

EGL INC  
Form 10-Q  
May 10, 2005

**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, 2005

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**

(State or Other Jurisdiction of Incorporation or Organization)

**76-0094895**

(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

at (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 and (2) has been subject to such filing requirements for the past 90 days.

is an accelerated filer (as defined in Exchange Act Rule 12b-2).

ending of the registrant's common stock was 52,200,563 (net of 926,157 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)*

|  | <b>March 31,</b> | <b>December 31,</b> |
|--|------------------|---------------------|
|  | <b>2005</b>      | <b>2004</b>         |
| <b>ASSETS</b>  |                  |                     |
| Current assets:  |                  |                     |
|  | \$               | \$                  |
| Cash and cash equivalents                                    | 134,309          | 92,918              |
| Restricted cash  | 9,537            | 17,004              |
| Short-term investments and marketable securities             | 595              | 587                 |
| Trade receivables, net of allowance of \$14,034 and \$14,069 | 542,070          | 611,696             |
| Other receivables  | 28,463           | 21,147              |
| Deferred income taxes  | 10,106           | 10,106              |
| Income tax receivable  | 180              | 20                  |
| Other current assets   | 27,576           | 24,761              |
| Total current assets   | 752,836          | 778,239             |
| Property and equipment, net                                  | 190,601          | 178,218             |
| Investments in unconsolidated affiliates                     | 540              | 619                 |
| Goodwill   | 107,953          | 108,470             |
| Deferred income taxes  | -                | 648                 |
| Other assets, net  | 29,855           | 28,771              |
|  | \$               | \$                  |
| Total assets   | 1,081,785        | 1,094,965           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                   |                  |                     |
| Current liabilities:   |                  |                     |
| Trade payables and accrued transportation costs              | \$               | \$                  |

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|   |           |           |
|---|-----------|-----------|
|   | 319,103   | 337,137   |
| Accrued salaries and related costs  | 44,861    | 46,465    |
| Current portion of long-term debt   | 20,964    | 19,426    |
| Income taxes payable  | 2,244     | 4,716     |
| Accrued selling, general and administrative expenses and other liabilities  | 75,602    | 82,926    |
| Total current liabilities   | 462,774   | 490,670   |
| Deferred income taxes   | 20,470    | 19,421    |
| Long-term debt  | 16,843    | 12,752    |
| Other noncurrent liabilities  | 17,821    | 18,786    |
| Total liabilities   | 517,908   | 541,629   |
| Minority interests  | 1,157     | 802       |
| Commitments and contingencies (Notes 3, 4, 7 and 8)   |           |           |
| Stockholders' equity:   |           |           |
| Common stock, \$0.001 par value, 200,000 shares authorized; 53,126 and 52,841 shares issued; 52,200 and 51,915 shares outstanding | 53        | 53        |
| Additional paid-in capital  | 247,656   | 241,117   |
| Retained earnings   | 347,041   | 339,876   |
| Accumulated other comprehensive loss  | (16,119)  | (12,523)  |
| Unearned compensation   | (46)      | (124)     |
| Treasury stock, 926 shares held   | (15,865)  | (15,865)  |
| Total stockholders' equity  | 562,720   | 552,534   |
|   | \$        | \$        |
| Total liabilities and stockholders' equity  | 1,081,785 | 1,094,965 |

See notes to unaudited condensed consolidated financial statements.

**EGL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

*(in thousands, except per share amounts)*

|  | <b>Three Months Ended</b> |                   |
|--|---------------------------|-------------------|
|  | <b>March 31,</b>          |                   |
|  | <b>2005</b>               | <b>2004</b>       |
|  |                           | <b>(Restated)</b> |
|  | \$                        | \$                |
| Revenues   | 700,666                   | 584,555           |
| Cost of transportation                             | 487,234                   | 383,814           |
| Net revenues                                       | 213,432                   | 200,741           |
| Operating expenses:                                |                           |                   |
| Personnel costs                                    | 125,202                   | 114,214           |
| Other selling, general and administrative expenses | 80,482                    | 72,924            |
| EEOC legal settlement                              | (5,975)                   | -                 |
| Operating income                                   | 13,723                    | 13,603            |
| Nonoperating expense, net                          | (403)                     | (942)             |
| Income before provision for income taxes           | 13,320                    | 12,661            |
| Provision for income taxes                         | 6,155                     | 5,369             |
|  | \$                        | \$                |
| Net income   | 7,165                     | 7,292             |
|  | \$                        | \$                |
| Basic earnings per share                           | 0.14                      | 0.15              |
| Basic weighted-average common shares outstanding   | 52,051                    | 46,894            |
|  | \$                        | \$                |
| Diluted earnings per share                         | 0.14                      | 0.15              |
| Diluted weighted-average common shares outstanding | 52,595                    | 52,872            |

See notes to unaudited condensed consolidated financial statements.





**EGL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**  
*(in thousands)*

|   | <b>Three Months Ended</b> |                   |
|---|---------------------------|-------------------|
|   | <b>March 31,</b>          |                   |
|   | <b>2005</b>               | <b>2004</b>       |
|   |                           | <b>(Restated)</b> |
| Cash flows from operating activities:   |                           |                   |
|   | \$                        | \$                |
| Net income  | 7,165                     | 7,292             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                   |
| Depreciation and amortization   | 8,634                     | 8,278             |
| Bad debt expense  | 2,661                     | 2,212             |
| Stock-based compensation expense  | 78                        | 147               |
| Impairment of assets  | -                         | 13                |
| Deferred income tax expense   | 1,652                     | 642               |
| Tax benefit of stock options exercised  | 1,162                     | 50                |
| Equity in (earnings) losses of affiliates   | 79                        | (720)             |
| Minority interests  | 213                       | 185               |
| Transfers (to) from restricted cash   | 7,482                     | (639)             |
| Other   | 16                        | (2)               |
| Net effect of changes in working capital, net of assets acquired                  | 26,344                    | 18,242            |
| Net cash provided by operating activities   | 55,486                    | 35,700            |
| Cash flows from investing activities:   |                           |                   |
| Capital expenditures  | (18,694)                  | (8,397)           |
| Purchase of short-term investments  | (8)                       | (55)              |
| Proceeds from sales of other assets   | 782                       | 182               |
| Net cash used in investing activities   | (17,920)                  | (8,270)           |
| Cash flows from financing activities:   |                           |                   |
| (Repayment) issuance of debt, net   | (2,758)                   | 6,940             |

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|  |         |          |
|--|---------|----------|
| Payment of financing fees  | (13)    | -        |
| Repayment of financed insurance premiums and software maintenance, net | (643)   | (1,386)  |
| Repayment of capital leases  | (243)   | (123)    |
| Repurchases of common stock  | -       | (38,109) |
| Proceeds from exercise of stock options                                | 5,377   | 202      |
| Cash received from minority interest partners                          | 142     | -        |
| Dividends paid to minority interest partners                           | -       | (16)     |
| Net cash provided by (used in) financing activities                    | 1,862   | (32,492) |
| Effect of exchange rate changes on cash                                | 1,963   | (634)    |
| Increase (decrease) in cash and cash equivalents                       | 41,391  | (5,696)  |
| Cash and cash equivalents, beginning of the period                     | 92,918  | 94,099   |
|  | \$      | \$       |
| Cash and cash equivalents, end of the period                           | 134,309 | 88,403   |

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, 2004                     | 52,841       | \$ 53  | \$ 241,117                 | \$ 339,876        | (926)          | \$ (15,865) | \$ (12,523)                                   | \$ (124)              | \$ 552,534 |
| Net income                                       | -            | -      | -                          | 7,165             | -              | -           | -   | -                     | 7,165      |
| Foreign currency translation adjustments         | -            | -      | -                          | -                 | -              | -           | (3,596)                                       | -                     | (3,596)    |
| Exercise of stock options, including tax benefit | 285          | -      | 6,539                      | -                 | -              | -           | -   | -                     | 6,539      |
| Stock-based compensation expense                 | -            | -      | -                          | -                 | -              | -           | -   | 78                    | 78         |
| Balance at March 31, 2005                        | 53,126       | \$ 53  | \$ 247,656                 | \$ 347,041        | (926)          | \$ (15,865) | \$ (16,119)                                   | \$ (46)               | \$ 562,720 |

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 audited 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, 2005 and the results of its operations and cash flows for the three months ended March 31, 2005. Results of operations and cash flows for the three months ended March 31, 2005 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 year amounts to conform to the current year presentation.

**Restatement of previously issued financial statements**

The Company restated its historical financial statements for the first three quarters of 2004 for errors related to recognition of straight-line rent expense when the lease term in a real estate operating lease contains a period when there are free or reduced rents (commonly referred to as rent holidays) and scheduled rent increases, reconciliation of various account balances and certain reclassification adjustments. See the Company's 2004 Form 10-K for complete disclosures relating to this restatement of the Company's financial statements. All applicable amounts relating to the restatement have been reflected in the condensed consolidated financial statements and notes to the condensed consolidated financial statements.

