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EGL INC  
Form 10-K  
March 26, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002  
COMMISSION NO. 0-27288

EGL, INC.

(Exact name of registrant as specified in its charter)

TEXAS  
(State or other jurisdiction of  
incorporation or organization)

76-0094895  
(I.R.S. Employer  
Identification No.)

15350 VICKERY DRIVE  
HOUSTON, TEXAS  
(Principal executive offices)

77032  
(Zip Code)

Registrant's telephone number, including area code:  
(281) 618-3100

Securities registered pursuant to Section 12(b) of the Act:  
NOT APPLICABLE

Securities registered pursuant to Section 12(g) of the Act:  
COMMON STOCK, \$.001 PAR VALUE  
RIGHTS TO PURCHASE SERIES A PREFERRED STOCK  
(TITLE OF CLASS)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES X NO

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The aggregate value of the voting stock held by non-affiliates of the registrant as of June 28, 2002 was \$629 million.

At February 28, 2003, the number of shares outstanding of registrant's Common Stock was 47,056,191 (net of 1,037,284 treasury shares).

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## DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement for the Registrant's 2003 Annual Meeting of Shareholders to be held on May 12, 2003 is incorporated by reference in Part III of this Form 10-K. Such definitive proxy statement will be filed with the Securities and Exchange Commission not later than 120 days subsequent to December 31, 2002.

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## PART I

### ITEM 1. BUSINESS

#### GENERAL

EGL, Inc. is a leading global transportation, supply chain management and information services company dedicated to providing flexible logistics

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solutions on a price competitive basis. Our 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. We provide value-added services in addition to those customarily provided by traditional air freight forwarders, ocean freight forwarders and customs brokers. These services are designed to provide global logistics solutions for customers in order to streamline their supply chain, reduce their inventories, improve their logistics information and provide them with more efficient and effective domestic and international distribution strategies in order to enhance their profitability. Our merger with Circle International Group, Inc., in October 2000 significantly expanded our international forwarding, customs brokerage and logistics operations. The merger with Circle was treated as a pooling of interests for accounting and financial reporting purposes. Accordingly, all of our prior period consolidated financial statements have been restated to include the results of operations, financial position and cash flows of Circle. See note 3 of the notes to our consolidated financial statements.

We believe we are one of the largest forwarders of domestic and international air freight based in the United States. We have a network of approximately 400 facilities, agents and distribution centers located in over 100 countries on six continents featuring advanced information systems designed to maximize cargo management efficiency and customer satisfaction. Each of our facilities is linked by a real-time, online communications network that speeds the two-way flow of shipment data and related logistics information between origins and destinations around the world.

We conduct our operations primarily under the name "EGL Eagle Global Logistics." We were formerly known as Eagle USA Airfreight, Inc. Our name was changed to EGL, Inc., in February 2000 to reflect our increasing globalization, broader spectrum of services and long-term growth strategy. Our businesses that have historically operated under the name "Circle International Group" or a similar name have changed or are in the process of changing their names, where possible, to EGL Eagle Global Logistics or a similar name.

We trade on the Nasdaq Stock Market under the symbol "EAGL" and were incorporated in Texas in 1984.

### AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file at the SEC's public reference room at Room 1024, 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers (including EGL, Inc.) file electronically with the SEC. The SEC's website is <http://www.sec.gov>.

Our website is <http://www.eaglegl.com>. We make available free of charge through our internet site, via a link to the SEC's website at <http://www.sec.gov>, our annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; and any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The information on our website is not incorporated by reference into this report.

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You will need to have on your computer the Adobe Acrobat Reader software to view these documents, which are in PDF format. If you do not have Adobe Acrobat, a link to Adobe's Internet site, from which you can download the software, is provided.

### INDUSTRY OVERVIEW

As business requirements for efficient and cost-effective distribution services have increased, so have the importance and complexity of effectively managing freight transportation. Businesses increasingly strive to minimize inventory levels with just in time processes, perform manufacturing and assembly operations in different locations and distribute products to numerous destinations. As a result, companies frequently want expedited or time-definite shipment services. Time-definite shipments are delivered at a specific time and are typically not expedited, which results in a lower rate than for an expedited shipment.

