EGL INC
Form 10-Q
May 10, 2004

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 March 31, 2004

or

[

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Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___ to ___

Commission File Number 0-27288

EGL, INC.

(Exact name of registrant as specified in its charter)

Texas

76-0094895

(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

15350 Vickery Drive, Houston, Texas 77032

(281) 618-3100

(Address of Principal Executive Offices, Including Registrant s Zip Code, and Telephone Number, Including Area Code)

N/A

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 Exchange Act Rule 12b-2).

YES X NO ____

At April 30, 2004 the number of shares outstanding of the registrant s common stock was 45,131,880 (net of 982,908 treasury shares).

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EGL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(in thousands, except par values)

	March 31, 2004	**December 31, 2003**
ASSETS		

Current assets:		
	$	$
Cash and cash equivalents	90,220	95,916
Restricted cash	14,212	13,567
Short-term investments and marketable securities	598	543
Trade receivables, net of allowance of $13,111 and $12,342	442,364	447,353
Other receivables	19,905	19,453
Deferred income taxes	9,887	10,710
Income tax receivable	875	2,349
Other current assets	28,512	24,363
Total current assets	606,573	614,254
Property and equipment, net	165,867	164,038
Investments in unconsolidated affiliates	39,677	38,957
Goodwill	96,496	96,209
Deferred income taxes	3,636	3,624
Other assets, net	26,450	27,156
	$	$
Total assets	938,699	944,238
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
	$	$
Trade payables and accrued transportation costs	282,420	268,354
Accrued salaries and related costs	42,299	41,470
Accrued restructuring, merger and integration costs	5,499	6,474
Current portion of long-term notes payable	19,755	13,017
Income taxes payable	507	269
Accrued selling, general and administrative expenses and other liabilities	61,209	55,034
Total current liabilities	411,689	384,618
Long-term notes payable	112,975	114,407
Deferred income taxes	10,726	10,911
Other noncurrent liabilities	12,904	12,906
Total liabilities	548,294	522,842
Minority interests	6,892	6,800
Commitments and contingencies (Notes 6 and 8)		
Stockholders equity:		
	46	48

Common stock, $0.001 par value, 200,000 shares authorized; 46,066 and 48,415 shares issued; 45,083 and 47,432 shares outstanding		
Additional paid-in capital	115,298	153,051
Retained earnings	304,072	298,091
Accumulated other comprehensive loss	(18,955)	(19,601)
Unearned compensation	(111)	(156)
Treasury stock, 983 shares held	(16,837)	(16,837)
Total stockholders equity	383,513	414,596
	$	$
Total liabilities and stockholders equity	938,699	944,238

See notes to unaudited condensed consolidated financial statements.

EGL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2004	**2003**
	$	$
Revenues	585,959	483,650
Cost of transportation	385,586	316,084
Net revenues	200,373	167,566
Operating expenses:		
Personnel costs	114,122	98,111
Other selling, general and administrative expenses	74,803	64,817
Operating income	11,448	4,638
Nonoperating expense, net	(972)	(142)
Income before provision for income taxes	10,476	4,496
Provision for income taxes	4,495	1,701
Net income	$	$

	5,981	2,795
	$	$
Basic earnings per share	0.13	0.06
Basic weighted-average common shares outstanding	46,894	47,066
	$	$
Diluted earnings per share	0.13	0.06
Diluted weighted-average common shares outstanding	47,136	47,277

See notes to unaudited condensed consolidated financial statements.

EGL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in thousands)

	Three Months Ended March 31,	
	2004	**2003**
Cash flows from operating activities:		
	$	$
Net income	5,981	2,795
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,278	7,729
Bad debt expense	2,212	1,753
Stock-based compensation expense	147	-
Impairment of assets	13	33
Deferred income tax expense	642	1,614
Tax benefit of stock options exercised	50	75
Equity in earnings of affiliates	(720)	(4)
Minority interests	185	263

Transfers to restricted cash	(639)	(7,182)
Other	(2)	(393)
Net effect of changes in working capital, net of assets acquired	19,743	(1,484)
Net cash provided by operating activities	35,890	5,199
Cash flows from investing activities:		
Capital expenditures	(8,489)	(4,313)
Purchase of short-term investments	(55)	-
Proceeds from sales of other assets	206	324
Acquisitions of businesses, net of cash acquired	-	(1,733)
Net cash used in investing activities	(8,338)	(5,722)
Cash flows from financing activities:		
Issuance of notes payable, net	6,818	321
Repayment of financed insurance premiums and software maintenance, net	(1,386)	(2,399)
Repayment of capital leases	(123)	-
Repurchases of common stock	(38,109)	-
Proceeds from exercise of stock options	202	598
Dividends paid to minority interest partners	(16)	-
Net cash used in financing activities	(32,614)	(1,480)
Effect of exchange rate changes on cash	(634)	(1,227)
Decrease in cash and cash equivalents	(5,696)	(3,230)
Cash and cash equivalents, beginning of the period	95,916	111,477
Cash and cash equivalents, end of the period	$ 90,220	$ 108,247

See notes to unaudited condensed consolidated financial statements.