**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,

## EGL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

**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 alternative fair value method under SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS 123), 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:

|   | <b>Three Months Ended</b> |                   |
|---|---------------------------|-------------------|
|   | <b>March 31,</b>          |                   |
|   | <b>2005</b>               | <b>2004</b>       |
|   |                           | <b>(Restated)</b> |
|   | (in thousands)            |                   |
|   | \$                        | \$                |
| Net income as reported  | 7,165                     | 7,292             |
| Add: Total stock-based compensation expense included in net income net of tax   | 42                        | 85                |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax | 517                       | 817               |
| Pro forma net income  | \$                        | \$                |

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|                     |       |       |
|---------------------|-------|-------|
|                     | 6,690 | 6,560 |
| Earnings per share: |       |       |
|                     | \$    | \$    |
| Basic-as reported   | 0.14  | 0.15  |
| Basic-pro forma     | 0.13  | 0.14  |
| Diluted-as reported | 0.14  | 0.15  |
| Diluted-pro forma   | 0.13  | 0.14  |

## EGL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Comprehensive income**

Components of comprehensive income are as follows:

|  | <b>Three Months Ended March<br/>31,</b> |                            |
|--|---|----------------------------|
|  | <b>2005</b>                             | <b>2004<br/>(Restated)</b> |
|  | (in thousands)                          |                            |
|  | \$                                      | \$                         |
| Net income                               | 7,165                                   | 7,292                      |
| Foreign currency translation adjustments | (3,596)                                 | 646                        |
|  | \$                                      | \$                         |
| Comprehensive income                     | 3,569                                   | 7,938                      |

**New accounting pronouncements**

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation. (SFAS 123) and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123R requires all share-based payments to employees, including grants of employee stock options and employee stock purchase plans, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period beginning after June 15, 2005, with early adoption encouraged. In April 2005, the Securities and Exchange Commission adopted a rule that delays the adoption date of SFAS 123R to January 1, 2006. In addition, SFAS 123R will cause unrecognized expense (based on the amount in the Company's pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. The Company is required to adopt SFAS 123R beginning January 1, 2006. Under SFAS 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include prospective and retrospective adoption methods, prior periods may be restated either at the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and share awards as of the beginning of the first quarter of adoption of SFAS 123R, while the retrospective methods would record compensation expense for all unvested stock options



and share awards beginning with the first period restated. The Company is evaluating the requirements of SFAS 123R and expects the adoption of SFAS 123R will have a material impact on the consolidated results of operations, earnings per share and consolidated statement of cash flows. The Company has not determined the method of adoption or the effect of adopting SFAS 123R.

In December 2004, the FASB issued FASB Staff Position No. 109-2 (FSP 109-2), Accounting and Disclosure Guidance for the Foreign Repatriation Provision within the American Jobs Creation Act of 2004, which provides guidance under SFAS No. 109 with respect to recording the potential impact of the repatriation provisions of the Act on a company's income tax expense and deferred tax liability. FSP 109-2 states that a company is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The Company has not yet determined if it intends to repatriate foreign earnings under the provisions in the Act. Thus, the Company's consolidated financial statements do not reflect a provision for taxes related to this election. Any such repatriation under the Act must occur by December 31, 2005. The range of any reasonable amount of repatriation is not available at this time. The maximum amount as prescribed in the Act is \$500 million. The Company's evaluation of the effect of the election is expected to be completed by the end of the second quarter of 2005.

## EGL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Note 2 - 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, 2005 and 2004.

Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Stock options are the only potentially dilutive share equivalents the Company currently has outstanding for both periods presented. In addition, shares related to the convertible notes issued in December 2001 are included in diluted earnings per share for the three months ended March 31, 2004. The notes were converted to common shares in December 2004.

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

|   | <b>Three Months Ended</b> |                   |
|---|---------------------------|-------------------|
|   | <b>March 31,</b>          |                   |
|   | <b>2005</b>               | <b>2004</b>       |
|   |                           | <b>(Restated)</b> |
|   | (in thousands)            |                   |
|   | \$                        | \$                |
| Net income used in basic earnings per common share  | 7,165                     | 7,292             |
| Interest expense and deferred financing fee amortization on convertible notes, net of tax | -                         | 813               |
|   | \$                        | \$                |
| Net income used in diluted earnings per common share                                      | 7,165                     | 8,105             |
| Weighted-average common shares outstanding - used in basic earnings per common share      | 52,051                    | 46,894            |
| Net dilutive potential common shares issuable on exercise of options                      | 544                       | 242               |
| Conversion of convertible senior notes  | -                         | 5,736             |
| Weighted-average common shares and dilutive potential common shares                       | 52,595                    | 52,872            |

used in diluted earnings per common share

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

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2005</b>               | <b>2004</b> |
|   | (in thousands)            |             |
| Net dilutive potential common shares issuable:  |                           |             |
| On exercise of options - exercise price greater than average market value during period | 459                       | 3,928       |

**Note 3 Future lease obligations**

The Company maintains facility accruals for its 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 and changing business needs. All lease costs for facilities being consolidated were charged to operations until the date that the Company vacated each facility. Non-merger restructuring facility accruals are included in other liabilities and other non-current liabilities on the condensed consolidated balance sheet. The changes in these accruals during the three months ended March 31, 2005 are as follows:

**EGL, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

|  | <b>Future lease<br/>obligations, net<br/>of subleasing<br/>income</b> |
|--|---|
|  | (in thousands)  |
| Accrued liability at December 31, 2004 | \$  |
|  | 6,576   |
| Revisions to estimates                 | 470   |
| Payments                               | (605)   |
| Accrued liability at March 31, 2005    | \$  |
|  | 6,441   |

Amounts recorded for future lease obligations are net of approximately \$29.8 million in anticipated future recoveries from actual sublease agreements and \$8.4 million from expected sublease agreements as of March 31, 2005. Sublease income has been anticipated only in locations where sublease agreements have been executed as of March 31, 2005 or are deemed probable of execution. The Company's lease agreements for these facilities expire from 2005 to 2025 and sublease agreements expire from 2005 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 4 Financing receivables**

Financing receivables represent sales-type and direct-financing leases resulting from the marketing of trucks obtained from third party manufacturers by Ashton Leasing Company. These receivables typically have terms from three to five years and are usually collateralized by a security interest in the underlying assets. Financing receivables also include billed receivables from operating leases. The components of net financing receivables, which are included in other current receivables and other assets, are as follows:

|                                   | <b>March 31,</b> | <b>December 31,</b> |
|-----------------------------------|------------------|---------------------|
|                                   | <b>2005</b>      | <b>2004</b>         |
|                                   | (in thousands)   |                     |
|                                   | \$               | \$                  |
| Minimum lease payments receivable | 15,973           | 13,116              |
| Unearned income                   | (6,110)          | (5,125)             |
| Financing receivables, net        | 9,863            | 7,991               |
| Less current portion              | (1,864)          | (1,727)             |
|                                   | \$               | \$                  |
| Amounts due after one year, net   | 7,999            | 6,264               |

**Note 5 Accrued selling, general and administrative expenses and other liabilities**

Accrued selling, general and administrative expenses and other liabilities consist of the following amounts:

|   | <b>March 31,</b> | <b>December 31,</b> |
|---|------------------|---------------------|
|   | <b>2005</b>      | <b>2004</b>         |
|   | (in thousands)   |                     |
|   | \$               | \$                  |
| General and administrative expense accruals | 24,432           | 28,949              |
| Other current liabilities                   | 20,445           | 13,610              |
| Accrued professional fees and legal matters | 15,050           | 23,723              |
| Insurance payable                           | 8,969            | 7,161               |
| Other accrued taxes                         | 4,900            | 6,958               |
| Vacant facilities accruals                  | 1,806            | 2,525               |
| Total                                       | \$               | \$                  |
|   | 75,602           | 82,926              |



## EGL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

## Note 6 - Debt

Debt consists of the following amounts:

|   | March 31,<br>2005 | December 31,<br>2004 |
|---|-------------------|----------------------|
|   | (in thousands)    |                      |
|   | \$                | \$                   |
| Borrowings on international credit facilities | 10,200            | 8,953                |
| Notes payable to sellers                      | 5,600             | 5,600                |
| Financed software licenses and maintenance    | 4,291             | 3,366                |
| Financed vehicles                             | 12,296            | 9,821                |
| Mortgage payable                              | 1,249             | 1,347                |
| Other debt                                    | 4,171             | 3,091                |
| Total debt                                    | 37,807            | 32,178               |
| Current portion of debt                       | 20,964            | 19,426               |
| Long-term debt                                | \$ 16,843         | \$ 12,752            |

## Domestic credit facility

Effective September 16, 2004, the Company entered into a new unsecured \$150 million revolving credit facility (Credit Facility). The Credit Facility is with a syndicate of six financial institutions, with Bank of America, N.A. (the Bank) as collateral and administrative agent for the lenders, and matures on September 15, 2009. The Credit Facility replaced a \$100 million credit facility (Prior Credit Facility) that was to mature in December 2004. Borrowings under the Credit Facility may be used to make dividends or share repurchases, working capital and capital expenditures, make permitted acquisitions and for general corporate purposes. The Credit Facility contains a \$75 million

sub-facility for letters of credit. The Company had \$21.8 million in letters of credit outstanding and unused borrowing capacity of \$128.2 million under the Credit Facility as of March 31, 2005. Under the terms of the Credit Facility, the Company is not required to pledge assets as collateral.

