KIRBY CORP
Form 10-Q
August 01, 2008

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 quarterly period ended June 30, 2008

o 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 (State or other jurisdiction of incorporation or organization)	74-1884980 (IRS Employer Identification No.)
55 Waugh Drive, Suite 1000, Houston, TX (Address of principal executive offices)	77007 (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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares outstanding of the registrant's Common Stock, $.10 par value per share, on August 1, 2008 was 54,036,000.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS
(Unaudited)

ASSETS

	June 30, 2008	December 31, 2007
	($ in thousands)	
Current assets:		
Cash and cash equivalents	$ 6,122	$ 5,117
Accounts receivable:		
Trade – less allowance for doubtful accounts	201,835	175,876
Other	12,841	7,713
Inventory – finished goods	49,471	53,377
Prepaid expenses and other current assets	25,595	18,731
Deferred income taxes	7,645	6,529
Total current assets	303,509	267,343
Property and equipment	1,594,191	1,489,930
Less accumulated depreciation	622,885	583,832
Property and equipment, net	971,306	906,098
Goodwill – net	230,736	229,292
Other assets	27,828	27,742
Total assets	$ 1,533,379	$ 1,430,475

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED BALANCE SHEETS
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2008	December 31, 2007
	($ in thousands)	
Current liabilities:		
Current portion of long-term debt	$ 1,243	$ 1,368
Income taxes payable	6,464	9,182
Accounts payable	102,154	100,908
Accrued liabilities	67,594	73,191
Deferred revenues	7,920	6,771
Total current liabilities	185,375	191,420
Long-term debt – less current portion	297,646	296,015
Deferred income taxes	141,031	130,899
Minority interests	2,984	2,977
Other long-term liabilities	41,801	39,334
Total long-term liabilities	483,462	469,225
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 120,000,000 shares, issued 57,337,000 shares	5,734	5,734
Additional paid-in capital	221,130	211,983
Accumulated other comprehensive income – net	(21,439)	(22,522)
Retained earnings	724,673	647,692
	930,098	842,887
Less cost of 3,301,000 shares in treasury (3,806,000 at December 31, 2007)	65,556	73,057
Total stockholders' equity	864,542	769,830
Total liabilities and stockholders' equity	$ 1,533,379	$ 1,430,475

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF EARNINGS
(Unaudited)

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
	($ in thousands, except per share amounts)			
Revenues:				
Marine transportation	$ 281,906	$ 229,745	$ 543,134	$ 438,810
Diesel engine services	66,354	58,263	135,696	123,409
Total revenues	348,260	288,008	678,830	562,219
Costs and expenses:				
Costs of sales and operating expenses	220,259	180,608	428,605	356,207
Selling, general and administrative	33,451	29,468	66,323	59,974
Taxes, other than on income	3,455	3,255	6,988	6,389
Depreciation and amortization	22,385	20,280	44,712	39,867
Loss (gain) on disposition of assets	(500)	62	(442)	561
Total costs and expenses	279,050	233,673	546,186	462,998
Operating income	69,210	54,335	132,644	99,221
Other expense	(329)	(55)	(586)	(205)
Interest expense	(3,508)	(5,436)	(7,290)	(10,590)
Earnings before taxes on income	65,373	48,844	124,768	88,426
Provision for taxes on income	(25,039)	(18,707)	(47,787)	(33,867)
Net earnings	$ 40,334	$ 30,137	$ 76,981	$ 54,559
Net earnings per share of common stock:				
Basic	$ .75	$ .57	$ 1.44	$ 1.03
Diluted	$ .74	$ .56	$ 1.42	$ 1.02

See accompanying notes to condensed financial statements.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30, 2008	2007
	($ in thousands)	
Cash flows from operating activities:		
Net earnings	$ 76,981	$ 54,559
Adjustments to reconcile net earnings to net cash provided by operations:		
Depreciation and amortization	44,712	39,867
Provision for deferred income taxes	10,360	2,257
Amortization of unearned compensation	4,799	2,985
Other	(40)	1,561
Decrease in cash flows resulting from changes in operating assets and liabilities, net	(37,986)	(13,644)
Net cash provided by operating activities	98,826	87,585
Cash flows from investing activities:		
Capital expenditures	(106,511)	(95,572)
Acquisitions of business and marine equipment, net of cash acquired	(5,134)	(49,392)
Proceeds from disposition of assets	1,267	661
Other	—	(52)
Net cash used in investing activities	(110,378)	(144,355)
Cash flows from financing activities:		
Borrowings on bank credit facilities, net	2,500	73,400
Payments on long-term debt, net	(1,035)	(172)
Proceeds from exercise of stock options	8,687	2,759
Purchase of treasury stock	(3,175)	—
Excess tax benefit from equity compensation plans	6,051	1,941
Other	(471)	(363)
Net cash provided by financing activities	12,557	77,565
Increase in cash and cash equivalents	1,005	20,795
Cash and cash equivalents, beginning of year	5,117	2,653
Cash and cash equivalents, end of period	$ 6,122	$ 23,448
Supplemental disclosures of cash flow information:		
Cash paid during the period:		
Interest	$ 7,316	$ 10,218
Income taxes	$ 38,800	$ 29,420
Noncash investing activity:		
Cash acquired in acquisition	$ —	$ 10

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 June 30, 2008 and December 31, 2007, and the results of operations for the three months and six months ended June 30, 2008 and 2007.

