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).

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)

	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.

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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.

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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EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

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 March 31,	
	2004	**2003**
Net dilutive potential common shares issuable:		
On exercise of options - exercise price greater than average market value during period	3,928	4,421
On conversion of convertible senior notes	5,736	5,736

Note 4 - Merger transaction, restructuring and integration costs

The Company maintains an accrual for charges established under its fourth quarter 2000 plan (the Plan) to integrate the former EGL and Circle operations and to eliminate duplicate facilities resulting from the merger. The principal components of the Plan involved the termination of certain employees at the former Circle s headquarters and various international locations, elimination of duplicate facilities in the United States and certain international locations, and the termination of selected joint venture and agency agreements. With the exception of payments to be made for remaining future lease obligations, the terms of the Plan were substantially completed in 2001. There were no charges incurred under the Plan in the three months ended March 31, 2004 or 2003. The changes in the accrual during the three months ended March 31, 2004 and the remaining unpaid accrued charges as of December 31, 2003 and March 31, 2004 are as follows (in thousands):

	Accrued Liability at December 31, 2003	**Payments/ Reductions**	**Foreign Currency Translation**	**Accrued Liability at March 31, 2004**
	$	$	$	$
Severance costs	451	-	-	451
Future lease obligations, net of subleasing	5,800	(1,007)	25	4,818
Termination of joint venture/agency agreements	223	-	7	230
	$ 6,474	$ (1,007)	$ 32	$ 5,499

Future lease obligations consist of the Company s remaining lease obligations under noncancelable operating leases at domestic and international locations that the Company has vacated and consolidated due to excess capacity resulting from the Company having multiple facilities in certain locations. All lease costs for facilities being consolidated were charged to operations until the date that the Company vacated each facility.

Amounts recorded for future lease obligations under the Plan are net of approximately $17.8 million in anticipated future recoveries from actual sublease agreements and $11.7 million from expected sublease agreements as of

March 31, 2004. Sublease income has been anticipated under the Plan only in locations where sublease agreements have been executed as of March 31, 2004 or are deemed probable of execution. The Company s lease agreements for these facilities expire from 2004 to 2025 and sublease agreements expire from 2004 to 2012. There is a risk that subleasing transactions will not occur within the same timing or pricing assumptions made by the Company, or at all, which could result in future revisions to these estimates.

Note 5 - Notes payable

Convertible subordinated notes

In December 2001, the Company issued $100 million aggregate principal amount of 5% convertible subordinated notes. The notes bear interest at an annual rate of 5%. Interest is payable on June 15 and December 15 of each year. The notes mature on December 15, 2006. Deferred financing fees incurred in connection with the transaction totaled $3.2 million and are being amortized over five years as a component of interest expense.

The notes are convertible at any time up to four trading days prior to maturity into shares of common stock at a conversion price of approximately $17.4335 per share, subject to certain adjustments, which was a premium of 20.6% of the stock price at the issuance date. This is equivalent to a conversion rate of 57.3608 shares per $1,000 principal amount of notes. Upon conversion, a noteholder will not receive any cash representing accrued interest, other than in the case of a conversion in connection with an optional redemption. The shares that are potentially issuable may impact the Company s diluted earnings per share calculation in future periods by approximately 5.7 million shares. As of March 31, 2004, the fair value of these notes was $115.9 million.

The Company may redeem the notes on or after December 20, 2004 at specified redemption prices, plus accrued and unpaid interest to, but excluding, the redemption date. Upon a change in control (as defined in the indenture for the notes), a noteholder may require the Company to purchase its notes at 100% of the principal amount of the notes, plus accrued and unpaid interest to, but excluding, the purchase date.

The notes are general unsecured obligations of the Company. The notes are subordinated in right of payment to all of the Company s existing and future senior indebtedness as defined in the indenture. The Company and its subsidiaries are not prohibited from incurring senior indebtedness or other debt under the indenture for the notes. The notes impose some restrictions on mergers and sales of substantially all of the Company s assets.