EGL, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(unaudited)

(in thousands)

Common stock Treasury stock Total

	Shares	Amount	Additional paid-in capital	Retained earnings	Shares	Amount	Accumulated other comprehensive income (loss)	Unearned compensation	
Balance at December 31, 2003	48,415	$ 48	$ 153,051	$ 298,091	(983)	$ (16,837)	$ (19,601)	$ (156)	$ 414,596
Net income	-	-	-	5,981	-	-	-	-	5,981
Foreign currency translation adjustments	-	-	-	-	-	-	646	-	646
Repurchase and retirement of common stock	(2,369)	(2)	(38,107)	-	-	-	-	-	(38,109)
Exercise of stock options, including tax benefit	20	-	252	-	-	-	-	-	252
Stock-based compensation expense	-	-	102	-	-	-	-	45	147
Balance at March 31, 2004	46,066	$ 46	$ 115,298	$ 304,072	(983)	$ (16,837)	$ (18,955)	$ (111)	$ 383,513

See notes to unaudited condensed consolidated financial statements.

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EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared by EGL, Inc. (EGL or the Company) in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial statements and, accordingly, do not include all information and footnotes required under generally accepted accounting principles for complete financial statements. The financial statements have been prepared in conformity with the accounting principles and practices disclosed in, and should be read in conjunction with, the annual financial statements of the Company included in the Company s Annual Report on Form 10-K (File No. 0-27288). In the opinion of management, these interim financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Company s financial position at March 31, 2004 and the results of its operations and cash flows for the three months ended March 31, 2004. Results of operations and cash flows for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for EGL s full fiscal year.

Note 1 - Organization, operations and summary of significant accounting policies

EGL is a global transportation, supply chain management and information services company operating in one business segment and dedicated to providing flexible logistics solutions on a price competitive basis. The Company s services include air and ocean freight forwarding, customs brokerage, local pick up and delivery service, materials management, warehousing, trade facilitation and procurement and integrated logistics and supply chain management services. The Company provides services in over 100 countries on six continents through offices around the world as well as through its worldwide network of exclusive and nonexclusive agents. The principal markets for all lines of business are North America, Europe and Asia with significant operations in the Middle East, South America and South Pacific (see Note 11).

Basis of presentation and principles of consolidation

The accompanying condensed consolidated financial statements include EGL and all of its wholly-owned subsidiaries and investments which the Company controls, through majority ownership or other variable interests. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in 50% or less owned affiliates, over which the Company has significant influence, are accounted for by the equity method. The Company has reclassified certain prior year amounts to conform with the current year presentation.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Management considers many factors in selecting appropriate operational and financial accounting policies and controls, and in developing the assumptions that are used in the preparation of these financial statements. Management must apply significant judgment in this process. Among the factors, but not fully inclusive of all factors that may be considered by management in these processes are: the range of accounting policies permitted by accounting principles generally accepted in the United States of America; management s understanding of the Company s business both historical results and expected future results; the extent to which operational controls exist that provide high degrees of assurance that all desired information to assist in the estimation is available and reliable or whether there is greater uncertainty in the information that is available upon which to base the estimate; expectations of the future performance of the economy, both domestically and globally, within various areas that serve the Company s principal customers and suppliers of goods and services; expected rates of change, sensitivity and volatility associated with the assumptions used in developing estimates; and whether historical trends are expected to be representative of future trends. The estimation process often times may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that lies within that range of reasonable estimates which may result in the selection of estimates which could be viewed as conservative or aggressive by others. Management uses its business and financial accounting judgment in selecting the most appropriate estimates; however, actual amounts could and will differ from those estimates.

