated from the purchase of 48 inland tank barges and seven towboats, and the assumption of 16 leased inland tank barges from SeaRiver in January 2003.

Petrochemical volumes transported into the Midwest, excluding the SeaRiver volumes, reflected a continued gradual improvement during 2003 when compared with 2002. During the second half of 2003, volumes of petrochemicals used in the production of gasoline blending components were strong. Petrochemical volumes along the Gulf Coast, excluding the SeaRiver volumes, also reflected a continued gradual improvement.

Black oil volumes were higher than 2002 volume levels, reflecting the October 2002 Coastal acquisition noted above. During 2003, volumes of residual fuel, a black oil product, increased as residual fuel served as a substitute for natural gas and cat cracker feedstock for the production of refined products, and offset a decline in asphalt volumes, which declined during 2003 due to a reduction in state and federal funding for road construction.

Refined product volumes into the Midwest for 2003 were generally at normal seasonal levels, slow in the first quarter, improving with seasonal demand in the second and third quarters and stronger than normal in the fourth quarter. During the second and third quarters, low Midwest inventory levels and Gulf Coast versus Midwest gasoline price differentials encouraged the movements of gasoline from the Gulf Coast into the Midwest. The stronger than normal fourth quarter demand for gasoline movements was fueled by numerous Midwest refinery outages for maintenance, as well as low Midwest inventory levels.

Liquid fertilizer volumes were weak for the first nine months of 2003, as a depressed U.S. Midwest farm belt economy significantly curtailed the application of nitrogen-based fertilizer, and high natural gas prices significantly curtailed the U.S. production of such fertilizer, thereby reducing the demand for Midwest volumes of such products by tank barge. During the 2003 fourth quarter, liquid fertilizer volumes to the Midwest strengthened as the Midwest farm economy improved and imported products replaced curtailed U.S. domestic production to meet the demand to replenish low Midwest inventory levels.

During 2003, approximately 70% of marine transportation volumes were under term contracts and 30% were spot market volumes. Contract rates on renewals remained relatively flat for the first nine months of

2003, with limited ability to pass through inflationary cost increases in renewals. During the 2003 fourth quarter, the modest improvement in the petrochemical and refined products markets resulted in some modest contract renewal increases. The modestly stronger 2003 petrochemical and refined products markets also helped overall spot market rates. During 2003, spot market rates fluctuated over and under contracts rates, depending on market demand, fuel prices, weather conditions and other factors; however, on average, 2003 spot market rates were slightly higher than 2002.

Marine Transportation Costs and Expenses

Total costs and expenses for 2003 increased 21% compared with 2002, reflecting the additional costs and expenses associated with operating additional tank barges and towboats purchased from Coastal in October 2002 and the related barge management agreement signed with Coastal, and the SeaRiver fleet acquisition in January 2003.

Costs of sales and operating expenses for 2003 were 23% higher than 2002, reflecting additional vessel personnel and higher operating expenses from the acquisitions noted above. The segment operated an average of 229 towboats during the 2003 first quarter, 226 during the second quarter, 222 during the third quarter and 224 during the fourth quarter. The number of towboats operated and crews required fluctuates daily, depending on the volumes moved, weather conditions and voyage times.

The 2003 first quarter costs and expenses were higher due to navigational delays caused by periods of both high and low water levels on the Mississippi River System, and fog and high winds along the Gulf Intracoastal Waterway. Navigational delays also resulted from repairs to a major lock located on the Gulf Intracoastal Waterway. The navigational delays necessitated the use of additional chartered towboats during the first quarter and part of the second quarter, as noted above, to meet customer service requirements and schedules.

Costs of sales and operating expenses for 2003 included significantly higher fuel costs when compared with 2002. The average price per gallon of diesel fuel consumed in 2003 was 89 cents, up 24% from the 2002 average price per gallon of 72 cents. For the 2003 first quarter, the price per gallon was 78% over the first quarter of 2002, with the 2003 second, third and fourth quarters up 13%, 18% and 9%, respectively, over the corresponding quarters of 2002. Term contracts contain fuel escalation clauses that allow the Company to recover increases in the cost of fuel; however, there is generally a 30 to 90 day delay before contracts are adjusted. It is estimated that the higher fuel prices reduced the Company’s 2003 first quarter earnings by an estimated $.05 per share, of which approximately $.03 per share was recovered in the 2003 second quarter. For the 2003 third and fourth quarters, the negative impact of the higher fuel costs was marginal. For the 2003 year, the segment consumed 56.0 million gallons of diesel fuel compared with 46.7 million gallons consumed in 2002. The increase primarily reflected the acquisitions noted above.

Selling, general and administrative expenses for 2003 increased 8% when compared with 2002. The increase reflected higher incentive compensation accruals, professional fees, and additional administrative personnel to support the acquisitions noted above.

Taxes, other than on income for 2003 increased 22% compared with 2002, primarily reflecting increased waterway use taxes and property taxes resulting from the acquisitions noted above.

Depreciation and amortization expense for 2003 increased 19% over 2002. The increase reflected new tank barge additions in 2002 and 2003, as well as the acquisitions noted above.

Marine Transportation Operating Income and Operating Margins

The marine transportation operating income for 2003 increased 4% compared with 2002. The 2003 operating margin declined to 14.6% compared with 16.6% earned in 2002. The lower operating margin for 2003 reflected the segment’s inability to pass through to its customers, through contract rate renewals and spot market rates, increases in its costs and expenses in excess of the inflation rate. The lower operating margin for 2003 also reflected more severe winter weather conditions in the first quarter of 2003 compared with the 2002 first quarter, major repairs to a critical lock on the Gulf Intracoastal Waterway and rapidly escalating fuel prices during the 2003 first quarter that were only partially recovered under contractual fuel escalation clauses in the 2003 second quarter. The 2003 year also included a full year of revenue from the October 31, 2002 purchase of the Coastal tank barges and towboats and barge management agreement between the Company and Coastal. The Company's management of the Coastal tank barges is accounted for as an unincorporated joint venture, whereby all revenues and certain expenses of the managed tank barges are consolidated in the Company's financial statements. The distribution of Coastal's share of the joint venture's operating profits is recognized as an operating expense, which lowered the Company's 2003 marine transportation operating margin by an estimated 1%.

Diesel Engine Services

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

The following table sets forth the Company's diesel engine services segment's revenues, costs and expenses, operating income and operating margins for the three years ended December 31, 2004 (dollars in thousands):

	2004	2003	% Change 2004 to 2003	2002	% Change 2003 to 2002
Diesel engine services revenues	$ 86,491	$ 83,063	4%	$ 85,123	(2)%
Costs and expenses:					
Costs of sales and operating expenses	64,723	62,266	4	63,928	(3)
Selling, general and administrative	11,882	11,530	3	11,111	4
Taxes, other than on income	335	332	—	303	10
Depreciation and amortization	1,163	1,045	11	940	11
	78,103	75,173	4	76,282	(1)
Operating income	$ 8,388	$ 7,890	6%	$ 8,841	(11)%
Operating margins	9.7%	9.5%		10.4%	

2004 Compared with 2003

Diesel Engine Services Revenues

Diesel engine services revenues for 2004 were 4% higher than 2003 and were positively impacted by the April 2004 purchase of the Midwest diesel engine services operations of Walker and increased demand for parts in all railroad markets, especially the transit railroad market. The nuclear power generation market was strong in the second half of 2004, enhanced with direct parts sales to a major customer. The Gulf Coast offshore oil service market was weak for all of 2004 and the East Coast and West Coast marine markets were weak for the first nine months, but experienced some improvement in the 2004 fourth quarter.

Diesel Engine Services Costs and Expenses

Costs and expenses for 2004 increased 4% when compared with 2003. Costs of sales and operating expenses increased 4%, reflecting the increased revenue as noted above. Selling, general and administrative expenses for 2004 were 3% higher than 2003, principally due to increases in salaries and related expenses and higher employee medical costs.

Diesel Engine Services Operating Income and Operating Margins

Operating income for the diesel engine services segment for 2004 was 6% higher than 2003 and the operating margin improved slightly to 9.7% in 2004 compared with 9.5% for 2003. Both the improved operating income and operating margin reflected the stronger railroad and nuclear power generation markets.

2003 Compared With 2002

Diesel Engine Services Revenues

Revenues for 2003 reflected a 2% decrease when compared with 2002. During 2003, two of diesel engine services' primary markets, the Gulf Coast offshore well service market and the Midwest dry cargo barge market, remained weak. These markets, as well as a weak East Coast marine market, negatively impacted revenues, and were only partially offset by a stronger West Coast marine market and nuclear power generation market.

Diesel Engine Services Costs and Expenses

Cost of sales and operating expenses for 2003 decreased 3% compared with 2002, reflecting the lower service activity. Selling, general and administrative expenses were slightly higher in 2003 versus 2002 primarily due to higher incentive compensation accruals and employee medical costs, partially offset during the second half of 2003 by employee reductions in the segment's Midwest market.

Diesel Engine Services Operating Income and Operating Margins

Operating income for the diesel engine services segment for 2003 was 11% lower than 2002, and the operating margin declined to 9.5% compared with 10.4% for 2002. The lower operating margin was primarily attributable to an increase in parts sales and lower service revenue. During 2003, service revenue represented 46% of total revenue compared with 51% for 2002, while parts revenue represented 54% of total 2003 revenue compared with 49% in 2002. Parts sales generally earn a lower operating margin than service work.

General Corporate Expenses

General corporate expenses for 2004, 2003 and 2002 were $7,565,000, $6,351,000, and $5,677,000, respectively. The 19% increase in 2004 compared with 2003 reflects increases in salaries and related expenses effective January 1, 2004, higher employee incentive compensation accruals, higher employee medical costs, increased legal and professional fees, and the costs of evaluating and implementing new accounting and governmental regulations, including the requirements of the Sarbanes-Oxley Act of 2002. The 12% increase in 2003 compared with 2002 was primarily due to higher employee incentive compensation accruals and professional fees.

Other Income and Expenses

The following table sets forth the impairment of long-lived assets, gain (loss) on disposition of assets, equity in earnings of marine affiliates, impairment of equity investment, other expense, minority interests and interest expense for the three years ended December 31, 2004 (dollars in thousands):

	2004	2003	% Change 2004 to 2003	2002	% Change 2003 to 2002
Impairment of long-lived assets	$ —	$ —	—%	$ (17,712)	N/A
Gain (loss) on disposition of assets	(299)	(99)	202%	624	(116)%
Equity in earnings of marine affiliates	1,002	2,932	(66)%	700	319%
Impairment of equity investment	—	—	—%	(1,221)	N/A
Other expense	(347)	(119)	192%	(155)	(23)%
Minority interests	(542)	(902)	(40)%	(962)	(6)%
Interest expense	(13,263)	(14,628)	(9)%	(13,540)	8%

Asset Impairments

During the fourth quarter of 2002, the Company recorded $18,933,000 of non-cash pre-tax impairment charges. The after-tax effect of the charges was $12,498,000 or $.51 per share. Of the total pre-tax charges, $17,241,000 was due to reduced estimated cash flows resulting from reduced lives on the Company’s single hull fleet and its commitment to sell certain vessels. The reduced estimated useful lives on 114 single hull tank barges was due to market bias against single hull tank barges and the assessment of the impact of new regulations issued in September 2002 by the USCG that require the installation of tank level monitoring devices on all single hull tank barges by October 2007. The Company plans to retire all of its single hull tank barges by October 17, 2007. The Company committed to sell 21 inactive or out-of-service double hull tank barges and five inactive towboats and reduced the carrying value of these vessels by $5,682,000 to fair value of $2,621,000. The charges also included a $1,221,000 write-down of an investment in an unconsolidated affiliate to its estimated fair value and a $471,000 write-down of surplus diesel shop equipment.

Gain (Loss) on Disposition of Assets

The Company reported a net loss on disposition of assets of $299,000 in 2004 and $99,000 in 2003 compared with a net gain of $624,000 in 2002. The net losses and gain were predominantly from the sale of marine equipment.

Equity in Earnings of Marine Affiliates

Equity in earnings of marine affiliates, consisting primarily of a 35% owned offshore marine partnership, decreased to $1,002,000 in 2004, a 66% decrease compared with 2003. For 2003, equity in earnings increased to $2,932,000, a 319% increase compared with 2002. During 2004, 2003 and 2002, the four offshore dry-cargo barge and tugboats units owned through the 35% owned partnership with a public utility were generally employed under the partnership’s contract to transport coal across the Gulf of Mexico, with a separate contract for the backhaul of limestone rock. Hurricanes Ivan, Francis and Jeanne, during August and September 2004, negatively impacted the Company’s 2004 year, resulting in fewer work days for the four partnership barge and tug units during the third quarter. Equity in earnings of marine affiliates was also negatively impacted in 2004 by the sale of the Company’s 50% interest in a Shreveport, Louisiana liquid products terminal, resulting in a $598,000 pre-tax loss on the sale. The significant improvement in equity in earnings for 2003 over 2002 reflected close to full utilization of the partnership’s fleet. The lower results for 2002 primarily reflected reduced rates on the renewed coal transportation contract, and the timing of maintenance on three of the four units in the partnership.

Interest Expense

Interest expense for 2004 decreased 9% compared with 2003, primarily attributable to lower average debt levels. The 8% increase in interest expense for 2003 compared with 2002 reflected higher average debt, offset to some degree by lower average interest rates. The higher average debt level was attributable to the Coastal acquisition in October 2002, the Union Carbide acquisition in December 2002, the SeaRiver acquisition in January 2003 and higher capital expenditures levels, partially offset by higher cash flow from operating activities. During 2004, 2003 and 2002, the average debt and average interest rate, including the effect of interest rate swaps, were $253,301,000 and 5.2%, $282,378,000 and 5.2%, and $240,954,000 and 5.6%, respectively.

Financial Condition, Capital Resources and Liquidity

Balance Sheet

Total assets as of December 31, 2004 were $904,675,000 compared with $854,961,000 as of December 31, 2003 and $791,758,000 as of December 31, 2002. The following table sets forth the significant components of the balance sheet as of December 31, 2004 compared with 2003 and 2003 compared with 2002 (dollars in thousands):

	2004	2003	% Change 2004 to 2003	2002	% Change 2003 to 2002
Assets:					
Current assets	$ 139,650	$ 131,779	6%	$ 119,468	10%
Property and equipment, net	574,211	536,512	7	486,852	10
Investment in marine affiliates	12,205	9,162	33	10,238	(11)
Goodwill, net	160,641	156,726	2	156,726	—
Other assets	17,968	20,782	(14)	18,474	12
	$ 904,675	$ 854,961	6%	$ 791,758	8%
Liabilities and stockholders' equity:					
Current liabilities	$ 104,390	$ 98,868	6%	$ 91,245	8%
Long-term debt-less current portion	217,436	255,040	(15)	265,665	(4)
Deferred income taxes	123,330	106,134	16	85,768	24
Minority interests and other long-term liabilities	24,284	22,787	7	25,769	(12)
Stockholders' equity	435,235	372,132	17	323,311	15
	$ 904,675	$ 854,961	6%	$ 791,758	8%

2004 Compared With 2003

Current assets as of December 31, 2004 increased 6% compared with December 31, 2003. Trade accounts receivable increased 23%, primarily reflecting the stronger marine transportation volumes and resulting higher revenues in the fourth quarter of 2004 over the fourth quarter of 2003. The 60% decrease in other accounts receivable reflected a reduction in a receivable from the Internal Revenue Service of $11,809,000. Inventory — finished goods increased 10% and primarily reflected inventory purchased in the Walker acquisition. Prepaid expenses and other current assets increased 15%, reflecting an increase in prepaid fuel inventory due to the higher price of fuel, and an increase in current portion of pension assets, partially offset by the sale of certain assets held for sale during 2004. The Company increased its allowance for doubtful accounts by $270,000, primarily in the marine transportation segment.

Property and equipment, net of accumulated depreciation, at December 31, 2004 increased 7% compared with December 31, 2003. The increase reflected $93,604,000 of capital expenditures, more fully described under Capital Expenditures below, $1,677,000 for the purchase of three pre-owned tank barges and the remaining interest in a liquid products terminal, and $278,000 of property with the Walker acquisition, less $54,700,000 of depreciation expense and property write-downs and disposals of $3,160,000 during 2004.

Investment in marine affiliates at December 31, 2004 increased 33% compared with December 31, 2003. The increase reflected the $4,220,000 purchase of a one-third interest in Osprey in April 2004, equity in earnings of marine affiliates of $1,002,000, including a loss of $598,000 from the sale of the Company's 50% interest in a liquid products terminal recorded in September 2004, less $1,134,000 of distributions received during 2004.

Other assets as of December 31, 2004 decreased 14% compared with December 31, 2003. The decrease was primarily attributable to the amortization of the long-term prepaid pension asset and the early payoff of two notes receivable from prior year marine equipment sales, partially offset by the 2004 pension plan contribution of $4,600,000.

Goodwill — net as of December 31, 2004 increased 2% compared with December 31, 2003, reflecting goodwill recorded in the Walker acquisition.

