

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarter ended September 30, 2003

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

Commission File Number 1-7615

Kirby Corporation

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

Nevada

74-1884980

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

-----  
(IRS Employer Identification No.)

55 Waugh Drive, Suite 1000, Houston, TX

77007

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

-----  
(Zip Code)

(713) 435-1000

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

No Change

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

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

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

The number of shares outstanding of the registrant's Common Stock, \$.10 par value per share, on November 11, 2003 was 24,254,000.

Part I Financial Information

Item 1. Financial Statements

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS  
(Unaudited)

ASSETS

	September 30, 2003	December 31, 2002
	-----	-----
	(\$ in thousands)	
Current assets:		
Cash and cash equivalents	\$ 1,749	\$ 1,432
Accounts receivable:		
Trade - less allowance for doubtful accounts	81,765	79,829
Insurance claims and other	4,439	6,129
Inventory - finished goods	13,989	15,549
Prepaid expenses and other current assets	16,205	12,777
Deferred income taxes	3,036	3,752
	-----	-----
Total current assets	121,183	119,468
	-----	-----
Property and equipment	876,437	797,937
Less accumulated depreciation	342,828	311,085
	-----	-----
	533,609	486,852
	-----	-----
Investment in marine affiliates	9,536	10,238
Goodwill - net	156,726	156,726
Other assets	17,039	18,474
	-----	-----
	\$838,093	\$791,758
	=====	=====

See accompanying notes to condensed financial statements.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS  
(Unaudited)

## LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2003	December 31, 2002
	-----	-----
	(\$ in thousands)	
Current liabilities:		
Current portion of long-term debt	\$ 253	\$ 336
Income taxes payable	2,463	1,443
Accounts payable	35,999	37,509
Accrued liabilities	58,482	47,392
Deferred revenues	3,549	4,565
	-----	-----
Total current liabilities	100,746	91,245
	-----	-----
Long-term debt - less current portion	269,796	265,665
Deferred income taxes	86,216	85,768
Minority interests	2,947	2,691
Other long-term liabilities	21,798	23,078
	-----	-----
	380,757	377,202
	-----	-----
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	177,272	176,867
Accumulated other comprehensive income	(7,734)	(8,062)
Deferred compensation	(1,070)	--
Retained earnings	299,525	269,657
	-----	-----
	471,084	441,553
Less cost of 6,667,000 shares in treasury (6,900,000 at December 31, 2002)	114,494	118,242
	-----	-----
	356,590	323,311
	-----	-----
	\$ 838,093	\$ 791,758
	=====	=====

See accompanying notes to condensed financial statements.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF EARNINGS  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
	(\$ in thousands, except per share amounts)			
Revenues:				
Marine transportation	\$ 134,396	\$ 113,343	\$ 396,617	\$ 329,679
Diesel engine services	20,111	21,264	64,829	65,843
	-----	-----	-----	-----
	154,507	134,607	461,446	395,522
	-----	-----	-----	-----
Costs and expenses:				
Costs of sales and operating expenses	98,800	81,652	300,804	247,868
Selling, general and administrative	18,069	16,748	54,381	49,436
Taxes, other than on income	3,385	2,627	9,921	7,185
Depreciation and other amortization	13,369	10,826	38,495	33,845
Loss (gain) on disposition of assets	(71)	(425)	62	(593)
	-----	-----	-----	-----
	133,552	111,428	403,663	337,741
	-----	-----	-----	-----
Operating income	20,955	23,179	57,783	57,781
Equity in earnings (loss) of marine affiliates	1,022	(68)	2,209	872
Other expense	(134)	(447)	(736)	(788)
Interest expense	(3,761)	(3,378)	(11,082)	(10,251)
	-----	-----	-----	-----
Earnings before taxes on income	18,082	19,286	48,174	47,614
Provision for taxes on income	(6,871)	(7,329)	(18,306)	(18,093)
	-----	-----	-----	-----
Net earnings	\$ 11,211	\$ 11,957	\$ 29,868	\$ 29,521
	=====	=====	=====	=====
Net earnings per share of common stock:				
Basic	\$ .46	\$ .50	\$ 1.24	\$ 1.23
	=====	=====	=====	=====
Diluted	\$ .46	\$ .49	\$ 1.22	\$ 1.21
	=====	=====	=====	=====

See accompanying notes to condensed financial statements.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine months ended September 30,	
	2003	2002
	(\$ in thousands)	
Cash flows from operating activities:		
Net earnings	\$ 29,868	\$ 29,521
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation and other amortization	38,495	33,845
Deferred income taxes	986	2,387
Equity in earnings of marine affiliates, net of distributions and contributions	702	90
Loss (gain) on disposition of assets	62	(593)
Other	1,555	772
Increase (decrease) in cash flows resulting from changes in operating assets and liabilities, net	8,058	(6,608)
Net cash provided by operating activities	79,726	59,414
Cash flows from investing activities:		
Capital expenditures	(52,187)	(39,198)
Acquisition of businesses and marine equipment	(37,816)	(4,600)
Proceeds from disposition of assets	3,622	5,868
Other	--	(236)
Net cash used in investing activities	(86,381)	(38,166)
Cash flows from financing activities:		
Borrowings (payments) on bank credit facilities, net	(245,700)	33,700
Borrowings (payments) on long-term debt, net	249,748	(50,252)
Proceeds from exercise of stock options	3,388	2,186
Purchase of treasury stock	--	(3,931)
Other	(464)	(904)
Net cash provided by (used in) financing activities	6,972	(19,201)
Increase in cash and cash equivalents	317	2,047
Cash and cash equivalents, beginning of year	1,432	1,850
Cash and cash equivalents, end of period	\$ 1,749	\$ 3,897
Supplemental disclosures of cash flow information:		
Cash paid during the period:		
Interest	\$ 10,048	\$ 11,254
Income taxes	\$ 15,958	\$ 15,640
Non-cash investing and financing activity:		
Disposition of assets for notes receivable	\$ 900	\$ 1,100

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS  
(Unaudited)

In the opinion of management, the accompanying unaudited condensed financial statements of Kirby Corporation and consolidated subsidiaries (the "Company") contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2003 and December 31, 2002, and the results of operations for the three months and nine months ended September 30, 2003 and 2002.