Credit agreements

Effective December 20, 2001, the Company amended and restated its existing credit facility which was amended most recently as of March 12, 2004 (Restated Credit Facility). The Restated Credit Facility is with a syndicate of three financial institutions, with Bank of America, N.A. (the Bank) as collateral and administrative agent for the lenders, and matures on December 20, 2004. The Restated Credit Facility provides a revolving line of credit of up to the lesser of:

-

$100 million, or

-

an amount equal to:

-

up to 85% of the net amount of the Company s billed and posted eligible accounts receivable and the billed and posted eligible accounts receivable of its wholly-owned domestic subsidiaries and its operating subsidiary in Canada, subject to some exceptions and limitations, plus

-

up to 85% of the net amount of the Company s billed and unposted eligible accounts receivable and billed and unposted eligible accounts receivable of its wholly-owned domestic subsidiaries owing by account debtors located in the United States, subject to a maximum aggregate availability cap of $10 million, plus

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up to 50% of the net amount of the Company s unbilled, fully earned and unposted eligible accounts receivable and unbilled, fully earned and unposted eligible accounts receivable of its wholly-owned domestic subsidiaries owing by account debtors located in the United States, subject to a maximum aggregate availability cap of $10 million, minus

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reserves from time to time established by the Bank in its reasonable credit judgment.

The aggregate of the last four sub-bullet points above is referred to as the Company s eligible borrowing base.

The maximum amount that the Company can borrow at any particular time may be less than the amount of its revolving credit line because the Company is required to maintain a specified amount of borrowing availability under the Restated Credit Facility based on the Company s eligible borrowing base. The required amount of borrowing availability is currently $25 million. The amount of borrowing availability is determined by subtracting the following from the Company s eligible borrowing base: (a) the Company s borrowings under the Restated Credit Facility and (b) the Company s accounts payable and the accounts payable of all of its domestic subsidiaries and its Canadian operating subsidiary that remain unpaid more than the longer of (i) sixty days from their respective invoice dates or (ii) thirty days from their respective due dates.

The Restated Credit Facility includes a $50 million letter of credit subfacility. The Company had $30.8 million in letters of credit and standby letters of credit (see Note 6) outstanding and $4.8 million drawn as of March 31, 2004 under this facility. The collateral value associated with the revolving line of credit at March 31, 2004 was $194 million which exceeds the maximum revolving credit line of $100 million. Therefore, the Company had available, unused borrowing capacity of $64.4 million as of March 31, 2004.

For each tranche of principal borrowed under the revolving line of credit, the Company may elect an interest rate of either LIBOR plus an applicable margin of 2.00% to 2.75% that varies based upon availability under the line, or the prime rate announced by the Bank, plus, if the borrowing availability is less than $25 million, an applicable margin of 0.25%.

The Company refers to borrowings bearing interest based on LIBOR as a LIBOR tranche and to other borrowings as a prime rate tranche. The interest on a LIBOR tranche is payable on the last day of the interest period (one, two or three months, as selected by the Company) for such LIBOR tranche. The interest on a prime rate tranche is payable monthly.

The Company is subject to certain covenants under the terms of the Restated Credit Facility, including, but not limited to: (a) maintenance at the end of each fiscal quarter of a minimum specified adjusted tangible net worth and (b) quarterly and annual limitations on capital expenditures of $12 million per quarter or $48 million cumulative per year.

The Restated Credit Facility also places restrictions on additional indebtedness, dividends, liens, investments, acquisitions, asset dispositions, change of control and other matters, is secured by substantially all of the Company s assets, and is guaranteed by all of the Company s domestic subsidiaries and the Company s Canadian operating subsidiary. In addition, the Company will be subject to additional restrictions, including restrictions with respect to distributions and asset dispositions if the Company s eligible borrowing base falls below $40 million. Events of default under the Restated Credit Facility include, but are not limited to, the occurrence of a material adverse change in the Company s operations, assets or financial condition or its ability to perform under the Restated Credit Facility or that of any of the Company s domestic subsidiaries or its Canadian operating subsidiary.

The Company s Restated Credit Facility expires in December 2004 and the Company expects to extend or replace the facility before its expiration. However, the Company cannot provide assurance that additional financing will be available to it on acceptable terms, or at all.

Note 6 Guarantees

The Company guarantees certain financial liabilities, the majority of which relate to the Company s freight forwarding operations. The Company, in the normal course of business, is required to guarantee certain amounts related to customs bonds and services received from airlines. These types of guarantees are usual and customary in the freight forwarding industry. The Company operates as a customs broker and prepares and files all formal documentation required for clearance through customs agencies, obtains customs bonds, facilitates the payment of import duties on behalf of the importer and arranges for payment of collect freight charges. The Company also assists the importer in obtaining the most advantageous commodity classifications, qualifying for duty drawback refunds and arranges for surety bonds for importers.

