# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-Q

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

For the quarter ended June 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 [ x ]     No [ ]

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

Yes [ x ]     No [ ]

The number of shares outstanding of the registrant's Common Stock, $.10 par value per share, on August 12, 2003 was 24,134,000.

Part I Financial Information

Item 1. Financial Statements

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS
(Unaudited)

ASSETS

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| | ($ in thousands) | |
| Current assets: | | |
| Cash and cash equivalents | $ 2,310 | $ 1,432 |
| Accounts receivable: | | |
| Trade - less allowance for doubtful accounts | 86,856 | 79,829 |
| Insurance claims and other | 5,519 | 6,129 |
| Inventory - finished goods | 15,105 | 15,549 |
| Prepaid expenses and other current assets | 12,990 | 12,777 |
| Deferred income taxes | 3,050 | 3,752 |
| Total current assets | 125,830 | 119,468 |
| Property and equipment | 868,363 | 797,937 |
| Less accumulated depreciation | 332,881 | 311,085 |
| | 535,482 | 486,852 |
| Investment in marine affiliates | 9,284 | 10,238 |
| Goodwill - net | 156,726 | 156,726 |
| Other assets | 18,390 | 18,474 |
| | $ 845,712 | $ 791,758 |

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| | ($ in thousands) | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 280 | $ 336 |
| Income taxes payable | 1,204 | 1,443 |
| Accounts payable | 38,934 | 37,509 |
| Accrued liabilities | 53,337 | 47,392 |
| Deferred revenues | 3,670 | 4,565 |
| Total current liabilities | 97,425 | 91,245 |
| Long-term debt - less current portion | 294,853 | 265,665 |
| Deferred income taxes | 85,882 | 85,768 |
| Minority interests | 2,960 | 2,691 |
| Other long-term liabilities | 21,566 | 23,078 |
| | 405,261 | 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 | 177,102 | 176,867 |
| Accumulated other comprehensive income | (7,859) | (8,062) |
| Deferred compensation | (1,137) | -- |
| Retained earnings | 288,314 | 269,657 |
| | 459,511 | 441,553 |
| Less cost of 6,782,000 shares in treasury (6,900,000 at December 31, 2002) | 116,485 | 118,242 |
| | 343,026 | 323,311 |
| | $ 845,712 | $ 791,758 |

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF EARNINGS
(Unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| | ($ in thousands, except per share amounts) | | | |
| Revenues: | | | | |
| Marine transportation | $ 137,156 | $ 107,346 | $ 262,221 | $ 216,336 |
| Diesel engine services | 21,583 | 22,132 | 44,718 | 44,579 |
| | 158,739 | 129,478 | 306,939 | 260,915 |
| Costs and expenses: | | | | |
| Costs of sales and operating expenses | 101,153 | 82,746 | 202,004 | 166,216 |
| Selling, general and administrative | 18,751 | 15,488 | 36,312 | 32,688 |
| Taxes, other than on income | 3,485 | 2,209 | 6,536 | 4,558 |
| Depreciation and other amortization | 12,894 | 11,497 | 25,126 | 23,019 |
| Loss (gain) on disposition of assets | 126 | (27) | 133 | (168) |
| | 136,409 | 111,913 | 270,111 | 226,313 |
| Operating income | 22,330 | 17,565 | 36,828 | 34,602 |
| Equity in earnings of marine affiliates | 751 | 137 | 1,187 | 940 |
| Other expense | (199) | (214) | (602) | (341) |
| Interest expense | (3,867) | (3,366) | (7,321) | (6,873) |
| Earnings before taxes on income | 19,015 | 14,122 | 30,092 | 28,328 |
| Provision for taxes on income | (7,226) | (5,366) | (11,435) | (10,764) |
| Net earnings | $ 11,789 | $ 8,756 | $ 18,657 | $ 17,564 |
| Net earnings per share of common stock: | | | | |
| Basic | $ .49 | $ .36 | $ .77 | $ .73 |
| Diluted | $ .48 | $ .36 | $ .77 | $ .72 |