(1) BASIS FOR PREPARATION OF THE CONDENSED FINANCIAL STATEMENTS

The condensed financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including significant accounting policies normally included in annual financial statements, have been condensed or omitted pursuant to such rules and regulations. It is suggested that these condensed financial statements be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

(2) ACQUISITIONS

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 Cargill Corporation ("Cargill"), and resold six of the tank barges for \$530,000 in April 2002. Financing of 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 Towing, Inc. ("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 56 barges owned by Coastal, of which 38 are currently active, and the Company's 66 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 of the equipment acquisitions was through the Company's revolving credit facility.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(2) ACQUISITIONS - (Continued)

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. The Company has a long-term contract with Dow to provide for Dow's bulk liquid inland marine transportation requirements throughout the United States inland waterway system. With the merger between Union Carbide and Dow, the Company's long-term contract with Dow was amended to provide for Union Carbide's liquid inland marine transportation requirements. Financing of the equipment acquisition was through the Company's revolving credit facility.

(3) 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 obligation 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. 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 first nine months, as there were no applicable exit or disposal activities.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(3) ACCOUNTING STANDARDS - (Continued)

In November 2002, the Financial Accounting Standards Board ("FASB") issued FASB 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 were effective for the Company's financial statements for interim and annual periods ended 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 September 30, 2003 are described in Note 8, Contingencies.

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." 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.



KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(3) ACCOUNTING STANDARDS - (Continued)

The following table summarizes pro forma net earnings and earnings per share for the three months and nine months ended September 30, 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):

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net earnings, as reported	\$ 11,211	\$ 11,957	\$ 29,868	\$ 29,521
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(935)	(950)	(2,665)	(2,499)
Pro forma net earnings	\$ 10,276	\$ 11,007	\$ 27,203	\$ 27,022
Earnings per share:				
Basic - as reported	\$ .46	\$ .50	\$ 1.24	\$ 1.23
Basic - pro forma	\$ .43	\$ .46	\$ 1.13	\$ 1.12
Diluted - as reported	\$ .46	\$ .49	\$ 1.22	\$ 1.21
Diluted - pro forma	\$ .42	\$ .45	\$ 1.11	\$ 1.11

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities where an interest is obtained after January 31, 2003. The application of this Interpretation 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 Derivatives Implementation Group process that requires amendments to SFAS No. 133; (2) in connection with other Financial Accounting Standards Board 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.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(3) ACCOUNTING STANDARDS - (Continued)

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.

(4) COMPREHENSIVE INCOME

The Company's total comprehensive income for the three months and nine months ended September 30, 2003 and 2002 was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net earnings	\$ 11,211	\$ 11,957	\$ 29,868	\$ 29,521
Change in fair value of derivative financial instruments, net of tax	125	(3,345)	328	(4,755)
Total comprehensive income	\$ 11,336	\$ 8,612	\$ 30,196	\$ 24,766

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(5) SEGMENT INFORMATION

The following table sets forth the Company's revenues and profit (loss) by reportable segment for the three months and nine months ended September 30, 2003 and 2002 and total assets as of September 30, 2003 and December 31, 2002 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Revenues:				
Marine transportation	\$ 134,396	\$ 113,343	\$ 396,617	\$ 329,679
Diesel engine services	20,111	21,264	64,829	65,843
	<u>\$ 154,507</u>	<u>\$ 134,607</u>	<u>\$ 461,446</u>	<u>\$ 395,522</u>
Segment profit (loss):				
Marine transportation	\$ 20,828	\$ 22,158	\$ 56,314	\$ 54,302
Diesel engine services	1,653	2,042	6,242	7,022
Other	(4,399)	(4,914)	(14,382)	(13,710)
	<u>\$ 18,082</u>	<u>\$ 19,286</u>	<u>\$ 48,174</u>	<u>\$ 47,614</u>

	September 30, 2003	December 31, 2002
Total assets:		
Marine transportation	\$ 779,266	\$ 726,353
Diesel engine services	38,379	45,531
Other	20,448	19,874
	<u>\$ 838,093</u>	<u>\$ 791,758</u>

The following table presents the details of "Other" segment profit (loss) for the three months and nine months ended September 30, 2003 and 2002 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
General corporate expenses	\$ (1,597)	\$ (1,446)	\$ (4,711)	\$ (4,136)
Gain (loss) on disposition of assets	71	425	(62)	593
Interest expense	(3,761)	(3,378)	(11,082)	(10,251)
Equity in earnings (loss) of marine affiliates	1,022	(68)	2,209	872
Other expense	(134)	(447)	(736)	(788)
	<u>\$ (4,399)</u>	<u>\$ (4,914)</u>	<u>\$(14,382)</u>	<u>\$(13,710)</u>

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(5) SEGMENT INFORMATION - (Continued)

The following table presents the details of "Other" total assets as of September 30, 2003 and December 31, 2002 (in thousands):

	September 30, 2003	December 31, 2002
	-----	-----
General corporate assets	\$10,912	\$ 9,636
Investment in marine affiliates	9,536	10,238
	-----	-----
	\$20,448	\$19,874
	=====	=====

(6) TAXES ON INCOME

Details of the provision for taxes on income for the three months and nine months ended September 30, 2003 and 2002 were as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	-----	-----	-----	-----
	2003	2002	2003	2002
	-----	-----	-----	-----
Provision for taxes on income:				
Current	\$ 6,343	\$3,536	\$16,617	\$14,503
Deferred	55	3,202	361	2,187
State and local	473	591	1,328	1,403
	-----	-----	-----	-----
	\$ 6,871	\$7,329	\$18,306	\$18,093
	=====	=====	=====	=====

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(7) EARNINGS PER SHARE

The following table presents the components of basic and diluted earnings per share for the three months and nine months ended September 30, 2003 and 2002 (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net earnings	\$11,211	\$11,957	\$29,868	\$29,521
Basic earnings per share:				
Weighted average number of common shares outstanding	24,166	24,016	24,112	24,080
Basic earnings per share	\$ .46	\$ .50	\$ 1.24	\$ 1.23
Diluted earnings per share:				
Weighted average number of common shares outstanding	24,166	24,016	24,112	24,080
Dilutive shares applicable to stock options	379	201	317	358
Shares applicable to diluted earnings	24,545	24,217	24,429	24,438
Diluted earnings per share	\$ .46	\$ .49	\$ 1.22	\$ 1.21

Certain outstanding options to purchase approximately 32,000 and 405,000 shares of common stock were excluded in the computation of diluted earnings per share as of September 30, 2003 and 2002, respectively, as such stock options would have been antidilutive.