Current liabilities as of December 31, 2004 increased 6% compared with December 31, 2003. The increase was primarily attributable to higher employee compensation accruals, the $1,300,000 current notes payable issued in the Osprey acquisition, higher deferred revenue liability due to a large diesel engine services power generation project in Europe and increased property tax accruals. Offsetting these increases was a reduced accrual for incurred but not reported claims, the result of favorable claims experience.

Long-term debt, less current portion, as of December 31, 2004 decreased $37,604,000, or 15% compared with December 31, 2003. The reduction primarily reflected the reduction of long-term debt using the Company's 2004 net cash provided by operating activities of $126,751,000, proceeds from the exercise of stock options totaling $9,549,000 and $2,665,000 of proceeds from the disposition of assets. Borrowings were used to finance the 2004 capital expenditures of $93,604,000, and acquisition of businesses and marine equipment of $10,174,000.

Deferred income taxes as of December 31, 2004 increased 16% compared with December 31, 2003, primarily due to bonus tax depreciation on qualifying capital expenditures due to federal legislation enacted in 2002 and 2003.

Minority interest and other long-term liabilities as of December 31, 2004 increased 7% compared with December 31, 2003, primarily due to the recording of a $325,000 increase in the fair value of the interest rate swap agreements during 2004, more fully described under Long-Term Financing below, and increases in accruals for employee deferred compensation and postretirement benefits.

Stockholders' equity as of December 31, 2004 increased 17% compared with December 31, 2003. The increase was the result of $49,544,000 of net earnings for 2004, a $8,130,000 decrease in treasury stock, a increase of $6,403,000 in additional paid-in capital, a $278,000 increase in accumulated other comprehensive income and the recording of $1,252,000 of net deferred compensation related to restricted stock options. The decrease in treasury stock and increase in additional paid-in capital were attributable to the exercise of stock options and the issuance of restricted stock. The increase in accumulated other comprehensive income resulted from the net changes in fair value of interest rate swap agreements, net of taxes, more fully described under Long-Term Financing below.

2003 Compared With 2002

Current assets as of December 31, 2003 increased 10% compared with December 31, 2002. Trade accounts receivable increased 1%, primarily reflecting the acquisition of the SeaRiver fleet in January 2003 and corresponding increase in marine transportation business with SeaRiver, partially offset by continued emphasis on collection of trade receivables on a timely basis by the marine transportation and diesel engine services segments. Other receivables increased 183%, primarily from expected IRS federal income tax refunds for the 2002 and 2003 tax years totaling approximately $12,500,000, partially offset by the increased collection of diesel engine services' engine core receivables. The 10% decrease in inventory — finished goods reflected enhanced emphasis on inventory management in the diesel engine services segment. The Company also increased its allowance for doubtful accounts by $648,000, primarily related to two marine transportation customers.

Property and equipment, net of accumulated depreciation, as of December 31, 2003 increased 10% compared with December 31, 2002. The increase reflected $72,356,000 of capital expenditures, more fully described under Capital Expenditures below, the acquisition of the SeaRiver fleet and the purchase of two tankering companies for a total of $36,466,000, less $52,929,000 of depreciation expense and property disposals of $6,233,000 during 2003.

Investment in marine affiliates as of December 31, 2003 decreased 11% compared with 2002, reflecting equity in earnings of marine affiliates of $2,932,000, less $4,009,000 of distributions received during 2003.

Other assets as of December 31, 2003 increased 12% compared with December 31, 2002, primarily due to non-compete agreements from the acquisitions of two tankering companies, costs incurred in the issuance on February 28, 2003 of the Company's new $250,000,000 senior notes and the amendment dated December 9, 2003 of the Company's revolving credit facility. Such debt issue costs are capitalized and amortized to expense over the life of the loans.

Current liabilities as of December 31, 2003 increased 8% compared with December 31, 2002. The increase was due to higher accounts payable, primarily the result of the acquisition of the SeaRiver fleet in January 2003 and higher related business activities, the classification of $650,000 of fair market value of interest rate swap agreements as short-term instead of long-term, increased accruals for barge charters, as well as higher employee compensation accruals. In addition, waterway use taxes and property taxes were higher due to increased business activity levels and the acquisition of the SeaRiver fleet. Offsetting these increases was a reduced accrual for incurred but not reported claims, the result of favorable claims experience.

Long-term debt, less current portion, as of December 31, 2003 decreased 4% compared with December 31, 2002. The reduction primarily reflected the pay down of long-term debt using the Company's 2003 net cash provided by operating activities of $112,230,000, proceeds from the disposition of assets totaling $7,069,000 and $4,901,000 of proceeds from the exercise of stock options. Borrowings totaling $37,816,000 were used to finance a portion of the cost of the January 2003 SeaRiver marine equipment acquisition, two tankering company acquisitions, and 2003 capital expenditures.

Deferred income taxes as of December 31, 2003 increased 24% compared with December 31, 2002 primarily due to bonus tax depreciation on qualifying capital expenditures due to federal legislation enacted in 2002 and 2003.

Minority interest and other long-term liabilities as of December 31, 2003 decreased 12% compared with December 31, 2002, primarily due to the recording of a $3,744,000 decrease in the fair value of the interest rate swap agreements for 2003, more fully described under Long-Term Financing below.

Stockholders' equity as of December 31, 2003 increased 15% compared with December 31, 2002. The increase primarily was the result of $40,918,000 of net earnings, a decrease in treasury stock of $4,941,000, a $2,112,000 increase in accumulated other comprehensive income and the recording of $1,003,000 of net deferred compensation related to restricted stock options. The decrease in treasury stock was attributable to the exercise of stock options and the issuance of restricted stock. The increase in accumulated other comprehensive income resulted primarily from the net changes in fair value of interest rate swap agreements, net of taxes, more fully described under Long-Term Financing below.

Retirement Plans

The Company sponsors a defined benefit plan for vessel personnel. The plan benefits are based on an employee's years of service and compensation. The plan assets primarily consist of fixed income securities and corporate stocks. The Company's pension plan funding strategy is to contribute an amount equal to the greater of the minimum required contribution under ERISA and the amount necessary to fully fund the plan on an accumulated benefit obligation basis at the end of the fiscal year. The fair value of plan assets was $76,446,000 and $67,691,000 at November 30, 2004 and 2003, respectively.

The Company's investment strategy is to emphasize total return (capital appreciation plus dividend and interest income). The primary objective in the investment management of assets is to emphasize long-term growth of principal while avoiding excessive risk. Risk is managed through diversification of investments both within and among asset classes, as well as by choosing securities that have an established trading and underlying operating history.

The Company assumed that plan assets would generate a long-term rate of return of 8.75% during both 2004 and 2003. The Company developed its expected long-term rate of return assumption by evaluating input from investment consultants, and considering historical returns for various asset classes and actual and targeted plan investments. The Company believes that long-term asset allocation, on average, will approximate the targeted allocation.

Long-Term Financing

The Company has a $150,000,000 unsecured revolving credit facility (the "Revolving Credit Facility") with a syndicate of banks, with JPMorgan Chase Bank as the agent bank, and with a maturity date of December 9, 2007. The Revolving Credit Facility allows for an increase in bank commitments under the agreement from $150,000,000 up to a maximum of $225,000,000 without further amendments to the agreement. Borrowing options under the Revolving Credit Facility allow the Company to borrow at an interest rate equal to either the LIBOR plus a margin ranging from .75% to 1.50%, depending on the Company's senior debt rating; or an adjusted Certificate of Deposit ("CD") rate plus a margin ranging from .875% to 1.625%, also depending on the Company's senior debt rating; or the greater of prime rate, Federal Funds rate plus .50%, or the secondary market rate for three-month CD rate plus 1%. A commitment fee is charged on the unused portion of the Revolving Credit Facility at a rate ranging from .20% to .40%, depending on the Company's senior debt rating, multiplied by the average unused portion of the Revolving Credit Facility, and is paid quarterly. A utilization fee equal to .125% to .25%, also depending on the Company's senior debt rating, of the average outstanding borrowings during periods in which the total borrowings exceed 33% of the total $150,000,000 commitment, is also paid quarterly. At March 4, 2005, the applicable interest rate spread over LIBOR was .875% and the commitment fee and utilization fee were .25% and .125%, respectively. The Revolving Credit Facility also includes a minimum net worth requirement of $250,000,000. In addition to financial covenants, the Revolving Credit Facility contains covenants that, subject to exceptions, restrict debt incurrence, mergers and acquisitions, sales of assets, dividends and investments, liquidations and dissolutions, capital leases, transactions with affiliates and changes in lines of business. Borrowings under the Revolving Credit Facility may be used for general corporate purposes, the purchase of existing or new equipment, the purchase of the Company's common stock, or for business acquisitions. The Company was in compliance with all Revolving Credit Facility covenants as of December 31, 2004. As of December 31, 2004, $15,000,000 was outstanding under the Revolving Credit Facility. The Revolving Credit Facility includes a $10,000,000 commitment which may be used for standby letters of credit. Outstanding letters of credit under the Revolving Credit Facility totaled $7,612,000 as of December 31, 2004.

On February 28, 2003, the Company issued $250,000,000 of unsecured floating rate senior notes ("Senior Notes") due February 28, 2013. The Senior Notes pay interest quarterly at a rate equal to the LIBOR plus a margin of 1.2%. The Senior Notes are callable at par after one year without penalty and no principal payments are required until maturity in 2013. The proceeds of the Senior Notes were used to repay $121,500,000 of the outstanding balance on the Company's term loan credit facility, described in the next paragraph, and $128,500,000 of the outstanding balance on the Revolving Credit Facility. On November 29, 2004, the Company prepaid $50,000,000 of the Senior Notes. As of December 31, 2004, $200,000,000 was outstanding under the Senior Notes. The Company was in compliance with all Senior Notes covenants at December 31, 2004.

At December 31, 2002, the Company had an unsecured term loan credit facility (the "Term Loan") with a syndicate of banks, with Bank of America, N.A. ("Bank of America") as the agent bank. With proceeds from the Senior Notes, the Company repaid $121,500,000 of the outstanding balance under the Term Loan on February 28, 2003. The remaining $50,000,000 was repaid during 2003 with four quarterly principal payments of $12,500,000, with the final payment made on October 9, 2003.

The Company has a $10,000,000 line of credit ("Credit Line") with Bank of America for short-term liquidity needs and letters of credit. The Credit Line, which matures on November 2, 2005, allows the Company to borrow at an interest rate equal to either LIBOR plus a margin of 1%; or the higher of prime rate or the Federal Funds rate plus .50%. As of December 31, 2004, $2,400,000 was outstanding under the Credit Line and outstanding letters of credit totaled $476,000.

The Company has an uncommitted $5,000,000 revolving credit note ("Credit Note") with BNP Paribas ("BNP") for short-term liquidity needs. The Credit Note, which matures on December 31, 2005, allows the Company to borrow at an interest rate equal to BNP's current day cost of funds plus .35%. The Company did not have any borrowings outstanding under the Credit Note as of December 31, 2004.

The Company has on file with the Securities and Exchange Commission a shelf registration on Form S-3 for the issuance of up to $250,000,000 of debt securities, including medium term notes providing for the issuance of fixed rate or floating rate debt with maturities of nine months or longer. As of December 31, 2004, $121,000,000 was available under the shelf registration, subject to mutual agreement to terms, to provide financing for future business or equipment acquisitions, working capital requirements and reductions of the Company's Revolving Credit Facility and Senior Notes. As of December 31, 2004, there were no outstanding debt securities under the shelf registration.

From time to time, the Company hedges its exposure to fluctuations in short-term interest rates under its Revolving Credit Facility and Senior Notes by entering into interest rate swap agreements. The interest rate swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of December 31, 2004, the Company had a total notional amount of $150,000,000 of interest rate swaps designated as cash flow hedges for its variable rate Senior Notes as follows (dollars in thousands):

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

On April 29, 2004, the Company extended a hedge on part of its exposure to fluctuations in short-term interest rates by entering into a five-year interest rate swap agreement with a notional amount of $50,000,000 to replace a $50,000,000 interest rate swap that expired in April 2004. Under the agreement, the Company will pay a fixed rate of 4.00% for five years and will receive floating rate interest payments to offset floating rate interest obligations under the Senior Notes. The interest rate swap was designated as a cash flow hedge for the Senior Notes.

These interest rate swaps hedge a majority of the Company's long-term debt and only an immaterial loss on ineffectiveness was recognized in 2004 and 2003. At December 31, 2004, the total fair value of the interest rate swap agreements was $8,189,000, of which $196,000 and $50,000 were recorded as other current asset and other accrued liability, respectively, for swap maturities within the next twelve months, and $8,335,000 was recorded as other long-term liability for swap maturities greater than twelve months. At December 31, 2003, the total fair value of the interest rate swap agreements was $8,660,000, of which $650,000 was recorded as an other accrued liability for swap maturities within the next twelve months, and $8,010,000 was recorded as an other long-term liability for swap maturities greater than twelve months. The Company has recorded, in interest expense, losses related to the interest rate swap agreements of $5,793,000 and $6,488,000 for the years ended December 31, 2004 and 2003, respectively. Gains or losses on the interest rate swap contracts offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company anticipates $2,253,000 of net losses included in accumulated other comprehensive income will be transferred into earnings over the next year based on current interest rates. Fair value amounts were determined as of December 31, 2004 and 2003 based on quoted market values of the Company’s portfolio of derivative instruments.

Capital Expenditures

Capital expenditures for 2004 totaled $93,604,000, of which $43,606,000 were for construction of new tank barges, and $49,998,000 were primarily for upgrading of the existing marine transportation fleet. Capital expenditures for 2003 totaled $72,356,000, of which $23,943,000 were for construction of new tank barges, and $48,413,000 were primarily for upgrading of the existing marine transportation fleet. Capital expenditures for 2002 totaled $47,709,000, of which $8,366,000 were for construction of new tank barges, and $39,343,000 were primarily for upgrading of the existing marine transportation fleet. The Company’s 2004 new tank barge construction replaced older petrochemical and refined petroleum products tank barges, as well as black oil tank barges, as they were retired from service.

In February 2002, the Company entered in a contract for the construction of two double hull, 30,000 barrel capacity, inland tank barges for use in the transportation of black oil products. The two tank barges were placed into service during the 2003 first quarter. The total purchase price of the two barges was $3,589,000 of which $164,000 was expended in 2002, with the balance expended in 2003. Financing of the construction of the two barges was through operating cash flows and available credit under the Company’s Revolving Credit Facility.

In February 2002, the Company also entered into a contract for the construction of six double hull, 30,000 barrel capacity, inland tank barges for use in the transportation of petrochemicals and refined petroleum products. Two of the tank barges were delivered in the 2003 second quarter, one in the third quarter and two in the fourth quarter. The sixth tank barge was delivered in February 2004. The total purchase price of the six barges was $9,475,000, of which $780,000 was expended in 2002, $8,612,000 in 2003, and the balance in the 2004 first quarter. Financing of the construction of the six barges was through operating cash flows and available credit under the Company’s Revolving Credit Facility.

In October 2002, the Company entered into a contract for the construction of six double hull, 30,000 barrel capacity, inland tank barges for use in the transportation of petrochemical and refined petroleum products. Two of the six barges were delivered in the 2004 second quarter, three in the third quarter and one in the fourth quarter. The total purchase price of the six barges was approximately $9,100,000, of which $1,111,000 was expended in 2003, with the balance expended in 2004. Financing of the construction of the six barges was through operating cash flows and available credit under the Company’s Revolving Credit Facility.

In May 2003, the Company entered into a contract for the construction of 16 double hull, 30,000 barrel capacity, inland tank barges, with 12 for use in the transportation of black oil products and four for use in the transportation of petrochemical and refined petroleum products. Six of the 16 barges were delivered in 2003, one in the 2004 first quarter and nine in the 2004 second quarter. The total purchase price of the 16 barges was $28,400,000, of which $10,806,000 was expended in 2003, with the balance expended in 2004. Financing of the construction of the 16 barges was through operating cash flows and available credit under the Company’s Revolving Credit Facility.

In October 2003, the Company entered into a contract for the construction of nine double hull, 30,000 barrel capacity, inland tank barges, with five for use in the transportation of petrochemicals and refined petroleum products and four for use in the transportation of black oil products. Four barges were delivered in the 2004 third quarter and five in the 2004 fourth quarter. The total purchase price of the nine barges was approximately $14,100,000, expended in 2004. Financing of the construction of the nine barges was through operating cash flows and available credit under the Company’s Revolving Credit Facility.

In June 2004, the Company entered into a contract for the construction of 11 double hull, 30,000 barrel capacity, inland tank barges. Four of the tank barges will be for use in the transportation of petrochemical and refined petroleum products and seven for use in the transportation of black oil products. Delivery of the 11 barges is scheduled for March through June 2005. The total purchase price of the 11 barges is approximately $24,000,000, of which no expenditures were made in 2004, subject to adjustment based on steel prices and any scrap surcharges that apply at the time the steel is shipped. Financing of the construction of the 11 barges will be through operating cash flows and available credit under the Company’s Revolving Credit Facility.