The Company secures guarantees primarily by three methods: a $50 million standby letter of credit subfacility discussed in Note 5, surety bonds and security time deposits which are restricted as to withdrawal for a specified timeframe and are classified on the Company s balance sheet in restricted cash.

The Company issues IATA (International Air Transportation Association) related guarantees, customs bonds and other working capital credit facilities issued in the normal course of business. IATA related guarantees and customs bonds are issued to facilitate the movement and clearance of freight. Working capital credit line guarantees include, but are not limited to, guarantees associated with insurance requirements and certain potential tax obligations. Generally, guarantees have one-year or two-year terms and are renewed upon expiration. As of March 31, 2004, total IATA related guarantees, customs bonds and other working capital credit line facilities were approximately $87.6 million. Approximately $48.4 million of guarantees, customs bonds and borrowings against credit facilities were outstanding, including guarantees of the Company s trade payables and accrued transportation costs and borrowings against its international credit facilities of $24.7 million which were recorded as liabilities on the Company s condensed consolidated balance sheet.

Additionally, at March 31, 2004 the Company had guaranteed certain other financial liabilities related to unconsolidated affiliates and joint venture investments as detailed below.

In connection with its investment in Miami Air International, Inc. (Miami Air), a privately held domestic and international passenger charter airline headquartered in Miami, Florida, the Company caused a $3.0 million standby letter of credit to be issued in favor of certain creditors for Miami Air to assist Miami Air with its financing needs. Miami Air agreed to pay the Company an annual fee equal to 3.0% of the face amount of the letter of credit and to reimburse the Company for any payments made by the Company in respect to the letter of credit. As of March 31, 2004, Miami Air had a $3.0 million letter of credit facility and $1.9 million in letters of credit outstanding. Miami Air secured its outstanding letters of credit with restricted cash during the first quarter of 2004, eliminating the Company s exposure on the outstanding letters of credit (see Notes 10 and 12).

In connection with the Company s investment in TDS Logistics, Inc. (TDS), the Company caused a standby letter of credit to be issued in favor of a creditor for TDS to assist TDS with its financing needs. As of March 31, 2004, TDS had a $5.0 million credit facility supported by the Company s $2.0 million standby letter of credit and standby letters of credit from other TDS investors. As of March 31, 2004, TDS had $2.0 million in borrowings outstanding against the facility. As of March 31, 2004, the Company had a $200,000 liability recorded in the condensed consolidated

balance sheet, representing the estimated fair value of the standby letter of credit for TDS.

In connection with two of the Company s consolidated 51% owned subsidiaries, the Company has guaranteed 100% of the working capital line of credit and other various operational guarantees of each of these affiliates. As of March 31, 2004, the maximum amount of these guarantees was $4.5 million with $1.8 million drawn and $2.6 million of letters of credit and customs bonds outstanding against the facility.

In connection with its acquisition of Miami International Forwarders (MIF), a privately held international freight forwarder and customs broker based in Miami, Florida, in April 2003, the Company is contingently liable for a two-year

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earnout payment of up to $8.0 million in cash if certain post-acquisition performance criteria are achieved. In connection with the acquisition of the Company s operating subsidiary in Thailand, the Company is also contingently liable for earnout payments of up to $1.1 million in 2004 if certain post-acquisition performance criteria are achieved. Contingent payments will be recorded at the time that the amounts of the payments are determinable by the Company. No payments were made during the first quarter of 2004.

Note 7 Share repurchase program

On February 25, 2004, the Company adopted a stock repurchase program (the Program) to repurchase up to $15 million of our common stock over the 120 days following adoption of the Program. On March 5, 2004, the Board of Directors approved an increase in the maximum amount of shares to be repurchased from $15 million to up to $65 million of the Company s common stock and extended the Program for an additional 120 days. As of March 31, 2004, the Company repurchased and retired $38.1 million, or 2.4 million shares, at an average price of $16.09 per share.