(8) CONTINGENCIES

The Company has issued guaranties or obtained stand-by letters of credit and performance bonds supporting performance by the Company and its subsidiaries of contractual or contingent legal obligations of the Company and its subsidiaries incurred in the ordinary course of business. The aggregate notional value of these instruments is \$6,533,000 at September 30, 2003, including \$1,578,000 in letters of credit and \$4,955,000 in performance bonds, of which \$4,718,000 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 two 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.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(8) CONTINGENCIES - (Continued)

The Company and a group of approximately 45 other companies have been notified that they are Potentially Responsible Parties ("PRPs") under the Comprehensive Environmental Response, Compensation and Liability Act with respect to a potential 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 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 addition, there are various other suits and claims against the Company, 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 has recorded necessary reserves and believes that it has adequate insurance coverage or has meritorious defenses for these other claims and contingencies.

## Part I Financial Information

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

Statements contained in this Form 10-Q that are not historical facts, including, but not limited to, any projections contained herein, are forward-looking statements and involve a number of risks and uncertainties. Such statements can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," or "continue" or the negative thereof or other variations thereon or comparable terminology. The actual results of the future events described in such forward-looking statements in this Form 10-Q could differ materially from those stated in such forward-looking statements. Among the factors that could cause actual results to differ materially are: adverse economic conditions, industry competition and other competitive factors, adverse weather conditions such as high water, low water, tropical storms, hurricanes, fog and ice, marine accidents, lock delays, fuel costs, interest rates, construction of new equipment by competitors, including construction with government assisted financing, government and environmental laws and regulations, and the timing, magnitude and number of acquisitions made by the Company.

## 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 black oil 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 56 barges owned by Coastal, of which 38 are currently active, and the Company's 66 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 94 double hull inland tank barges 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, following the February 2001 merger between Union Carbide and 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, 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.

## KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

### RESULTS OF OPERATIONS

The Company reported third quarter 2003 net earnings of \$11,211,000, or \$.46 per share, on revenues of \$154,507,000, compared with third quarter 2002 net earnings of \$11,957,000, or \$.49 per share, on revenues of \$134,607,000. Net earnings for the nine months ended September 30, 2003 were \$29,868,000, or \$1.22 per share, on revenues of \$461,446,000, compared with net earnings of \$29,521,000, or \$1.21 per share, on revenues of \$395,522,000 for the first nine months of 2002.

Marine transportation revenues for the 2003 third quarter totaled \$134,396,000, or 87% of total revenues, compared with \$113,343,000, or 84% of total revenues for the 2002 third quarter. For the first nine months of 2003, marine transportation revenues totaled \$396,617,000, or 86% of total revenues, compared with \$329,679,000 or 83% of total revenues for the first nine months of 2002. Diesel engine services revenues for the 2003 third quarter totaled \$20,111,000, or 13% of total revenues, compared with \$21,264,000, or 16% of total revenues for the 2002 third quarter. For the first nine months of 2003, diesel engine services revenues totaled \$64,829,000, or 14% of total revenues, compared with \$65,843,000, or 17% of total revenues for the first nine months of 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 the third quarters of 2003 and 2002 were 24,545,000 and 24,217,000, respectively, and for the first nine months of 2003 and 2002 were 24,429,000 and 24,438,000, respectively. The increase in the weighted average number of common shares for the 2003 third quarter when compared with the corresponding 2002 quarter primarily reflected more dilutive shares applicable to stock option plans due to the inclusion of certain outstanding options to purchase shares of common stock in the computation of diluted earnings per share.

### MARINE TRANSPORTATION

The Company, through its marine transportation segment, is a provider of marine transportation services, operating inland tank barges and towing vessels, transporting petrochemicals, black oil products, refined petroleum products and agricultural chemicals along the United States inland waterways. As of September 30, 2003, the marine transportation segment operated 882 active inland tank barges, with a total capacity of 16.0 million barrels, compared with 809 active inland tank barges at September 30, 2002, with a total capacity of 14.5 million barrels. At December 31, 2002, the segment operated 848 active inland tank barges with a capacity of 15.5 million barrels. The segment also operated an average of 222 inland towboats during the 2003 third quarter and an average of 226 towboats for the nine months ended September 30, 2003. This compared with an average of 196 towboats operated during the third quarter of 2002 and 200 towboats operated during the first nine months of 2002. 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.



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MARINE TRANSPORTATION - (CONTINUED)

The following table sets forth the Company's marine transportation segment's revenues, costs and expenses, operating income and operating margins for the three months and nine months ended September 30, 2003 compared with the three months and nine months ended September 30, 2002 (dollars in thousands):

	Three months ended September 30,			Nine months ended September 30,		
	2003	2002	% Change	2003	2002	% Change
Marine transportation revenues	\$134,396	\$113,343	19%	\$396,617	\$329,679	20%
Costs and expenses:						
Costs of sales and operating expenses	83,492	65,530	27	251,713	198,179	27
Selling, general and administrative	14,216	13,155	8	42,836	38,931	10
Taxes, other than on income	3,206	2,517	27	9,450	6,820	39
Depreciation and other amortization	12,654	9,983	27	36,304	31,447	15
	113,568	91,185	25	340,303	275,377	24
Operating income	\$ 20,828	\$ 22,158	(6)%	\$ 56,314	\$ 54,302	4%
Operating margins	15.5%	19.5%		14.2%	16.5%	