(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, 2007.

(2) ACCOUNTING ADOPTIONS

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities by defining fair value, establishing a framework for measuring fair value and expanding disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements but does not require any new fair value measurements. In February 2008, the FASB issued a FASB Staff Position ("FSP") on SFAS No. 157 that delays the effective date of SFAS No. 157 by one year for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company adopted SFAS No. 157 effective January 1, 2008, with the exceptions allowed under the FSP described above, with no effect on the Company's financial position or results of operations. The Company is currently evaluating the impact of the adoption of SFAS No. 157 related to the nonfinancial assets and nonfinancial liabilities exceptions allowed under the FSP described above on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

In February 2007, the FASB issued FASB No. 159, "The Fair Value Option of Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure eligible financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. The Company adopted SFAS No. 159 effective January 1, 2008 with no effect on the Company's financial position or results of operations as the Company has currently chosen not to elect the fair value option for any eligible items that are not already required to be measured at fair value in accordance with generally accepted accounting principles.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(2) ACCOUNTING ADOPTIONS – (Continued)

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at June 30, 2008 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Measurements
Assets:				
Derivatives	$ —	$ 1,086	$ —	$ 1,086
Liabilities:				
Derivatives	$ —	$ 6,736	$ —	$ 6,736

In December 2007, the FASB issued FASB No. 141R, "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R provides guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS No. 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, goodwill acquired and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for acquisitions beginning in the Company's fiscal year ending December 31, 2009 and earlier application is prohibited.

In December 2007, the FASB issued FASB No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary to improve the relevance, comparability and transparency of the financial information that a reporting entity provides in its consolidated financial statements. The Company is currently evaluating the impact of the adoption of SFAS No. 160 on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

In March 2008, the FASB issued FASB No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 amends and expands the disclosure requirements of FASB Statement No. 133 with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The Company is currently evaluating the impact of the adoption of SFAS No. 161 on its consolidated financial statements, which the Company is required to adopt beginning in the first quarter of 2009.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(3) ACQUISITIONS

On June 30, 2008, the Company purchased substantially all of the assets of Lake Charles Diesel, Inc. (“Lake Charles Diesel”) for $3,334,000 in cash. In July 2008, an additional $272,000 in cash was paid for the post-closing inventory adjustment. Lake Charles Diesel is a Gulf Coast high-speed diesel engine services provider operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and Volvo engines, as well as an authorized marine dealer for Caterpillar engines in Louisiana.

On March 18, 2008, the Company purchased six inland tank barges from OFS Marine One, Inc. (“ORIX”) for $1,800,000 in cash. The Company had been leasing the barges from ORIX prior to their purchase.

On October 1, 2007, the Company purchased nine inland tank barges from Siemens Financial, Inc. (“Siemens”) for $4,500,000 in cash. The Company had been leasing the barges since 1994 when the leases were assigned to the Company as part of the Company’s purchase of the tank barge fleet of The Dow Chemical Company (“Dow”).

On July 20, 2007, the Company purchased substantially all of the assets of Saunders Engine and Equipment Company, Inc. (“Saunders”) for $13,288,000 in cash and the assumption of $245,000 of debt. Saunders was a Gulf Coast high-speed diesel engine services provider operating factory-authorized full service marine dealerships for Cummins, Detroit Diesel and John Deere engines, as well as an authorized marine dealer for Caterpillar engines in Alabama.

On February 23, 2007, the Company purchased the assets of P&S Diesel Service, Inc. (“P&S”) for $1,622,000 in cash. P&S was a Gulf Coast high-speed diesel engine services provider operating as a factory-authorized marine dealer for Caterpillar in Louisiana.

On February 13, 2007, the Company purchased from NAK Engineering, Inc. (“NAK”) for a net $3,540,000 in cash, the assets and technology to support the Nordberg medium-speed diesel engines used in nuclear applications. As part of the transaction, Progress Energy Carolinas, Inc. (“Progress Energy”) and Duke Energy Carolinas, LLC (“Duke Energy”) made payments to the Company for non-exclusive rights to the technology and entered into ten-year exclusive parts and service agreements with the Company. Nordberg engines are used to power emergency diesel generators used in nuclear power plants owned by Progress Energy and Duke Energy.

On January 3, 2007, the Company purchased the stock of Coastal Towing, Inc. (“Coastal”), the owner of 37 inland tank barges, for $19,474,000 in cash. The Company had been operating the Coastal tank barges since October 2002 under a barge management agreement.