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six months ended June 30, | |
|---|---|---|
| | 2003 | 2002 |
| | ($ in thousands) | |
| Cash flows from operating activities: | | |
| Net earnings | $ 18,657 | $ 17,564 |
| Adjustments to reconcile net earnings to net cash provided by operations: | | |
| Depreciation and other amortization | 25,126 | 23,019 |
| Deferred income taxes | 706 | (915) |
| Equity in earnings of marine affiliates, net of distributions and contributions | 954 | 168 |
| Other | 1,454 | 168 |
| Decrease in cash flows resulting from changes in operating working capital | (1,607) | (12,900) |
| Net cash provided by operating activities | 45,290 | 27,104 |
| Cash flows from investing activities: | | |
| Capital expenditures | (37,723) | (28,234) |
| Acquisition of businesses and marine equipment | (37,816) | (2,800) |
| Proceeds from disposition of assets | 1,050 | 5,442 |
| Net cash used in investing activities | (74,489) | (25,592) |
| Cash flows from financing activities: | | |
| Borrowings (payments) on bank credit facilities, net | (220,700) | 48,200 |
| Borrowings (payments) on long-term debt, net | 249,832 | (50,168) |
| Proceeds from exercise of stock options | 1,228 | 2,186 |
| Other | (283) | (656) |
| Net cash provided by (used in) financing activities | 30,077 | (438) |
| Increase in cash and cash equivalents | 878 | 1,074 |
| Cash and cash equivalents, beginning of year | 1,432 | 1,850 |
| Cash and cash equivalents, end of period | $ 2,310 | $ 2,924 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period: | | |
| Interest | $ 6,532 | $ 7,880 |
| Income taxes | $ 11,195 | $ 13,533 |

See accompanying notes to condensed financial statements.

## 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 June 30, 2003 and December 31, 2002, and the results of operations for the three months and six months ended June 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, 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 40 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.

(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 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 146 did not have an impact on the 2003 first six months, as there were no applicable exit or disposal activities.

(3) ACCOUNTING STANDARDS - (Continued)

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 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 June 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." The intrinsic value method of accounting is used for stock-based employee compensation whereby no compensation expense is recorded when the stock option exercise price is equal to, or greater than, the market price of the Company's common stock on the date of the grant.

(3) ACCOUNTING STANDARDS - (Continued)

The following table summarizes pro forma net earnings and earnings per share for the three months and six months ended June 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net earnings, as reported | $ 11,789 | $ 8,756 | $ 18,657 | $ 17,564 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (884) | (887) | (1,730) | (1,549) |
| Pro forma net earnings | $ 10,905 | $ 7,869 | $ 16,927 | $ 16,015 |
| Earnings per share: | | | | |
| Basic - as reported | $ .49 | $ .36 | $ .77 | $ .73 |
| Basic - pro forma | $ .45 | $ .33 | $ .70 | $ .66 |
| Diluted - as reported | $ .48 | $ .36 | $ .77 | $ .72 |
| Diluted - pro forma | $ .45 | $ .32 | $ .69 | $ .65 |

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 is not expected to have a material 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 require 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. SFAS No. 149 will be applied prospectively. The adoption of SFAS No. 149 is not expected to have a material effect on the Company's financial position or results of operations.

(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 is not expected to have a material effect on the Company's financial position or results of operations.

(4) COMPREHENSIVE INCOME

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net earnings | $ 11,789 | $ 8,756 | $ 18,657 | $ 17,564 |
| Change in fair value of derivative financial instruments, net of tax | (14) | (2,588) | 203 | (1,410) |
| Total comprehensive income | $ 11,775 | $ 6,168 | $ 18,860 | $ 16,154 |

(5) SEGMENT INFORMATION

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Revenues: | | | | |
| Marine transportation | $ 137,156 | $ 107,346 | $ 262,221 | $ 216,336 |
| Diesel engine services | 21,583 | 22,132 | 44,718 | 44,579 |
| | $ 158,739 | $ 129,478 | $ 306,939 | $ 260,915 |
| Segment profit (loss): | | | | |
| Marine transportation | $ 21,782 | $ 16,183 | $ 35,486 | $ 32,144 |
| Diesel engine services | 2,172 | 2,609 | 4,589 | 4,980 |
| Other | (4,939) | (4,670) | (9,983) | (8,796) |
| | $ 19,015 | $ 14,122 | $ 30,092 | $ 28,328 |

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| Total assets: | | |
| Marine transportation | $ 780,786 | $ 726,353 |
| Diesel engine services | 43,240 | 45,531 |
| Other | 21,686 | 19,874 |
| | $ 845,712 | $ 791,758 |