MARINE TRANSPORTATION REVENUES

Revenues for the marine transportation segment for the 2003 third quarter were 19% over the 2002 third quarter and revenues for the 2003 first nine months were 20% over the 2002 first nine months. The increase for both comparable periods included revenues generated from the October 2002 acquisition of 10 inland black oil tank barges and seven towboats from Coastal and the signing of a barge management agreement to manage Coastal's remaining 56 black oil tank barges. The increases also included 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 for the 2003 third quarter, excluding the SeaRiver volumes noted above, reflected a continued gradual improvement when compared with the third quarter of 2002, driven by higher volumes from several of the Company's significant customers and strong volumes for petrochemicals used in the production of gasoline blending components. Black oil volumes during the 2003 third quarter remained consistent with the volume levels for the 2003 first and second quarters, and excluding the Coastal volumes noted above, were higher than the 2002 third quarter volumes. During the 2003 first nine months, 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 have declined due to a reduction in state and federal funding for road construction. Refined products volumes during the 2003 third quarter were similar to the 2003 second quarter and higher than 2002 third quarter volumes, as low Midwest gasoline inventory levels and Gulf Coast versus Midwest gasoline price differentials encouraged the movement of Gulf Coast manufactured refined products into the Midwest. Refined products volumes were weak

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MARINE TRANSPORTATION REVENUES - (CONTINUED)

during the first quarter of 2003, showing some improvement in late March. During 2002, refined products volumes improved during the third quarter, the result of seasonal demand, from the weak volumes experienced during the first six months that were negatively impacted by high inventory levels and a new refined products pipeline from the Gulf Coast to the Midwest that went online April 1, 2002. Liquid fertilizer volumes, which are generally slow in the third quarter, remained very weak in the 2003 third quarter when compared with the 2002 third quarter. High natural gas prices throughout 2003 have significantly curtailed the U.S. production and application of nitrogen-based fertilizer. During the 2002 third quarter, liquid fertilizer volumes returned to seasonal levels, an improvement from the weak levels experienced in the 2002 first half when significant rainfall in the Midwest kept farmers out of their fields, reducing the demand for fertilizer usage.

During the 2003 third quarter and first nine months, approximately 70% of marine transportation revenues were under term contracts and 30% were spot market volumes. Contract rates on renewals remained relatively flat for the 2003 third quarter and first nine months. Spot market rates for the 2003 third quarter declined modestly, reflecting the pass-through of lower fuel costs and good navigational conditions which allowed the industry to be more efficient, thereby resulting in additional available industry capacity. For the first nine months of 2003, spot market rates were modestly higher when compared with 2002 comparable period levels.

MARINE TRANSPORTATION COSTS AND EXPENSES

Total costs and expenses for the 2003 third quarter and first nine months were 25% and 24%, respectively, above the third quarter of 2002 and first nine months of 2002. The increase for both comparable periods reflected 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 the 2003 third quarter and first nine months were 27% higher than the comparable periods for 2002, reflecting additional vessel personnel and higher operating expenses from the acquisitions noted above. 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 to meet service requirements and schedules.

Costs of sales and operating expenses for the first three quarters of 2003 included significantly higher fuel costs when compared with the first three quarters of 2002. The average price per gallon of diesel fuel consumed in the 2003 first quarter was \$1.03, up 78% from the 2002 first quarter average price of 58 cents. For the 2003 second quarter, the average price per gallon of diesel fuel consumed dropped to 81 cents, 13% above the 2002 second quarter average price of 72 cents. For the 2003 third quarter, the average price per gallon of diesel fuel consumed was 86 cents compared with 73 cents for the 2002 third quarter, an increase of 18%. Term contracts contain fuel escalation clauses that allow the

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MARINE TRANSPORTATION COSTS AND EXPENSES - (CONTINUED)

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 approximately \$.05 per share, of which approximately \$.03 per share was recovered in the 2003 second quarter. For the 2003 third quarter, the negative impact of the higher fuel costs was marginal.

The segment consumed 14.2 million gallons of diesel fuel in the 2003 third quarter compared with 12.1 million gallons consumed in the third quarter of 2002. For the first nine months of 2003, the segment consumed 41.6 million gallons of diesel fuel compared with 34.1 million gallons consumed in the first nine months of 2002. The increase for both comparable periods primarily reflected the acquisitions noted above.

Selling, general and administrative expenses for the 2003 third quarter increased 8% compared with the 2002 third quarter, and increased 10% in the 2003 first nine months compared with the first nine months of 2002. The increase for both comparable periods reflected higher incentive compensation accruals, professional fees, and additional administrative personnel to support the acquisitions noted above.

Taxes, other than on income, for the 2003 third quarter and first nine months increased 27% and 39%, respectively, compared with the corresponding periods of 2002, primarily reflecting increased waterway use taxes and property taxes resulting from the fourth quarter 2002 and first quarter 2003 acquisitions noted above.

Depreciation and other amortization expense for the 2003 third quarter and first nine months increased 27% and 15%, respectively, compared with the corresponding 2002 periods. The increases for both 2003 periods 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 the 2003 third quarter decreased 6% compared with the third quarter of 2002. For the 2003 first nine months, the operating income for the marine transportation segment increased 4% compared with the first nine months of 2002. The operating margin for the 2003 third quarter was 15.5% compared with 19.5% for the 2002 third quarter. The operating margin for the first nine months of 2003 was 14.2% compared with 16.5% for the first nine months of 2002.

The operating margins for the 2003 third quarter and first nine months reflected higher revenues, and costs and expenses, primarily from the two acquisitions noted above; however, the segment's inability to raise marine transportation rates sufficiently to offset increases in costs and expenses have resulted in a lower operating margins compared with corresponding prior periods. The lower operating margin in the 2003 first nine months 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 third quarter

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MARINE TRANSPORTATION OPERATING INCOME AND OPERATING MARGINS - (CONTINUED)

and first nine months also included revenues from the barge management agreement between the Company and Coastal. The Company earns a lower operating margin from the management of the Coastal fleet, thereby reducing the overall marine transportation operating margin.