Amounts outstanding under the Credit Facility are subject to varying rates of interest (using either the LIBOR rate or the base rate, each defined below) based on (i) the leverage ratio of consolidated net funded debt to EBITDA (as defined in the Credit Facility) and (ii) whether the loan is a Eurodollar loan or a base rate loan. The LIBOR rate is equal to the rate determined by Bank of America, N.A. to be the British Bankers Association interest rate for deposits in U.S. dollars for a similar interest period (either one, two, three or six months, as selected by the Company). The base rate is calculated as the higher of (i) the federal funds effective rate plus 0.5% and (ii) the annual rate of interest announced by Bank of America, N.A. as its prime rate. The Company may borrow at the prime rate plus an applicable margin of up to 0.25% or at the LIBOR rate plus an applicable margin of 0.75% to 1.25%.

The Credit Facility contains covenants that are similar to, but generally less restrictive to the Company than, the covenants in the Company's Prior Credit Facility. These covenants include, among others:

-

a limitation on liens, mergers, consolidations, sales of assets and incurrence of secured indebtedness, subject to permitted exceptions;

-

restrictions on the use of proceeds, investments, transactions with affiliates and changing the Company's principal business;

-

a limitation on paying dividends or purchasing or redeeming capital stock or prepaying indebtedness, subject to permitted exceptions;

-

a requirement that the Company maintain on a rolling four quarter basis a ratio of Net Funded Debt (as defined in the Credit Facility) to consolidated EBITDA (as defined in the Credit Facility) of not greater than 3.0 to 1.0 and



**EGL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

a requirement that the Company maintain on a rolling four quarter basis a ratio of consolidated EBIT (as defined in the Credit Facility) to consolidated interest charges of not less than 3.0 to 1.0.

The Credit Facility contains customary events of default. If a default occurs and is continuing, the Company must repay all amounts outstanding under the Credit Facility.

The Prior Credit Facility with Bank of America, N.A. was terminated by the Company on September 15, 2004 in advance of its stated termination date without any early termination penalties. Deferred financing fees of \$1.3 million are being amortized over five years as a component of interest expense.

**International credit facilities and other debt**

As of March 31, 2005, the Company had \$22.4 million capacity on international credit facilities and \$10.2 million outstanding under those facilities. Borrowings under international bank lines of credit are generally renewed upon expiration. The notes payable to seller is composed of a note payable to the former owners of Miami International Forwarders, which is payable in the second quarter of 2005 and a note payable to the former owners of the Company's wholly-owned subsidiary in Thailand, which is payable in annual installments of \$200,000 through 2008. As of March 31, 2005, the Company has no amounts outstanding under financed insurance premiums; however, the Company may finance future insurance premiums as the Company's insurance policies renew. Financed software licenses and maintenance are payable in quarterly installments of approximately \$747,000 each through March 2007. Loans for financed vehicles are payable in monthly payments totaling approximately \$253,000 through April 2010 and have implied interest rates averaging 6.5%.

**Note 7 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 arranging for surety bonds for importers.

The Company secures guarantees primarily by three methods: a \$75 million standby letter of credit subfacility (Note 6), 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 as restricted cash.

The Company issues IATA (International Air Transportation Association) related guarantees, customs bonds and other working capital credit line 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 facilities include, but are not limited to, facilities associated with insurance requirements and certain potential tax obligations. Generally, facilities have one-year or two-year terms and are renewed upon expiration. As of March 31, 2005, total IATA-related guarantees, customs bonds and other working capital credit line facilities were approximately \$78.9 million. Approximately \$54.3 million of guarantees, customs bonds and borrowings against credit line facilities were outstanding, including guarantees of the Company's trade payables and accrued transportation costs and borrowings against its international credit facilities of \$23.1 million which were recorded as liabilities on the Company's consolidated balance sheet.

**EGL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Release of restricted cash**

In February 2005, in response to a joint motion filed by EGL and the EEOC, a U.S. District Court ordered the return of \$6.0 million to the Company of the \$8.5 million previously held in an established fund to resolve potential claims in connection with a 2001 consent decree (see Note 8). The joint motion and subsequent order resulted primarily from a significantly lower number of qualified claimants than originally projected and the aggregate amount expected to be paid for all claims is less than \$1.0 million. Release of these funds resulted in \$6.0 million in income in the first quarter of 2005.

**Note 8 Contingencies**

**EEOC legal settlement**

In December 1997, the U.S. Equal Employment Opportunity Commission ( EEOC ) issued a Commissioner's Charge pursuant to Sections 706 and 707 of Title VII of the Civil Rights Act of 1964, as amended ( Title VII ). In the Commissioner's Charge, the EEOC charged the Company and certain of its subsidiaries with violations of Section 703 of Title VII, as amended, the Age Discrimination in Employment Act of 1967, and the Equal Pay Act of 1963.

In May through July 2000, eight individuals filed suit against the Company in the United States District Court for the Eastern District of Pennsylvania in Philadelphia, alleging gender, race and national origin discrimination, as well as sexual harassment. The individual plaintiffs sought to certify a class of approximately 1,000 of the Company's current and former employees and applicants.

On December 29, 2000, the EEOC filed a Motion to Intervene in the Philadelphia litigation, which was granted by the Court in Philadelphia on January 31, 2001. In addition, the Philadelphia Court also granted the Company's motion that the case be transferred to the United States District Court for the Southern District of Texas - Houston Division where the Company had previously initiated litigation against the EEOC due to what the Company believed to have been inappropriate practices by the EEOC in the issuance of the Commissioner's Charge and in the subsequent investigation.

On October 2, 2001, the Company and the EEOC announced the filing of a Consent Decree settlement. Under the Consent Decree, the Company agreed to pay \$8.5 million into a fund to compensate individuals who claim to have experienced discrimination ( Settlement Fund ). In addition, the Company agreed to contribute \$500,000 to establish a Leadership Development Program ( LDP ). In entering the Consent Decree, the Company made no admission of liability or wrongdoing. The Consent Decree was approved by the District Court in Houston on October 1, 2001 and became effective on October 3, 2002 following the dismissal of all appeals related to the Decree.

The Claims administration process under the Consent Decree was completed by the Company and the EEOC in early 2005. Of the 2,073 claims received, only 203 were deemed to be eligible for a monetary distribution from the Settlement Fund. The total distribution amount for these 203 claims is approximately \$903,000. The Company and the EEOC submitted a proposed agreement to the Court in February 2005 regarding disbursements of the excess funds in the Settlement Fund. On February 10, 2005 the Court entered an Order directing that the Company recapture \$6.0 million plus accrued interest from the Settlement Fund. Release of these funds resulted in \$6.0 million in income in the first quarter of 2005. The Court also approved the parties' agreement to transfer \$1.4 million to the LDP. From that amount, the Company reimbursed itself \$582,000 for corporate funds previously expended on LDP expenses as of December 31, 2004. The Court further approved the parties' agreement to retain \$1.1 million in the Settlement Fund for the payment of eligible claims. Notices are being sent currently to eligible claimants who will have a forty-five day period to accept a monetary distribution or opt out of the Consent Decree settlement. Eligible claimants may also object to an award, but to do so they must notify the Claims Administrator within thirty days of the date of their eligibility notice. To the extent any additional claims are determined to be eligible as a result of the objection process, any additional monetary distributions will be drawn from the \$1.1 million reserved in the Settlement Fund. If any funds remain in the Settlement Fund after payment of all claims, the remainder shall be deposited in the LDP.

**EGL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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 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 any other lawsuits and related issues or the degree of any adverse affect 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.

**Fire damage**

On January 9, 2005, the Company's London (Thurrock) warehouse and all contents were destroyed by fire. The cause of the fire is still under investigation. The Company maintains insurance coverage for damaged property, business interruption and cargo losses with insurance limits of \$35 million for damaged property and business interruption and \$10 million for cargo losses. The Company is working with its insurance companies on establishing its potential liability to customers.

During the first quarter of 2005, the Company recorded a loss and recognized an insurance recovery of \$721,000 for property destroyed in the fire. In February 2005, the Company received an interim payment on its property claim of \$673,000. The remaining \$48,000 is included in other receivables on the condensed consolidated balance sheet as of March 31, 2005. The Company incurred \$1.2 million of pre-tax operating losses in the first quarter of 2005 as a result of the fire. A preliminary business interruption claim related to the fire has been submitted to our insurance carriers with proceeds expected to be received later this year for recovery of these losses. In addition, the Company recorded a liability of \$6.5 million for its estimated cargo losses due to customers and an insurance receivable of \$6.5 million as the insurance recovery is deemed probable. Currently, the Company believes that there will be no material impact to its consolidated statement of operations in 2005 related to this fire. However, additional claims could be submitted by EGL's customers in excess of the Company's insurance limits which could have a material impact to its consolidated statement of operations.