In July 2004, the Company entered into a contract for the construction of six double hull, 30,000 barrel capacity, inland tank barges for use in the transportation of petrochemicals and refined petroleum products, and one double hull, 30,000 barrel capacity, specialty petrochemical inland tank barge. Delivery of the seven barges is scheduled over a twelve-month period starting in the 2005 second quarter. The total purchase price of the seven barges is approximately $18,000,000, of which $3,874,000 was expended in 2004, subject to adjustment based on steel prices and any scrap surcharges that apply at the time the steel is shipped. Financing of the construction of the seven barges will be through operating cash flows and available credit under the Company’s Revolving Credit Facility.

In November 2004, the Company entered into a contract for the construction of 20 double hull, 10,000 barrel capacity, inland tank barges for use in the transportation of petrochemicals and refined petroleum products. Delivery of the 20 barges is scheduled for May through October 2005. The total purchase price of the 20 barges is approximately $24,500,000, subject to adjustment based on steel prices. Financing of the construction of the 20 barges will be through operating cash flows and available credit under the Company’s Revolving Credit Facility.

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

Funding for future capital expenditures and new tank barge construction is expected to be provided through operating cash flows and available credit under the Company’s Revolving Credit Facility.

Treasury Stock Purchases

The Company did not purchase any treasury stock during 2004 or 2003. During 2002, the Company purchased 165,000 shares of its common stock at a total purchase price of $3,931,000, for an average price of $23.76 per share.

On April 20, 1999, the Board of Directors increased the Company’s common stock repurchase authorization by an additional 2,000,000 shares. As of March 4, 2005, the Company had 1,210,000 shares available under the repurchase authorization. Historically, treasury stock purchases have been financed through operating cash flows and borrowings under the Company’s Revolving Credit Facility. The Company is authorized to purchase its common stock on the New York Stock Exchange and in privately negotiated transactions. When purchasing its common stock, the Company is subject to price, trading volume and other market considerations. Shares purchased may be used for reissuance upon the exercise of stock options or the granting of other forms of incentive compensation, in future acquisitions for stock or for other appropriate corporate purposes.

Liquidity

The Company generated net cash provided by operating activities of $126,751,000, $112,230,000, and $72,554,000 for the years ended December 31, 2004, 2003 and 2002, respectively. The increase in 2004 over 2003 reflected favorable cash from working capital primarily due to IRS federal income tax refunds for the 2002 and 2003 tax years totaling approximately $12,500,000 received in 2004. The increase in 2003 over 2002 reflected favorable cash flow from working capital and the deferral of additional federal income taxes as a result of increased bonus tax depreciation on qualifying capital expenditures due to federal legislation enacted in 2002 and 2003. The deferral of federal income taxes related to additional bonus tax depreciation on capital expenditures that the Company utilized in 2003 and 2004 is not effective for 2005. The 2003 over 2002 favorable cash flow from working capital is primarily due to a reduction in the Company's contribution to its defined benefit plan for vessel employees to $5,600,000 from $17,500,000 in 2002.

The Company accounts for its ownership in its three marine partnerships under the equity method of accounting, recognizing cash flow upon the receipt or distribution of cash from the partnerships. For the years ended December 31, 2004 and 2003, the Company received cash totaling $1,134,000 and $4,009,000, respectively, from the partnerships. For the year ended December 31, 2002, the Company made a net payment of $30,000 to the partnerships.

Funds generated are available for acquisitions, capital expenditure projects, treasury stock repurchases, repayment of borrowing associated with each of the above and other operating requirements. In addition to net cash flow provided by operating activities, the Company also had available as of March 4, 2005, $136,888,000 under its Revolving Credit Facility and $121,000,000 under its shelf registration program, subject to mutual agreement and terms. As of March 3, 2005, the Company had $9,450,000 available under its Credit Line and $5,000,000 under the Credit Note.

Neither the Company, nor any of its subsidiaries, is obligated on any debt instrument, swap agreement, or any other financial instrument or commercial contract which has a rating trigger, except for pricing grids on its Revolving Credit Facility. The pricing grids on the Company's Revolving Credit Facility are discussed in Note 5, Long-Term Debt in the financial statements.

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

There are numerous factors that may negatively impact the Company's cash flow in 2005. For a list of significant risks and uncertainties that could impact cash flows, see Note 12, Contingencies and Commitments in the financial statements. Amounts available under the Company's existing financial arrangements are subject to the Company continuing to meet the covenants of the credit facilities as also described in Note 5, Long-Term Debt in the financial statements.

The Company has issued guaranties or obtained stand-by letters of credit and performance bonds supporting performance by the Company and its subsidiaries of contractual or contingent legal obligations of the Company and its subsidiaries incurred in the ordinary course of business. The aggregate notional value of these instruments is $9,320,000 at December 31, 2004, including $8,400,000 in letters of credit and $920,000 in performance bonds, of which $683,000 of these financial instruments relates to contingent legal obligations, which are covered by the Company's liability insurance program in the event the obligations are incurred. All of these instruments have an expiration date within five years. The Company does not believe demand for payment under these instruments is likely and expects no material cash outlays to occur in connection with these instruments.

During the last three years, inflation has had a relatively minor effect on the financial results of the Company. The marine transportation segment has long-term contracts which generally contain cost escalation clauses whereby certain costs, including fuel, can be passed through to its customers; however, there is typically a 30 to 90 day delay before contracts are adjusted for fuel prices. The repair portion of the diesel engine services segment is based on prevailing current market rates.

Contractual Obligations

The contractual obligations of the Company and its subsidiaries at December 31, 2004 consisted of the following (in thousands):

	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Contractual Obligations					
Long-term debt	$ 218,740	$ 1,304	$ 17,409	$ 10	$ 200,017
Non-cancelable operating leases	30,040	12,286	12,997	2,552	2,205
Capital expenditures	62,446	62,446	—	—	—
	$ 311,226	$ 76,036	$ 30,406	$ 2,562	$ 202,222

Accounting Standards

In June 2001, Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations” (“SFAS No. 143”) was issued. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. SFAS No. 143 requires the fair value of a liability associated with an asset retirement be recognized in the period in which it is incurred if a reasonable estimate of fair value can be determined. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the life of the asset. SFAS No. 143 was effective for the Company at the beginning of fiscal 2003. The Company adopted SFAS No. 143 effective January 1, 2003 with no effect on the Company’s financial position or results of operations.

In April 2002, Statement of Financial Accounting Standards No. 145, “Rescission of SFAS No. 4, 44, and 64, Amendment of SFAS No. 13 and Technical Corrections” (“SFAS No. 145”) was issued. SFAS No. 145 provides guidance for accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and income statement classification of gains and losses on extinguishment of debt. The Company adopted SFAS No. 145 effective January 1, 2003 with no effect on the Company’s financial position or results of operations.

In July 2002, Statement of Financial Accounting Standards No. 146, “Accounting for Costs Associated with Exit or Disposal Activities” (“SFAS No. 146”) was issued. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than accruing costs at the date of management’s commitment to an exit or disposal plan. The Company adopted SFAS No. 146 for all exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have an impact on the 2003 year, as there were no applicable exit or disposal activities.

In November 2002, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 197 and a rescission of FASB Interpretation No. 34.” This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The disclosure requirements are effective for the Company’s financial statements for interim and annual periods ending after December 15, 2002. The Company adopted the recognition provisions of the Interpretation effective January 1, 2003 for guarantees issued or modified after December 31, 2002. The adoption of the Interpretation did not have a material effect on the Company’s financial position or results of operations. The Company’s guarantees as of December 31, 2004 are described in Note 12 Contingencies and Commitments.

In December 2002, Statement of Financial Accounting Standards No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure” (“SFAS No. 148”) was issued. SFAS No. 148 amends

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

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

The following table summarizes pro forma net earnings and earnings per share for the years ended December 31, 2004, 2003 and 2002 assuming the Company had used the fair value method of accounting for its stock option plans (in thousands, except per share amount):

	2004	2003	2002
Net earnings, as reported	$ 49,544	$ 40,918	$ 27,446
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,765)	(1,833)	(1,850)
Pro forma net earnings	$ 47,779	$ 39,085	$ 25,596
Earnings per share:			
Basic — as reported	$ 2.02	$ 1.69	$ 1.14
Basic — pro forma	$ 1.95	$ 1.62	$ 1.06
Diluted — as reported	$ 1.97	$ 1.67	$ 1.13
Diluted — pro forma	$ 1.90	$ 1.59	$ 1.05

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities, an interpretation of ARB No. 51” and revised this interpretation in December 2003 (collectively, “the Interpretations”). The Interpretations address the consolidation by business enterprises of variable interest entities as defined in the Interpretations. The Interpretations apply immediately to variable interest in variable interest entities created after January 31, 2003, and to variable interests in variable entities obtained after January 31, 2003. The application of these Interpretations has not had an effect on the Company’s financial position or results of operations.

In April 2003, Statement of Financial Accounting Standards No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (“SFAS No. 149”) was issued. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments and hedging activities under SFAS No. 133. SFAS No. 149 amends SFAS No. 133 for decisions made: (1) as part of the Derivative Implementation Group process that requires amendments to SFAS No. 133; (2) in connection with other FASB projects dealing with financial instruments; and (3) in connection with the implementation issues raised related to the application of the definition of a derivative. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 had no effect on the Company’s financial position or results of operations.

In May 2003, Statement of Financial Accounting Standards No. 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” (“SFAS No. 150”) was issued. SFAS No. 150 establishes standards for classification and measurement in the statement of financial position of certain financial instruments with characteristics of both liabilities and equity. It requires classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150

is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 had no effect on the Company's financial position or results of operations.

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

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

The Company is exposed to risk from changes in interest rates on certain of its outstanding debt. The outstanding loan balances under the Company's bank credit facilities bear interest at variable rates based on prevailing short-term interest rates in the United States and Europe. A 10% change in variable interest rates would impact the 2005 interest expense by approximately $337,000, based on balances outstanding at December 31, 2004, and change the fair value of the Company's debt by less than 1%.

From time to time, the Company has utilized and expects to continue to utilize derivative financial instruments with respect to a portion of its interest rate risks to achieve a more predictable cash flow by reducing its exposure to interest rate fluctuations. These transactions generally are interest rate swap agreements which are entered into with major financial institutions. Derivative financial instruments related to the Company's interest rate risks are intended to reduce the Company's exposure to increases in the benchmark interest rates underlying the Company's Senior Notes and variable rate bank credit facilities. The Company does not enter into derivative financial instrument transactions for speculative purposes.

From time to time, the Company hedges its exposure to fluctuations in short-term interest rates under its Revolving Credit Facility and Senior Notes by entering into interest rate swap agreements. The interest rate swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent to the swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of December 31, 2004, the Company had a total notional amount of $150,000,000 of interest rate swaps designated as cash flow hedges for its variable rate Senior Notes as follows (dollars in thousands):

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

On April 29, 2004, the Company extended a hedge on part of its exposure to fluctuations in short-term interest rates by entering into a five-year interest rate swap agreement with a notional amount of $50,000,000 to replace a $50,000,000 interest rate swap that expired in April 2004. Under the agreement, the Company will pay a fixed rate of 4.00% for five years and will receive floating rate interest payments to offset floating rate interest obligations under the Senior Notes. The interest rate swap was designated as a cash flow hedge for the Senior Notes.

These interest rate swaps hedge a majority of the Company's long-term debt and only an immaterial loss on ineffectiveness was recognized in 2004 and 2003. At December 31, 2004, the total fair value of the interest rate swap agreements was $8,189,000, of which $196,000 and $50,000 were recorded as other current asset and other accrued liability, respectively, for swap maturities within the next twelve months, and $8,335,000 was recorded as other long-term liability for swap maturities greater than twelve months. At December 31, 2003, the total fair value of the interest rate swap agreements was $8,660,000, of which $650,000 was recorded as an other accrued liability for swap maturities within the next twelve months, and $8,010,000 was recorded as an other long-term liability for swap maturities greater than twelve months. The Company has recorded, in interest expense, losses related to the interest rate swap agreements of $5,793,000, and $6,488,000 for the years ended December 31, 2004 and 2003, respectively. Gains or losses on the interest rate swap contracts offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company anticipates $2,253,000 of net losses included in accumulated other comprehensive income will be transferred into earnings over the next year based on current interest rates. Fair value amounts were determined as of December 31, 2004 and 2003 based on quoted market values of the Company's portfolio of derivative instruments.

Item 8. ***Financial Statements and Supplementary Data***

The response to this item is submitted as a separate section of this report (see Item 15, page 76).

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures. The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of December 31, 2004. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of December 31, 2004, the disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's Report on Internal Control Over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 using the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2004. KPMG LLP, the Company's independent registered public accounting firm, has issued an attestation report on management's assessment of internal control over financial reporting, a copy of which appears on page 44 of this annual report.

There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Items 10 Through 14.

The information for these items is incorporated by reference to the definitive proxy statement filed by the Company with the Commission pursuant to Regulation 14A within 120 days of the close of the fiscal year ended December 31, 2004, except for the information regarding executive officers which is provided in a separate item, captioned "Executive Officers of the Registrant," and is included as an unnumbered item following Item 4 in Part I of this Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Kirby Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that Kirby Corporation and consolidated subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Kirby Corporation and consolidated subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Kirby Corporation and consolidated subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Kirby Corporation and consolidated subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Kirby Corporation and consolidated subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004, and our report dated March 4, 2005 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Houston, Texas
March 4, 2005

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Kirby Corporation:

We have audited the accompanying consolidated balance sheets of Kirby Corporation and consolidated subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kirby Corporation and consolidated subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Kirby Corporation and consolidated subsidiaries' internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 4, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Houston Texas
March 4, 2005

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
December 31, 2004 and 2003

	2004	2003
	($ in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 629	$ 4,064
Accounts receivable:		
Trade — less allowance for doubtful accounts of $1,763,000 ($1,493,000 in 2003)	99,355	80,585
Other	6,963	17,347
Inventory — finished goods, at lower of average cost or market	15,426	13,991
Prepaid expenses and other current assets	15,110	13,173
Deferred income taxes	2,167	2,619
Total current assets	139,650	131,779
Property and equipment:		
Marine transportation equipment	909,345	824,378
Land, buildings and equipment	71,119	66,545
	980,464	890,923
Accumulated depreciation	406,253	354,411
	574,211	536,512
Investment in marine affiliates	12,205	9,162
Goodwill — less accumulated amortization of $15,566,000 in 2004 and 2003	160,641	156,726
Other assets	17,968	20,782
	$ 904,675	$ 854,961
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,304	$ 225
Income taxes payable	986	897
Accounts payable	41,916	41,577
Accrued liabilities:		
Interest	869	686
Insurance premiums and claims	19,707	23,070
Employee compensation	18,188	15,083
Taxes — other than on income	7,623	6,602
Other	5,513	5,284
Deferred revenues	8,284	5,444
Total current liabilities	104,390	98,868
Long-term debt — less current portion	217,436	255,040
Deferred income taxes	123,330	106,134
Minority interests	2,840	2,933
Other long-term liabilities	21,444	19,854
	365,050	383,961
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	185,123	178,720
Accumulated other comprehensive income	(5,672)	(5,950)
Deferred compensation	(2,255)	(1,003)
Retained earnings	360,119	310,575
	540,406	485,433
Less cost of 6,051,000 shares in treasury (6,590,000 in 2003)	105,171	113,301
	435,235	372,132
	$ 904,675	$ 854,961

See accompanying notes to consolidated financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
For the Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002
		($ in thousands, except per share amounts)	
Revenues:			
Marine transportation	$ 588,828	$ 530,411	$ 450,280
Diesel engine services	86,491	83,063	85,123
	675,319	613,474	535,403
Costs and expenses:			
Costs of sales and operating expenses	430,272	395,043	334,146
Selling, general and administrative	82,917	73,149	66,855
Taxes, other than on income	13,652	13,141	11,136
Depreciation and amortization	55,120	53,328	45,507
Impairment of long-lived assets	—	—	17,712
Loss (gain) on disposition of assets	299	99	(624)
	582,260	534,760	474,732
Operating income	93,059	78,714	60,671
Equity in earnings of marine affiliates	1,002	2,932	700
Impairment of equity investment	—	—	(1,221)
Other expense	(347)	(119)	(155)
Minority interests	(542)	(902)	(962)
Interest expense	(13,263)	(14,628)	(13,540)
Earnings before taxes on income	79,909	65,997	45,493
Provision for taxes on income	(30,365)	(25,079)	(18,047)
Net earnings	$ 49,544	$ 40,918	$ 27,446
Net earnings per share of common stock:			
Basic	$ 2.02	$ 1.69	$ 1.14
Diluted	$ 1.97	$ 1.67	$ 1.13