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 diesel engines and reduction gears, and maintains facilities to rebuild component parts or entire large medium-speed diesel engines or entire reduction gears. The segment services the marine, power generation and industrial, 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 months and nine months ended September 30, 2003 compared with the three months and nine months ended September 30, 2002 (dollars in thousands):

	Three months ended September 30,			Nine months ended September 30,		
	2003	2002	% Change	2003	2002	% Change
Diesel engine services revenues	\$ 20,111	\$ 21,264	(5)%	\$ 64,829	\$ 65,843	(2)%
Costs and expenses:						
Costs of sales and operating expenses	15,246	16,066	(5)	48,951	49,498	(1)
Selling, general and administrative	2,859	2,826	1	8,607	8,424	2
Taxes, other than on income	81	65	25	241	214	13
Depreciation and other amortization	272	265	3	788	685	15
	18,458	19,222	(4)	58,587	58,821	--
Operating income	\$ 1,653	\$ 2,042	(19)%	\$ 6,242	\$ 7,022	(11)%
Operating margins	8.2%	9.6%		9.6%	10.7%	

DIESEL ENGINE SERVICES REVENUES

The diesel engine services segment's revenues for the 2003 third quarter decreased 5% compared with the 2002 third quarter. The segment was negatively impacted by a continued poor Midwest dry cargo barge market, the timing of engine overhauls in the East and West Coast marine markets, and a continued weak rail market. The negative results were partially offset by a favorable power generation market, the result of several overhaul projects for an international customer, and an improved Gulf Coast market, the result of several large parts sales for international oilfield customers. For the 2002 third quarter, the segment benefited from strong power generation and railroad markets, partially offset by a weak Gulf Coast drilling and supply vessel market.

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DIESEL ENGINE SERVICES REVENUES - (CONTINUED)

For the 2003 first nine months, revenues decreased 2% compared with the corresponding period of 2002. A very weak Midwest dry cargo barge market and rail market was partially offset by an improved Gulf Coast drilling and supply vessel market, East and West Coast marine markets, except for the 2003 third quarter as noted above, and a strong power generation market, servicing stand-by power generators. For the 2002 first nine months, the segment benefited from a strong power generation market and railroad markets, partially offset by a weak Gulf Coast drilling and supply vessel market.

DIESEL ENGINE SERVICES COSTS AND EXPENSES

Costs of sales and operating expenses for the 2003 third quarter decreased 5% compared with the third quarter of 2002, while costs of sales and operating expenses for the 2003 first nine months decreased 1% compared with the corresponding 2002 period. The decreases for both 2003 periods compared with the prior year periods primarily reflected the lower service activity. Selling, general and administrative expenses were slightly higher in both 2003 periods versus 2002 primarily due to higher incentive compensation accruals and employee medical costs.

DIESEL ENGINE SERVICES OPERATING INCOME AND OPERATING MARGINS

Operating income for the 2003 third quarter decreased 19% compared with the third quarter of 2002, while the operating income for the 2003 first nine months fell 11% compared with the first nine months of 2002. The operating margin for the third quarter of 2003 was 8.2% compared with 9.6% for the third quarter of 2002. The operating margin for the 2003 first nine months was 9.6%, down from 10.7% in the first nine months of 2002.

GENERAL CORPORATE EXPENSES

General corporate expenses for the 2003 third quarter totaled \$1,597,000, or 10% higher than the third quarter of 2002. General corporate expenses for the 2003 first nine months were \$4,711,000, a 14% increase compared with the 2002 first nine months. The increases for both comparable periods primarily reflected higher incentive compensation accruals and legal and professional fees.

OTHER INCOME AND EXPENSES

The following table sets forth the gain (loss) on disposition of assets, equity in earnings of marine affiliates, other expense and interest expense for the three months and nine months ended September 30, 2003 compared with the three months and nine months ended September 30, 2002 (dollars in thousands):

	Three months ended September 30,			Nine months ended September 30,		
	2003	2002	% Change	2003	2002	% Change
Gain (loss) on disposition of assets	\$ 71	\$ 425	(83)%	\$ (62)	\$ 593	(110)%
Equity in earnings (loss) of marine affiliates	\$ 1,022	\$ (68)	1,603%	\$ 2,209	\$ 872	153%
Other expense	\$ (134)	\$ (447)	(70)%	\$ (736)	\$ (788)	(7)%
Interest expense	\$ (3,761)	\$ (3,378)	11%	\$ (11,082)	\$ (10,251)	8%

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EQUITY IN EARNINGS OF MARINE AFFILIATES

Equity in earnings of marine affiliates, consisting primarily of a 35% owned offshore marine partnership, for the 2003 third quarter totaled \$1,022,000 compared with a loss of \$68,000 for the 2002 third quarter, and totaled \$2,209,000 for the 2003 first nine months compared with \$872,000 for the 2002 first nine months. The favorable results for both 2003 periods reflected higher utilization of the four offshore dry-cargo barge and tug units in the partnership compared with the prior comparable periods of 2002, as well as the settlement of 2002 demurrage charges in the 2003 third quarter. The comparable 2002 periods were negatively impacted by weather delays from Tropical Storm Isidore, maintenance on two of the four units in the partnerships during the 2002 second and third quarters, and the major customer's coal dock facility closure for repair for two weeks during the 2002 second quarter.

INTEREST EXPENSE

Interest expense for the 2003 third quarter increased 11% compared with the 2002 third quarter. For the 2003 first nine months, interest expense increased 8% compared with the 2002 first nine months. The increase for both comparable periods reflected higher average debt, offset to some degree by lower average interest rates. The average debt and average interest rate for the third quarters of 2003 and 2002, including the effect of interest rate swaps used to hedge against fluctuations in floating interest rates, were \$282,208,000 and 5.3%, and \$239,700,000 and 5.6%, respectively. For the first nine months of 2003 and 2002, the average debt and average interest rate, including the effect of interest rate swaps, were \$289,005,000 and 5.1%, and \$240,700,000 and 5.7%, respectively.