Customers have two principal alternatives: an air freight forwarder or a fully-integrated carrier. An air freight forwarder procures shipments from customers and arranges transportation of the cargo on a carrier. An air freight forwarder may also arrange pick up from the shipper to the carrier and delivery of the shipment from the carrier to the recipient. Air freight forwarders often tailor shipment routing to meet the customer's price and service requirements. Fully-integrated carriers provide pick up and delivery service, primarily through their own captive fleets of trucks and aircraft. Because air freight forwarders select from various transportation options in routing customer shipments, they are often able to serve customers less expensively and with greater flexibility than integrated carriers. In addition to the high fixed expenses associated with owning, operating and maintaining fleets of aircraft, trucks and related equipment, integrated carriers often impose significant restrictions on delivery schedules and shipment weight, size and type. Air freight forwarders, however, generally handle shipments of any size and can offer a variety of customized shipping options.

Most air freight forwarders, like EGL, focus on heavier cargo and do not generally compete with integrated shippers of primarily smaller parcels, including FedEx Corporation, Airborne Freight Corporation, DHL Worldwide Express, Inc. and the United Parcel Service ("UPS"). Several integrated carriers, like Menlo Worldwide Forwarding ("Menlo") and BAX Global, Inc. ("BAX"), do focus on shipments of heavy cargo in competition with forwarders. On occasion, integrated shippers serve as a source of cargo space to forwarders. Additionally, most air freight forwarders do not generally compete with the major commercial airlines, which, to some extent, depend on forwarders to procure shipments and supply freight to fill cargo space on their scheduled flights.

The air freight forwarding industry is highly fragmented. Many companies in the industry are able to meet only a portion of their customers' required transportation service needs. Some national domestic air freight forwarders rely on networks of terminals operated by franchisees or agents. We believe that the development and operation of company-owned terminals and staff under the supervision of our management have enabled us to maintain a greater degree of financial and operational control and service quality than franchise-based networks.

We believe that the most important competitive factors in our industry are quality of service, including reliability, responsiveness, expertise and convenience, scope of operations, geographic coverage, information technology and price.

### AIR FREIGHT FORWARDING SERVICES

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Our air freight forwarding operations include expedited domestic forwarding within the United States and international forwarding. Our total air freight forwarding revenues in 2002 were \$1.3 billion of which 36% were derived from domestic air freight forwarding within the United States and 64% were

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derived from international air freight forwarding. Our air freight forwarding and related logistics services include the following:

- o domestic freight forwarding,
- o global freight forwarding,
- o inland transportation of freight from point of origin to distribution center or the carrier's cargo terminal and from our terminal in the destination city to the recipient (pick up and delivery),
- o cargo assembly,
- o export packing and vendor shipment consolidation,
- o receiving and breaking down consolidated air freight shipments and arranging for distribution of the individual shipments,
- o charter arrangement and handling,
- o electronic transmittal of logistics documentation,
- o electronic purchase order/shipment tracking,
- o expedited document delivery to overseas destinations for customs clearance, and
- o procurement of cargo insurance.

We neither own nor operate any aircraft and, consequently, place no restrictions on delivery schedules or shipment size. We arrange for transportation of our customers' shipments via commercial airlines and air cargo carriers. All of our air shipments can be accommodated by either narrow-body or wide-body aircraft. We select the carrier for a shipment based on route, departure time, available cargo capacity and cost. We currently have regularly scheduled dedicated charters of cargo airplanes under a lease agreement with no minimum requirement, to service specific transportation lanes. As needed, we charter cargo aircraft for use in other transportation lanes. The number of these dedicated charters varies from time to time depending upon seasonality, freight volumes and other factors.

In July 2000, we purchased a 24.5% equity interest in Miami Air International, Inc., a privately held domestic and international charter passenger airline, to obtain access to an additional source of reliable freight charter capacity. In connection with the transaction, Miami Air and EGL entered into an aircraft charter agreement whereby Miami Air agreed to provide aircraft charter services to EGL for a three-year term in exchange for a fee. During the

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first four months of 2002, there were three aircraft subject to the aircraft charter agreement. In May 2002, EGL and Miami Air mutually agreed to cancel the aircraft charter agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes thereto included elsewhere in this report.