Note 8 Legal matters

EEOC legal settlement

On October 2, 2001, the U.S. Equal Employment Opportunity Commission (the EEOC) and EGL announced the filing of a Consent Decree settlement. This settlement resolves all claims of discrimination and/or harassment raised by the EEOC s Commissioner s Charge. The EEOC s Commissioner s Charge was issued in December 1997 and subsequent events were most recently disclosed in our Form 10-K for the year ended December 31, 2003. Under the Consent Decree, the Company agreed to pay $8.5 million into a fund (the Class Fund) that will compensate individuals who claim to have experienced discrimination. The settlement covers (1) claims by applicants arising between December 1, 1995 and December 31, 2000; (2) disparate pay claims arising between January 1, 1995 and April 30, 2000; (3) promotion claims arising between December 1, 1995 and December 31, 1998; and (4) all other adverse treatment claims arising between December 31, 1995 and December 31, 2000. In addition, the Company agreed to contribute $500,000 to establish a Leadership Development Program (the Leadership Development Fund). This Program will provide training and educational opportunities for women and minorities already employed by the Company and will also establish scholarships and work study opportunities at educational institutions. In entering the Consent Decree, the Company has not made any admission of liability or wrongdoing. The Consent Decree was approved by the District Court in Houston on October 1, 2001. The Consent Decree became effective on October 3, 2002 following the dismissal of all appeals related to the Decree. During the quarter ended September 30, 2001, the Company accrued $10.1 million related to the settlement, which included the $8.5 million payment into the Class Fund and $500,000 into the Leadership Development Fund described above, administrative costs, legal fees and other costs associated with the EEOC litigation and settlement. During the third and fourth quarters of 2003, the Company reversed $1.4 million of the accrual for certain administrative functions completed in 2003 in which actual costs were less than amounts accrued and for payroll taxes the Company will not be required to pay.

The Consent Decree settlement provides that the Company establish and maintain segregated accounts for the Class Fund and Leadership Development Fund. The Company made an initial deposit of $2.5 million to the Class Fund within 30 days after the Consent Decree was approved and was required to fund the remaining $6.0 million of the Class Fund in equal installments of $2.0 million each on or before the fifth day of the first month of the calendar quarter (January 5th, April 5th and October 5th) immediately after the effective date of the Consent Decree. The Leadership Development Fund was funded fully at the time of the first quarterly payment as discussed above. The Company made the final required payment to the Class Fund in September 2003. The $9.0 million contributed to the Leadership Development Fund and Class Fund is included as restricted cash in the accompanying condensed consolidated balance sheet. Total related accrued liabilities included in the accompanying condensed consolidated balance sheet at March 31, 2004 were $10.0 million.

Of the eight named plaintiffs who filed suit against the Company in 2000 alleging gender, race and national origin discrimination, as well as sexual harassment, one has accepted a settlement of her claims against the Company.

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The claims of one of the named plaintiffs have been dismissed by the court. The remaining six individuals who were named plaintiffs in the underlying action have submitted claims to be considered for settlement compensation under the Consent Decree. The claims administration process is currently underway; however, it could be several months before it is completed and Claimants are notified of whether they qualify for settlement compensation and, if so, the amount for which they qualify. Once Claimants are notified of their eligibility status by the Claims Administrator, they have an option to reject the settlement compensation and pursue litigation on their own behalf and without the aid of the EEOC. To the extent any of the individual plaintiffs or any other persons who might otherwise be covered by the settlement opt out of the settlement, the Company intends to continue to vigorously defend itself against their allegations. The Company currently expects to prevail in its defense of any remaining individual claims. There can be no assurance as to what amount of time it will take to resolve the other lawsuits and related issues or the degree of any adverse effect these matters may have on the Company s financial condition and results of operations. A substantial settlement payment or judgment could result in a significant decrease in the Company s working capital and liquidity and recognition of a loss in the Company s consolidated statement of operations.

Other legal matters

In addition, the Company is party to routine litigation incidental to its business, which primarily involve other employment matters or claims for goods lost or damaged in transit or improperly shipped. Many of the other lawsuits to which the Company is a party are covered by insurance and are being defended by the Company s insurance carriers. The Company has established accruals for these other matters and it is management s opinion that the resolution of such litigation will not have a material adverse effect on the Company s consolidated financial position. However, a substantial settlement payment or judgment in excess of the Company s accruals could have a material adverse effect on the Company s consolidated results of operations or cash flows.

Note 9 Employee benefit plans

The Company maintains the EGL, Inc. 401(k) Plan pursuant to which the Company provides up to dollar for dollar discretionary matching of employee tax-deferred savings up to a maximum of 5% of eligible compensation for employees in the United States. Each participant vests in the Company s contribution over the course of five years at a vesting rate of 20% per year. During the three months ended March 31, 2004 the Company recorded charges of $250,000 related to discretionary contributions to this plan. No charges were recorded during the three months ended March 31, 2003.