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EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Stock-based compensation

At March 31, 2004, the Company has seven stock-based employee compensation plans under which stock-based awards have been granted. The Company accounts for stock-based awards to employees and non-employee directors using the intrinsic value method prescribed in Accounting Principles Board No. 25, Accounting for Stock Issued to Employees, and related interpretations. The intrinsic value method used by the Company generally results in no compensation expense being recorded for stock option grants made by the Company because those grants are typically made with option exercise prices substantially equal to fair market value at the date of option grant. The application of the alternative fair value method under SFAS No. 123 (SFAS 123), Accounting for Stock-Based Compensation, which estimates the fair value of the option awarded to the employee, would result in compensation expense being recognized over the period of time that the employee s rights in the options vest. The following table illustrates the pro forma effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands):

	Three Months Ended March 31,	
	2004	**2003**
	$	$
Net income as reported	5,981	2,795
Add: Total stock-based compensation expense included in net income net of tax	94	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(900)	(1,431)
	$	$
Pro forma net income	5,175	1,364
Earnings per share:		
	$	$
Basic-as reported	0.13	0.06

Basic-pro forma	0.11	0.03
Diluted-as reported	0.13	0.06
Diluted-pro forma	0.11	0.03

Comprehensive income (loss)

Components of comprehensive income (loss) are as follows (in thousands):

	Three Months Ended March 31,	
	2004	**2003**
	$	$
Net income	5,981	2,795
Recognition in earnings of net deferred loss on swaps	-	2
Foreign currency translation adjustments	646	(39)
	$	$
Comprehensive income	6,627	2,758

New accounting pronouncements

In January 2003, the Financial Accounting Standards Board issued FIN No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB 51 (as amended, FIN 46R). The primary objectives of FIN 46R are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (variable interest entities or VIEs) and how to determine when and which business enterprise should consolidate the VIE (the primary beneficiary). This new model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is

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insufficient to finance that entity s activities without receiving additional subordinated financial support from other parties. In addition, FIN 46R requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The provisions of FIN 46R are effective for the Company as of December 31, 2003, with early adoption encouraged. The Company and certain independent owner-operators lease vehicles from an affiliate of the Company, Ashton Leasing, Ltd. (Ashton). The Company is a limited partner of Ashton and, prior to the adoption of FIN 46R, used the equity method to account for its investment in Ashton. The Company adopted FIN 46R effective October 1, 2003 and consolidated Ashton, which did not have a material impact on the Company s financial statements.

Note 2 - Derivative instruments

In April 2001, the Company entered into a two year interest rate swap agreement, which was designated as a cash flow hedge, to reduce its exposure to fluctuations in interest rates on $70 million of its LIBOR based revolving credit facility or any substitute debt agreements the Company enters into. Accordingly, the change in the fair value of the swap agreement was initially recorded in other comprehensive income (loss). In December 2001, the Company issued $100 million of 5% convertible subordinated notes due December 15, 2006. The proceeds from these notes substantially retired the LIBOR based debt outstanding under the then-existing revolving credit agreement. The interest rate on the convertible notes is fixed; therefore, the variability of the future interest payments has been eliminated. The swap agreement no longer qualified for cash flow hedge accounting and was de-designated as of December 7, 2001. The net loss on the swap agreement included in other comprehensive income (loss) as of December 7, 2001, was $2.0 million and was amortized to interest expense over the remaining life of the swap agreement. Subsequent changes in the fair value of the swap agreement were recorded in interest expense. During the three months ended March 31, 2003, the Company recorded $379,000 in net interest expense related to the interest rate swap agreement.

In conjunction with its aircraft charter agreements, the Company was obligated to pay current market prices for jet fuel. During November 2002, the Company entered into a one year jet fuel swap agreement to hedge the Company s exposure to volatility in market prices for jet fuel. The Company originally designated this swap as a cash flow hedge. Due to changes in the market prices of jet fuel and the associated volatility during the first quarter of 2003, the swap agreement was ineffective for the three months ended March 31, 2003, and on a prospective basis, and no longer qualified for cash flow hedge accounting. The Company reclassified all previously deferred gains recorded as a component of accumulated other comprehensive loss as of March 31, 2003. Changes in the fair value of the swap agreement after March 2003 were recognized in earnings. During the three months ended March 31, 2003, the Company recorded $564,000 in nonoperating income for associated realized and unrealized gains. The Company had no aircraft charter agreements in place as of March 31, 2004.

Note 3 - Earnings per share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the three months ended March 31, 2004 and 2003. Diluted earnings per share includes potential dilution that could occur if options to issue common stock were exercised or convertible debt was exchanged for common stock. Stock options and shares related to the convertible notes issued in December 2001 are the only potentially dilutive share equivalents the Company has outstanding for the periods presented.

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EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The table below indicates the potential common shares issuable which were included for purposes of computing diluted earnings per common share (in thousands):

	Three Months Ended March 31,	
	2004	**2003**
Weighted average common shares outstanding - used in basic earnings per common share	46,894	47,066
Net dilutive potential common shares issuable on exercise of options	242	211
Weighted average common shares and dilutive potential common shares used in diluted earnings per common share	47,136	47,277

The table below indicates the potential common shares issuable which were excluded from diluted potential common shares as their effect would be anti-dilutive (in thousands):

Three Months Ended