See accompanying notes to consolidated financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002
		($ in thousands)	
Common stock:			
Balance at beginning and end of year	$ 3,091	$ 3,091	$ 3,091
Additional paid-in capital:			
Balance at beginning of year	$ 178,720	$ 176,867	$ 176,074
Excess of proceeds received upon exercise of stock options and issuance of restricted stock over cost of treasury stock sold	2,758	794	248
Tax benefit realized from stock option plans	3,645	1,059	545
Balance at end of year	$ 185,123	$ 178,720	$ 176,867
Accumulated other comprehensive income:			
Balance at beginning of year	$ (5,950)	$ (8,062)	$ (3,364)
Additional minimum supplemental executive retirement plan liability, net of taxes ($18 in 2004 and $197 in 2003)	(29)	(321)	—
Change in fair value of derivative financial instruments, net of taxes ($(165) in 2004, $(1,311) in 2003 and $2,530 in 2002)	307	2,433	(4,698)
Balance at end of year	$ (5,672)	$ (5,950)	$ (8,062)
Deferred compensation:			
Balance at beginning of year	$ (1,003)	$ —	$ —
Restricted stock compensation	(1,252)	(1,003)	—
Balance at end of year	$ (2,255)	$ (1,003)	$ —
Retained earnings:			
Balance at beginning of year	$ 310,575	$ 269,657	$ 242,211
Net earnings for the year	49,544	40,918	27,446
Balance at end of year	$ 360,119	$ 310,575	$ 269,657
Treasury stock:			
Balance at beginning of year	$ (113,301)	$ (118,242)	$ (116,990)
Purchase of treasury stock (165,000 shares in 2002)	—	—	(3,931)
Cost of treasury stock sold upon exercise of stock options and issuance of restricted stock (539,000 in 2004, 310,000 in 2003, and 157,000 in 2002)	8,130	4,941	2,679
Balance at end of year	$ (105,171)	$ (113,301)	$ (118,242)
Comprehensive income:			
Net earnings for the year	$ 49,544	$ 40,918	$ 27,446
Other comprehensive income (loss), net of taxes ($(150) in 2004 ($(1,114) in 2003, and $2,530 in 2002)	278	2,112	(4,698)
Total comprehensive income	$ 49,822	$ 43,030	$ 22,748

See accompanying notes to consolidated financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2004, 2003 and 2002

	2004	2003	2002
		($ in thousands)	
Cash flows from operating activities:			
Net earnings	$ 49,544	$ 40,918	$ 27,446
Adjustments to reconcile net earnings to net cash provided by operations:			
Depreciation and amortization	55,120	53,328	45,507
Provision (credit) for deferred income taxes	17,500	20,384	(1,883)
Loss (gain) on disposition of assets	299	99	(624)
Equity in earnings of marine affiliates, net of distributions	131	1,077	(730)
Impairment of long-lived assets	—	—	17,712
Impairment of equity investment	—	—	1,221
Other	2,235	1,805	1,050
Increase (decrease) in cash flows resulting from changes in:			
Accounts receivable	(20,694)	(596)	(1,092)
Inventory	138	1,557	(444)
Other assets	826	(3,428)	(13,599)
Income taxes payable	15,542	(11,616)	1,028
Accounts payable	300	4,068	2,131
Accrued and other liabilities	5,810	4,634	(5,169)
Net cash provided by operating activities	126,751	112,230	72,554
Cash flows from investing activities:			
Capital expenditures	(93,604)	(72,356)	(47,709)
Acquisitions of businesses and marine equipment	(10,174)	(37,816)	(44,818)
Proceeds from disposition of assets	2,665	7,069	5,938
Other	(162)	—	(70)
Net cash used in investing activities	(101,275)	(103,103)	(86,659)
Cash flows from financing activities:			
Borrowings (payments) on bank credit facilities, net	12,400	(260,400)	66,600
Proceeds from (payments on) senior notes	(50,000)	250,000	—
Payments on long-term debt	(225)	(336)	(50,335)
Purchase of treasury stock	—	—	(3,931)
Return of investment to minority interests	(635)	(660)	(1,091)
Proceeds from exercise of stock options	9,549	4,901	2,444
Net cash provided by (used in) financing activities	(28,911)	(6,495)	13,687
Increase (decrease) in cash and cash equivalents	(3,435)	2,632	(418)
Cash and cash equivalents, beginning of year	4,064	1,432	1,850
Cash and cash equivalents, end of year	$ 629	$ 4,064	$ 1,432
Supplemental disclosures of cash flow information:			
Cash paid (received) during the year:			
Interest	$ 12,747	$ 13,435	$ 14,441
Income taxes	$ (2,677)	$ 16,310	$ 18,501
Noncash investing and financing activity:			
Disposition of assets for note receivables	$ —	$ 900	$ 1,100
Notes payable issued in acquisition	$ 1,300	$ —	$ —

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2004, 2003 and 2002

(1) Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of Kirby Corporation and all majority-owned subsidiaries ("the Company"). One affiliated limited partnership in which the Company owns a 50% interest, is the general partner and has effective control, and whose activities are an integral part of the operations of the Company, is consolidated. All other investments in which the Company owns 20% to 50% and exercises significant influence over operating and financial policies are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to reflect the current presentation of financial information.

Accounting Policies

Cash Equivalents. Cash equivalents consist of all short-term, highly liquid investments with maturities of three months or less at date of purchase.

Accounts Receivable. In the normal course of business, the Company extends credit to its customers. The Company regularly reviews the accounts and makes adequate provisions for probable uncollectable balances. It is the Company's opinion that the accounts have no impairment, other than that for which provisions have been made. Included in accounts receivable as of December 31, 2004 and 2003 were $977,000 and $3,616,000, respectively, of accruals for diesel engine services work in process which have not been invoiced as of the end of each year.

The Company's marine transportation and diesel engine services operations are subject to hazards associated with such businesses. The Company maintains insurance coverage against these hazards with insurance companies. As of December 31, 2004 and 2003, the Company had receivables of $1,510,000 and $1,751,000, respectively, from insurance companies to cover claims over the Company's deductible.

Concentrations of Credit Risk. Financial instruments which potentially subject the Company to concentrations of credit risk are primarily trade accounts receivables. The Company's marine transportation customers include the major oil refining and petrochemical companies. The diesel engine services customers are offshore oil and gas service companies, inland and offshore marine transportation companies, commercial fishing companies, power generation companies, shortline, industrial, Class II and certain transit railroads, and the United States government. Credit risk with respect to these trade receivables is generally considered minimal because of the financial strength of such companies as well as the Company having procedures in effect to monitor the creditworthiness of customers.

Fair Value of Financial Instruments. Cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term maturity of these financial instruments. The fair value of the Company's debt instruments is more fully described in Note 5, Long-Term Debt.

Property, Maintenance and Repairs. Property is recorded at cost. Improvements and betterments are capitalized as incurred. Depreciation is recorded on the straight-line method over the estimated useful lives of the individual assets as follows: marine transportation equipment, 6-37 years; buildings, 10-40 years; other equipment, 2-10 years; and leasehold improvements, term of lease. When property items are retired, sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts with any gain or loss on the disposition included in the statement of earnings. Maintenance and repairs are charged to operating expense as incurred on an annual basis.

Environmental Liabilities. The Company expenses costs related to environmental events as they are incurred or when a loss is considered probable and estimable.

(1) Summary of Significant Accounting Policies — (Continued)

Goodwill. The excess of the purchase price over the fair value of identifiable net assets acquired in transactions accounted for as a purchase is included in goodwill. Through the end of 2001, goodwill was amortized on the straight-line method over the lesser of its expected useful life or forty years. Effective January 1, 2002, the Company ceased the amortization of goodwill with the adoption of Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (“SFAS No. 142”). SFAS No. 142 also requires periodic tests of the goodwill’s impairment at least annually in accordance with the provisions of SFAS No. 142 and that intangible assets other than goodwill be amortized over their useful lives. The Company did not incur any transitional impairment losses or gains as a result of adopting SFAS No. 142. The Company conducted its annual impairment test as required by SFAS No. 142 at November 30, 2004, noting no impairment of goodwill. The Company will continue to conduct goodwill impairment tests as required under SFAS No. 142 effective November 30 of subsequent years, or whenever events or circumstances indicate that interim impairment testing is necessary.

Revenue Recognition. The majority of marine transportation revenue is derived from term contracts, ranging from one to five years, with renewal options, and the remainder is from spot market movements. The majority of the term contracts are for terms of one year. The Company is a provider of marine transportation services for its customers and does not assume ownership of the products it transports. A term contract is an agreement with a specific customer to transport cargo from a designated origin to a designated destination at a set rate. The rate may or may not escalate during the term of the contract, however, the base rate generally remains constant and contracts often include escalation provisions to recover changes in specific costs such as fuel. Term contracts typically only set agreement as to rates and do not have volume guarantees. A spot contract is an agreement with a customer to move cargo from a specific origin to a designated destination for a rate negotiated at the time the cargo movement takes place. Spot contract rates are at the current “market” rate. The Company uses a voyage accounting method of revenue recognition for its marine transportation revenues which allocates voyage revenue and expenses based on the percent of the voyage completed during the period. There is no difference in the recognition of revenue between a term contract and a spot contract.

Diesel engine service products and services are generally sold based upon purchase orders or preferential service agreements with the customer that include fixed or determinable prices and that do not include right of return or significant post delivery performance obligations. Diesel engine parts sales are recognized when title passes upon shipment to customers. Diesel overhauls and repairs revenue are reported on the percentage of completion method of accounting using measurements of progress towards completion appropriate for the work performed.

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

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

(1) Summary of Significant Accounting Policies — (Continued)

forma information relating to option grants as if the Company used the fair value method of accounting, which requires the recording of estimated compensation expenses.

The following table summarizes pro forma net earnings and earnings per share for the years ended December 31, 2004, 2003 and 2002 assuming the Company had used the fair value method of accounting for its stock option plans (in thousands, except per share amounts):

	2004	2003	2002
Net earnings, as reported	$ 49,544	$ 40,918	$ 27,446
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,765)	(1,833)	(1,850)
Pro forma net earnings	$ 47,779	$ 39,085	$ 25,596
Earnings per share:			
Basic — as reported	$ 2.02	$ 1.69	$ 1.14
Basic — pro forma	$ 1.95	$ 1.62	$ 1.06
Diluted — as reported	$ 1.97	$ 1.67	$ 1.13
Diluted — pro forma	$ 1.90	$ 1.59	$ 1.05

The weighted average fair value of options granted during 2004, 2003 and 2002 was $10.50, $7.12, and $7.40, respectively. The fair value of each option was determined using the Black-Scholes option valuation model. The key input variables used in valuing the options were as follows: no dividend yield for any year; average risk-free interest rate based on five- and 10-year Treasury bonds — 3.9% for 2004, 2.6% for 2003, and 2.6% for 2002; stock price volatility — 28% for 2004, 28% for 2003, and 27% for 2002; and estimated option term — four or nine years.

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

Taxes on Income. The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Accrued Insurance. Accrued insurance liabilities include estimates based on individual incurred claims outstanding and an estimated amount for losses incurred but not reported (IBNR) based on past experience. Insurance premiums, IBNR losses and incurred claims losses, up to the Company's deductible, for 2004, 2003 and 2002 were $7,019,000, $8,548,000, and $10,366,000, respectively.

(1) Summary of Significant Accounting Policies — (Continued)

Minority Interests. The Company has a majority interest in and is the general partner for the affiliated entities. In situations where losses applicable to the minority interest in the affiliated entities exceed the limited partners' equity capital, such excess and any further loss attributable to the minority interest is charged against the Company's interest in the affiliated entities. If future earnings materialize in the respective affiliated entities, the Company's interest would be credited to the extent of any losses previously absorbed.

Treasury Stock. The Company follows the average cost method of accounting for treasury stock transactions.

Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Company reviews long-lived assets and certain identifiable intangibles for impairment by vessel class whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Recoverability on marine transportation assets is assessed based on vessel classes, not on individual assets, because identifiable cash flows for individual marine transportation assets are not available. Projecting customer contract volumes allows estimation of future cash flows by projecting pricing and utilization by vessel class but it is not practical to project which individual marine transportation asset will be utilized for any given contract. Because customers do not specify which particular vessel is used, prices are quoted based on vessel classes not individual assets. Nominations of vessels for specific jobs are determined on a day by day basis and are a function of the equipment class required and the geographic position of vessels within that class at that particular time as vessels within a class are interchangeable and provide the same service. Barge vessel classes are based on similar capacities, hull type, and type of product and towboats are based on horsepower. Recoverability of the vessel classes is measured by a comparison of the carrying amount of the assets to future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. An impairment charge incurred by the Company in the fourth quarter of 2002 is described in Note 3, Asset Impairments.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"). SFAS No. 144, issued in August 2001, addresses the accounting and reporting for the impairment or disposal of long-lived assets and supersedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 121") and APB Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The objective of SFAS No. 144 is to establish one accounting model for long-lived assets to be disposed of by sale, as well as to resolve implementation issues related to SFAS No. 121, while retaining many of the fundamental provisions of SFAS No. 121. The adoption of SFAS No. 144 had no effect on the Company's financial position or results of operations. The impairment charges taken in 2002 were a result of certain business events, not the adoption of SFAS No. 144.

Accounting Standards

In June 2001, Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") was issued. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. SFAS No. 143 requires the fair value of a liability associated with an asset retirement be recognized in the period in which it is incurred if a reasonable estimate of fair value can be determined. The associated retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the

(1) Summary of Significant Accounting Policies — (Continued)

life of the asset. SFAS No. 143 was effective for the Company at the beginning of fiscal 2003. The Company adopted SFAS No. 143 effective January 1, 2003 with no effect on the Company's financial position or results of operations.

In April 2002, Statement of Financial Accounting Standards No. 145 "Rescission of SFAS No. 4, 44, and 64, Amendment of SFAS No. 13 and Technical Corrections" ("SFAS No. 145") was issued. SFAS No. 145 provides guidance for accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and income statement classification of gains and losses on extinguishment of debt. The Company adopted SFAS No. 145 effective January 1, 2003 with no effect on the Company's financial position or results of operations.

In July 2002, Statement of Financial Accounting Standards No. 146 "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146") was issued. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than accruing costs at the date of management's commitment to an exit or disposal plan. The Company adopted SFAS No. 146 for all exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have an impact on the 2003 year as there were no applicable exit or disposal activities.

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" and revised this interpretation in December 2003 (collectively, "the Interpretations"). The Interpretations address the consolidation by business enterprises of variable interest entities as defined in the Interpretations. The Interpretations apply immediately to variable interests in variable interest entities created after January 31, 2003, and to variable interests in variable entities obtained after January 31, 2003. The application of these Interpretations has not had an effect on the Company's financial position or results of operations.

In May 2003, Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150") was issued. SFAS No. 150 establishes standards for classification and measurement in the statement of financial position of certain financial instruments with characteristics of both liabilities and equity. It requires classification of a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 had no effect on the Company's financial position or results of operations.

(2) Acquisitions

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

On April 16, 2004, the Company purchased a one-third interest in Osprey Line, LLC ("Osprey") for $4,220,000. The purchase price consisted of cash of $2,920,000 and notes payable totaling $1,300,000 due in April 2005. The remaining two-thirds interest is owned by Cooper/ T. Smith Corporation and Richard L. Couch. Osprey, formed in 2000, operates a barge feeder service for cargo containers between Houston, New Orleans and Baton Rouge, several ports located above Baton Rouge on the Mississippi River, as well as coastal service along the Gulf of Mexico. Revenues for Osprey for 2004 were approximately $13,800,000. The purchase will be accounted for under the equity method of accounting and the cash portion of the purchase price was financed through the Company's revolving credit facility.

(2) Acquisitions — (Continued)

On January 15, 2003, the Company purchased from SeaRiver Maritime, Inc. (“SeaRiver”), the U.S. transportation affiliate of Exxon Mobil Corporation (“ExxonMobil”), 45 double hull inland tank barges and seven inland towboats for $32,113,000 in cash, and assumed from SeaRiver the leases of 16 double hull inland tank barges. On February 28, 2003, the Company purchased three double hull inland tank barges leased by SeaRiver from Banc of America Leasing & Capital, LLC (“Banc of America Leasing”) for $3,453,000 in cash. The Company entered into a contract to provide inland marine transportation services to SeaRiver, transporting petrochemicals, refined petroleum products and black oil products throughout the Gulf Intracoastal Waterway and the Mississippi River System. Financing of the equipment acquisitions was through the Company’s revolving credit facility.

In March 2002, the Company purchased the Cargo Carriers fleet of 21 inland tank barges for $2,800,000 in cash from the Cargill Corporation, and resold six of the tank barges for $530,000 in April 2002. Financing for the equipment acquisition was through the Company’s revolving credit facility.

On October 31, 2002, the Company completed the acquisition of seven inland tank barges and 13 inland towboats from Coastal for $17,053,000 in cash. In addition, the Company and Coastal entered into a barge management agreement whereby the Company will serve as manager of the two companies’ combined black oil fleet for a period of seven years. The combined black oil fleet consists of 54 barges owned by Coastal, of which 37 are currently active, and the Company’s 68 active black oil barges. Coastal is engaged in the inland tank barge transportation of black oil products along the Gulf Intracoastal Waterway and the Mississippi River and its tributaries. In a related transaction, on September 25, 2002, the Company purchased from Coastal three black oil tank barges for $1,800,000 in cash. Financing for the equipment acquisitions was through the Company’s revolving credit facility.