We generate air freight forwarding revenues by acting primarily as an indirect air carrier and, to a lesser extent, as an authorized cargo sales agent. As an indirect air carrier, we obtain shipments from our customers, consolidate shipments bound for a particular destination, determine the best means to transport the shipment to its destination, select the direct carrier (an airline) on which the consolidated lot is to move and tender each consolidated lot as a single shipment to the direct carrier for transportation to a

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destination. At the destination, we or our agent receive the consolidated lot, break it into its component shipments and distribute the individual shipments to the consignees.

Our rates are based on a charge per pound/kilogram. We ordinarily charge the shipper a rate less than the rate that the shipper would be charged by an airline. Due to the high volume of freight we manage, we generally obtain lower rates per pound/kilogram from airlines than the rates we charge our customers for individual shipments. This rate differential is the primary source of our air freight forwarding net revenue. Our practice is to make prompt adjustments in our rates to match changes in airline rates.

As an authorized cargo sales agent of most airlines worldwide, we also arrange for the transportation of individual shipments and receive a commission from the airline for arranging the shipment. In addition, we provide the shipper with ancillary services, such as export documentation, for which we receive a separate fee. When acting in this capacity, we do not consolidate shipments or have responsibility for shipments once they have been tendered to the airline. We conduct our agency air freight forwarding operations from the same facilities as our indirect carrier operations and serve the same regions of the world.

Local transportation services are performed either by independent cartage companies or, in the United States and Canada, primarily by our local pick up and delivery operations. See "Domestic Local Delivery Services." If delivery schedules permit, we will typically use lower-cost, overland truck transportation services, including those obtained through our domestic truck brokerage operations. See "Domestic Truck Brokerage Services."

We draw on our logistical expertise to provide forwarding services that are tailored to meet customer needs and, in addition to regularly scheduled service, we offer customized schedules. Our services are customized to address each client's individual shipping requirements, generally without restrictions on shipment weight, size or type. Once the customer's requirements for an individual shipment have been established, we proactively manage the execution of the shipment to ensure satisfaction of the customer's requirements.

In 2002, our principal air freight forwarding customers included shippers of:

- o computers and other electronic and high-technology equipment,

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- o automotive and aerospace components,
- o governmental and military,
- o trade show exhibit materials,
- o telecommunications equipment,
- o pharmaceuticals,
- o printed and publishing materials,
- o oil and gas equipment,
- o construction and heavy equipment and
- o apparel and entertainment equipment.

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Our air freight forwarding business is not dependent on any one customer or industry. We provide services to global or multinational customers as well as regional customers. In 2002, approximately 60% of our net revenue was attributable to air freight forwarding.

In January 2002, we expanded our historical relationship with DHL Airways. For several years, DHL has provided us with capacity in its system in the United States. As part of the expanded arrangement, DHL provided additional capacity to our domestic freight forwarding operations and expanded its use of our ground network in selected routes. Our expanded arrangement with DHL provides us with broader coverage in the United States, allowing arrivals in key markets by 7:00 a.m. The expanded arrangement also enhances our ability to pursue market share aggressively. We believe it is important that our cost of transportation remain flexible without compromising our capability of providing heavy cargo lift and service to our customers. Both EGL and DHL determined not to enter into a long-term binding agreement regarding the expanded relationship.

### DOMESTIC LOCAL DELIVERY SERVICES

In the United States and Canada, we provide same-day local pick up and delivery services, both for shipments where we are acting as an air freight forwarder as well as for third-party customers requiring pick up and delivery within the same metropolitan area. We believe that these services provide an important complement to our air freight forwarding services by allowing for quality control over the critical pick up and delivery segments of the transportation process as well as allowing for prompt, updated information on the status of a customer's shipment at each step in the shipment process. We focus on providing local pick up and delivery services to accounts with a relatively high volume of business, which we believe provides a greater potential for profitability than a broader base of small, infrequent customers.

As of December 31, 2002, local delivery services were offered in 82 of the 88 cities in the United States and Canada in which our terminals were located. On-demand pick up and delivery services are available 24 hours a day, seven days a week. In most locations, delivery drivers are independent contractors who operate their own vehicles. Our Houston, Texas operations include a number of company-owned or leased trailers, trucks and other ground

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equipment primarily to service specific customer accounts.