Certain of our international subsidiaries sponsor defined benefit pension plans covering certain full-time employees. Benefits are based on the employee s years of service and compensation. The Company s plans are funded in conformity with the funding requirements of applicable government regulations of the country in which the plans are located. These foreign plans are not subject to the United States Employee Retirement Income Security Act of 1974. Components of compensation expense consisted of the following (in thousands):

	Three Months Ended March 31,	
	2004	**2003**
	$	$
Service cost	445	545

Interest cost	408	405
Expected return on plan assets	(360)	(369)
Curtailment cost	(3)	(6)
Amortization of prior service cost	87	69
	$	$
Net benefit cost	577	644

Contributions to the defined benefit plans for the three months ended March 31, 2004 and 2003 were approximately $641,000 and $558,000, respectively. Estimated contributions to the defined benefit plans for the period of April 1 to December 31, 2004 are approximately $2.1 million.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Note 10 Related party transactions

Investment in Miami Air International, Inc.

In July 2000, the Company purchased 24.5% of the outstanding common stock of Miami Air for approximately $6.3 million in cash. In the transaction, certain stockholders of Miami Air sold 82% of the aggregate number of outstanding shares of Miami Air common stock to private investors, including the Company, James R. Crane and Frank J. Hevrdejs, a member of the Company s Board of Directors. Mr. Crane purchased 19.2% of the outstanding common stock for approximately $4.7 million in cash and Mr. Hevrdejs purchased 6.0% of the outstanding common stock for approximately $1.5 million in cash.

In May 2004, the Company sold its investment in Miami Air in exchange for approximately $6.7 million in cash. As a result of the sale, the Company will be released as guarantor of Miami Air s letter of credit and expects to terminate its $3.0 million standby letter of credit for Miami Air (see Note 6).

Aircraft usage payments

In conjunction with the Company s business activities, the Company periodically utilizes aircraft owned by entities controlled by Mr. Crane. The Company is charged for actual usage of the plane on an hourly basis and billed on a periodic basis. During the three months ended March 31, 2004 and 2003, respectively, the Company reimbursed the entities controlled by Mr. Crane approximately $504,000 and $126,000, respectively, for hourly usage of the plane.

Note 11 - Geographic and services information

The Company operates in one segment and is organized functionally in geographic divisions. Accordingly, management focuses its attention on revenues, net revenues and income from operations associated with each of these geographic divisions when evaluating the effectiveness of geographic management. Certain information regarding the Company s operations by geographic division is summarized below (in thousands):

	North America	South America	Europe, Middle East, India & Africa	Asia & South Pacific	Eliminations and Adjustments	Consolidated
Three months ended March 31, 2004						
	$	$	$	$	$	$
Total revenues	297,713	18,610	137,005	148,110	(15,479)	585,959
Transfers between divisions	(5,193)	(1,413)	(4,598)	(4,275)	15,479	-
	$	$	$	$	$	$
Revenues from customers	292,520	17,197	132,407	143,835	-	585,959
Total net revenues	$	$	$	$	$	$

	122,729	4,159	47,401	26,084	-	200,373
Intercompany (profits) losses	1,778	(1,035)	(1,847)	1,104	-	-
	$	$	$	$	$	$
Net revenues	124,507	3,124	45,554	27,188	-	200,373
	$	$	$	$	$	$
Income before taxes	3,077	391	2,179	4,829	-	10,476
Three months ended March 31, 2003						
	$	$	$	$	$	$
Total revenues	256,277	23,796	104,818	111,463	(12,704)	483,650
Transfers between divisions	(4,114)	(1,409)	(3,779)	(3,222)	12,524	-
	$	$	$	$	$	$
Revenues from customers	252,163	22,387	101,039	108,241	(180)	483,650
	$	$	$	$	$	$
Total net revenues	106,614	3,886	35,811	21,435	(180)	167,566
Intercompany (profits) losses	2,007	(1,026)	(1,920)	939	-	-
	$	$	$	$	$	$
Net revenues	108,621	2,860	33,891	22,374	(180)	167,566
	$	$	$	$	$	$
Income (loss) before taxes	1,097	824	(1,667)	4,242	-	4,496

