

EGL INC  
Form 10-Q  
August 09, 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 June 30, 2004.

or

[

]

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**

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(State or Other Jurisdiction of Incorporation or Organization)

(IRS Employer Identification No.)

**15350 Vickery Drive, Houston, Texas 77032**

**(281) 618-3100**

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

N/A

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Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

YES  NO

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

YES  NO

At August 2, 2004 the number of shares outstanding of the registrant's common stock was 44,695,800 (net of 944,376 treasury shares).

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**EGL, INC.**

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**EGL, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(unaudited)**

*(in thousands, except par values)*

	<b>June 30,</b>	<b>December 31,</b>
	<b>2004</b>	<b>2003</b>
<b>ASSETS</b>		
Current assets:		
	\$	\$
Cash and cash equivalents	71,675	95,916
Restricted cash	14,259	13,567
Short-term investments and marketable securities	597	543
Trade receivables, net of allowance of \$11,855 and \$12,342	489,405	447,353
Other receivables	18,943	19,453
Deferred income taxes	10,443	10,710
Income taxes receivable	-	2,349
Other current assets	25,828	24,363
Total current assets	631,150	614,254
Property and equipment, net	170,461	164,038
Investments in unconsolidated affiliates	41,095	38,957
Goodwill	108,749	96,209
Deferred income taxes	5,154	3,624
Other assets, net	27,041	27,156
	\$	\$
Total assets	983,650	944,238
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
	\$	\$
Trade payables and accrued transportation costs	315,324	268,354
Accrued salaries and related costs	50,048	41,470
Accrued merger restructuring costs	2,690	6,474
Current portion of notes payable	24,305	13,017
Income taxes payable	2,907	269
Accrued selling, general and administrative expenses and other liabilities	64,341	55,034

Total current liabilities	459,615	384,618
Long-term notes payable	109,487	114,407
Deferred income taxes	12,362	10,911
Other noncurrent liabilities	18,469	12,906
Total liabilities	599,933	522,842
Minority interests	619	6,800
Commitments and contingencies (Notes 6 and 8)		
Stockholders' equity:		
Common stock, \$0.001 par value, 200,000 shares authorized; 45,584 and 48,415 shares issued; 44,636 and 47,432 shares outstanding	46	48
Additional paid-in capital	105,336	153,051
Retained earnings	316,778	298,091
Accumulated other comprehensive loss	(22,485)	(19,601)
Unearned compensation	(347)	(156)
Treasury stock, 948 and 983 shares held	(16,230)	(16,837)
Total stockholders' equity	383,098	414,596
	\$	\$
Total liabilities and stockholders' equity	983,650	944,238

See notes to unaudited condensed consolidated financial statements.

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**EGL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

**(unaudited)**

*(in thousands, except per share amounts)*

**Six Months Ended**

**June 30,**

**2004**

**2003**

Revenues

\$

1,227,017

\$

1,010,513

Cost of transportation

817,983

657,417

Net revenues

409,034

353,096

Operating expenses:

Personnel costs

229,890

204,052

Other selling, general and administrative expenses

154,417

132,195

Operating income

24,727

16,849

Nonoperating income (expense), net

5,759

(1,951)

Income before provision for income taxes

30,486

14,898

Provision for income taxes



11,799

5,636

Net income

\$

18,687

\$

9,262

Basic earnings per share

\$

0.41

\$

0.20

Basic weighted-average common shares outstanding

45,819

47,110

Diluted earnings per share

\$

0.40

\$

0.20

Diluted weighted-average common shares outstanding

51,872

47,355

See notes to unaudited condensed consolidated financial statements.

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**EGL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**  
*(in thousands, except per share amounts)*

**Three Months Ended**

**June 30,**

**2004**

**2003**

Revenues

\$

641,058

\$

526,863

Cost of transportation

432,397

341,333

Net revenues

208,661

185,530

Operating expenses:

Personnel costs

115,768

105,941

Other selling, general and administrative expenses

79,614

67,378

Operating income

13,279

12,211

Nonoperating income (expense), net

6,731

(1,809)

Income before provision for income taxes

20,010

10,402

Provision for income taxes

7,304

3,935

Net income

\$

12,706

\$

6,467

Basic earnings per share

\$

0.28

\$

0.14

Basic weighted-average common shares outstanding

44,744

47,154

Diluted earnings per share

\$

0.27

\$

0.14

Diluted weighted-average common shares outstanding

50,944

47,424

See notes to unaudited condensed consolidated financial statements.