**Federal income tax audit**

The Company's U.S. federal income tax returns from fiscal years 2000 to 2001 are currently subject to examination by the IRS. On April 8, 2005, the Company received a Revenue Agent Report from the IRS field examination team for which the Company is required to respond by May 16, 2005. The income tax returns that are under audit are the income tax returns filed by EGL for fiscal years ended September 30, 2000, September 30, 2001, December 31, 2001, and the final income tax return filed by Circle International Group, Inc., a subsidiary of EGL, for the fiscal year ended October 2, 2000 when it was a separate company prior to the merger with EGL.

Specifically, the IRS is proposing to disallow various merger transaction costs taken as tax deductions related to the merger of EGL and Circle, and to allocate certain merger and selling, general and administrative expenses to all of its foreign affiliates which were taken as tax deductions on the 2000 and 2001 fiscal return years for both EGL and Circle. The IRS is also proposing to disallow the deduction of various software research and development expenditures that were taken as tax deductions on the 2000 and 2001 fiscal tax returns for EGL. The Company is protesting the proposed adjustments to the Appeals office of the IRS and will file its responses during the second quarter of 2005.

## EGL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

If the proposed adjustments were upheld, the Company would be required to pay a total amount of approximately \$14 million in cash taxes, of which approximately \$6.5 million would impact the consolidated statement of operations, plus accrued interest of approximately \$4 million through March 31, 2005 based on the Revenue Agent Report received. No penalties have been proposed by the IRS as part of this examination. Interest will continue to accrue until the matters are resolved. The Company has started its review of the contents of the report and is in the process of preparing its responses. The Company believes that the matters raised by the IRS were properly reported on its U.S. federal income tax returns in accordance with applicable laws and regulations in effect during the tax periods involved and is challenging these adjustments vigorously. While the outcome of proceedings for these matters cannot be predicted with certainty, the Company believes that its U.S. federal income tax returns were completed in accordance with applicable laws and regulations and does not believe material adjustments to its tax returns are probable at this time. However there is no assurance that the final outcome of the future proceedings with the IRS will not result in material adjustments which would have a material adverse impact on the Company's results of operations and 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 discretionary contributions were made to this plan in the three months ended March 31, 2005.

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:

| <b>Three Months Ended</b> |  |             |
|---------------------------|--|-------------|
| <b>March 31,</b>          |  |             |
| <b>2005</b>               |  | <b>2004</b> |
| (in thousands)            |  |             |
| \$                        |  | \$          |

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|   |       |       |
|---|-------|-------|
| Benefit cost for defined contribution plans                 | 552   | 477   |
| Net benefit cost for defined benefit plans:                 |       |       |
|   | \$    | \$    |
| Service cost  | 583   | 417   |
| Interest cost   | 566   | 403   |
| Expected return on plan assets                              | (555) | (361) |
| Recognized gains and losses                                 | 3     | 5     |
| Amortization of prior service cost                          | 91    | 89    |
| Net pension enhancement and curtailment/ settlement expense | -     | 16    |
|   | \$    | \$    |
| Net benefit cost for defined benefit plans                  | 688   | 569   |
|   | \$    | \$    |
| Contributions to benefit plans                              | 946   | 641   |

Estimated contributions to the defined benefit plans for the period of April 1 to December 31, 2005 are approximately \$1.3 million.



**EGL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Note 10 Related party transactions**

**Aircraft usage payments**

In conjunction with the Company's business activities, the Company periodically utilized aircraft owned by entities controlled by James R. Crane, the Company's Chief Executive Officer. The Company was 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, the Company reimbursed the entities controlled by Mr. Crane approximately \$504,000 for hourly usage of the plane. In January 2005, the Company purchased from an unrelated third party an aircraft that was previously leased by an entity controlled by Mr. Crane for \$12.5 million to be utilized for business travel, eliminating the use of Mr. Crane's aircraft and reimbursement thereof.

**Shared employees**

Certain of the Company's employees also perform services for unaffiliated companies owned by Mr. Crane. The Company is reimbursed for these services based upon an allocation percentage of total salaries agreed to by the Company and Mr. Crane. The Company received reimbursements of \$75,000 and \$35,000 for the quarter ended March 31, 2005 and 2004, respectively. The amount billed but not received as of March 31, 2005 was \$25,000 and is included in other receivables on the consolidated balance sheets.

## EGL, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**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:

|  | North<br>America | South<br>America | Europe,<br>Middle<br>East,<br>India &<br>Africa | Asia &<br>South<br>Pacific | Eliminations<br>and<br>Adjustments | Consolidated |
|--|------------------|------------------|---|----------------------------|------------------------------------|--------------|
| Three months<br>ended<br>March 31, 2005: | (in thousands)   |                  |   |                            |                                    |              |
|  | \$               | \$               | \$  | \$                         | \$                                 | \$           |
| Total revenues                           | 323,494          | 24,893           | 170,835   | 196,937                    | (15,493)                           | 700,666      |
| Transfers between<br>divisions           | (4,989)          | (1,285)          | (4,670)   | (4,549)                    | 15,493                             | -            |
|  | \$               | \$               | \$  | \$                         | \$                                 | \$           |
| Revenues from<br>customers               | 318,505          | 23,608           | 166,165   | 192,388                    | -                                  | 700,666      |
|  | \$               | \$               | \$  | \$                         | \$                                 | \$           |
| Total net revenues                       | 129,520          | 5,675            | 47,893  | 30,344                     | -                                  | 213,432      |
| Intercompany<br>(profits)<br>losses      | 1,481            | (808)            | (1,096)   | 423                        | -                                  | -            |
|  | \$               | \$               | \$  | \$                         | \$                                 | \$           |
| Net revenues                             | 131,001          | 4,867            | 46,797  | 30,767                     | -                                  | 213,432      |
|  | \$               | \$               | \$  | \$                         | \$                                 | \$           |
| Income before<br>taxes                   | 9,716            | 521              | (2,252)   | 5,335                      | -                                  | 13,320       |

**Three months  
ended  
March 31, 2004  
(Restated):**

|                               |         |         |         |         |          |         |
|-------------------------------|---------|---------|---------|---------|----------|---------|
|                               | \$      | \$      | \$      | \$      | \$       | \$      |
| Total revenues                | 295,039 | 17,976  | 138,909 | 148,110 | (15,479) | 584,555 |
| Transfers between divisions   | (5,193) | (1,413) | (4,598) | (4,275) | 15,479   | -       |
|                               | \$      | \$      | \$      | \$      | \$       | \$      |
| Revenues from customers       | 289,846 | 16,563  | 134,311 | 143,835 | -        | 584,555 |
|                               | \$      | \$      | \$      | \$      | \$       | \$      |
| Total net revenues            | 123,097 | 4,159   | 47,401  | 26,084  | -        | 200,741 |
| Intercompany (profits) losses | 1,778   | (1,035) | (1,847) | 1,104   | -        | -       |
|                               | \$      | \$      | \$      | \$      | \$       | \$      |
| Net revenues                  | 124,875 | 3,124   | 45,554  | 27,188  | -        | 200,741 |
|                               | \$      | \$      | \$      | \$      |          | \$      |
| Income before taxes           | 5,163   | 390     | 2,275   | 4,833   |          | 12,661  |

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. 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.

The Company's identifiable assets by geographic division are summarized below:

|                              | <b>North<br/>America</b> | <b>South<br/>America</b> | <b>Europe,<br/>Middle<br/>East,<br/>India &amp;<br/>Africa</b> | <b>Asia &amp;<br/>South<br/>Pacific</b> | <b>Consolidated</b> |
|------------------------------|--------------------------|--------------------------|--|---|---------------------|
|                              | \$                       | \$                       | \$   | \$                                      | \$                  |
| Balance at March 31, 2005    | 614,077                  | 36,724                   | 250,504  | 180,480                                 | 1,081,785           |
|                              | \$                       | \$                       | \$   | \$                                      | \$                  |
| Balance at December 31, 2004 | 612,174                  | 38,900                   | 251,746  | 192,145                                 | 1,094,965           |



**EGL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Note 12 Share repurchase program**

On April 4, 2005, the Company's Board of Directors adopted a stock repurchase program (the Program) to repurchase of up to \$60 million in value of the Company's outstanding common stock depending on market conditions and other factors. The Program will expire on August 4, 2005. As of April 29, 2005, there has been no activity related to the Program.

**EGL, INC.**

**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 that have affected selected 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, 2005 and the discussion under Management's Discussion and Analysis of Financial Condition and Results of Operations in the annual audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 0-27288).

**Restatement of Previously Issued Financial Statements**

We restated our historical financial statements for the first three quarters of 2004 for errors related to recognition of straight-line rent expense when the lease term in a real estate operating lease contains a period when there are free or reduced rents (commonly referred to as rent holidays) and scheduled rent increases, reconciliation of various account balances and certain reclassification adjustments. See note 2 of our 2004 Form 10-K for complete disclosures relating to this restatement of the Company's financial statements. All applicable amounts relating to the restatement have been reflected in the condensed consolidated financial statements and notes to the condensed consolidated financial statements included in this report.