Local pick up and delivery revenues were \$225.8 million during 2002 and \$237.5 million during 2001. Approximately \$150.3 million of these revenues during 2002 and \$160.1 million of these revenues during 2001 were attributable to our air freight forwarding operations and were eliminated upon consolidation. The remaining pick up and delivery revenues were attributable to local delivery services for third-party, non-forwarding business. A substantial majority of the total cost of providing for local pick up and delivery of our freight forwarding shipments in 2002 and 2001 was attributable to our own local pick up and delivery services. Revenues from domestic local delivery services, net of intercompany revenues, are included in air freight forwarding revenues.

### DOMESTIC TRUCK BROKERAGE SERVICES

We have established truck brokerage operations in the United States to provide logistical support to our forwarding operations and, to a lesser extent, to provide truckload service to selected customers. Our truck brokerage services locate and secure capacity when overland transportation is the most efficient means of meeting customer delivery requirements, especially in cases of air freight customers choosing the economy delivery option. We use internal truck brokerage operations to meet delivery requirements without having to rely on third-party truck brokerage services. Additionally, by providing for our own truck brokerage, we have been able to achieve greater efficiencies and utilize purchasing power over transportation providers. We do not own a significant number of the trucks used in our truck brokerage operations and, instead, primarily use carriers or independent owner-operators of trucks and trailers on an

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as-needed basis. We use our relationships with a number of independent trucking companies to obtain truck and trailer space.

As with local pick up and delivery services, we view our truck brokerage services primarily as a means of maintaining quality control and enhancing customer service of our core air freight forwarding business, as well as a means of capturing a portion of profits that would otherwise be earned by third parties. Revenues from domestic truck brokerage, net of intercompany revenues, are included in air freight forwarding revenues.

### INTERNATIONAL OCEAN FREIGHT FORWARDING AND CONSOLIDATION

As a global ocean freight forwarder, we arrange for the shipment of freight by ocean carriers and act as the agent of the shipper or the importer. Our ocean freight forwarding and related logistics services include inland transportation from point of origin to distribution facility or port of export, cargo assembly, packing and consolidation, warehousing, electronic transmittal of documentation and shipment tracking, expedited document delivery, pre-alert consignee notification and cargo insurance.

A number of our facilities provide protective cargo packing, crating and specialized handling services for retail goods, government-specification cargo, consumer goods, hazardous cargo, heavy machinery and assemblies and perishable cargo. Other facilities are equipped to handle equipment and material from multiple origins to overseas "turn-key" projects, such as manufacturing facilities or government installations. We do not own or operate ships or assume



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carrier responsibility, preferring to retain the flexibility to tailor logistics, services and options to customer requirements.

Our compensation for ocean freight forwarding services is derived principally from commissions paid by shipping lines and from forwarding and documentation fees paid by customers, who are either shippers or consignees. In 2002, approximately 3% of our net revenue was attributable to international ocean freight forwarding, including commissions, forwarding fees and associated ancillary services.

Our global operations as an indirect ocean carrier or NVOCC (non-vessel operating common carrier) are similar in some respects to our air freight consolidation operations. We procure customer freight, consolidate shipments bound for a particular destination, determine the routing, select the ocean carrier or charter a ship, and tender each consolidated lot as a single shipment to the direct carrier for transportation to a distribution point. As a NVOCC, we generally derive our revenues from the spread between the rate charged to our customer and the ocean carrier's charge to us for carrying the shipment, in addition to charging for other ancillary services related to the movement of the freight. Because of the volume of freight we control and consolidate, we are generally able to obtain lower rates from ocean carriers than the rate the shipper would be able to procure. In 2002, ocean freight consolidation and associated ancillary services contributed approximately 6% of our net revenues.

### CUSTOMS BROKERAGE

We function as a customs broker at approximately 60 locations in the United States and in over 300 international locations through our network of offices and agents. In our capacity as a customs broker, we prepare and file all formal documentation required for clearance through customs agencies, obtain customs bonds, in many cases facilitate the payment of import duties on behalf of the importer, arrange for payment of collect freight charges and assist the importer in obtaining the most advantageous commodity classifications and in qualifying for duty drawback refunds. Our customs brokers and support staff have substantial knowledge of the complex tariff laws and customs regulations governing the payment of duty, as well as valuation and import restrictions in their respective countries. Within the United States, we employ a significant number of personnel holding individual customs broker licenses.