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| General corporate expenses | $ (1,498) | $ (1,254) | $ (3,114) | $ (2,690) |
| Gain (loss) on disposition of assets | (126) | 27 | (133) | 168 |
| Interest expense | (3,867) | (3,366) | (7,321) | (6,873) |
| Equity in earnings of marine affiliates | 751 | 137 | 1,187 | 940 |
| Other expense | (199) | (214) | (602) | (341) |
| | $ (4,939) | $ (4,670) | $ (9,983) | $ (8,796) |

(5) SEGMENT INFORMATION - (Continued)

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

| | June 30, 2003 | December 31, 2002 |
|---|---|---|
| General corporate assets | $ 12,402 | $ 9,636 |
| Investment in marine affiliates | 9,284 | 10,238 |
| | $ 21,686 | $ 19,874 |

(6) TAXES ON INCOME

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Provision for taxes on income: | | | | |
| Current | $ 6,164 | $ 4,837 | $ 10,274 | $ 10,967 |
| Deferred | 566 | 32 | 306 | (1,015) |
| State and local | 496 | 497 | 855 | 812 |
| | $ 7,226 | $ 5,366 | $ 11,435 | $ 10,764 |

(7) EARNINGS PER SHARE

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net earnings | $ 11,789 | $ 8,756 | $ 18,657 | $ 17,564 |
| Basic earnings per share: | | | | |
| Weighted average number of common shares outstanding | 24,105 | 24,146 | 24,084 | 24,113 |
| Basic earnings per share | $ .49 | $ .36 | $ .77 | $ .73 |
| Diluted earnings per share: | | | | |
| Weighted average number of common shares outstanding | 24,105 | 24,146 | 24,084 | 24,113 |
| Dilutive shares applicable to stock options | 307 | 405 | 286 | 436 |
| Shares applicable to diluted earnings | 24,412 | 24,551 | 24,370 | 24,549 |
| Diluted earnings per share | $ .48 | $ .36 | $ .77 | $ .72 |

Certain outstanding options to purchase approximately 386,000 and 124,000 shares of common stock were excluded in the computation of diluted earnings per share as of June 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 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 June 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.

(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.

## 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 40 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.

## RESULTS OF OPERATIONS

The Company reported second quarter 2003 net earnings of $11,789,000, or $.48 per share, on revenues of $158,739,000, compared with second quarter 2002 net earnings of $8,756,000, or $.36 per share, on revenues of $129,478,000. Net earnings for the six months ended June 30, 2003 were $18,657,000, or $.77 per share, on revenues of $306,939,000, compared with net earnings of $17,564,000, or $.72 per share, on revenues of $260,915,000 for the first six months of 2002.

Marine transportation revenues for the 2003 second quarter totaled $137,156,000, or 86% of total revenues, compared with $107,346,000, or 83% of total revenues for the 2002 second quarter. For the first six months of 2003, marine transportation revenues totaled $262,221,000, or 85% of total revenues, compared with $216,336,000, or 83% of total revenues for the first six months of 2002. Diesel engine services revenue for the 2003 second quarter totaled $21,583,000, or 14% of total revenues, compared with $22,132,000, or 17% of total revenues for the 2002 second quarter. For the first six months of 2003, diesel engine services revenues totaled $44,718,000, or 15% of total revenues, compared with $44,579,000, or 17% of total revenues for the first six 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 second quarters of 2003 and 2002 were 24,412,000 and 24,551,000, respectively, and for the first six months of 2003 and 2002 were 24,370,000 and 24,549,000, respectively. The decrease in the weighted average number of common shares for both comparable 2003 and 2002 periods primarily reflected fewer dilutive shares applicable to stock option plans due to the exclusion 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 June 30, 2003, the marine transportation segment operated 897 active inland tank barges, with a total capacity of 16.3 million barrels, compared with 811 active inland tank barges at June 30, 2002, with a total capacity of 14.4 million barrels. At December 31, 2002, the segment operated 909 active inland tank barges with a capacity of 16.6 million barrels. The segment also operated an average of 226 inland towboats during the 2003 second quarter and an average of 228 towboats for the six months ended June 30, 2003. This compared with an average of 199 towboats operated during the second quarter of 2002 and 202 during the first six 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.