Revenues from transfers between divisions represent approximate amounts that would be charged if an unaffiliated company provided the services. Revenues and expenses for geographic divisions include 100 percent of amounts for unconsolidated affiliates directly involved in freight forwarding activities. In 2003, the amounts above include revenues and expenses from our affiliate in Turkey, prior to our acquisition of the minority partners interest in the affiliate in October 2003. Total divisional revenues are reconciled with total consolidated revenues by eliminating inter-divisional revenues and revenues and expenses for unconsolidated affiliates. Income (loss) before taxes includes profits (losses) on intercompany transactions. Revenues and net revenues by division for the quarter ended March 31, 2003 have been restated from previously reported amounts to include intradivision revenues as well as revenues and expenses from an unconsolidated affiliate. These reclassifications had no impact on consolidated net revenues.

The Company s identifiable assets by geographic division are summarized below (in thousands):

	North America	**South America**	**Europe, Middle**	**Asia & South Pacific**	**Consolidated**

			East, India & Africa		
	$	$	$	$	$
Balance at March 31, 2004	538,347	25,556	218,126	156,670	938,699
	$	$	$	$	$
Balance at December 31, 2003	557,940	28,534	195,771	161,993	944,238

Note 12 Subsequent events

In April 2004, the Company entered into a Purchase and Sale Agreement to acquire the outside ownership of one of its affiliates in France, effective January 1, 2004. Prior to the acquisition, the Company owned 50.7% of this entity and consolidated it for financial reporting purposes. The purchase consideration for the interest the Company did not previously own consisted of approximately $10.1 million in cash, which included approximately $3.1 million to settle the minority interest liability and approximately $475,000 for a trademark license agreement effective through April 2007. The Amendment to the Credit Agreement dated March 12, 2004 consented to this acquisition.

In May 2004, the Company sold its investment in Miami Air in exchange for approximately $6.7 million in cash. As a result of the sale, the Company will be released as guarantor of Miami Air s letter of credit and expects to terminate its $3.0 million standby letter of credit for Miami Air (see Note 6).

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management s discussion and analysis of certain significant factors which have affected certain aspects of the Company s financial position and operating results during the periods included in the accompanying unaudited condensed consolidated financial statements. This discussion should be read in conjunction with the condensed consolidated financial statements as of and for the three months ended March 31, 2004 and the discussion under Management s Discussion and Analysis of Financial Condition and Results of Operations in the annual financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 0-27288).

Overview

The primary macroeconomic growth indicators of our business include general growth in the economy, international trade, particularly out of Asia, the level of high-tech spending and the increase in outsourcing of logistics projects. Drivers over which we have some control and focus on internally are our ability to: (i) link transportation services with our logistics services, (ii) cross-sell our services to existing and prospective customers and (iii) collaborate with our customers to provide flexible, cost-effective and profitable supply chain solutions.

We achieved gross revenues of $586 million for the period ended March 31, 2004, a 21% increase over gross revenues of $484 million in the first quarter of 2003. Our financial position was strengthened by record net revenues in the first quarter of 2004, despite the continued shift from priority to deferred product in the North America forwarding market.

Our results of operations, cash flows and financial position for the first quarter of 2004 reflect, among other things, the following:

-

Leveraged our global network to increase volumes across all service offerings;

-

Net revenue margin improved from the fourth quarter of 2003 indicating better yield management from Asia and gradual improvements in the priority product volume;

-

Continued shift in North America from priority to deferred shipments;

-

Deployed international tax planning strategies;

-

Weakened US dollar impacted results of operations;

-

Improved working capital management to increase cash flows from operating activities;

-

Initiated our share repurchase program; and

-

Initiated deployment of information technology systems globally.

Leveraging our global network. Our merger with Circle in 2000 established a global network for our services. Building off of record high net revenues in the fourth quarter of 2003, we leveraged our global network and our ability to cross-sell services to increase volumes for all of our service offerings in the first quarter of 2004 which increased net revenues to a new high for the Company. In addition, our balanced product offering enabled us to provide flexible solutions to our customers both domestically and internationally. Our services improved as we have consolidated most operations in which we had duplicate facilities at the time of the merger with Circle and maintained relatively consistent selling, general and administrative expenses on higher net revenues. We have been able to successfully leverage the relationships of our US-based multinational customers as they ramp up production overseas on the strength of the US economy and a recovering European economy. As a result, the growth in our international volumes has gained significant traction while the US domestic priority product has not been as quick to recover.