On December 15, 2002, the Company completed the acquisition of 94 inland tank barges from Union Carbide Finance Corporation (“Union Carbide”) for $23,000,000. The Company had operated the tank barges since February 2001 under a long-term lease agreement between the Company and Union Carbide. The Dow Chemical Company (“Dow”) acquired the inland tank barges as part of the February 2001 merger between Union Carbide Corporation and Dow. Nine of the 94 tank barges were out-of-service and eventually sold. Financing for the equipment acquisition was through the Company’s revolving credit facility.

(3) Asset Impairments

During the fourth quarter of 2002, the Company recorded $18,933,000 of non-cash pre-tax impairment charges. The after-tax effect of the charges was $12,498,000 or $.51 per share. Of the total pre-tax charges, $17,241,000 was due to reduced estimated cash flows resulting from reduced lives on the Company’s single hull fleet and its commitment to sell certain vessels. The reduced estimated useful lives on 114 single hull tank barges was due to market bias against single hull tank barges and the assessment of the impact of new regulations issued in September 2002 by the United States Coast Guard (“USCG”) that require the installation of tank level monitoring devices on all single hull tank barges by October 2007. The Company plans to retire all of its single hull tank barges by October 17, 2007. The Company committed to sell 21 inactive or out-of-service double hull tank barges and five inactive towboats and reduced the carrying value of these vessels by $5,682,000 to a fair value of $2,621,000. The charges also included a $1,221,000 write-down of an investment in an unconsolidated affiliate to its estimated fair value and a $471,000 write-down of surplus diesel shop equipment.

(4) Derivative Instruments

In April 2003, Statement of Financial Accounting Standards No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” (“SFAS No. 149”) was issued. SFAS No. 149 amends and

(4) Derivative Instruments — (Continued)

clarifies financial accounting and reporting for derivative instruments and hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (“SFAS No. 133”). SFAS No. 149 amends SFAS No. 133 for decisions made: (1) as part of the Derivatives Implementation Group process that requires amendments to SFAS No. 133; (2) in connection with other FASB projects dealing with financial instruments; and (3) in connection with the implementation issues raised related to the application of the definition of a derivative. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 had no effect on the Company’s financial position or results of operations.

SFAS No. 133, established accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded at fair value and included in the balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception date of a derivative. Special accounting for derivatives qualifying as fair value hedges allows a derivative’s gain and losses to offset related results on the hedged item in the statement of earnings. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Hedge effectiveness is measured at least quarterly based on the relative cumulative changes in fair value between the derivative contract and the hedged item over time. Any change in fair value resulting from ineffectiveness, as defined by SFAS No. 133, is recognized immediately in earnings.

From time to time, the Company has utilized and expects to continue to utilize derivative financial instruments with respect to a portion of its interest rate risks to achieve a more predictable cash flow by reducing its exposure to interest rate fluctuations. These transactions generally are interest rate swap agreements and are entered into with major financial institutions. Derivative financial instruments related to the Company’s interest rate risks are intended to reduce the Company’s exposure to increases in the benchmark interest rates underlying the Company’s floating rate senior notes and variable rate bank credit facilities.

From time to time, the Company hedges its exposure to fluctuations in short-term interest rates under its variable rate bank credit facility and floating rate senior notes by entering into interest rate swap agreements. The interest rate swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of December 31, 2004, the Company had a total notional amount of $150,000,000 of interest rate swaps designated as cash flow hedges for its variable rate senior notes as follows (dollars in thousands):

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

On April 29, 2004, the Company extended a hedge on part of its exposure to fluctuations in short-term interest rates by entering into a five-year interest rate swap agreement with a notional amount of $50,000,000 to replace a $50,000,000 interest rate swap that expired in April 2004. Under the agreement, the Company will pay a fixed rate of 4.00% for five years and will receive floating rate interest payments to offset floating rate interest obligations under the variable rate senior notes. The interest rate swap was designated as a cash flow hedge for the variable rate senior notes.

(4) Derivative Instruments — (Continued)

These interest rate swaps hedge a majority of the Company's long-term debt and only an immaterial loss on ineffectiveness was recognized in 2004 and 2003. At December 31, 2004, the total fair value of the interest rate swap agreements was $8,189,000, of which $196,000 and $50,000 were recorded as other current asset and other current liability, respectively, for swap maturities within the next twelve months, and $8,335,000 was recorded as other long-term liability for swap maturities greater than twelve months. At December 31, 2003, the total fair value of the interest rate swap agreements was $8,660,000, of which $650,000 was recorded as an other accrued liability for swap maturities within the next twelve months, and $8,010,000 was recorded as an other long-term liability for swap maturities greater than twelve months. The Company has recorded, in interest expense, losses related to the interest rate swap agreements of $5,793,000, and $6,488,000 for the years ended December 31, 2004 and 2003, respectively. Gains or losses on the interest rate swap contracts offset increases or decreases in rates of the underlying debt, which results in a fixed rate for the underlying debt. The Company anticipates $2,253,000 of net losses included in accumulated other comprehensive income will be transferred into earnings over the next year based on current interest rates. Fair value amounts were determined as of December 31, 2004 and 2003 based on quoted market values of the Company's portfolio of derivative instruments.

(5) Long-Term Debt

Long-term debt at December 31, 2004 and 2003 consisted of the following (in thousands):

	2004	2003
Long-term debt, including current portion:		
$150,000,000 revolving credit facility due December 9, 2007	$ 15,000	$ 5,000
Senior notes due February 28, 2013	200,000	250,000
$10,000,000 credit line due November 2, 2005	2,400	—
Other long-term debt	1,340	265
	$ 218,740	$ 255,265

The aggregate payments due on the long-term debt in each of the next five years were as follows (in thousands):

2005	$ 1,304
2006	4
2007	17,405
2008	5
2009	5
Thereafter	200,017
	$ 218,740

The Company has a $150,000,000 unsecured revolving credit facility (the "Revolving Credit Facility") with a syndicate of banks, with JPMorgan Chase Bank as the agent bank and with a maturity date of December 9, 2007. The Revolving Credit Facility allows for an increase in bank commitments under the agreement from $150,000,000 up to a maximum of $225,000,000 without further amendments to the agreement. Borrowing options under the Revolving Credit Facility allow the Company to borrow at an interest rate equal to either the London Interbank Offered Rate ("LIBOR") plus a margin ranging from .75% to 1.50%, depending on the Company's senior debt rating; or an adjusted Certificate of Deposit ("CD") rate plus

(5) Long-Term Debt — (Continued)

a margin ranging from .875% to 1.625%, also depending on the Company's senior debt rating; or the greater of prime rate, Federal Funds rate plus .50%, or the secondary market rate for three-month CD rate plus 1%. A commitment fee is charged on the unused portion of the Revolving Credit Facility at a rate ranging from .20% to .40%, depending on the Company's senior debt rating, multiplied by the average unused portion of the Revolving Credit Facility, and is paid quarterly. A utilization fee equal to .125% to .25%, also depending on the Company's senior debt rating, of the average outstanding borrowings during periods in which the total borrowings exceed 33% of the total $150,000,000 commitment, is also paid quarterly. At December 31, 2004, the applicable interest rate spread over LIBOR was .875% and the commitment fee and utilization fee were .25% and .125%, respectively. The Revolving Credit Facility also includes a minimum net worth requirement of $250,000,000. In addition to financial covenants, the Revolving Credit Facility contains covenants that, subject to exceptions, restrict debt incurrence, mergers and acquisitions, sales of assets, dividends and investments, liquidations and dissolutions, capital leases, transactions with affiliates and changes in lines of business. Borrowings under the Revolving Credit Facility may be used for general corporate purposes, the purchase of existing or new equipment, the purchase of the Company's common stock, or for business acquisitions. The Company was in compliance with all Revolving Credit Facility covenants as of December 31, 2004. As of December 31, 2004, $15,000,000 was outstanding under the Revolving Credit Facility and the average interest rate was 3.3%. The average borrowing under the Revolving Credit Facility during 2004 was $2,700,000, computed by averaging the daily balance, and the weighted average interest rate was 2.8%, computed by dividing the interest expense under the Revolving Credit Facility by the average Revolving Credit Facility borrowing. The Revolving Credit Facility includes a $10,000,000 commitment which may be used for standby letters of credit. Outstanding letters of credit under the Revolving Credit Facility totaled $7,612,000 as of December 31, 2004.

On February 28, 2003, the Company issued $250,000,000 of unsecured floating rate senior notes ("Senior Notes") due February 28, 2013. The Senior Notes pay interest quarterly at a rate equal to LIBOR plus a margin of 1.2%. The Senior Notes are callable at par after one year without penalty and no principal payments are required until maturity in 2013. The proceeds of the Senior Notes were used to repay $121,500,000 of the outstanding balance on the Company's term loan credit facility described in the next paragraph and $128,500,000 of the outstanding balance on the Revolving Credit Facility. On November 29, 2004, the Company prepaid $50,000,000 of the Senior Notes. As of December 31, 2004, $200,000,000 was outstanding under the Senior Notes and the average interest rate was 3.6%. The average borrowing under the Senior Notes during 2004 was $245,556,000, computed by averaging the daily balance, and the weighted average interest rate was 2.7%, computed by dividing the interest expense under the Senior Notes by the average Senior Notes borrowings. The Company was in compliance with all Senior Notes covenants at December 31, 2004.

At December 31, 2002, the Company had an unsecured term loan credit facility (the "Term Loan") with a syndicate of banks, with Bank of America, N.A. ("Bank of America") as the agent bank. With proceeds from the Senior Notes, the Company repaid $121,500,000 of the outstanding balance under the Term Loan on February 28, 2003. The remaining $50,000,000 was repaid during 2003 with four quarterly principal payments of $12,500,000, with the final payment made on October 9, 2003.

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 debt securities, including medium term notes providing for the issuance of fixed rate or floating rate debt with maturities of nine months or longer. The $121,000,000 available balance, subject to mutual agreement to terms, as of December 31, 2004 may be used for future business or equipment acquisitions, working capital requirements and reductions of the Company's Revolving

(5) Long-Term Debt — (Continued)

Credit Facility and Senior Notes. Activities under the shelf registration have been as follows (dollars in thousands):

	Outstanding Balance	Interest Rate	Available Balance
Medium Term Notes program	$ —		$ 250,000
Issuance March 1995 (Maturity March 10, 1997)	34,000	7.77%	216,000
Issuance June 1995 (Maturity June 1, 2000)	45,000	7.25%	171,000
Outstanding December 31, 1995 and 1996	79,000		171,000
Issuance January 1997 (Maturity January 29, 2002)	50,000	7.05%	121,000
Payment March 1997	(34,000)		121,000
Outstanding December 31, 1997, 1998 and 1999	95,000		121,000
Payment June 2000	(45,000)		121,000
Outstanding December 31, 2000 and 2001	50,000		121,000
Payment January 2002	(50,000)		121,000
Outstanding December 31, 2002, 2003 and 2004	$ —		121,000

The Company has a $10,000,000 line of credit ("Credit Line") with Bank of America for short-term liquidity needs and letters of credit. The Credit Line, which matures on November 2, 2005, allows the Company to borrow at an interest rate equal to either LIBOR plus a margin of 1%; or the higher of prime rate or the Federal Funds rate plus .50%. As of December 31, 2004, $2,400,000 was borrowed under the Credit Line and the average interest rate was 5.3%. Outstanding letters of credit under the Credit Line totaled $476,000 as of December 31, 2004. Amounts borrowed on the Credit Line were classified as long-term debt at December 31, 2004, as the Company has the ability and intent to refinance the Credit Line on a long-term basis through the Revolving Credit Facility.

The Company has an uncommitted $5,000,000 revolving credit note ("Credit Note") with BNP Paribas ("BNP") for short-term liquidity needs. The Credit Note, which matures on December 31, 2005, allows the Company to borrow at an interest rate equal to BNP's current day cost of funds plus .35%. The Company did not have any borrowings outstanding under the Credit Note as of December 31, 2004.

The Company is of the opinion that the amounts included in the consolidated financial statements for outstanding debt materially represent the fair value of such debt at December 31, 2004 and 2003.

(6) Taxes on Income

Earnings before taxes on income and details of the provision for taxes on income for the years ended December 31, 2004, 2003 and 2002 were as follows (in thousands):

	2004	2003	2002
Earnings before taxes on income — United States	$ 79,909	$ 65,997	$ 45,493
Provision (credit) for taxes on income:			
Federal			
Current	$ 11,895	$ 3,731	$ 18,948
Deferred	15,626	19,311	(2,047)
State and local	2,844	2,037	1,146
	$ 30,365	$ 25,079	$ 18,047

(6) Taxes on Income — (Continued)

During the three years ended December 31, 2004, 2003 and 2002, tax benefits related to the exercise of stock options that were allocated directly to additional paid-in capital totaled $3,645,000, $1,059,000, and $545,000, respectively.

The Company's provision for taxes on income varied from the statutory federal income tax rate for the years ended December 31, 2004, 2003 and 2002 due to the following:

	2004	2003	2002
United States income tax statutory rate	35.0%	35.0%	35.0%
State and local taxes, net of federal benefit	2.3	2.0	1.6
Non-deductible equity goodwill impairment	—	—	1.0
Other non-deductible items	.7	1.0	2.1
	38.0%	38.0%	39.7%

The tax effects of temporary differences that give rise to significant portions of the current deferred tax assets and non-current deferred tax assets and liabilities at December 31, 2004, 2003 and 2002 were as follows (in thousands):

	2004	2003	2002
Current deferred tax assets:			
Compensated absences	$ 428	$ 406	$ 1,076
Allowance for doubtful accounts	617	523	287
Insurance accruals	953	1,556	2,166
Other	169	134	223
	$ 2,167	$ 2,619	$ 3,752
Non-current deferred tax assets and liabilities:			
Deferred tax assets:			
Postretirement health care benefits	$ 3,042	$ 3,106	$ 2,730
Insurance accruals	2,539	3,733	3,093
Deferred compensation	1,419	1,181	1,150
Unrealized loss on derivative financial instruments	2,866	3,031	4,341
Other	4,039	3,147	2,782
	13,905	14,198	14,096
Deferred tax liabilities:			
Property	(120,233)	(105,415)	(86,969)
Deferred state taxes	(8,260)	(6,387)	(5,329)
Pension benefits	(7,764)	(7,937)	(7,369)
Other	(978)	(593)	(197)
	(137,235)	(120,332)	(99,864)
	$ (123,330)	$ (106,134)	$ (85,768)

As of December 31, 2004, 2003 and 2002, the Company has determined that it is more likely than not that the deferred tax assets will be realized and a valuation allowance for such assets is not required.

(7) Leases

The Company and its subsidiaries currently lease various facilities and equipment under a number of cancelable and noncancelable operating leases. Lease agreements for tank barges have terms from two to twelve years expiring at various dates through 2010. Total rental expense for the years ended December 31, 2004, 2003 and 2002 were as follows (in thousands):

	2004	2003	2002
Rental expense:			
Marine equipment — tank barges	$ 9,308	$ 9,327	$ 12,610
Marine equipment — towboats*	56,313	42,707	34,196
Other buildings and equipment	4,175	3,951	3,439
Rental expense	$ 69,796	$ 55,985	$ 50,245

* All of the Company's towboat rental agreements provide the Company with the option to terminate the agreements with notice ranging from seven to 90 days.

Future minimum lease payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2004 were as follows (in thousands):

2005	$ 12,286
2006	8,837
2007	4,160
2008	1,834
2009	718
Thereafter	2,205
	$ 30,040

(8) Stock Option Plans

The Company has five employee stock option plans which were adopted in 1989, 1994, 1996, 2001 and 2002 for selected officers and other key employees. The 1989 Employee Plan provided for the issuance until July 1999 of incentive and nonincentive stock options to purchase up to 600,000 shares of common stock. The 1994 Employee Plan provided for the issuance until January 2004 of incentive and non-qualified stock options to purchase up to 1,000,000 shares of common stock. The 1996 Employee Plan provides for the issuance of incentive and non-qualified stock options to purchase up to 900,000 shares of common stock. The 2002 Employee Plan provides for the issuance of incentive and nonincentive stock options to purchase up to 1,000,000 shares of common stock. The 2001 Employee Plan provided for the issuance of incentive and nonincentive stock options to purchase up to 1,000,000 shares of common stock. With the approval of the 2002 Employee Plan by stockholders at the April 2002 Annual Meeting, the 2001 Employee Plan was terminated, except for stock options and restricted stock previously granted. Under the above plans, the exercise price for each option equals the fair market value per share of the Company's common stock on the date of grant. The terms of the options granted prior to February 10, 2000 are ten years and the options vest ratably over four years. Options granted after February 10, 2000 have terms of five years and vested ratably over three years. At December 31, 2004, 337,307 shares were available for future grants under the employee plans and no outstanding stock options under the employee plans were issued with stock appreciation rights.