**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 \$701 million for the period ended March 31, 2005, a 19.9% increase over gross revenues of \$585 million in the first quarter of 2004. Our financial position was strengthened by higher gross and net revenues in the first quarter of 2005. Despite growth in business, we remain committed to leveraging our infrastructure by containing our operating expenses and improving our yield management in 2005.

Our results of operations, cash flows and financial position for the first quarter of 2005 reflect, among other things, the following:

-

leveraging our global network to increase volumes across all service offerings and geographic divisions;

-

decline in net revenue margins due to the impact of fuel surcharges and higher airline and ocean rates mainly from Asia to the U.S.;

-

improved volumes in North America forwarding market;

-

recapture of \$6.0 million plus accrued interest of the EEOC Settlement Fund;

-

higher effective tax rate due to tax operating losses in Europe;

-

weakened U.S. dollar, which impacted results of operations;

-

warehouse fire in our UK operations; and

-

improved working capital management to increase cash flows from operating activities.

**EGL, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

*Leveraging our global network.* In the first quarter of 2005, we continued to leverage our global network and our ability to cross-sell services to increase volumes for all of our service offerings in all geographic divisions. In addition, our balanced product offering enabled us to provide flexible solutions to our customers both domestically and internationally. Also, in the first quarter of 2005, we continued to leverage our low cost North America network and customer base, as customers increasingly moved products overseas directly to U.S. distribution and retail centers.

*Decline in net revenue margins.* Net revenue margins declined to 30.5% in the first quarter of 2005 compared to 34.3% in the first quarter of 2004, reflecting decreases in margins across all products but primarily air freight forwarding and ocean freight forwarding. Air freight forwarding margin deterioration is due to under recovered fuel costs and compressed yields between Asia and the U.S. Ocean freight forwarding margins continue to be impacted by higher carrier rates and increased volumes of business in the competitive transpacific east bound and Asia to Europe tradelines.

*North America forwarding market.* Deferred shipment (third through fifth day) volumes increased by 3.7% in 2005 versus an increase of 16.5% in the first quarter of 2004 and priority (next flight out, next day or second day) volumes showed an increase of 7.7% in the first quarter of 2005 versus a decline of 11.2% in the first quarter of 2004. In addition, U.S. imports and exports continue to increase, reflecting the strength of the U.S. economy and the continued shift of production overseas. The improvement in domestic shipment volumes added significantly to our increase in gross revenues during the quarter and improved results of operations.

*Recapture of EEOC Settlement Fund.* In February 2005, in response to a joint motion filed by EGL and the EEOC, a U.S. District Court ordered the return of \$6.0 million to us of \$8.5 million previously held in a fund to resolve potential claims in connection with a 2001 consent decree (see note 8 of the notes to our condensed consolidated financial statements). The joint motion and subsequent order resulted primarily from a significantly lower number of qualified claimants than originally projected and the aggregate amount expected to be paid for all claims is less than \$1.0 million. Release of these funds resulted in \$6.0 million in income in the first quarter of 2005.

*Income tax.* The tax rate for the first quarter of 2005 was 46.2%, which included one time charges related to the write-off of certain deferred tax assets mainly from operating losses in Europe. We expect the effective tax rate for the last three quarters of 2005 to be between 39% and 41%.

*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 of 2005, we incurred \$116,000 of net foreign exchange losses based on the weak U.S. 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 U.S. dollar.



*Warehouse fire in UK operations.* On January 9, 2005, our London (Thurrock) warehouse and all contents were destroyed by fire. The cause of the fire is still under investigation. We incurred \$1.2 million of operating losses in the first quarter of 2005 as a result of the fire. A preliminary business interruption claim related to the fire has been submitted to our insurance carriers with proceeds expected to be received later in the year for recovery of these losses.

*Cash flows from operations.* Cash flows from operations during the first quarter of 2005 was \$55.5 million, reflecting improved management of our working capital, particularly collection of fourth quarter 2004 trade receivables, and recapture of restricted cash from the EEOC Settlement Fund.

Our organization continues to focus on improving yields through strong management of purchased transportation costs and fuel surcharges by attempting to pass the costs through to our customers and improving the results in our European operations.

## EGL, INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

## Results of Operations

|  | Three Months Ended March 31,       |                        |         |                        |
|--|------------------------------------|------------------------|---------|------------------------|
|  | 2005                               |                        |         | 2004<br>(Restated)     |
|  | Amount                             | % of Total<br>Revenues | Amount  | % of Total<br>Revenues |
|  | (in thousands, except percentages) |                        |         |                        |
| Revenues:  |                                    |                        |         |                        |
|  | \$                                 |                        | \$      |                        |
| Air freight forwarding                             | 444,603                            | 63.4                   | 381,883 | 65.3                   |
| Ocean freight forwarding                           | 104,873                            | 15.0                   | 77,664  | 13.3                   |
| Customs brokerage and other                        | 151,190                            | 21.6                   | 125,008 | 21.4                   |
|  | \$                                 |                        | \$      |                        |
| Revenues   | 700,666                            | 100.0                  | 584,555 | 100.0                  |
|  |                                    | % of<br>Revenues       |         | % of<br>Revenues       |
| Net revenues:                                      |                                    |                        |         |                        |
|  | \$                                 |                        | \$      |                        |
| Air freight forwarding                             | 123,236                            | 27.7                   | 115,795 | 30.3                   |
| Ocean freight forwarding                           | 20,864                             | 19.9                   | 17,232  | 22.2                   |
| Customs brokerage and other                        | 69,332                             | 45.9                   | 67,714  | 54.2                   |
| Net revenues                                       | 213,432                            | 30.5                   | 200,741 | 34.3                   |
|  |                                    | % of Net<br>Revenues   |         | % of Net<br>Revenues   |
| Operating expenses:                                |                                    |                        |         |                        |
| Personnel costs                                    | 125,202                            | 58.7                   | 114,214 | 56.9                   |
| Other selling, general and administrative expenses | 80,482                             | 37.7                   | 72,924  | 36.3                   |

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|  |         |       |        |     |
|--|---------|-------|--------|-----|
| EEOC legal settlement                    | (5,975) | (2.8) | -      | -   |
| Operating income                         | 13,723  | 6.4   | 13,603 | 6.8 |
| Nonoperating expense, net                | 403     | 0.2   | 942    | 0.5 |
| Income before provision for income taxes | 13,320  | 6.2   | 12,661 | 6.3 |
| Provision for income taxes               | 6,155   | 2.9   | 5,369  | 2.7 |
|  | \$      |       | \$     |     |
| Net income                               | 7,165   | 3.3   | 7,292  | 3.6 |

**Three Months Ended March 31, 2005 Compared To Three Months Ended March 31, 2004**

Revenues increased \$116.1 million, or 19.9%, to \$700.7 million in the three months ended March 31, 2005 compared to \$584.6 million in the three months ended March 31, 2004 due to increases from all product lines. Net revenues, which represent revenues less freight transportation costs, increased \$12.7 million, or 6.3%, to \$213.4 million in the three months ended March 31, 2005 compared to \$200.7 million in the three months ended March 31, 2004 due to increases in both air freight forwarding and customs brokerage and other net revenues followed by modest increases in ocean freight forwarding net revenues. Net revenue margins of 30.5% declined by 380 basis points from the first quarter of 2004 reflecting the impact of higher fuel costs that were not absorbed by our customers and increased ocean rates.

*Air freight forwarding revenues.* Air freight forwarding revenues increased \$62.7 million, or 16.4%, to \$444.6 million in the three months ended March 31, 2005 compared to \$381.9 million in the three months ended March 31, 2004 primarily due to volume increases in all geographic divisions, especially in Asia Pacific where we continue to see large increases in both volumes and weights shipped.

**EGL, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

Air freight forwarding net revenues increased \$7.4 million, or 6.4%, to \$123.2 million in the three months ended March 31, 2005 compared to \$115.8 million in the three months ended March 31, 2004. Air freight forwarding margins decreased to 27.7% for the three months ended March 31, 2005 compared to 30.3% for the three months ended March 31, 2004, primarily due to increased fuel costs not absorbed by our customers.

*Ocean freight forwarding revenues.* Ocean freight forwarding revenues increased \$27.2 million, or 35.0%, to \$104.9 million in the three months ended March 31, 2005 compared to \$77.7 million in the three months ended March 31, 2004. The increase in revenues was principally due to volume increases in all geographic divisions, especially Asia Pacific, due to our increased focus on the ocean market and our customers' continued shift toward a lower cost deferred product.

Ocean freight forwarding net revenues increased \$3.7 million, or 21.5%, to \$20.9 million in the three months ended March 31, 2005 compared to \$17.2 million in the three months ended March 31, 2004 primarily due to increases in Europe/Middle East. Ocean forwarding margins, however, decreased to 19.9% in the three months ended March 31, 2005 compared to 22.2% in the three months ended March 31, 2004 due primarily to higher carrier rates and increased volumes of business in the competitive transpacific east bound and Asia to Europe trades.