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 six months ended June 30, 2003 compared with the three months and six months ended June 30, 2002 (dollars in thousands):

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | % Change | 2003 | 2002 | % Change |
| Marine transportation revenues | $ 137,156 | $ 107,346 | 28% | $ 262,221 | $ 216,336 | 21% |
| Costs and expenses: | | | | | | |
| Costs of sales and operating expenses | 85,050 | 66,202 | 28 | 168,221 | 132,649 | 27 |
| Selling, general and administrative | 14,837 | 12,141 | 22 | 28,620 | 25,776 | 11 |
| Taxes, other than on income | 3,342 | 2,104 | 59 | 6,244 | 4,303 | 45 |
| Depreciation and other amortization | 12,145 | 10,716 | 13 | 23,650 | 21,464 | 10 |
| | 115,374 | 91,163 | 27 | 226,735 | 184,192 | 23 |
| Operating income | $ 21,782 | $ 16,183 | 35% | $ 35,486 | $ 32,144 | 10% |
| Operating margins | 15.9% | 15.1% | | 13.5% | 14.9% | |

MARINE TRANSPORTATION REVENUES

Revenues for the marine transportation segment for the 2003 second quarter were 28% over the 2002 second quarter and the 2003 first six months were 21% over the 2002 first half. 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 second quarter improved compared with the second quarter of 2002. Volumes transported into the Midwest have shown a gradual improvement since the second quarter of 2002, as Midwest manufacturers replenished low inventory levels of petrochemicals. Black oil volumes were strong during the 2003 second quarter, as residual fuel continued to serve as a substitute for natural gas and cat cracker feedstock for the production of refined products. Movements of refined products into the Midwest improved during the 2003 second quarter, as low Midwest gasoline inventory levels and the Gulf Coast versus Chicago gasoline price differentials encouraged the movement of Gulf Coast manufactured refined products into the Midwest. Refined products volumes were weak during the first quarter of 2003, showing some improvement in late March. For the second quarter and first half of 2002, refined products volumes were weak due to high Midwest inventories that reduced the demand for waterborne movements. With natural gas prices being high the

MARINE TRANSPORTATION REVENUES - (CONTINUED)

entire first half of 2003, U.S. production of nitrogen-based fertilizer was curtailed, and volumes of liquid fertilizer moved were significantly reduced. Liquid fertilizer movements in the second quarter and first half of 2002 were also weak, as significant rainfall in the Midwest kept farmers out of their fields, reducing the demand for fertilizer usage and creating high inventory levels.

During the 2003 second quarter and first six 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 first six months, while spot market rates for the first six months of 2003 increased modestly over 2002 levels.

MARINE TRANSPORTATION COSTS AND EXPENSES

Total costs and expenses for the 2003 second quarter and first six months were 27% and 23%, respectively, above the second quarter of 2002 and first half 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 second quarter were 28% higher and the 2003 first half were 27% higher, respectively, than the comparable periods for 2002, reflecting additional vessel personnel and higher operating expenses from the acquisitions noted above. In addition, 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. In addition, the segment incurred significantly higher fuel costs during the first quarter of 2003. 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 compared with 72 cents for the 2002 second quarter. 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 approximately $.05 per share, of which approximately $.03 per share was recovered in the 2003 second quarter.

The segment consumed 14.5 million gallons of diesel fuel in the 2003 second quarter compared with 11.3 million gallons consumed in the second quarter of 2002. For the first six months of 2003, the segment consumed 27.4 million gallons of diesel fuel compared with 22.0 million gallons consumed in the first six months of 2002. The increase for both comparable periods reflected the acquisitions noted above.

MARINE TRANSPORTATION COSTS AND EXPENSES - (CONTINUED)

Selling, general and administrative expenses for the 2003 second quarter increased 22% compared with the 2002 second quarter, and increased 11% in the 2003 first six months compared with the first six months of 2002. The increase for both comparable periods reflected higher incentive compensation accruals and additional administrative personnel to support the acquisitions noted above.

Taxes, other than on income, for the 2003 second quarter and first six months increased 59% and 45%, 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 second quarter and first six months increased 13% and 10%, 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 second quarter increased 35% compared with the second quarter of 2002. For the first six months of 2003, the operating income for the marine transportation segment increased 10% compared with the first six months of 2002. The operating margin for the 2003 second quarter was 15.9% compared with 15.1% for the 2002 second quarter. The operating margin for the first six months of 2003 was 13.5% compared with 14.9% for the first six months of 2002.