On January 2, 2007, the Company purchased 21 inland tank barges from Cypress Barge Leasing, LLC (“Cypress”) for $14,965,000 in cash. The Company had been leasing the barges since 1994 when the leases were assigned to the Company as part of the Company’s purchase of the tank barge fleet of Dow.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(3) ACQUISITIONS – (Continued)

On October 4, 2006, the Company signed agreements to purchase 11 inland tank barges from Midland Marine Corporation ("Midland") and Shipyard Marketing, Inc. ("Shipyard") for $10,600,000 in cash. The Company purchased four of the barges during 2006 for $3,300,000 and the remaining seven barges on February 15, 2007 for $7,300,000. The Company had been leasing the barges from Midland and Shipyard prior to their purchase.

On July 24, 2006, the Company signed an agreement to purchase the assets of Capital Towing Company ("Capital"), consisting of 11 towboats, for $15,000,000 in cash. The Company purchased nine of the towboats during 2006 for $13,299,000 and the remaining two towboats on May 21, 2007 for $1,701,000. The Company and Capital entered into a vessel operating agreement whereby Capital will continue to crew and operate the towboats for the Company.

Pro forma results of the acquisitions made in the 2008 first half and the 2007 year have not been presented, as the pro forma revenues, earnings before taxes on income, net earnings and net earnings per share would not be materially different from the Company's actual results.

(4) STOCK AWARD PLANS

The Company has share-based compensation plans which are described below. The compensation cost that has been charged against earnings for the Company's stock award plans and the income tax benefit recognized in the statement of earnings for stock awards for the three months and six months ended June 30, 2008 and 2007 were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Compensation cost	$ 2,641	$ 1,665	$ 4,799	$ 2,985
Income tax benefit	1,012	637	1,838	1,143

The Company has four employee stock award plans for selected officers and other key employees which provide for the issuance of stock options and restricted stock. No additional options or restricted stock can be granted under two of the plans. For all of the plans, the exercise price for each option equals the fair market value per share of the Company's common stock on the date of grant. The terms of the options granted prior to February 10, 2000 are ten years and the options vest ratably over four years. Options granted on and after February 10, 2000 have terms of five years and vest ratably over three years. At June 30, 2008, 2,172,751 shares were available for future grants under the employee plans and no outstanding stock options under the employee plans were issued with stock appreciation rights.

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(4) STOCK AWARD PLANS – (Continued)

The following is a summary of the stock award activity under the employee plans described above for the six months ended June 30, 2008:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
Outstanding December 31, 2007	930,450	$ 23.48
Granted	321,927	$ 48.18
Exercised	(553,614)	$ 20.06
Outstanding June 30, 2008	698,763	$ 30.99

The following table summarizes information about the Company's outstanding and exercisable stock options under the employee plans at June 30, 2008:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Aggregated Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregated Intrinsic Value
$ 16.96 - $20.89	166,256	.69	$ 17.41		166,256	$ 17.41	
$ 22.05 - $27.60	219,874	2.31	$ 25.57		148,734	$ 24.77	
$ 35.66 - $36.94	154,138	3.56	$ 35.69		38,290	$ 35.70	
$ 48.00 - $48.65	158,495	4.59	$ 48.18		—	—	
$ 16.96 - $48.65	698,763	2.72	$ 30.99	$11,886,000	353,280	$ 22.49	$9,012,000

On March 6, 2008, the Board of Directors approved amendments to the Company's 2005 Employee Stock and Incentive Plan ("2005 Plan") to (1) increase the number of shares that may be issued under the plan from 2,000,000 to 3,000,000 shares and (2) increase the maximum amount of cash that may be paid to any participant pursuant to any performance award under the 2005 Plan during any calendar year from $2,000,000 to $3,000,000, subject to stockholder approval. The amendments were approved by the stockholders at the Annual Meeting of Stockholders held on April 22, 2008.

The Company has two director stock award plans for nonemployee directors of the Company which provide for the issuance of stock options and restricted stock. No additional options or restricted stock can be granted under one of the plans. The 2000 Director Plan provides for the automatic grants of stock options and restricted stock to nonemployee directors on the date of first election as a director and after each annual meeting of stockholders. In addition, the 2000 Director Plan provides for the issuance of stock options or restricted stock in lieu of cash for all or part of the annual director fee. The exercise prices for all options granted under the plans are equal to the fair market value per share of the Company's common stock on the date of grant. The terms of the options are ten years. The options granted when first elected as a director vest immediately. The options granted and restricted stock issued after each annual meeting of stockholders vest six months after the date of grant. Options granted and restricted stock issued in lieu of cash director fees vest in equal quarterly increments during the year to which they relate. At June 30, 2008, 442,707 shares were available for future grants under the 2000

KIRBY CORPORATION AND CONSOLIDATED SUBSIDIARIES

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

(4) STOCK AWARD PLANS – (Continued)

Director Plan. The director stock award plans are intended as an incentive to attract and retain qualified and competent independent directors.

The following is a summary of the stock award activity under the director plans described above for the six months ended June 30, 2008:

	Outstanding Non-Qualified or Nonincentive Stock Awards	Weighted Average Exercise Price
Outstanding December 31, 2007	304,342	$ 21.66
Granted	78,855	$ 55.49
Exercised	(73,625)	$ 13.43
Outstanding June 30, 2008	309,572	