(8) Stock Option Plans — (Continued)

The following is a summary of the stock option activity under the employee plans described above for the years ended December 31, 2004, 2003 and 2002:

	Outstanding Non-Qualified or Nonincentive Stock Options	Weighted Average Exercise Price
Outstanding December 31, 2001	1,930,888	$ 19.17
Granted	377,178	$ 27.39
Exercised	(157,482)	$ 17.39
Canceled or expired	(15,003)	$ 23.68
Outstanding December 31, 2002	2,135,581	$ 20.64
Granted	424,142	$ 25.79
Exercised	(327,494)	$ 18.52
Canceled or expired	(1,334)	$ 24.54
Outstanding December 31, 2003	2,230,895	$ 21.82
Granted	355,822	$ 33.93
Exercised	(582,478)	$ 20.57
Canceled or expired	(3,668)	$ 30.26
Outstanding December 31, 2004	2,000,571	$ 23.96

The following table summarizes information about the Company's outstanding and exercisable stock options under the employee plans at December 31, 2004:

	Options Exercisable			Options Outstanding	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$16.31–$17.91	97,000	3.16	$ 17.18	97,000	$ 17.18
$18.01–$19.01	54,334	2.98	$ 18.72	54,334	$ 18.72
$19.50–$21.53	936,836	1.73	$ 20.09	282,836	$ 21.44
$27.13–$28.18	596,126	2.61	$ 26.44	243,848	$ 26.86
$30.16–$33.93	316,275	4.05	$ 33.73	3,333	$ 30.16
$16.31–$33.93	2,000,571	2.44	$ 23.96	681,351	$ 22.60

For the years ended December 31, 2004, 2003 and 2002, the number of options exercisable were 681,351, 816,478, and 678,525, respectively, and the weighted average exercise prices of those options were $22.60, $20.26, and $18.46, respectively.

The Company has three director stock option plans for nonemployee directors of the Company. The 1989 Director Plan, under which no additional options can be granted, provided for the issuance until July 1999 of nonincentive options to directors of the Company to purchase up to 150,000 shares of common stock. The 1994 Director Plan, which was superseded by the 2000 Director Plan adopted in September 2000, provided for the issuance of non-qualified options to directors of the Company, including advisory directors, to

(8) Stock Option Plans — (Continued)

purchase up to 100,000 shares of common stock. The 2000 Director Plan provides for the issuance of nonincentive options to directors of the Company to purchase up to 300,000 shares of common stock. The 2000 Director Plan provides for the automatic grants of stock options to nonemployee directors on the date of first election as a director and after each annual meeting of stockholders. In addition, the 2000 Director Plan provides for the issuance of stock options or shares of restricted stock in lieu of cash for all or part of the annual director fee. The exercise price for all options granted under the 2000 Director Plan is equal to the fair market value per share of the Company's common stock on the date of grant. The terms of the options under the 2000 Director Plan are 10 years. The options granted when first elected as a director vest immediately. The options granted after each annual meeting of stockholders vest six months after the date of grant. Options granted and restricted stock issued in lieu of cash director fees vest in equal quarterly increments during the year to which they relate. At December 31, 2004, 154,418 shares were available for future grants under the 2000 Director Plan. The director stock option plans are intended as an incentive to attract and retain qualified and competent independent directors.

The following is a summary of the stock option activity under the director plans described above for the years ended December 31, 2004, 2003 and 2002:

	Outstanding Non-Qualified or Nonincentive Stock Options	Weighted Average Exercise Price
Outstanding December 31, 2001	99,951	$ 20.15
Granted	32,442	$ 31.48
Exercised	—	$ —
Outstanding December 31, 2002	132,393	$ 22.93
Granted	32,820	$ 25.39
Exercised	—	$ —
Outstanding December 31, 2003	165,213	$ 23.41
Granted	26,369	$ 35.76
Exercised	(16,013)	$ 18.78
Outstanding December 31, 2004	175,569	$ 25.50

The following table summarizes information about the Company's outstanding and exercisable stock options under the director plans at December 31, 2004:

	Options Exercisable			Options Outstanding	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$16.69–$19.88	33,484	3.89	$ 18.73	33,484	$ 18.73
$20.13–$25.50	85,287	6.77	$ 22.95	85,287	$ 22.95
$31.48–$35.76	56,798	8.15	$ 33.31	55,958	$ 33.28
$16.69–$35.76	175,569	6.67	$ 25.50	174,729	$ 25.45

(8) Stock Option Plans — (Continued)

For the years ended December 31, 2004, 2003 and 2002, the number of options exercisable were 174,729, 162,258, and 129,531, respectively, and the weighted average exercise prices of those options were $25.45, $23.38, and $22.74, respectively.

The Company also had a 1993 nonqualified stock option for 25,000 shares granted to Robert G. Stone, Jr., at an exercise price of $18.63, which was exercised during 2003. The grant served as an incentive to retain the optionee as a member of the Board of Directors of the Company.

(9) Retirement Plans

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

The fair value of plan assets was $76,446,000, and $67,691,000 at November 30, 2004 and 2003, respectively. As of November 30, 2004 and 2003, these assets were allocated among asset categories as follows:

Asset Category	2004	2003	Current Minimum, Target and Maximum Allocation Policy
Equity securities	44%	45%	40% – 55% – 70%
Debt securities	36%	30%	20% – 30% – 50%
Fund of hedge funds	14%	14%	0% – 15% – 20%
Cash and cash equivalents	6%	11%	0% – 0% – 10%
	100%	100%	

The Company's investment strategy is to emphasize total return (capital appreciation plus dividend and interest income). The primary objective in the investment management of assets is to emphasize long-term growth of principal while avoiding excessive risk. Risk is managed through diversification of investments both within and among asset classes, as well as by choosing securities that have an established trading and underlying operating history.

The Company assumed that plan assets would generate a long-term rate of return of 8.75% during both 2004 and 2003. The Company developed its expected long-term rate of return assumption by evaluating input from investment consultants, and considering historical returns for various asset classes and actual and targeted plan investments. The Company believes that long-term asset allocation, on average, will approximate the targeted allocation.

The Company's pension plan funding strategy is to contribute an amount equal to the greater of the minimum required contribution under ERISA and the amount necessary to fully fund the plan on an Accumulated Benefit Obligation ("ABO") basis at the end of the fiscal year. The ABO is based on a variety of demographic and economic assumptions, and the pension plan assets' returns are subject to various risks, including market and interest rate risk, making the prediction of the pension plan contribution difficult. Based on current pension plan assets and market conditions, the Company expects to contribute approximately $625,000 to its pension plan in November 2005 to fund its pension plan obligations.

The Company sponsors an unfunded defined benefit health care plan that provides limited postretirement medical benefits to employees who meet minimum age and service requirements, and to eligible dependents. The plan is contributory, with retiree contributions adjusted annually.

(9) Retirement Plans — (Continued)

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was enacted. The Act established a prescription drug benefit under Medicare, known as "Medicare Part D," and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Company believes that benefits provided to certain participants will be at least actuarially equivalent to Medicare Part D, and, accordingly, the Company will be entitled to a subsidy.

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

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

(9) Retirement Plans — (Continued)

The Company uses a November 30 measurement date for all of its plans. The following table presents the funded status and amounts recognized in the Company's consolidated balance sheet for the Company's defined benefit plans and postretirement benefit plans (dollars in thousands):

	Pension Benefits		Postretirement Benefits Other Than Pensions	
	2004	2003	2004	2003
Change in benefit obligation				
Benefit obligation at beginning of year	$ 74,151	$ 61,581	$ 9,409	$ 12,386
Service cost	4,110	2,978	317	310
Interest cost	4,733	4,246	477	548
Plan amendments	—	—	—	108
Actuarial loss (gain)	4,966	7,481	(1,257)	(3,651)
Benefits paid	(2,036)	(2,135)	(541)	(292)
Benefit obligation at end of year	85,924	74,151	8,405	9,409
Change in plan assets				
Fair value of plan assets at beginning of year	67,691	56,901	—	—
Actual return on plan assets	6,191	7,325	—	—
Employer contribution	4,600	5,600	541	292
Benefits paid	(2,036)	(2,135)	(541)	(292)
Fair value of plan assets at end of year	76,446	67,691	—	—
Funded status	(9,478)	(6,460)	(8,405)	(9,409)
Unrecognized net actuarial loss (gain)	30,910	28,587	(1,931)	(798)
Unrecognized prior service cost	(578)	(668)	401	441
Other	—	—	47	22
Net amount recognized at end of year	$ 20,854	$ 21,459	$ (9,888)	$ (9,744)
Accumulated benefit obligation at end of year	$ 75,617	$ 66,651	$ 1,752	$ 1,696
Amounts recognized in the consolidated balance sheets				
Prepaid (accrued) benefit cost	$ 20,854	$ 21,459	$ (9,888)	$ (9,744)
Additional minimum liability	—	—	(564)	(518)
Accumulated other comprehensive income	—	—	564	518
Net amount recognized at end of year	$ 20,854	$ 21,459	$ (9,888)	$ (9,744)
Weighted average assumptions used to determine benefit obligations as of December 31				
Discount rate	5.75%	6.00%	5.75%	6.00%
Rate of compensation increase	4.00%	4.00%	—	—
Health care cost trend	—	—	7.67% to 5.00%	9.00% to 5.00%

(9) Retirement Plans — (Continued)

The components of net periodic benefit cost were as follows (dollars in thousands):

	Pension Benefits			Postretirement Benefits Other Than Pensions		
	2004	2003	2002	2004	2003	2002
Net periodic benefit cost						
Service cost	$ 4,110	$ 2,978	$ 2,543	$ 317	$ 310	$ 649
Interest cost	4,733	4,246	3,930	477	548	725
Expected return on assets	(5,825)	(4,890)	(4,236)	—	—	—
Amortization of transition obligation	—	—	7	—	—	—
Amortization of prior service cost	(89)	(89)	(89)	39	39	32
Amortization of actuarial (gain) loss	2,277	1,733	601	(124)	(77)	5
Net periodic benefit cost	$ 5,206	$ 3,978	$ 2,756	$ 709	$ 820	$ 1,411
Weighted average assumptions used to determine net periodic benefit cost						
Discount rate	6.00%	6.75%	7.25%	6.00%	6.75%	7.25%
Expected return on plan assets	8.75%	8.75%	9.25%	—	—	—
Rate of compensation increase	4.00%	4.00%	4.00%	—	—	—
Health care trends on covered charges	—	—	—	7.67%*	9.00%*	10.33%*

* Ultimate trend rate is 5.00% beginning 2006 and thereafter.

The Company’s unfunded defined benefit health care plan, which provides limited postretirement medical benefits, limits cost increases in the Company’s contribution to 4% per year. For measurement purposes, the assumed health care cost trend rate was 7.7% for 2004, declining gradually to 5% by 2006 and remaining at that level thereafter. Accordingly, a 1% increase in the health care cost trend rate assumption would have an immaterial effect on the amounts reported.

Pension benefit payments are made from assets of the pension plan. The estimated future benefit payments for the next ten years were as follows (in thousands):

2005	$ 2,555
2006	2,790
2007	3,141
2008	3,437
2009	3,654
Next five years	23,288

(9) Retirement Plans — (Continued)

Benefit payments for postretirement benefits other than pensions are made from the assets of the Company. The estimated future net benefit payments, including estimated future government subsidy receipts, for the next ten years were as follows (in thousands):

2005	$ 639
2006	611
2007	587
2008	549
2009	533
Next five years	3,031

In addition to the defined benefit plan and postretirement medical benefit plan, the Company sponsors defined contribution plans for all shore-based employees and certain vessel personnel. Maximum contributions to these plans equal the lesser of 15% of the aggregate compensation paid to all participating employees or up to 20% of each subsidiary's earnings before federal income tax after certain adjustments for each fiscal year. The aggregate contributions to the plans were $8,086,000, $6,878,000, and $6,861,000 in 2004, 2003 and 2002, respectively.

(10) Earnings Per Share of Common Stock

The following table presents the components of basic and diluted earnings per share for the years ended December 31, 2004, 2003 and 2002 (in thousands, except per share amounts):

	2004	2003	2002
Net earnings	$ 49,544	$ 40,918	$ 27,446
Shares outstanding:			
Weighted average common stock outstanding	24,505	24,153	24,061
Effect of dilutive securities:			
Employee and director common stock options	652	353	333
	25,157	24,506	24,394
Basic earnings per share of common stock	$ 2.02	$ 1.69	$ 1.14
Diluted earnings per share of common stock	$ 1.97	$ 1.67	$ 1.13

Certain outstanding options to purchase approximately 32,000 and 392,000 shares of common stock were excluded in the computation of diluted earnings per share as of December 31, 2003 and 2002, respectively, as such stock options would have been antidilutive. No shares were excluded in the computation of diluted earnings per share as of December 31, 2004.

(11) Quarterly Results (Unaudited)

The unaudited quarterly results for the year ended December 31, 2004 were as follows (in thousands, except per share amounts):

	Three Months Ended			
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004
Revenues	$ 157,315	$ 170,876	$ 173,389	$ 173,739
Costs and expenses	139,941	145,611	147,434	148,975
Loss on disposition of assets	(2)	(196)	(43)	(58)
Operating income	17,372	25,069	25,912	24,706
Equity in earnings (loss) of marine affiliates	822	494	(782)	468
Other expense	(91)	(55)	(144)	(57)
Minority interests	(180)	4	(271)	(95)
Interest expense	(3,374)	(3,290)	(3,344)	(3,255)
Earnings before taxes on income	14,549	22,222	21,371	21,767
Provision for taxes on income	(5,529)	(8,444)	(8,121)	(8,271)
Net earnings	$ 9,020	$ 13,778	$ 13,250	$ 13,496
Net earnings per share of common stock:				
Basic	$ .37	$ .56	$ .54	$ .55
Diluted	$ .36	$ .55	$ .53	$ .53

(11) Quarterly Results (Unaudited) — (Continued)

The unaudited quarterly results for the year ended December 31, 2003 were as follows (in thousands, except per share amounts):

	Three Months Ended			
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003
Revenues	$ 148,200	$ 158,739	$ 154,507	$ 152,028
Costs and expenses	133,695	136,283	133,623	131,060
Gain (loss) on disposition of assets	(7)	(126)	71	(37)
Operating income	14,498	22,330	20,955	20,931
Equity in earnings of marine affiliates	436	751	1,022	723
Other income (expense)	(9)	(41)	34	(103)
Minority interests	(394)	(158)	(168)	(182)
Interest expense	(3,454)	(3,867)	(3,761)	(3,546)
Earnings before taxes on income	11,077	19,015	18,082	17,823
Provision for taxes on income	(4,209)	(7,226)	(6,871)	(6,773)
Net earnings	$ 6,868	$ 11,789	$ 11,211	$ 11,050
Net earnings per share of common stock:				
Basic	$ .29	$ .49	$ .46	$ .46
Diluted	$ .28	$ .48	$ .46	$ .45

Quarterly basic and diluted earnings per share of common stock may not total to the full year per share amounts, as the weighted average number of shares outstanding for each quarter fluctuates as a result of the assumed exercise of stock options.

(12) Contingencies and Commitments

In 2000, the Company and a group of approximately 45 other companies were notified that they are Potentially Responsible Parties ("PRPs") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") with respect to a Superfund site, the Palmer Barge Line Site ("Palmer"), located in Port Arthur, Texas. In prior years, Palmer had provided tank barge cleaning services to various subsidiaries of the Company. The Company and three other PRPs have entered into an agreement with the United States Environmental Protection Agency ("EPA") to perform a remedial investigation and feasibility study. Based on information currently available, the Company is unable to ascertain the extent of its exposure, if any, in this matter.

In 2003, the Company and certain subsidiaries received a Request For Information ("RFI") from the EPA under CERCLA with respect to a Superfund site, the Gulfco site, located in Freeport, Texas. In prior years, a company unrelated to Gulfco operated at the site and provided tank barge cleaning services to various subsidiaries of the Company. An RFI is not a determination that a party is responsible or potentially responsible for contamination at a site, but is only a request seeking any information a party may have with respect to a site as part of an EPA investigation into such site. In addition, in 2004, the Company and certain subsidiaries received an RFI from the EPA under CERCLA with respect to a Superfund site, the State Marine site, located in Port Arthur, Texas. Based on information currently available, the Company is unable to ascertain the extent of its exposure, if any, in these matters.

(12) Contingencies and Commitments — (Continued)

In addition, the Company is involved in various legal and other proceedings which are incidental to the conduct of its business, none of which in the opinion of management will have a material effect on the Company's financial condition, results of operations or cash flows. Management believes that it has recorded adequate reserves and believes that it has adequate insurance coverage or has meritorious defenses for these other claims and contingencies.

Certain Significant Risks and Uncertainties. The Company's marine transportation segment is engaged in the inland marine transportation of petrochemicals, black oil products, refined petroleum products and agricultural chemicals by tank barge along the Mississippi River System, Gulf Intracoastal Waterway and Houston Ship Channel. In addition, the segment, through a partnership in which the Company owns a 35% interest, is engaged in the offshore marine transportation of dry-bulk cargo by barge. Such products are transported between United States ports, with an emphasis on the Gulf of Mexico, with occasional voyages to Caribbean Basin ports.