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

BALANCE SHEET

Total assets as of September 30, 2003 were \$838,093,000, a 6% increase compared with \$791,758,000 as of December 31, 2002. The following table sets forth the significant components of the balance sheet as of September 30, 2003 compared with December 31, 2002 (dollars in thousands):

	September 30, 2003	December 31, 2002	% Change
	-----	-----	-----
Assets:			
Current assets	\$ 121,183	\$ 119,468	1 %
Property and equipment, net	533,609	486,852	10
Investment in marine affiliates	9,536	10,238	(7)
Goodwill - net	156,726	156,726	--
Other assets	17,039	18,474	(8)
	-----	-----	--
	\$ 838,093	\$ 791,758	6 %
	=====	=====	==
Liabilities and stockholders' equity:			
Current liabilities	\$ 100,746	\$ 91,245	10 %
Long-term debt - less current portion	269,796	265,665	2
Deferred income taxes	86,216	85,768	1
Minority interest and other			
long-term liabilities	24,745	25,769	(4)
Stockholders' equity	356,590	323,311	10
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	\$ 838,093	\$ 791,758	6 %
	=====	=====	==

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

BALANCE SHEET - (CONTINUED)

Current assets as of September 30, 2003 increased 1% compared with December 31, 2002. Trade accounts receivable increased 2%, primarily reflecting the acquisition of the SeaRiver fleet in January 2003 and corresponding increase in marine transportation business with SeaRiver. Insurance claims and other receivables decreased 28%, primarily due to the collection of claims receivables and 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, while the 27% increase in prepaid expenses and other current assets reflected the timing of the payment of expenses that were paid and amortized over a twelve month period.

Property and equipment, net of accumulated depreciation, at September 30, 2003 increased 10% compared with December 31, 2002. The increase reflected \$52,187,000 of capital expenditures, the acquisition of the SeaRiver fleet and the purchase of two existing tank barges for a total of \$36,466,000, less \$38,208,000 of depreciation expense for the 2003 first nine months.

Current liabilities as of September 30, 2003 increased 10% compared with December 31, 2002. The increase was primarily due to higher casualty loss accruals, shipyard maintenance accruals, the classification of \$1,205,000 of fair value of interest rate swap agreements as short-term instead of long-term, as they mature in the next twelve months, and income tax payable, due to the timing of such federal tax payments. 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 were lower accounts payable.

Long-term debt, less current portion, as of September 30, 2003 increased 2% compared with December 31, 2002. The increase was primarily attributable to borrowing to finance the 2003 first quarter SeaRiver marine equipment acquisition and the 2003 first nine months capital expenditures, less the paydown of long-term debt from net cash provided by operating activities in the 2003 first nine months.

Stockholders' equity as of September 30, 2003 increased 10% compared with December 31, 2002. The increase primarily reflected 2003 first nine months net earnings of \$29,868,000, a decrease in treasury stock of \$3,748,000, primarily from the exercise of employee stock options, and the recording of \$1,070,000 of deferred compensation related to restricted stock grants.

LONG-TERM FINANCING

The Company has an unsecured \$150,000,000 revolving credit facility ("Revolving Credit Facility") agented by JPMorgan Chase, with a maturity date of October 9, 2004. As of September 30, 2003, \$5,000,000 was outstanding under the Revolving Credit Facility and outstanding letters of credit totaled \$782,000. The Company was in compliance with all Revolving Credit Facility covenants at September 30, 2003.

The Company has an unsecured term loan ("Term Loan") provided by a syndicate of banks, with Bank of America, N.A. as agent bank. As of September 30, 2003, \$12,500,000 was outstanding under the Term Loan. The principal amounts due within one year were classified as long-term debt, as the Company

## LONG-TERM FINANCING - (CONTINUED)

has the ability and intent through the Revolving Credit Facility to refinance the payments on a long-term basis. The Term Loan requires quarterly principal payments of \$12,500,000, plus interest. The Company was in compliance with all Term Loan covenants at September 30, 2003. The final principal payment of \$12,500,000 was paid on October 9, 2003.

On February 28, 2003, the Company issued \$250,000,000 of floating rate senior notes ("Senior Notes") due February 28, 2013. The unsecured Senior Notes pay interest quarterly at a rate equal to the London Interbank Offered Rate ("LIBOR") plus a margin of 1.2%. The 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 Term Loan and \$128,500,000 of the outstanding balance on the Revolving Credit Facility. As of September 30, 2003, \$250,000,000 was outstanding under the Senior Notes. The Company was in compliance with all Senior Notes covenants at September 30, 2003.

The Company has an uncommitted \$10,000,000 line of credit ("Credit Line") with Bank of America, N.A. for short-term liquidity needs and letters of credit. The Credit Line matures on November 4, 2003. As of September 30, 2003, \$200,000 was borrowed under the Credit Line and outstanding letters of credit totaled \$546,000. Amounts borrowed on the Credit Line were classified as long-term debt at September 30, 2003, as the Company has the ability and intent through the Revolving Credit Facility to refinance the short-term notes on a long-term basis.

The Company has an uncommitted \$5,000,000 revolving credit note ("Credit Note") with BNP Paribas ("BNP") for short-term liquidity needs. The Credit Note originally had a \$10,000,000 borrowing limit but was reduced to \$5,000,000 on February 27, 2003 by mutual agreement between BNP and the Company. In September 2002, the Company entered into a \$5,000,000 uncommitted letter of credit line with BNP. On February 27, 2003, the \$5,000,000 uncommitted letter of credit line was cancelled due to a lack of need. As of September 30, 2003, \$2,000,000 was outstanding under the Credit Note.