The higher operating margin for the 2003 second quarter reflected improved volumes in all marine transportation products when compared with the 2002 second quarter, excluding liquid fertilizer volumes, and the two acquisitions noted above. The lower operating margin in the 2003 first six 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 second quarter and first six 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 margins.

DIESEL ENGINE SERVICES

The Company, through its diesel engine services segment, sells genuine replacement parts, provides service mechanics to overhaul and repair large medium-speed 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.

DIESEL ENGINE SERVICES - (CONTINUED)

The following table sets forth the Company's diesel engine services segment's revenues, costs and expenses, operating income and operating margins for the three months and six months ended June 30, 2003 compared with the three months and six months ended June 30, 2002 (dollars in thousands):

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | % Change | 2003 | 2002 | % Change |
| Diesel engine services revenues | $ 21,583 | $ 22,132 | (2)% | $ 44,718 | $ 44,579 | -% |
| Costs and expenses: | | | | | | |
| Costs of sales and operating expenses | 16,076 | 16,473 | (2) | 33,705 | 33,432 | 1 |
| Selling, general and administrative | 2,994 | 2,780 | 8 | 5,748 | 5,598 | 3 |
| Taxes, other than on income | 77 | 62 | 24 | 160 | 149 | 7 |
| Depreciation and other amortization | 264 | 208 | 27 | 516 | 420 | 23 |
| | 19,411 | 19,523 | (1) | 40,129 | 39,599 | 1 |
| Operating income | $ 2,172 | $ 2,609 | (17)% | $ 4,589 | $ 4,980 | (8)% |
| Operating margins | 10.1% | 11.8% | | 10.3% | 11.2% | |

DIESEL ENGINE SERVICES REVENUES

The diesel engine services segment's revenues for the 2003 second quarter decreased 2% compared with the 2002 second quarter. For the 2003 first half, revenues were slightly higher than the corresponding period of 2002. During both 2003 periods, the segment benefited from a strong power generation market, particularly parts shipments to nuclear customers, several large parts sales for international oilfield customers in the Gulf Coast and a strong East Coast marine market in the 2003 first quarter. A very poor Midwest dry cargo barge market essentially offset these favorable markets. For both 2002 periods, the segment reported a strong power generation market, East Coast marine market and railroad market, partially offset by a weak Gulf Coast oil drilling and supply vessel market.

DIESEL ENGINE SERVICES COSTS AND EXPENSES

Costs of sales and operating expenses for the 2003 second quarter decreased 2% compared with the second quarter of 2002, while costs of sales and operating expenses for the 2003 first half increased 1% compared with the corresponding 2002 period. Selling, general and administrative expenses were 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 second quarter decreased 17% compared with the second quarter of 2002, while the operating income for the 2003 first six months fell 8% compared with the first six months of 2002. The operating margin for the second quarter of 2003 was 10.1% compared with 11.8% for the second quarter of 2002. The operating margin for the 2003 first six months was 10.3%, down from the 11.2% earned in the first half of 2002.

GENERAL CORPORATE EXPENSES

General corporate expenses for the 2003 second quarter totaled $1,498,000, or 19% higher than the second quarter of 2002. General corporate expenses for the 2003 first six months were $3,114,000, a 16% increase compared with the 2002 first six 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 six months ended June 30, 2003 compared with the three months and six months ended June 30, 2002 (dollars in thousands):

| | Three months ended June 30, | | | Six months ended June 30, | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | % Change | 2003 | 2002 | % Change |
| Gain (loss) on disposition of assets | $ (126) | $ 27 | (567)% | $ (133) | $ 168 | (179)% |
| Equity in earnings of marine affiliates | $ 751 | $ 137 | 448 % | $ 1,187 | $ 940 | 26 % |
| Other expense | $ (199) | $ (214) | (7)% | $ (602) | $ (341) | 77 % |
| Interest expense | $ (3,867) | $ (3,366) | 15 % | $ (7,321) | $ (6,873) | 7 % |

EQUITY IN EARNINGS OF MARINE AFFILIATES

Equity in earnings of marine affiliates, consisting primarily of a 35% owned offshore marine partnership, increased $614,000, or 448%, for the 2003 second quarter compared with the 2002 second quarter, and increased $247,000, or 26%, in the 2003 first six months compared with the 2002 first six months. The favorable results reflected higher utilization of the four offshore dry-cargo barge and tug units in the partnership compared with the prior comparable periods of 2002, when one of the units was in the shipyard for the entire second quarter and the major customer's coal dock facility was closed for repair for two weeks during the 2002 second quarter.