The Company's diesel engine services segment is engaged in the overhaul and repair of large medium-speed and high-speed diesel engines and related parts sales in the marine, power generation and railroad markets. The marine market serves vessels powered by large diesel engines utilized in the various inland and offshore marine industries. The power generation market serves users of diesel engines that provide standby, peak and base load power generation, users of industrial gears such as cement, paper and mining industries, and provides parts for the nuclear industry. The railroad market provides parts and service for diesel-electric locomotives used by shortline, industrial, Class II and certain transit railroads.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. However, in the opinion of management, the amounts would be immaterial.

The customer base includes the major industrial petrochemical and chemical manufacturers, agricultural chemical manufacturers and refining companies in the United States. Approximately 70% of the movements of such products are under long-term contracts, ranging from one year to five years, with renewal options. While the manufacturing and refining companies have generally been customers of the Company for numerous years (some as long as 30 years) and management anticipates a continuing relationship, there is no assurance that any individual contract will be renewed. Dow accounted for 12% of the Company's revenues in 2004, 14% in 2003 and 13% in 2002. SeaRiver accounted for 12% of the Company's revenues in 2004 and 2003.

Major customers of the diesel engine services segment include the inland and offshore barge operators, oil service companies, petrochemical companies, offshore fishing companies, other marine transportation entities, the USCG and United States Navy, shortline railroads, industrial owners of locomotives, transit railroads and Class II railroads, and power generation, nuclear and industrial companies. The segment operates as an authorized distributor in 17 eastern states and the Caribbean, and as non-exclusive authorized service centers for Electro-Motive Division of General Motors ("EMD") throughout the rest of the United States for marine and power generation applications. The railroad portion of the segment serves as the exclusive distributorship of EMD aftermarket parts sales and services to the shortline and industrial railroad market. The Company also serves as the exclusive distributor of EMD parts to the nuclear industry. The results of the diesel engine services segment are largely tied to the industries it serves and, therefore, can be influenced by the cycles of such industries. The diesel engine services segment's relationship with EMD has been maintained for 39 years. No single customer of the diesel engine services segment accounted for more than 10% of the Company's revenues in 2004, 2003 and 2002.

(12) Contingencies and Commitments — (Continued)

Weather can be a major factor in the day-to-day operations of the marine transportation segment. Adverse weather conditions, such as high water, low water, tropical storms, hurricanes, fog and ice, can impair the operating efficiencies of the fleet. Shipments of products can be significantly delayed or postponed by weather conditions, which are totally beyond the control of management. River conditions are also factors which impair the efficiency of the fleet and can result in delays, diversions and limitations on night passages, and dictate horsepower requirements and size of tows. Additionally, much of the inland waterway system is controlled by a series of locks and dams designed to provide flood control, maintain pool levels of water in certain areas of the country and facilitate navigation on the inland river system. Maintenance and operation of the navigable inland waterway infrastructure is a government function handled by the Army Corps of Engineers with costs shared by industry. Significant changes in governmental policies or appropriations with respect to maintenance and operation of the infrastructure could adversely affect the Company.

The Company’s marine transportation segment is subject to regulation by the USCG, federal laws, state laws and certain international conventions. The Company believes that additional safety, environmental and occupational health regulations may be imposed on the marine industry. There can be no assurance that any such new regulations or requirements, or any discharge of pollutants by the Company, will not have an adverse effect on the Company.

The Company’s marine transportation segment competes principally in markets subject to the Jones Act, a federal cabotage law that restricts domestic marine transportation in the United States to vessels built and registered in the United States, and manned and owned by United States citizens. During the past several years, the Jones Act cabotage provisions have come under attack by interests seeking to facilitate foreign flag competition in trades reserved for domestic companies and vessels under the Jones Act. The efforts have been consistently defeated by large margins in the United States Congress. The Company believes that continued efforts will be made to modify or eliminate the cabotage provisions of the Jones Act. If such efforts are successful, certain elements could have an adverse effect on the Company.

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 197 and a rescission of FASB Interpretation No. 34.” This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The Company adopted the recognition provision of the Interpretation effective January 1, 2003 for guarantees issued or modified after December 31, 2002. The adoption of the Interpretation did not have a material effect on the Company’s financial position or results of operations.

The Company has issued guaranties or obtained stand-by letters of credit and performance bonds supporting performance by the Company and its subsidiaries of contractual or contingent legal obligations of the Company and its subsidiaries incurred in the ordinary course of business. The aggregate notional value of these instruments is $9,320,000 at December 31, 2004, including $8,400,000 in letters of credit and $920,000 in performance bonds, of which $683,000 of these financial instruments relates to contingent legal obligations which are covered by the Company’s liability insurance program in the event the obligations are incurred. All of these instruments have an expiration date within five years. The Company does not believe demand for payment under these instruments is likely and expects no material cash outlays to occur in connection with these instruments.

(13) Segment Data

The Company's operations are classified into two reportable business segments as follows:

Marine Transportation — Marine transportation by United States flag vessels on the United States inland waterway system. The principal products transported on the United States inland waterway system include petrochemicals, black oil products, refined petroleum products and agricultural chemicals.

Diesel Engine Services — Overhaul and repair of large medium-speed and high-speed diesel engines, reduction gear repair, and sale of related parts and accessories for customers in the marine, power generation and railroad industries.

The Company's two reportable business segments are managed separately based on fundamental differences in their operations. The Company's accounting policies for the business segments are the same as those described in Note 1, Summary of Significant Accounting Policies. The Company evaluates the performance of its segments based on the contributions to operating income of the respective segments, and before income taxes, interest, gains or losses on disposition of assets, other nonoperating income, minority interests, accounting changes, and nonrecurring items. Intersegment sales for 2004, 2003 and 2002 were not significant.

(13) Segment Data — (Continued)

The following table sets forth by reportable segment the revenues, profit or loss, total assets, depreciation and amortization, and capital expenditures attributable to the principal activities of the Company for the years ended December 31, 2004, 2003 and 2002 (in thousands):

	2004	2003	2002
Revenues:			
Marine transportation	$ 588,828	$ 530,411	$ 450,280
Diesel engine services	86,491	83,063	85,123
	$ 675,319	$ 613,474	$ 535,403
Segment profit (loss):			
Marine transportation	$ 92,535	$ 77,274	$ 74,595
Diesel engine services	8,388	7,890	8,841
Other	(21,014)	(19,167)	(37,943)
	$ 79,909	$ 65,997	$ 45,493
Total assets:			
Marine transportation	$ 834,157	$ 779,121	$ 726,353
Diesel engine services	47,158	40,152	45,531
Other	23,360	35,688	19,874
	$ 904,675	$ 854,961	$ 791,758
Depreciation and amortization:			
Marine transportation	$ 52,076	$ 50,442	$ 42,332
Diesel engine services	1,163	1,045	940
Other	1,881	1,841	2,235
	$ 55,120	$ 53,328	$ 45,507
Capital expenditures:			
Marine transportation	$ 91,069	$ 69,713	$ 44,141
Diesel engine services	1,110	479	2,040
Other	1,425	2,164	1,528
	$ 93,604	$ 72,356	$ 47,709

(13) Segment Data — (Continued)

The following table presents the details of “Other” segment profit (loss) for the years ended December 31, 2004, 2003 and 2002 (in thousands):

	2004	2003	2002
General corporate expenses	$ (7,565)	$ (6,351)	$ (5,677)
Interest expense	(13,263)	(14,628)	(13,540)
Equity in earnings of affiliates	1,002	2,932	700
Impairment of equity investment	—	—	(1,221)
Gain (loss) on disposition of assets	(299)	(99)	624
Minority interests	(542)	(902)	(962)
Impairment of long-lived assets	—	—	(17,712)
Other expense	(347)	(119)	(155)
	$ (21,014)	$ (19,167)	$ (37,943)

The following table presents the details of “Other” total assets as of December 31, 2004, 2003 and 2002 (in thousands):

	2004	2003	2002
General corporate assets	$ 11,155	$ 26,526	$ 9,636
Investments in affiliates	12,205	9,162	10,238
	$ 23,360	$ 35,688	$ 19,874

The $17,712,000 charges for impairment of long-lived assets in 2002, consisted of $17,241,000 related to assets in the marine transportation segment and $471,000 related to assets in the diesel engine services segment.

(14) Related Party Transactions

During 2004, the Company and its subsidiaries paid Knollwood, L.L.C. (“Knollwood”), a company owned by C. Berdon Lawrence, the Chairman of the Board of the Company, $180,000 for air transportation services provided by Knollwood. Such services were in the ordinary course of business of the Company.

The Company is a 50% member of The Hollywood Camp, L.L.C. (“Hollywood Camp”), a company that owns and operates a hunting facility used by the Company and Knollwood, which is also a 50% member. The Company uses Hollywood Camp primarily for customer entertainment. Knollwood acts as manager of Hollywood Camp. Hollywood Camp leases hunting rights to land owned by Mr. Lawrence and other unaffiliated parties and allocates lease and lodging expenses to the owners based on their usage of the facilities. During 2004, the Company was billed $1,161,000 by Hollywood Camp for its share of facility expenses.

Walter E. Johnson, a director of the Company, is a 25% limited partner in a limited partnership that owns one barge operated by a subsidiary of the Company, which owns the other 75% interest in the partnership. The partnership was entered into on October 1, 1974. In 2004, Mr. Johnson received $42,500 in proportionate distributions from the partnership, made in the ordinary course of business.

Mr. Johnson is Chairman of Amegy Bank of Texas (“Amegy Bank”), formerly Southwest Bank of Texas, N.A. Amegy Bank has a 5.7% participation in the Company’s Revolving Credit Facility. As of December 31, 2004, the outstanding balance of the Revolving Credit Facility was $15,000,000, of which Amegy Bank’s participation was $850,000. Amegy Bank is one of 12 lenders under the Revolving Credit Facility, which was consummated in the ordinary course of business of the Company.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

1. *Financial Statements*

Included in Part III of this report:

Report of Independent Registered Public Accounting Firm.

Report of Independent Registered Public Accounting Firm.

Consolidated Balance Sheets, December 31, 2004 and 2003.

Consolidated Statements of Earnings, for the years ended December 31, 2004, 2003 and 2002.

Consolidated Statements of Stockholders' Equity, for the years ended December 31, 2004, 2003 and 2002.

Consolidated Statements of Cash Flows, for the years ended December 31, 2004, 2003 and 2002.

Notes to Consolidated Financial Statements, for the years ended December 31, 2004, 2003 and 2002.

2. *Financial Statement Schedules*

All schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.

3. *Exhibits*

Exhibit Number		Description of Exhibit
3.1	—	Restated Articles of Incorporation of Kirby Exploration Company, Inc. (the "Company"), as amended (incorporated by reference to Exhibit 3.1 of the Registrant's 1989 Registration Statement on Form S-3 (Reg. No. 33-30832)).
3.2	—	Certificate of Amendment of Restated Articles of Incorporation of the Company filed with the Secretary of State of Nevada April 30, 1990 (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990).
3.3	—	Bylaws of the Company, as amended (incorporated by reference to Exhibit 2 of the Registrant's July 20, 2000 Registration Statement on Form 8A (Reg. No. 01-07615)).
4.1	—	Indenture, dated as of December 2, 1994, between the Company and Texas Commerce Bank National Association, Trustee, (incorporated by reference to Exhibit 4.3 of the Registrant's 1994 Registration Statement on Form S-3 (Reg. No. 33-56195)).
4.2	—	Rights Agreement, dated as of July 18, 2000, between Kirby Corporation and Fleet National Bank, a national bank association, which includes the Form of Resolutions Establishing Designations, Preference and Rights of Series A Junior Participating Preferred Stock of Kirby Corporation, the form of Rights Certificate and the Summary of Rights (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated July 18, 2000).
4.3	—	Master Note Purchase Agreement dated as of February 15, 2003 among the Company and the Purchasers named therein, (incorporated by reference to Exhibit 4.3 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
10.1	—	Indemnification Agreement, dated April 29, 1986, between the Company and each of its Directors and certain key employees (incorporated by reference to Exhibit 10.11 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1986).
10.2†	—	1989 Employee Stock Option Plan for the Company, as amended (incorporated by reference to Exhibit 10.11 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1989).

Exhibit Number		Description of Exhibit
10.3†	—	1989 Director Stock Option Plan for the Company, as amended (incorporated by reference to Exhibit 10.12 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1989).
10.4†	—	Deferred Compensation Agreement dated August 12, 1985 between Dixie Carriers, Inc., and J. H. Pyne (incorporated by reference to Exhibit 10.19 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1992).
10.5†	—	1994 Employee Stock Option Plan for Kirby Corporation (incorporated by reference to Exhibit 10.21 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1993).
10.6†	—	1994 Nonemployee Director Stock Option Plan for Kirby Corporation (incorporated by reference to Exhibit 10.22 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1993).
10.7†	—	1993 Stock Option Plan of Kirby Corporation for Robert G. Stone, Jr. (incorporated by reference to Exhibit 10.23 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1993).
10.8†	—	Amendment to 1989 Director Stock Option Plan for Kirby Exploration Company, Inc. (incorporated by reference to Exhibit 10.24 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1993).
10.9	—	Distribution Agreement, dated December 2, 1994, by and among Kirby Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Salomon Brothers Inc, and Wertheim Schroder & Co. Incorporated (incorporated by reference to Exhibit 1.1 of the Registrant’s Current Report on Form 8-K dated December 9, 1994).
10.10†	—	1996 Employee Stock Option Plan for Kirby Corporation (incorporated by reference to Exhibit 10.24 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1996).
10.11†	—	Amendment No. 1 to the 1994 Employee Stock Option Plan for Kirby Corporation (incorporated by reference to Exhibit 10.25 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1996).
10.12	—	Credit Agreement, dated September 19, 1997, among Kirby Corporation, the Banks named therein, and Texas Commerce Bank National Association as Agent and Funds Administrator (incorporated by reference to Exhibit 10.0 of the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).
10.13	—	First Amendment to Credit Agreement, dated January 30, 1998, among Kirby Corporation, the Banks named therein, and Chase Bank of Texas, N.A. as Agent and Funds Administrator (incorporated by reference to Exhibit B2 of the Registrant’s Tender Offer Statement on Schedule 13E-4 filed with the Securities and Exchange Commission on February 17, 1998).
10.14	—	Second Amendment to Credit Agreement, dated November 30, 1998, among Kirby Corporation, the Banks named therein, and Chase Bank of Texas, N.A. as Agent and Funds Administrator (incorporated by reference to Exhibit 10.22 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1998).
10.15†	—	2001 Employee Stock Option Plan for Kirby Corporation (incorporated by reference to Exhibit 10.23 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2000).
10.16†	—	Third Amendment to Credit Agreement, dated November 5, 2001, among Kirby Corporation, the Banks named therein, and The Chase Manhattan Bank as Agent and Funds Administrator (incorporated by reference to Exhibit 10.1 of the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
10.17†	—	Nonemployee Director Compensation Program, (incorporated by reference to Exhibit 10.20 of Registrant’s Annual Report on Form 10-K for the year ended December 31, 2002).
10.18†	—	2000 Nonemployee Director Stock Option Plan (incorporated by reference to Exhibit 10.27 of the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2001).

Exhibit Number		Description of Exhibit
10.19†	—	2002 Stock and Incentive Plan (incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form S-8 filed on October 28, 2002).
10.20	—	Fifth Amendment to Credit Agreement, dated December 9, 2003, among Kirby Corporation, the Banks named therein, and JPMorgan Chase Bank as Agent and Funds Administrator, (incorporated by reference to Exhibit 10.20 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
10.21*†	—	Annual Incentive Plan Guidelines.
21.1*	—	Principal Subsidiaries of the Registrant.
23.1*	—	Independent Registered Public Accountants' Consent.
31.1*	—	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2*	—	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
32*	—	Certification Pursuant to 13 U.S.C. Section 1350 (As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

* Filed herewith

† Management contract, compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KIRBY CORPORATION
(REGISTRANT)

By: /s/ NORMAN W. NOLEN

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

Dated: March 4, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ C. BERDON LAWRENCE C. Berdon Lawrence	Chairman of the Board and Director of the Company	March 4, 2005
/s/ JOSEPH H. PYNE Joseph H. Pyne	President, Director of the Company and Principal Executive Officer	March 4, 2005
/s/ NORMAN W. NOLEN Norman W. Nolen	Executive Vice President, Treasurer, Assistant Secretary of the Company and Principal Financial Officer	March 4, 2005
/s/ RONALD A. DRAGG Ronald A. Dragg	Controller of the Company	March 4, 2005
/s/ C. SEAN DAY C. Sean Day	Director of the Company	March 4, 2005
/s/ BOB G. GOWER Bob G. Gower	Director of the Company	March 4, 2005
/s/ WALTER E. JOHNSON Walter E. Johnson	Director of the Company	March 4, 2005
/s/ WILLIAM M. LAMONT, JR. William M. Lamont, Jr.	Director of the Company	March 4, 2005
/s/ GEORGE A. PETERKIN, JR. George A. Peterkin, Jr.	Director of the Company	March 4, 2005
/s/ ROBERT G. STONE, JR. Robert G. Stone, Jr.	Director of the Company	March 4, 2005
/s/ RICHARD C. WEBB Richard C. Webb	Director of the Company	March 4, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Exhibits

to

Form 10-K

For the fiscal year ended December 31, 2004

Kirby Corporation

Volume I

EXHIBIT INDEX

Exhibit Number		Description of Exhibit
10.21*†	—	Annual Incentive Plan Guidelines.
21.1*	—	Principal Subsidiaries of the Registrant.
23.1*	—	Independent Registered Public Accountants' Consent.
31.1*	—	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2*	—	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
32*	—	Certification Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

† Management contract, compensatory plan or arrangement.