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**EGL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(unaudited)**

*(in thousands)*

**Six Months Ended**

**June 30,**

**2004**

**2003**

Cash flows from operating activities:

Net income

\$

18,687

\$

9,262

Adjustments to reconcile net income to net cash provided by  
operating activities:

Depreciation and amortization

17,030

15,377

Bad debt expense

2,601

4,457

Stock-based compensation expense

226

-

Deferred income tax expense

245

2,808

Tax benefit of stock options exercised

1,083

200

Equity in earnings of affiliates

(2,138)

(105)

Minority interests

314

636

Transfers to restricted cash

(759)

(3,286)

Gain on sale of unconsolidated affiliate



(6,738)

-

Other

365

(114)

Net effect of changes in working capital, net of assets acquired

26,347

(24,020)

Net cash provided by operating activities

57,263

5,215

Cash flows from investing activities:

Capital expenditures

(21,827)

(10,832)

Purchases of short-term investments

(54)

-

Proceeds from sales of other assets

749

540

Proceeds from sale-lease back transactions

-

1,158

Acquisitions of businesses, net of cash acquired

(19,416)

(21,084)

Proceeds from sale of unconsolidated affiliate

6,738

-

Collection of capital leases issued

346

-

Net cash used in investing activities

(33,464)

(30,218)

Cash flows from financing activities:

Borrowings on credit facilities, net

5,229

31

Repayment of financed insurance premiums, software licenses and  
maintenance, net

(2,198)

(4,553)

Repayment of capital leases

(371)

-

Repurchases of common stock

(59,079)

-

Issuance of common stock for employee stock purchase plan

319

272

Proceeds from exercise of stock options

10,150

1,247

Dividends paid to minority interest partners

(18)

(93)

Net cash used in financing activities

(45,968)

(3,096)

Effect of exchange rate changes on cash

(2,072)

(894)

Decrease in cash and cash equivalents

(24,241)

(28,993)

Cash and cash equivalents, beginning of the period

95,916

111,477

Cash and cash equivalents, end of the period

\$

71,675

\$

82,484

See notes to unaudited condensed consolidated financial statements.

**EGL, INC.**  
**CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY**  
**(unaudited)**  
*(in thousands)*

	Common stock			Retained earnings	Treasury stock		Accumulated other comprehensive income (loss)	Unearned compensation	Total
	Shares	Amount	Additional paid-in capital		Shares	Amount			
Balance at December 31, 2003	48,415	\$ 48	\$ 153,051	\$ 298,091	(983)	\$ (16,837)	\$ (19,601)	\$ (156)	\$ 414,596
Net income	-	-	-	18,687	-	-	-	-	18,687
Foreign currency translation adjustments	-	-	-	-	-	-	(2,884)	-	(2,884)
Issuance of shares under employee stock purchase plan	-	-	(42)	-	21	361	-	-	319
Repurchase and retirement of common stock	(3,402)	(3)	(59,076)	-	-	-	-	-	(59,079)
Exercise of stock options and restricted stock awards with related tax benefit	571	1	11,301	-	14	246	-	(315)	11,233
Stock-based compensation expense	-	-	102	-	-	-	-	124	226
Balance at June 30, 2004	45,584	\$	\$	\$	(948)	\$	\$	\$	\$

46	105,336	316,778	(16,230)	(22,485)	(347)	383,098
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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 June 30, 2004 and the results of its operations for the three and six months ended June 30, 2004 and its cash flows for the six months ended June 30, 2004. Results of operations for the three and six months ended June 30, 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, India, 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 period amounts to conform with the current period 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 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**

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 Opinion 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



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alternative fair value method under Statement of Financial Accounting Standards 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, except per share amounts):

	<b>Six Months Ended</b>		<b>Three Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	\$	\$	\$	\$
Net income as reported	18,687	9,262	12,706	6,467
Add: Total stock-based compensation expense included in net income, net of tax	163	-		