INTEREST EXPENSE

Interest expense for the 2003 second quarter increased 15% compared with the 2002 second quarter. For the 2003 first six months, interest expense increased 7% compared with the 2002 first six 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 second quarters of 2003 and 2002, including the effect of interest rate swaps, were $293,814,000 and 5.3%, and $240,500,000 and 5.6%, respectively. For the first six months of 2003 and 2002, the average debt and average interest rate, including the effect of interest rate swaps, were $292,408,000 and 5.1%, and $241,200,000 and 5.7%, respectively.

FINANCIAL CONDITION, CAPITAL RESOURCES AND LIQUIDITY

BALANCE SHEET

Total assets as of June 30, 2003 were $845,712,000 a 7% 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 June 30, 2003 compared with December 31, 2002 (dollars in thousands):

| | June 30, 2003 | December 31, 2002 | % Change |
|---|---|---|---|
| Assets: | | | |
| Current assets | $ 125,830 | $ 119,468 | 5 % |
| Property and equipment, net | 535,482 | 486,852 | 10 |
| Investment in marine affiliates | 9,284 | 10,238 | (9) |
| Goodwill - net | 156,726 | 156,726 | -- |
| Other assets | 18,390 | 18,474 | -- |
| | $ 845,712 | $ 791,758 | 7 % |
| Liabilities and stockholders' equity: | | | |
| Current liabilities | $ 97,425 | $ 91,245 | 7 % |
| Long-term debt - less current portion | 294,853 | 265,665 | 11 |
| Deferred income taxes | 85,882 | 85,768 | -- |
| Minority interest and other long-term liabilities | 24,526 | 25,769 | (5) |
| Stockholders' equity | 343,026 | 323,311 | 6 |
| | $ 845,712 | $ 791,758 | 7 % |

Current assets as of June 30, 2003 increased 5% compared with December 31, 2002. Trade accounts receivable increased 9%, 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 10%, primarily due to the collection of claims receivables and the downward adjustment of certain claims.

BALANCE SHEET - (CONTINUED)

Property and equipment, net of accumulated depreciation, at June 30, 2003 increased 10% compared with December 31, 2002. The increase reflected $37,723,000 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 $24,966,000 of depreciation expense for the 2003 first six months.

Current liabilities as of June 30, 2003 increased 7% compared with December 31, 2002. The increase was primarily due to higher casualty loss accruals, shipyard maintenance accruals, accrued interest for the new senior term loan, and the classification $1,726,000 of fair value of interest rate swap agreements as short-term instead of long-term as they mature in the next twelve months. In addition, accounts payable, waterway use taxes, and property taxes increased due to higher business activity levels and the acquisition of the SeaRiver fleet. Offsetting these increases were lower employee incentive compensation accruals as a result of the timing of such compensation payments.

Long-term debt, less current portion, as of June 30, 2003 increased 11% 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 half capital expenditures, less the paydown of long-term debt from cash flow generated by the Company in the 2003 first half.

Stockholders' equity as of June 30, 2003 increased 6% compared with December 31, 2002. The increase primarily reflected 2003 first six months net earnings of $18,657,000, a decrease in treasury stock of $1,757,000 and the recording of $1,137,000 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 June 30, 2003, $17,000,000 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 June 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 June 30, 2003, $25,000,000 was outstanding under the Term Loan. The principal amounts due within one year were classified as long-term debt, as the Company 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 June 30, 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

LONG-TERM FINANCING - (CONTINUED)

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 June 30, 2003, $250,000,000 was outstanding under the Senior Notes. The Company was in compliance with all Senior Notes covenants at June 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 June 30, 2003, $2,700,000 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 June 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 Paribus ("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. The Company did not have any borrowings outstanding under the Credit Note as of June 30, 2003.

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 June 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 June 30, 2003, there were no outstanding debt securities under the shelf registration.