Sequential improvement in net revenue margins. Net revenue margins improved to 34.2% in the first quarter of 2004 compared to 31.9% in the fourth quarter of 2003. Our gradual margin recovery reflects strength in the international business, which allowed us to pass through carrier price increases to our customers, and reflects yield improvements across all product lines and geographic regions.

Shift from priority to deferred shipments. Despite the slight margin recovery, US overnight shipment counts declined as compared to last year. In addition, the continued shift to manufacturing operations overseas has reduced the amount of domestic activity but has resulted in increased US imports. Our first quarter results validate our belief that our low cost domestic model is capable of continuing to generate domestic growth with a mix of priority (next flight out, next day or second day time definite) and economy deferred (third through fifth day) shipments. Management believes that if the economy continues to recover, shipment of products will be expedited and inventory levels will continue to build as customers gain more confidence in the economic recovery.

International tax planning. The Company deployed an international tax plan in the first quarter of 2004. As a result, we expect our tax rate to be lower for the remainder of the year. The tax rate for the first quarter was 42.9%, compared to 37.8% for the same quarter last year, due to adjustments to deferred taxes on foreign earnings. Based on our implemented tax strategies, we expect to lower our future tax rate.

Foreign exchange impact on results of operations. Our cash flows and net income are subject to fluctuations due to changes in exchange rates. We provide services to customers in locations throughout the world and, as a result, operate with many currencies including the key currencies of North America, Latin America, Asia, the South Pacific and Europe. In the first quarter, we incurred $453,000 of net foreign exchange losses based on the weak US dollar and the relatively strong Euro. In addition, international revenues and costs increased over the prior year due to the effects of translating amounts from foreign functional currencies to the US dollar.

Cash flows from operations. Cash flows from operations during the first quarter was $35.9 million, reflecting stronger earnings and improved management of our working capital, particularly vendor credit terms and the timing of vendor payments.

Share repurchase program. On February 25, 2004, we adopted a stock repurchase program (the Program) to repurchase up to $15 million of our common stock over the 120 days following adoption of the Program. On March 5, 2004, our Board of Directors approved an increase in the maximum amount of shares to be repurchased from $15 million to up to $65 million of our common stock and extended the Program for an additional 120 days. As of March 31, 2004, we had repurchased and retired $38.1 million, or 2.4 million shares, at an average price of $16.09 per share. We intend to repurchase up to an additional $26.9 million of EGL common stock during the remainder of 2004,

depending on market conditions and other factors.

Global deployment of information technology systems. In the first quarter, we initiated the global deployment of our EGL Vision suite of technologies freight forwarding, accounting and human resources systems. Logistics Vision is the freight forwarding system that allows a seamless flow of data across the globe, eliminating duplicate data entry on multiple systems. Finance Vision is the Oracle-based financial system that allows global visibility of financial results, streamlined financial reporting and the ability to automate intercompany accounting and settlements. People Vision is the Oracle-based human resources application that allows global visibility to employee tracking, training and development. The global deployment of EGL Vision will continue into early next year.

We expect our focus in the second quarter and for the remainder of 2004 will be to improve upon priority product shipment counts, streamline processes through our global deployment of our financial and operational information technology systems and continue to leverage our North America infrastructure.

Results of Operations

	Three Months Ended March 31,			
	2004		2003	
	Amount	% of Total Revenues	Amount	% of Total Revenues
	(in thousands, except percentages)			
Revenues:				
	$		$	
Air freight forwarding	381,622	65.1	325,636	67.3
Ocean freight forwarding	79,599	13.6	63,357	13.1
Customs brokerage and other	124,738	21.3	94,657	19.6

	$		$	
Revenues	585,959	100.0	483,650	100.0
		% of Revenues		**% of Revenues**
Net revenues:				
	$		$	
Air freight forwarding	114,856	30.1	97,815	30.0
Ocean freight forwarding	17,496	22.0	14,417	22.8
Customs brokerage and other	68,021	54.5	55,334	58.5
Net revenues	200,373	34.2	167,566	34.6
		% of Net Revenues		**% of Net Revenues**
Operating expenses:				
Personnel costs	114,122	57.0	98,111	58.5
Other selling, general and administrative expenses	74,803	37.3	64,817	