The Company has on file with the Securities and Exchange Commission a shelf registration for the issuance of up to \$250,000,000 of debt securities, including medium term notes, providing for the issuance of fixed rate or floating rate notes with a maturity of nine months or longer. As of September 30, 2003, \$121,000,000 was available under the shelf registration, subject to mutual agreement to terms, to provide financing for future business or equipment acquisitions, and to fund working capital requirements. As of September 30, 2003, 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 Term Loan by entering into interest rate swap agreements. Five-year interest rate swap agreements with notional amounts totaling \$100,000,000 were executed in February 2001 and three-year interest rate swap agreements with notional amounts totaling \$50,000,000 were executed in April 2001. On February 28, 2003, in connection with the issuing of the Senior Notes, the Company hedged a further portion of its exposure to fluctuations in short-term interest rates when it entered into a one-year interest rate swap agreement with a notional amount of \$100,000,000. The February and April 2001 interest rate swap agreements totaling \$150,000,000 were re-designated as cash flow hedges for the Senior Notes. In September 2003, the Company entered into four seven-year interest rate swap agreements with a notional amount totaling \$100,000,000. The effective date of the September



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LONG-TERM FINANCING - (CONTINUED)

2003 interest rate swap agreements is March 28, 2006, the maturity date of the February 2001 five-year interest rate swaps, with quarterly interest payments beginning on May 28, 2006 and ending on February 28, 2013.

Under the swap agreements, the Company will pay a fixed rate of 4.96% on a notional amount of \$50,000,000 for three years through April 29, 2004, an average fixed rate of 5.64% on a notional amount of \$100,000,000 for five years through March 28, 2006, a fixed rate of 1.39% on a notional amount of \$100,000,000 for one year through February 27, 2004, an average fixed rate of 5.45% on a notional amount of \$100,000,000 for seven years beginning March 28, 2006, and will receive floating rate interest payments based on LIBOR. The interest rate swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of September 30, 2003, the Company had a total notional amount of \$250,000,000 of interest rate swaps designated as cash flow hedges for its Senior Notes. These interest rate swaps hedge a significant portion of the Company's long-term debt and only an immaterial loss on ineffectiveness was recognized in the 2003 third quarter and first nine months. At September 30, 2003, the total fair value of the interest rate swap agreements was \$11,898,000, of which \$1,205,000 was recorded as accrued liabilities for swap maturities within the next twelve months, and \$10,693,000 was recorded as long-term liabilities for swap maturities greater than twelve months. The Company has recorded, in interest expense, losses related to the interest rate swap agreements of \$1,657,000 and \$1,407,000 for the three months ended September 30, 2003 and 2002, respectively, and \$4,782,000 and \$4,053,000 for the nine months ended September 30, 2003 and 2002, respectively. The Company anticipates \$3,675,000 of net losses included in accumulated other comprehensive income will be transferred into earnings over the next year based on current interest rates. Fair value amounts were determined as of September 30, 2003 and 2002 based on quoted market values of the Company's portfolio of derivative instruments.

CAPITAL EXPENDITURES

Capital expenditures for the 2003 first nine months totaled \$52,187,000, of which \$12,149,000 was for construction of new tank barges and \$40,038,000 was primarily for upgrading of the existing marine transportation fleet.

In February 2002, the Company entered into a contract for the construction of two double hull, 30,000 barrel capacity, inland tank barges for use in the transportation of asphalt. The two barges were placed into service during the 2003 first quarter. The total purchase price of the two barges was \$3,600,000, of which \$164,000 was funded in 2002, with the balance expended in the 2003 first half.

In February 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 petrochemicals and refined products. Delivery of the six barges is scheduled over 2003, with two barges delivered in the 2003 second quarter, one in the third quarter and one in October 2003. The total purchase price of the six barges is approximately \$8,900,000, of which \$780,000 was funded in 2002 and \$6,155,000 in the 2003 first nine months, with the balance anticipated to be expended in the 2003 fourth quarter.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CAPITAL EXPENDITURES - (CONTINUED)

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 petrochemicals and refined products. Delivery of the six barges is scheduled over a six-month period starting in March 2004. The total purchase price of the six barges is approximately \$8,900,000, of which \$784,000 was funded in the 2003 first nine months.

In May 2003, the Company entered into a contract for the construction of 16 double hull, 30,000 barrel capacity, inland tank barges for use in the transportation of black oil products. Delivery of the 16 barges is scheduled over 2003 and 2004, with one delivered in the 2003 third quarter, one in October 2003, with six anticipated to be delivered in the 2003 fourth quarter and eight in the first half of 2004. The total purchase price of the 16 barges is approximately \$29,000,000, of which \$1,798,000 was funded in the 2003 third quarter. Under the terms of the contract, the Company has an option for the construction of 16 additional double hull, 30,000 barrel capacity, inland tank barges for use in the transportation of black oil products.

Over the next three years, a number of barges in the combined Company/Coastal black oil fleet will be retired and replaced with new barges. Under the 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. Coastal elected not to exercise its right to purchase its share of the 16 barges currently under construction; therefore, the Company will purchase all 16 of the barges.

Funding for future capital expenditures and new barge construction is expected to be provided by borrowings on the Company's Revolving Credit Facility.

TREASURY STOCK PURCHASES

During the 2003 first nine months, the Company did not purchase any treasury stock. As of November 10, 2003, the Company had 1,210,000 shares available under its common stock repurchase authorization. Historically, treasury stock purchases have been financed through operating cash flows and borrowing under the Company's Revolving Credit Facility. The Company is authorized to purchase its common stock on the New York Stock Exchange and in privately negotiated transactions. When purchasing its common stock, the Company is subject to price, trading volume and other market considerations. Shares purchased may be used for reissuance upon the exercise of stock options or the granting of other forms of incentive compensation, in future acquisitions for stock or for other appropriate corporate purposes.

LIQUIDITY

The Company generated net cash provided by operating activities of \$79,726,000 during the first nine months of 2003, 34% higher than the \$59,414,000 generated during the first nine months of 2002. The 2003 first nine months was positively influenced by favorable cash flow from working capital of \$8,058,000 compared with the unfavorable cash flow from working capital for the 2002 first nine months of \$6,608,000.

## LIQUIDITY - (CONTINUED)

The Company accounts for its ownership in its four marine partnerships under the equity method of accounting, recognizing cash flow upon the receipt or distribution of cash from the partnerships and joint venture. For the nine months ended September 30, 2003 and 2002, the Company received net cash totaling \$2,911,000 and \$962,000, respectively, from the marine partnerships and joint ventures.