*Customs brokerage and other revenues.* Customs brokerage and other revenues, which include warehousing, distribution and other logistics services, increased \$26.2 million, or 21.0%, to \$151.2 million in the three months ended March 31, 2005 compared to \$125.0 million in the three months ended March 31, 2004. Customs brokerage revenues increased primarily due to growth in Europe/Middle East trade activity. Warehousing and logistics revenues increased due to growth in North America and Asia Pacific offset by a decrease in Europe/Middle East as a result of a \$2.8 million termination fee for a logistics project in Europe recorded in the first quarter of 2004.

Customs brokerage and other net revenues increased by \$1.6 million, or 2.4%, to \$69.3 million in the three months ended March 31, 2005 compared to \$67.7 million in the three months ended March 31, 2004. Customs brokerage and other margins decreased to 45.9% for the three months ended March 31, 2005 compared to 54.2% for the three months ended March 31, 2004 primarily due to lower margins in North America, Asia Pacific and Europe/Middle East resulting from termination or completion of several high margin projects.

*Personnel costs.* Personnel costs include all compensation expenses, including those relating to sales commissions and salaries and to headquarters employees and executive officers. Personnel costs increased \$11.0 million, or 9.6%, to \$125.2 million in the three months ended March 31, 2005 compared to \$114.2 million in the three months ended March 31, 2004. As a percentage of net revenues, personnel costs were 58.7% in the three months ended March 31, 2005 compared to 56.9% in the three months ended March 31, 2004. The increase in personnel costs was primarily due to the increase in business activity and foreign exchange effects. Our headcount increased only 13.0% compared to a 19.9% increase in gross revenues. The increase was partially offset by lower incentive compensation expense. EGL has historically maintained incentive bonus, profit sharing and sales commission compensation plans to reward attainment of targets. For 2005, we introduced incentive bonus and profit sharing compensation plans which include a

combination of target achievements related to total company financial performance, business unit financial performance and individual goals and objectives. The change in the plans resulted in a lower level of incentive compensation expense in the first quarter of 2005.

*Other selling, general and administrative expenses.* Other selling, general and administrative expenses increased \$7.6 million, or 10.4%, to \$80.5 million in the three months ended March 31, 2005 compared to \$72.9 million in the three months ended March 31, 2004. As a percentage of net revenues, other selling, general and administrative expenses were 37.7% in the three months ended March 31, 2005 compared to 36.3% in the three months ended March 31, 2004. The increase is primarily due to increased fees for the continued deployment of our Vision suite of technologies freight forwarding, accounting and human resources systems - as well as increased office/warehouse facilities rent and increases in property taxes in North America and fuel costs in all geographic regions, offset by a decrease in property taxes in Europe. We also accrued \$1.4 million for a potential refund of an alleged preferential

**EGL, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

payment received from a customer currently involved in a bankruptcy proceeding. These increases have been offset by lower insurance premiums and claims activity.

*EEOC legal settlement.* We recaptured \$6.0 million of the \$8.5 million previously held in a fund to resolve potential claims in connection with a 2001 consent decree with the EEOC, resulting primarily from a significantly lower number of qualified claimants than originally projected.

*Nonoperating expense, net.* For the three months ended March 31, 2005, nonoperating expense, net, was \$403,000 compared to \$942,000 for the three months ended March 31, 2004. The \$539,000 change was primarily due to a \$337,000 decrease in foreign exchange losses due to a strengthening of the U.S. dollar and a \$1.1 million decrease in net interest expense, offset by a \$799,000 decrease in income from affiliates. Income from affiliates was \$720,000 in the first quarter of 2004 compared to a loss of \$79,000 in the first quarter of 2005.

*Effective tax rate.* The effective tax rate for the three months ended March 31, 2005 was 46.2% compared to 42.4% for the three months ended March 31, 2004. The increase in the effective tax rate is due to one time charges related to the write-off of certain deferred tax assets mainly from operating losses in Europe. For the remainder of 2005, we expect our effective income tax rate to be between 39% and 41%.

**Liquidity and Capital Resources**

*General*

Our ability to satisfy our debt obligations, fund working capital and make capital expenditures depends upon our future performance, which is subject to general economic conditions and other factors, some of which are beyond our control. If we achieve significant near-term revenue growth, we may experience a need for increased working capital financing as a result of the difference between our collection cycles and the timing of our payments to vendors. Historically, we have generated higher cash flow from operations in the first half of the year than the second half of the year, reflecting the seasonality of our business.

We make significant disbursements on behalf of our customers for transportation costs (primarily ocean) and customs duties for which the customer is the primary obligor. The billings to customers for these disbursements, which are several times the amount of revenues and fees derived from these transactions, are not recorded as revenues and expense on our statement of operations; rather, they are reflected in our trade receivables and trade payables. Growth in the level of this activity or lengthening of the period of time between incurring these costs and being reimbursed by our customers for these costs may negatively affect our liquidity.

As primarily a non-asset based freight forwarder, we do not have significant capital expenditures that would be required of an asset based forwarder. We believe our anticipated capital expenditures for 2005 will be in the range of \$48 to \$52 million, with a range of \$26 to \$30 million expected on information systems expenditures. Our capital

expenditures for the three months ended March 31, 2005, were \$18.7 million, including \$12.5 million for the purchase of a corporate plane. In addition, on April 4, 2005 our Board of Directors authorized the repurchase of up to \$60 million, depending on market conditions and other factors, of our outstanding common stock in connection with a stock repurchase program. As of April 29, 2005, there has been no activity related to the stock repurchase program.

Based on current plans, we believe that our existing capital resources, including \$134.3 million of cash and cash equivalents and \$128.2 million of available borrowing capacity on our credit facility, will be sufficient to meet working capital requirements through March 31, 2006. However, future changes in our business could cause us to consume available resources before that time. Additionally, funds may not be available when needed and even if available, additional funds may be raised through financing arrangements and/or the issuance of preferred or common stock or convertible securities on terms and prices significantly more favorable than those of the currently outstanding common stock, which could have the effect of diluting or adversely affecting the holdings or rights of our existing stockholders. If adequate funds are unavailable, we may be required to delay, scale back or eliminate some of our operating activities,

EGL, INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

including, without limitation, the timing and extent of our marketing programs, and the extent and timing of hiring additional personnel. We cannot provide assurance that additional financing will be available to us on acceptable terms, or at all.

*Cash flows from operating activities.* Net cash provided by operating activities was \$55.5 million in the three months ended March 31, 2005 compared to \$35.7 million in the three months ended March 31, 2004. The increase in the three months ended March 31, 2005 was primarily due to a \$26.3 million net increase in cash from changes in working capital for the three months ended March 31, 2005 compared to an \$18.2 million net increase in cash from changes in working capital for the three months ended March 31, 2004. The positive working capital cash flow in the first quarter of 2005 was due to a decrease in trade receivables resulting from collection of our balances from the fourth quarter of 2004. Additionally during the three months ended March 31, 2005, \$7.5 million was transferred from restricted cash primarily as a result of the U.S. District Court order granting the recapture of \$6.0 million of the Settlement Fund.

*Cash flows from investing activities.* Net cash used in investing activities in the three months ended March 31, 2005 was \$17.9 million compared to \$8.3 million in the three months ended March 31, 2004. We incurred capital expenditures of \$18.7 million during the three months ended March 31, 2005 as compared to \$8.4 million during the three months ended March 31, 2004. Capital expenditures in 2005 primarily relate to the purchase of a corporate plane for \$12.5 million.

*Cash flows from financing activities.* Net cash provided by financing activities in the three months ended March 31, 2005 was \$1.9 million compared to net cash used of \$32.5 million in the three months ended March 31, 2004. During the three months ended March 31, 2004, we repurchased and retired approximately 2.4 million shares of our common stock for \$38.1 million in cash. Net repayment of debt was \$2.8 million for the three months ended March 31, 2005 compared to net issuance of debt of \$6.9 million in the three months ended March 31, 2004. We received \$5.4 million in proceeds from the exercise of approximately 285,000 stock options in the three months ended March 31, 2005 compared to \$202,000 in proceeds from the exercise of approximately 20,000 stock options in the three months ended March 31, 2004. Repayment of capital leases and software maintenance was \$886,000 for the three months ended March 31, 2005 compared to repayment of capital leases, software maintenance and financed insurance premiums of \$1.5 million in the three months ended March 31, 2004.

*Credit facility*

Effective September 16, 2004, we entered into a new unsecured \$150 million revolving credit facility (Credit Facility). The Credit Facility is with a syndicate of six financial institutions, with Bank of America, N.A. as collateral and administrative agent for the lenders, and matures on September 15, 2009. The Credit Facility replaced a \$100 million credit facility (Prior Credit Facility) that was to mature in December 2004. Borrowings under the Credit Facility may be used to make dividends or share repurchases, working capital and capital expenditures, make permitted acquisitions and for general corporate purposes. The Credit Facility contains a \$75 million sub-facility for



letters of credit. We had \$21.8 million in letters of credit outstanding and unused borrowing capacity of \$128.2 million under the Credit Facility as of March 31, 2005. Under the terms of the Credit Facility, we are not required to pledge assets as collateral.