In February and April 2001, the Company hedged a portion of 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 swaps with notional amounts totaling $100,000,000 were executed in February 2001 and three-year interest rate swaps 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 with a one-year interest rate swap with a notional amount of $100,000,000. The February and April 2001 interest rate swaps totaling $150,000,000 were re-designated as cash flow hedges for the Senior Notes. 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, an average fixed rate of 5.64% on a notional amount of $100,000,000 for five years, and a fixed rate of 1.39% on a notional amount of $100,000,000 for one year, and will receive floating rate interest payments based on LIBOR. The interest rate swaps are designated as cash flow hedges and 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 June 30, 2003, the Company had a total notional amount of $250,000,000 of interest rate swaps designated as

LONG-TERM FINANCING - (CONTINUED)

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 first six months. At June 30, 2003, the total fair value of the interest rate swap agreements was $12,091,000, of which $1,726,000 was recorded as accrued liabilities for swap maturities within the next twelve months, and $10,365,000 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 $1,650,000 and $1,361,000 for the three months ended June 30, 2003 and 2002, respectively, and $3,125,000 and $2,646,000 for the six months ended June 30, 2003 and 2002, respectively. The Company anticipates $4,053,000 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 June 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 six months totaled $37,723,000, of which $8,141,000 was for construction of new tank barges and $29,582,000 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 six months.

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. The total purchase price of the six barges is approximately $8,900,000, of which $780,000 was funded in 2002, $3,945,000 in the 2003 first six months, with the balance to be expended in the 2003 second half.

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 six 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 eight anticipated to be delivered in the 2003 second half

CAPITAL EXPENDITURES - (CONTINUED)

and eight in the first half of 2004. The total purchase price of the 16 barges is approximately $29,000,000, of which no payments have been made to date. 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 six months, the Company did not purchase any treasury stock. As of August 12, 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 $45,290,000 during the first six months of 2003, 67% higher than the $27,104,000 generated during the first six months of 2002. The 2003 and 2002 first six months were negatively influenced by unfavorable cash flow from working capital of $1,607,000 and $12,900,000, respectively.

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 six months ended June 30, 2003 and 2002, the Company received net cash totaling $2,141,000 and $1,108,000, respectively, from the marine partnerships.

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 August 12, 2003, $136,218,000 under its Revolving Credit Facility and $121,000,000 under its shelf registration program, subject to mutual agreement to terms. As of August 11, 2003, the Company had $9,154,000 available under its Credit Line and $3,000,000 available under its Credit Note.

LIQUIDITY - (CONTINUED)

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 $5,434,000 term loan outstanding at June 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 June 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.

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.

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

The Company is exposed to market risk from changes in interest rates on certain of its outstanding debt and changes in fuel prices. 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%. The potential impact on the Company of fuel price increases is limited because most of its term contracts contain escalation clauses under which increases in fuel costs, among others, can be passed on to the customers, while its spot contract rates are set based on prevailing fuel prices. The Company does not presently use commodity derivative instruments to manage its fuel costs. The Company has no foreign exchange risk.

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.

In February and April 2001, the Company hedged a portion of its exposure to fluctuations in short-term interest rates 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. 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, an average fixed rate of 5.64% on a notional amount of $100,000,000 for five years, and a fixed rate of 1.39% on a notional amount of $100,000,000 for one year, 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 June 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 second quarter and first six months. At June 30, 2003, the total fair value of the interest rate swap agreements was $12,091,000, of which $1,726,000 was recorded as accrued liabilities for swap maturities within the next twelve months, and $10,365,000 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 $1,650,000 and $1,361,000 for the three months ended June 30, 2003 and 2002, respectively and $3,125,000 and $2,646,000 for the six months ended June 30, 2003 and 2002, respectively. Fair value amounts were determined as of June 30, 2003 and 2002 based on quoted market values of the Company's portfolio of derivative instruments.

## 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 was 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.

## 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 April 24, 2003 stated that the Company issued a press release announcing the Company's first 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: August 12, 2003

Exhibit 31.1

# CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended June 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: August 12, 2003

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the filing of the Quarterly Report on Form 10-Q for the quarter ended June 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

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

Dated: August 12, 2003

Exhibit 32

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 June 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<br>
President and Chief Executive Officer

/s/ NORMAN W. NOLEN

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

Dated: August 12, 2003