Funds generated are available for acquisitions, capital expenditure projects, treasury stock repurchases, repayments of borrowings, new barge construction and for other operating requirements. In addition to net cash flow provided by operating activities, the Company also had available as of November 11, 2003, \$139,934,000 under its Revolving Credit Facility and \$121,000,000 under its shelf registration program, subject to mutual agreement to terms. As of November 8, 2003, the Company had \$8,954,000 available under its Credit Line and \$4,000,000 available under its Credit Note.

Net cash provided by operating activities for the fourth quarter of 2003 may be negatively impacted by a contribution of up to \$10,000,000, based on current market conditions, to the Company's defined benefit plan for vessel personnel. The plan assets primarily consist of fixed income securities and corporate stocks and any contribution would be the result of continued low interest rates and low investment returns. Funding of the plan is based on actuarial projections that are designed to satisfy minimum ERISA funding requirements and achieve adequate funding of accumulated benefit obligations. In 2002, the Company made a contribution of \$17,500,000 to its defined benefit plan for vessel personnel.

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

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

The Company has a 50% interest in a joint venture bulk liquid terminal business that has a \$5,127,000 term loan outstanding at September 30, 2003. The loan is non-recourse to the Company and the Company has no guarantee obligation. The Company uses the equity method of accounting to reflect its investment in the joint venture.

The Company has issued guaranties or obtained stand-by letters of credit and performance bonds supporting performance by the Company and its subsidiaries for contractual or contingent legal obligations of the Company and its subsidiaries incurred in the ordinary course of business. The aggregate notional value of these instruments is \$6,533,000 at September 30, 2003, including \$1,578,000 in letters of credit and \$4,955,000 in performance bonds, of which \$4,718,000 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 two 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.

LIQUIDITY - (CONTINUED)

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

## Part I Financial Information

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company is exposed to risk from changes in interest rates on certain of its outstanding debt. The outstanding loan balances under the Company's bank credit facilities bear interest at variable rates based on prevailing short-term interest rates in the United States and Europe. A 10% change in variable interest rates would impact the 2003 interest expense by approximately \$428,000, based on balances outstanding at December 31, 2002, 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 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 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 Term Loan by entering into interest rate swap agreements. Five-year swap agreements with notional amounts totaling \$100,000,000 were executed in February 2001 and three-year swap agreements with notional amounts totaling \$50,000,000 were executed in April 2001. On February 28, 2003, in connection with the issuing of the Senior Notes, the Company hedged a further portion of its exposure to fluctuations in short-term interest rates when it entered into a one-year interest rate swap agreement with a notional amount of \$100,000,000. The February and April 2001 interest rate swap agreements totaling \$150,000,000 were re-designated as cash flow hedges for the Senior Notes. In September 2003, the Company entered into four seven-year interest rate swap agreements with a notional amount totaling \$100,000,000. The effective date of the September 2003 interest rate swap agreements is March 28, 2006, the maturity date of the February 2001 five-year interest rate swaps, with quarterly interest payments beginning on May 28, 2006 and ending on February 28, 2013.

Under the swap agreements, the Company will pay a fixed rate of 4.96% on a notional amount of \$50,000,000 for three years through April 29, 2004, an average fixed rate of 5.64% on a notional amount of \$100,000,000 for five years through March 28, 2006, a fixed rate of 1.39% on a notional amount of \$100,000,000 for one year through February 27, 2004, an average fixed rate of 5.45% on a notional amount of \$100,000,000 for seven years beginning March 28, 2006, and will receive floating rate interest payments based on LIBOR. The interest rate swap agreements are designated as cash flow hedges, therefore, the changes in fair value, to the extent the swap agreements are effective, are recognized in other comprehensive income until the hedged interest expense is recognized in earnings. As of September 30, 2003, the Company had a total notional amount of \$250,000,000 of interest rate swaps designated as cash flow hedges for its Senior Notes. These interest rate swaps hedge a significant portion of the Company's long-term debt and only an immaterial loss on ineffectiveness was recognized in the 2003 third quarter and first nine months. At September 30, 2003, the total fair value of the interest rate

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures about Market Risk -  
(Continued)

swap agreements was \$11,898,000, of which \$1,205,000 was recorded as accrued liabilities for swap maturities within the next twelve months, and \$10,693,000 was recorded as long-term liabilities for swap maturities greater than twelve months. The Company has recorded, in interest expense, losses related to the interest rate swap agreements of \$1,657,000 and \$1,407,000 for the three months ended September 30, 2003 and 2002, respectively and \$4,782,000 and \$4,053,000 for the nine months ended September 30, 2003 and 2002, respectively. Fair value amounts were determined as of September 30, 2003 and 2002 based on quoted market values of the Company's portfolio of derivative instruments.

Part I Financial Information

Item 4. Controls and Procedures

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

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES  
PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company and a group of approximately 45 other companies have been notified that they are Potentially Responsible Parties ("PRPs") under the Comprehensive Environmental Response, Compensation and Liability Act with respect to a potential 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 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 addition, there are various other suits and claims against the Company, 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 has recorded necessary reserves and believes that it has adequate insurance coverage or has meritorious defenses for these other claims and contingencies.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 31.1 - Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
- 31.2 - Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
- 32 - Certification Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

The Company's report on Form 8-K dated July 24, 2003 stated that the Company issued a press release announcing the Company's second quarter 2003 results of operations.

SIGNATURES

Pursuant to the requirements 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

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

Dated: November 11, 2003



INDEX TO EXHIBITS

Exhibits:

- 31.1 - Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
- 31.2 - Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
- 32 - Certification Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 by Kirby Corporation, Joseph H. Pyne, President and Chief Executive Officer, certifies that:

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

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

/s/ JOSEPH H. PYNE

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Joseph H. Pyne  
President and Chief Executive Officer

Dated: November 11, 2003

CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 by Kirby Corporation, Norman W. Nolen, Executive Vice President, Treasurer and Chief Financial Officer, certifies that:

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

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

/s/ NORMAN W. NOLEN

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

Dated: November 11, 2003

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (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

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Joseph H. Pyne  
President and Chief Executive Officer

/s/ NORMAN W. NOLEN

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

Dated: November 11, 2003