Amounts outstanding under the Credit Facility are subject to varying rates of interest (using either the LIBOR rate or the base rate, each defined below) based on (i) the leverage ratio of consolidated net funded debt to EBITDA (as defined in the Credit Facility) and (ii) whether the loan is a Eurodollar loan or a base rate loan. The LIBOR rate is equal to the rate determined by Bank of America, N.A. to be the British Bankers Association interest rate for deposits in U.S. dollars for a similar interest period (either one, two, three or six months, as selected by us). The base rate is calculated as the higher of (i) the federal funds effective rate plus 0.5% and (ii) the annual rate of interest announced by Bank of America, N.A. as its prime rate. We may borrow at the prime rate plus an applicable margin of up to 0.25% or at the LIBOR rate plus an applicable margin of 0.75% to 1.25%.

**EGL, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

The Credit Facility contains covenants that are similar to, but generally more favorable to us than, the covenants in our Prior Credit Facility. These covenants include, among others:

-

a limitation on liens, mergers, consolidations, sales of assets, and incurrence of secured indebtedness, subject to permitted exceptions;

-

restrictions on the use of proceeds, investments, transactions with affiliates, and changing our principal business;

-

a limitation on paying dividends or purchasing or redeeming capital stock or prepaying indebtedness, subject to permitted exceptions;

-

a requirement that we maintain on a rolling four quarter basis a ratio of Net Funded Debt (as defined in the Credit Facility) to consolidated EBITDA (as defined in the Credit Facility) of not greater than 3.0 to 1.0, and

-

a requirement that we maintain on a rolling four quarter basis a ratio of consolidated EBIT (as defined in the Credit Facility) to consolidated interest charges of not less than 3.0 to 1.0.

The Credit Facility contains customary events of default. If a default occurs and is continuing, we must repay all amounts outstanding under the Credit Facility. We were in compliance with the restrictions of the Credit Facility as

of March 31, 2005.

The Prior Credit Facility with Bank of America, N.A. was terminated by us on September 15, 2004 in advance of its stated termination date without any early termination penalties. Deferred financing fees of \$1.3 million are being amortized over five years as a component of interest expense.

*Release of restricted cash.* In February 2005, in response to a joint motion filed by EGL and the EEOC, a U.S. District Court ordered the return of \$6.0 million to us of the \$8.5 million previously held in an established fund to resolve potential claims in connection with a 2001 consent decree (see note 8 of the notes to our consolidated financial statements). The joint motion and subsequent order resulted primarily from a significantly lower number of qualified claimants than originally projected. The aggregate amount expected to be paid for all claims is less than \$1.0 million. Release of these funds resulted in \$6.0 million in income in the first quarter of 2005.

*Other guarantees.* Several of our foreign operations guarantee amounts associated with our international freight forwarding services. These include IATA (International Air Transportation Association) guarantees, customs bonds and other working capital credit facilities issued in the normal course of business. As of March 31, 2005, guarantees and credit facilities totaled \$78.9 million, and we had \$54.3 million of guarantees, customs bonds and borrowings against facilities outstanding, including guarantees of our trade payables and accrued transportation costs and borrowings against our international credit facilities of \$23.1 million which were recorded as liabilities on our condensed consolidated balance sheet.

*Capital expenditures.* We are in the process of developing and implementing computer system solutions for operational, human resources and financial systems. Once placed into service, depreciation related to the systems is charged on a straight-line basis over the expected useful life of the software. As of March 31, 2005, \$36.0 million of this software was under development and was not being depreciated. Our expected capital expenditures for the year ending December 31, 2005 are approximately \$48 to \$52 million, including approximately \$26 to \$30 million for information technology development and upgrades.

*Litigation.* In addition to the EEOC matter (see note 8 of the notes to our condensed consolidated financial statements), we are party to routine litigation incidental to our business, which primarily involves other employment matters or claims for goods lost or damaged in transit or improperly shipped. Many of the other lawsuits to which we are a party are covered by insurance and are being defended by our insurance carriers. We have established accruals for

**EGL, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)**

these other matters and it is management's opinion that resolution of such litigation will not have a material adverse effect on our consolidated financial position. However, a substantial settlement payment or judgment in excess of our accruals could have a material adverse effect on our consolidated results of operations or cash flows.

*Federal income tax audit.* As discussed in note 8 of the notes to our condensed consolidated financial statements, EGL's U.S. federal income tax returns from fiscal years 2000 to 2001 are currently subject to examination by the IRS. On April 8, 2005, we received a Revenue Agent Report from the IRS field examination team which proposes, among other items, to disallow various merger transaction costs and various software research and development expenditures taken as tax deductions. If the proposed adjustments are upheld, we would be required to pay a total of approximately \$14 million in cash taxes, of which approximately \$6.5 million would impact the consolidated statement of operations, plus accrued interest of approximately \$4 million through March 31, 2005. We are protesting the proposed adjustments to the Appeals office of the IRS. We believe our U.S. federal income tax returns were completed in accordance with applicable laws and regulations and do not believe material adjustments to our tax returns are probable. However, there is no assurance that the final outcome will not result in material adjustments which would have a material adverse impact on our results of operations and cash flows.

**Commissioner's Charge**

As discussed in Part II, Item 1. Legal Proceedings, we have reached a Consent Decree settlement with the EEOC which resolves the EEOC's allegations contained in the Commissioner's Charge. This Consent Decree was approved by the District Court on October 1, 2001. The Consent Decree became effective on October 3, 2002 following the dismissal of all appeals related to the Decree.

**Related Party Transactions**

*Aircraft usage payments*

In conjunction with our business activities, we periodically utilized aircraft owned by entities controlled by Mr. Crane. We were 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, we reimbursed the entities controlled by Mr. Crane approximately \$504,000 for hourly usage of the plane. In January 2005, we purchased from an unrelated third party an aircraft that was previously leased by an entity controlled by Mr. Crane for \$12.5 million to be utilized for business travel, eliminating the use of Mr. Crane's aircraft and reimbursement thereof.

*Shared employees*

Certain of our employees also perform services for unaffiliated companies owned by Mr. Crane. We are reimbursed for these services based upon an allocation percentage of total salaries agreed to by EGL and Mr. Crane. We received reimbursements of \$75,000 and \$35,000 for the quarter ended March 31, 2005 and 2004, respectively. The amount

billed but not received as of March 31, 2005 was \$25,000 and is included in other receivables on the consolidated balance sheets.

**New Accounting Pronouncements and Critical Accounting Policies**

See note 1 of the notes to the consolidated financial statements for the year ended December 31, 2004 in our Annual Report on Form 10-K and see note 1 of the notes to the condensed consolidated financial statements included in Item I.

**EGL, INC.**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in exposure to market risk from that discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

**ITEM 4. CONTROLS AND PROCEDURES**

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this report.

In the course of this evaluation, management considered the material weaknesses in our internal control over financial reporting discussed below and our remediation efforts during the first quarter of 2005. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as a result of the material weaknesses discussed below, our disclosure controls and procedures were not effective, as of March 31, 2005, with respect to the recording, processing, summarizing and reporting, within the time periods specified in the SEC's rules and forms, of information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

In light of the material weaknesses, we performed additional analyses and other post-closing procedures in an effort to ensure our consolidated financial statements included in this quarterly report have been prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.

As described in our Annual Report on Form 10-K, as of December 31, 2004 we concluded that the following control deficiencies constituted material weaknesses:

1.

*Lack of effective controls over the determination of income tax account balances.* The Company did not maintain effective controls over the determination of income tax account balances. Specifically, the Company did not maintain effective controls over: (i) the calculation of the income tax provision, (ii) the proper recording of deferred tax assets and related valuation allowances, (iii) the monitoring of its current and deferred income tax accounts on a worldwide basis, and (iv) reconciliation of the differences between the tax basis and book basis of each component of the Company's balance sheet with the deferred tax asset and liability accounts.

In an effort to remediate this material weakness, we have hired additional staff and continue to pursue the addition of an Accounting for Income Tax Manager and the implementation of global training programs to address the complexities in accounting for current and deferred income taxes under United States generally accepted accounting principles.

2.

*Lack of effective controls over certain general ledger account reconciliations and the monitoring and review of general ledger accounts.* The Company did not maintain effective controls over certain general ledger account reconciliations and the monitoring and review of general ledger accounts. Specifically, general ledger account reconciliations involving cash, receivables, income taxes, property and equipment, other current and noncurrent assets, payables, accrued expenses, notes payable and other noncurrent liabilities in the United States, Mexico and United Kingdom were not properly performed on a timely basis and reconciling items were not timely resolved and adjusted as well as a lack of monitoring and review of these general ledger accounts.

In an effort to remediate this material weakness, we continue to utilize contract labor to fulfill staffing needs to ensure timely and accurate completion of account reconciliations and analysis and have added additional monitoring to ensure adequacy of reconciliations. We also continue to pursue improving the organization structure to achieve the proper levels of quantity and quality of our accounting, finance and internal audit personnel.