Exhibit 10.21

ANNUAL INCENTIVE PLAN

Guidelines

KIRBY CORPORATION

As Amended Through March 2, 2005

TABLE OF CONTENTS

Introduction

Kirby Corporation established its Annual Incentive Plan to focus employees on identifying and achieving business strategies that will grow the business and lead to an increase in shareholder value. The Annual Incentive Plan is also intended to reward superior performance by employees, for their contributions toward achieving Kirby's objectives. This program may be offered, in whole or in part, to wholly owned subsidiaries of the Company, at the Company's discretion.

Certain aspects of this Bonus Plan are complex. Although these guidelines establish rules for Plan operation, those rules may not work in all cases. Therefore, the Compensation Committee of the Kirby Board of Directors shall have the discretionary authority to interpret, and if determined appropriate, deviate from the Guide to insure that the awards are consistent with the Plan's purposes and the Company's interests. All decisions by the Compensation Committee shall be final and binding.

This Plan, or any part thereof, may be amended, modified, or terminated at any time, without prior notice, by the Board of Directors or the Compensation Committee of the Company.

This Plan supercedes all prior annual incentive bonus plans or programs maintained by the Company.

The Annual Incentive Plan

The Annual Incentive Plan is an award for total Company performance, and for the performance of our three Business Groups; Kirby Inland Marine, Kirby Engine Systems and Dixie Offshore Transportation. Awards are 75% formula-driven and 25% driven by individual performance, and are based on achieving Company, Business Group and individual performance objectives.

Performance Measurement Period

Performance is measured on a calendar year basis for the Annual Incentive Plan. The Performance Period begins on January 1 and ends on December 31.

Eligibility

- Generally, shore staff managerial employees in salary grades 15 and above, and all Wheelhouse employees (Captains, Relief Captains and Pilots), will be eligible for consideration to be participants. Selection for participation in the Plan will be based upon each position's ability to impact long-term financial results of the Company. Consequently, all employees in positions at salary grades 15 and above might not be included in the Plan, and employees in positions below salary grade 15 might be included.

- In order to be eligible to receive an award participants must be employed on the last day of the Performance Period, and on the date bonuses are actually paid for the respective Performance Period, unless their earlier termination is due to death, normal retirement[1] or disability[1].

- It should also be noted that participation in the Bonus Plan in one year does not guarantee participation in future years. Participants in the Plan will be notified annually of their selection for participation.

1 Normal retirement or disability as defined for shore based employees in the Company's Profit Sharing Plan, and as defined for wheelhouse employees in the Vessel Pension Plan

Plan Objectives

The Annual Incentive Plan has five key objectives:

- Provide an annual incentive plan that drives performance toward objectives critical to creating shareholder value.

- Offer competitive cash compensation opportunities to key Kirby employees.

- Reward outstanding achievement among employees who can directly affect Kirby’s results.

- Assist Kirby in attracting and retaining high quality employees.

- Reflect both quantitative and qualitative performance factors in actual bonus payouts.

Performance Measures

The performance measures for the Annual Incentive Plan are:

- EBITDA
- Return on Total Capital
- Earnings per share

Annual performance targets will be established for each measure based on Kirby’s projected budget, and individual bonus payments will be based on a combination of Company performance and individual performance.

Participants will receive 75% of their award based on Company performance in achieving the three performance measures, with the remaining 25% based on an assessment of individual performance for the year.

Each of the performance measures will have equal weight in calculating the bonus payout.

Corporate & Business Group Weighting

The Annual Incentive Plan bonus is calculated at the end of the year based on the performance of Kirby and the performance of our three Business Groups, Kirby Inland Marine, Kirby Engine Systems and Dixie Offshore Transportation, relative to objectives established at the beginning of the year.

The award for Business Group employees will be primarily tied to Business Group performance, with a defined portion tied to Company performance.

The award for Corporate employees will be tied entirely to total Kirby performance.

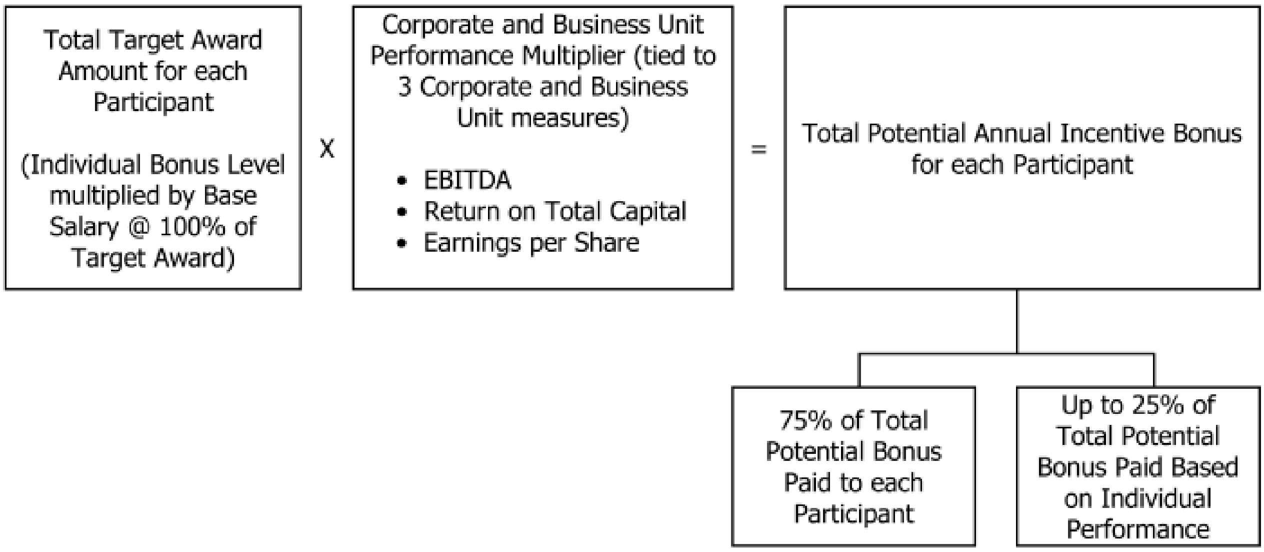
Annual Incentive Plan Calculation

	Incentive Bonus Calculation %	
	Kirby (Company)	**Business Group**
All Corporate Employees	100%	0%
Business Group Employees (Inland, Engine Systems and Offshore)	30%	70%
Inland & Engine Systems Presidents	50%	50%

Individual Bonus Targets

Each participant will be assigned a bonus level which is based on competitive market practices, as well as the employee’s ability to impact long-term Company performance. Market practices will be determined using data from either general industry, the marine transportation industry, or the diesel repair industry, depending upon the individual position being considered. It is the Company’s intent that salary plus target annual bonus be positioned to provide a competitive market opportunity for target performance.

Annual Incentive Plan Concept



Performance Measures and Weighting

Measure	Weight
n EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	33-1/3 %
n Return on Total Capital (Earnings before interest and taxes divided by average shareholders equity plus long-term debt)	33-1/3 %
n Earnings per Share	33-1/3 %
	100%

Performance Standards & Award Opportunities

Performance Level	Definition	Relationship to Budget	% of Target Earned
Threshold	Minimal acceptable performance for payout	80% of Budget	50%
Target	Expected performance at a stretch level	100% of Budget	100%
Maximum	Outstanding performance	120% of Budget	200%

Performance must be at least to Threshold to earn a bonus payment. To determine the percent of the target bonus earned for percentages of budget not shown in the table, interpolate linearly between the next lower and higher percentages of budget shown.

Example Award Calculation

Performance Objectives	Performance Standards: Below Threshold	Threshold	Target	Maximum	Example Calculation: Assumed Actual Results (% Budget Achieved)	Percent of Target Award Earned	Objective Weight	Weighted Percent of Target Award Earned
Percent of Target Award Earned:	0%	50%	100%	200%				
EBITDA(% Budget Achieved)	< 80%	80%	100%	120%	90%	75%	33-1/3%	25%
Return on Total Capital (% Budget Achieved)	< 80%	80%	100%	120%	110%	150%	33-1/3%	50%
Earnings per Share (% Budget Achieved)	< 80%	80%	100%	120%	100%	100%	33-1/3%	33.3%
							Total Percent of Target Awards Earned for Bonus Pool:	**108.3%**

n As shown in the exhibit, actual performance on each objective results in a corresponding percent of target award earned.

n The percents of target award earned for each objective are then multiplied by the weight for the objective, producing a weighted percent of target award earned for each objective.

n The weighted percents of target award earned for all objectives are summed to produce a total percent of target awards earned. This factor, when multiplied by the target bonus for a plan participant, equals 100% of the potential bonus for the participant for the year.

n 75% of the potential bonus is paid to each participant.

n Up to 25% of the potential bonus is awarded to each participant based on individual performance.

Administration

Award Payout

A participant's Final Award is paid out in cash within 90 days following the end of the Company's fiscal year, based on audited financials.

Eligibility Limitation

Unless otherwise provided for as a special circumstance (below), selected participants must be employed by the Company on the last day of the Performance Period, and on the date bonuses are actually paid for the respective Performance Period, in order to be eligible to receive a bonus award.

Special Circumstances

Listed below are guidelines addressing termination and other events. The Committee will have the sole authority to resolve disputes related to Plan administration. Decisions made by the Committee will be final and binding on all participants.

New Employees. New employees hired after the beginning of a Performance Period who are selected for participation in the Plan, will receive prorated awards for the then current Performance Period, subject to the Termination of Employment restrictions.

Termination of Employment. If employment terminates before the end of the full Performance Period, or before the date bonuses are actually paid for the respective Performance Period, as a result of death, normal retirement[3], or disability[3], the participant (or the participant's heirs) will be entitled to receive a prorated award at the end of the Performance Period, based upon base wages earned while employed during the Performance Period.

If employment terminates prior to the last day of the applicable Performance Period, or prior to the date bonuses are actually paid for the respective Performance Period, for any reason other then death, normal retirement[3], or disability[3], the participant will be ineligible to receive an award.

---

[3] Normal retirement or disability as defined for shore based employees in the Company's Profit Sharing Plan, and as defined for wheelhouse employees in the Vessel Pension Plan.

Transfer. A participant who is transferred between business units of the Company will be entitled to receive a weighted award based upon the time spent at each of the units. The weighted award is calculated by adding (1) the participant's prorated award for time spent at the first business unit, to (2) the participant's prorated award for time spent at the second business unit[4].

Promotions. A participant who is promoted or reassigned during any Performance Period, and whose bonus target is subsequently increased or decreased, will be eligible to receive a weighted award. The award is calculated by adding (1) the prorated award for service before the promotion or reassignment, to (2) the prorated award for service after the promotion or reassignment[4].

Compensation Committee

The Compensation Committee has the responsibility for the overall governance and administration of the Plan. In fulfilling its duties, the Committee will be responsible for interpreting the Plan and will rely on these guidelines in making all determinations that are necessary or advisable for administration of the Plan.

In administering the Plan the Committee will, on an annual basis:

- Approve the designation of Business Groups within the Company
- Approve the Performance Measures and the Threshold, Target and Maximum budget performance levels
- Approve linkage for participants to Company and Business Group performance
- Approve the Bonus Levels for all participants whose salaries are at or above $100,000
- Approve the discretionary portion of the bonus for Section 16 officers (as that term is defined in Rule 16a-1(f) under the Securities and Exchange Act of 1934).

President & CEO

The CEO will have primary responsibility for recommending Plan guidelines to the Committee, and for carrying out the administrative duties associated with annual award calculations. The CEO will determine the discretionary portion of the bonus for all participants except Section 16 officers and will report his determinations to the Committee. In addition, the Compensation Committee may delegate additional administrative duties to the CEO or any Company officer.

---

[4] Company and Business Group performance factors are calculated using performance for the entire Performance Period.

CFO

The CFO will be responsible for calculating performance under the Plan and recommending adjustments to the performance objectives. In this capacity, the CFO will:

- Provide annual reports to the Compensation Committee and the CEO on each Business Group's performance at the end of the Company's fiscal year
- Maintain a financial information system that reports results on an estimated quarterly and annual basis
- Coordinate with the Company's auditors to properly recognize any accounting expense associated with awards under the Plan
- Provide the VP of Human Resources with the performance results of each Business Group as well as overall Company performance
- Calculate new Threshold, Target and Maximum performance objectives as required by the Plan

VP of Human Resources

The VP of Human Resources will have primary responsibility for the day-to-day administration of the Plan. In this capacity, the VP of Human Resources will:

- Develop and recommend Target Award Guidelines and eligible participants for each new Performance Period to the CEO for approval
- Coordinate communications with participants, including materials to facilitate understanding the Plan's objectives and goals
- Provide quarterly performance updates to Plan participants
- Calculate participants' awards, using the performance factors provided by the CFO
- Process paperwork approving individual award payments

Business Group Presidents and Vice Presidents

Business Group Presidents and Vice Presidents will:

- Recommend participants for each Performance Period
- Coordinate with the CFO to determine any significant changes in business conditions for purposes of reviewing the Threshold, Target and Maximum performance objectives
- Insure that participants are informed of the actual award earned for each Performance Period

EXHIBIT 21.1

KIRBY CORPORATION

PRINCIPAL SUBSIDIARIES OF THE REGISTRANT

	Domicile of Incorporation
KIRBY CORPORATION — PARENT AND REGISTRANT	Nevada
SUBSIDIARIES OF THE PARENT AND REGISTRANT	
Kirby Corporate Services, LLC	Delaware
KIM Holdings, Inc.(1)	Delaware
Kirby Terminals, Inc.(1)	Texas
Sabine Transportation Company(1)	Delaware
AFRAM Carriers, Inc.(1)	Delaware
Kirby Engine Systems, Inc.(1)	Delaware
Kirby Tankships, Inc.(1)	Delaware
Dixie Offshore Transportation Company(1)	Delaware
Mariner Reinsurance Company Limited	Bermuda
CONTROLLED CORPORATIONS	
KIM Partners, LLC (Subsidiary of KIM Holdings, Inc.)(1)	Louisiana
Kirby Inland Marine, LP (KIM Holdings, Inc. 1% General Partner, KIM Partners, LLC 99% Limited Partner)(1)	Delaware
Dixie Carriers, Inc. (subsidiary of Kirby Inland Marine, LP)(1)	Texas
Marine Systems, Inc. (subsidiary of Kirby Engine Systems, Inc.)(1)	Louisiana
Rail Systems, Inc. (subsidiary of Kirby Engine Systems, Inc.)(1)	Delaware
Engine Systems, Inc. (subsidiary of Kirby Engine Systems, Inc.)(1)	Delaware

(1) Included in the consolidated financial statements.

EXHIBIT 23.1

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS' CONSENT

We consent to the incorporation by reference in the registration statement (No. 33-56195) on Form S-3, and the registration statement (No. 33-68140), (No. 33-57621), (No. 33-57625), (No. 333-33913), (No. 333-72592) and (No. 333-100765) on Form S-8 of Kirby Corporation of our reports which appear in the December 31, 2004 annual report on Form 10-K of Kirby Corporation:

- Dated March 4, 2005, with respect to the consolidated balance sheets of Kirby Corporation as of December 31, 2004 and 2003, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2004, and
- Dated March 4, 2005, with respect to management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 and the effectiveness of internal control over financial reporting as of December 31, 2004.

KPMG LLP

Houston, Texas
March 4, 2005

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the filing of the Annual Report on Form 10-K for the year ended December 31, 2004 by Kirby Corporation, Joseph H. Pyne, President and Chief Executive Officer, certifies that:

1. I have reviewed this annual report on Form 10-K of Kirby Corporation (the "Company");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

d) Disclosed in this annual report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ JOSEPH H. PYNE

Joseph H. Pyne
President and Chief Executive Officer

Dated: March 4, 2005

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the filing of the Annual Report on Form 10-K for the annual ended December 31, 2004 by Kirby Corporation, Norman W. Nolen, Executive Vice President, Treasurer and Chief Financial Officer, certifies that:

1. I have reviewed this annual report on Form 10-K of Kirby Corporation (the "Company");

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;

4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and

d) Disclosed in this annual report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls over financial reporting.

/s/ NORMAN W. NOLEN

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

Dated: March 4, 2005

EXHIBIT 32

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

In connection with the filing of the Annual Report on Form 10-K for the annual ended December 31, 2004 (the "Report") by Kirby Corporation (the "Company"), each of the undersigned hereby certifies that:

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

/s/ JOSEPH H. PYNE

Joseph H. Pyne
President and Chief Executive Officer

/s/ NORMAN W. NOLEN

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

Dated: March 4, 2005