Other than discussed above, there has been no change in our internal controls over financial reporting that occurred during the three months ended March 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**EGL, INC.**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

In December 1997, the U.S. Equal Employment Opportunity Commission ( EEOC ) issued a Commissioner's Charge pursuant to Sections 706 and 707 of Title VII of the Civil Rights Act of 1964, as amended ( Title VII ). In the Commissioner's Charge, the EEOC charged us and certain of our subsidiaries with violations of Section 703 of Title VII, as amended, the Age Discrimination in Employment Act of 1967, and the Equal Pay Act of 1963.

In May through July 2000, eight individuals filed suit against us in the United States District Court for the Eastern District of Pennsylvania in Philadelphia, alleging gender, race and national origin discrimination, as well as sexual harassment. The individual plaintiffs sought to certify a class of approximately 1,000 of our current and former employees and applicants.

On December 29, 2000, the EEOC filed a Motion to Intervene in the Philadelphia litigation, which was granted by the Court in Philadelphia on January 31, 2001. In addition, the Philadelphia Court also granted our motion that the case be transferred to the United States District Court for the Southern District of Texas - Houston Division where we had previously initiated litigation against the EEOC due to what we believed to have been inappropriate practices by the EEOC in the issuance of the Commissioner's Charge and in the subsequent investigation.

On October 2, 2001, we and the EEOC announced the filing of a Consent Decree settlement. Under the Consent Decree, we agreed to pay \$8.5 million into a fund to compensate individuals who claim to have experienced discrimination ( Settlement Fund ). In addition, we agreed to contribute \$500,000 to establish a Leadership Development Program ( LDP ). In entering the Consent Decree, we made no admission of liability or wrongdoing. The Consent Decree was approved by the District Court in Houston on October 1, 2001 and became effective on October 3, 2002 following the dismissal of all appeals related to the Decree.

The Claims administration process under the Consent Decree was completed by EGL and the EEOC in early 2005. Of the 2,073 claims received, only 203 were deemed to be eligible for a monetary distribution from the Settlement Fund. The total distribution amount for these 203 claims is approximately \$903,000. EGL and the EEOC submitted a proposed agreement to the Court in February 2005 regarding disbursements of the excess funds in the Settlement Fund. On February 10, 2005 the Court entered an Order directing that EGL recapture \$6.0 million plus accrued interest from the Settlement Fund. Release of these funds resulted in \$6.0 million in income in the first quarter of 2005. The Court also approved the parties' agreement to transfer \$1.4 million to the LDP. From that amount, EGL has reimbursed itself \$582,000 for corporate funds previously expended on LDP expenses. The Court further approved the parties' agreement to retain \$1.1 million in the Settlement Fund for the payment of eligible claims. Notices are being sent currently to eligible claimants who will have a forty-five day period to accept a monetary distribution or opt out of the Consent Decree settlement. Eligible claimants may also object to an award, but to do so they must notify the Claims Administrator within thirty days of the date of their eligibility notice. To the extent any additional claims are determined to be eligible as a result of the objection process, any additional monetary distributions will be drawn from the \$1.1 million reserved in the Settlement Fund. If any funds remain in the Settlement Fund after payment of



all claims, the remainder shall be deposited in the LDP.

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, we intend to continue to vigorously defend against their allegations. We currently expect to prevail in our defense of any remaining individual claims. There can be no assurance as to what amount of time it will take to resolve any other lawsuits and related issues or the degree of any adverse affect these matters may have on our financial condition and results of operations. A substantial settlement payment or judgment could result in a significant decrease in our working capital and liquidity and recognition of a loss in our consolidated statement of operations.

In addition, we are party to routine litigation incidental to our business, which primarily involves other employment matters or claims for goods lost or damaged in transit or improperly shipped. Many of the other lawsuits to which we are a party are covered by insurance and are being defended by our insurance carriers. We have established accruals for these other matters and it is management s opinion that resolution of such litigation will not have a material

**EGL, INC.**

adverse effect on our consolidated financial position. However, a substantial settlement payment or judgment in excess of our accruals could have a material adverse effect on our consolidated results of operations or cash flows.

**ITEM 2. CHANGE IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES**

NONE

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

NONE

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

NONE

**ITEM 5. OTHER INFORMATION**

**FORWARD-LOOKING STATEMENTS**

The statements contained in all parts of this document that are not historical facts are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, but are not limited to, those relating to the following: the Company's plan to reduce costs (including the scope, timing, impact and effects thereof); pending or expected financing transactions; the Company's ability to improve its cost structure; our ability to pass-through fuel surcharges; the Company's ability to reduce its tax rate for the remainder of 2005; anticipated future recoveries from actual or expected sublease agreements; the sensitivity of demand for the Company's services to domestic and global economic conditions; cost management efforts; expected growth; the results, timing, outcome or effect of litigation or tax audits and our intentions or expectations of prevailing with respect thereto; future operating expenses; future margins; use of credit facility proceeds; the timing and amount of repurchases of our outstanding common stock; the effectiveness of the Company's disclosure controls and procedures (including remediation efforts with respect to material weaknesses); the expected impact of changes in accounting policies on the Company's results of operations, financial condition or cash flows; fluctuations in currency valuations; fluctuations in interest rates; the impact of the war in Iraq and other tensions in the Middle East; ability to continue growth and implement growth and business strategy; ability to improve results in our European operations; the development, implementation, upgrade and integration of our financial and operational information systems; the amount and timing of capital expenditures; the ability of expected sources of liquidity to support working capital and capital expenditure requirements; the tax benefit of any stock option exercises; future expectations and outlook and any other statements regarding future growth, cash needs, terminals, operations, business plans and financial results and any other statements which are not historical facts. When used in this document, the words anticipate, estimate, expect, may, plans, project, and similar are intended to be among the statements that identify forward-looking statements.

The Company's results may differ significantly from the results discussed in the forward-looking statements. Such statements involve risks and uncertainties, including, but not limited to, those relating to costs, delays and difficulties related to acquisitions or mergers, including the integration of systems, operations and other businesses; deployment of global financial and operational information systems; the Company's dependence on its ability to attract and retain skilled managers and other personnel; the intense competition within the freight industry; the uncertainty of the Company's ability to manage and continue its growth and implement its business strategy; the Company's dependence on the availability of cargo space to serve its customers; the potential for liabilities if certain independent owner/operators that serve the Company are determined to be employees; effects of regulation; the results of litigation; the Company's vulnerability to general economic conditions and dependence on its principal customers; the Company's vulnerability to risks inherent in operating in international markets, including without limitation, general political and economic instability in international markets as a result of, among other things, the war in Iraq and other tensions in the Middle East, concerns of possible terrorism directed against the United States and its interests, the impact of SARS, or

**EGL, INC.**

other military or trade or travel disruptions; the timing, success and effects of the Company's restructuring; whether the Company enters into arrangements with third parties relating to leased aircraft and the terms of such arrangements; responses of customers to the Company's actions by the Company's principal shareholder; the effect of any tax audits of our domestic and/or foreign tax filings; the effects of changes in forecasts of the Company's effective income tax rates; the timing and amount of repurchases of our outstanding common stock; the lack of effectiveness of the Company's disclosure controls and procedures; the likelihood and/or result of any audit or review of the Company's Department of Transportation grant application; accuracy of accounting and other estimates; the Company's potential exposure to claims involving its local pick up and delivery operations; the Company's future financial and operating results, cash needs and demand for its services; the impact of heightened security measures on our ability to do business; changes in accounting policies; and the Company's ability to maintain and comply with permits and licenses; as well as other factors detailed in the Company's filings with the Securities and Exchange Commission including those detailed in the subsection entitled "Factors That May Affect Future Results and Financial Condition" in the Company's Form 10-K for the year ended December 31, 2004. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. The Company undertakes no responsibility to update for changes related to these or any other factors that may occur subsequent to this filing.

**ITEM 6. EXHIBITS:**

| <b><u>Exhibit Number</u></b> | <b><u>Description</u></b>  |
|------------------------------|--|
| *3.1                         | Second Amended and Restated Articles of Incorporation of EGL, as amended (filed as Exhibit 3(i) to EGL's Form 8-A/A filed with the Securities and Exchange Commission on September 29, 2000 and incorporated herein by reference). |
| *3.2                         | Statement of Resolutions Establishing the Series A Junior Participating Preferred Stock of EGL (filed as Exhibit 3(ii) to EGL's Form 10-Q for the fiscal quarter ended June 30, 2001 and incorporated herein by reference).        |
| *3.3                         | Amended and Restated Bylaws of EGL, as amended (filed as Exhibit 3(ii) to EGL's Form 10-Q for the fiscal quarter ended June 30, 2000 and incorporated herein by reference).  |
| 31.1                         | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).  |
| 31.2                         | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).  |
| 32                           | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).   |

\* Incorporated by reference as indicated.



**EGL, INC.**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EGL, INC.

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(Registrant)

Date: May 10, 2005

By:

/s/ James R. Crane

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James R. Crane

Chairman and

Chief Executive Officer

Date: May 10, 2005

By:

/s/ Elijio V. Serrano

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Elijio V. Serrano

Chief Financial Officer



**EGL, INC.**

**INDEX TO EXHIBITS**

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