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We rely both on company-designed and third-party computer technology for customs brokerage activities performed on behalf of our clients. We employ the Automated Brokerage Interface information system, providing an online link with the United States Customs Service. In several global trading centers, in addition to the United States, our offices are connected electronically to customs agencies for expedited preclearance of goods and centralized import management. Such online interface with customs agencies speeds freight release and provides nationwide control of clearances at multiple ports and airports of entry.

We work with importers to design cost-effective import programs that utilize our distribution and logistics services and computer technology. Such services include:

- o electronic document preparation,

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- o cargo routing from overseas origins to ports and airports of entry,
- o bonded warehousing,
- o distribution of the cleared cargo to inland locations, and
- o duty drawback.

In many United States and overseas locations, our bonded warehouses enable importers to defer payment of customs duties and coordinate release of cargo with their production or distribution schedules. Goods are stored under customs service supervision until the importer is ready to withdraw or re-export them. We receive storage charges for these in-transit goods and fees for related ancillary services. We also offer Free Trade Zone management and duty drawback services to provide customers with additional tools to maintain cost-effective import programs.

As a customs broker operating in the United States, we are licensed by the U.S. Treasury and regulated by the U.S. Customs Service. Our fees for acting as a customs broker in the United States are not regulated, and we do not have a fixed fee schedule for customs brokerage services. Instead, fees are generally based on the volume of business transacted for a particular customer, and the type, number and complexity of services provided. In addition to fees, we bill the importer for amounts that we have paid on the importer's behalf, including duties, collect freight charges and similar payments. In 2002, approximately 12% of our net revenue was attributable to customs brokerage services.

### LOGISTICS AND OTHER SERVICES

Customers increasingly demand more than the simple movement of freight from their transportation suppliers. To meet these needs, suppliers seek to customize their services, by, among other things, providing information on the status of materials, components and finished goods throughout the logistics pipeline and performance reports on and proof of delivery for each shipment. We provide a range of logistics services, distribution and materials management services, international insurance services, global project management services and trade facilitation services. In 2002, approximately 19% of our net revenues were attributable to logistics and other services.

#### Logistics Services

We use our logistics expertise to maximize the efficiency and performance of forwarding and other transportation services to our customers. In addition, we provide transportation consulting services and make our expertise and resources available to assist customers in balancing their transportation needs against budgetary constraints by developing logistics plans. We staff and manage the shipping departments of some of our customers that outsource their transportation management function and seek

to provide outsourcing services to other customers in the future. We also provide other ancillary services, including electronic data interchange, customized shipping reports, computerized tracking of shipments, air charters, cargo assembly and protective packing and crating.

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We have established Eagle Exhibitor Services, an internal group that focuses on the special needs of exhibitors in the trade show industry. In addition to air freight forwarding and charter services, this group provides special exhibit handling, by-appointment delivery, caravan services and short-term warehousing.

### Distribution and Materials Management Services

We offer a full range of customized distribution and materials management services in connection with the transportation of cargo. These services are provided in a number of our owned and leased logistics facilities in many locations throughout the world. During 2002, we continued our program of improving existing facilities and constructing new warehouse and distribution facilities to meet customer needs. Our distribution and materials management services include inventory control, order processing, import and export freight staging, protective and specialized packing and crating, pick-and-pack operations, containerization, consolidation and deconsolidation and special handling for perishables, hazardous materials and heavy-lift equipment. For import shipments, we provide bonded warehouse services and, in certain locations, Free Trade Zone services. These warehouse and distribution services complement the other transportation services, including the information systems tools, that form part of the integrated logistics solutions we offer to customers.

### Insurance

Another service offered to customers is the arrangement of international insurance in connection with our air freight and ocean freight forwarding operations. Insurance coverage is frequently tailored to a customer's shipping program and is procured for the customer as a component of our integrated logistics. We also arrange for surety bonds for importers as part of our customs brokerage activities.

### Global Projects

We have global project divisions in North America and the United Kingdom to meet the special requirements of global project management and heavy-lift movements. In addition to logistics advice and traditional ocean and air transportation services, the project divisions provide on-site assistance, vessel chartering services and consulting regarding large-scale project movements.

### Trade Facilitation Services

Our EGL Trade Services, Inc. subsidiary specializes in providing procurement, financial and distribution management services to multinational customers. EGL Trade Services purchases both raw materials for manufacturing and finished goods for distribution, then coordinates their global deployment, as directed by the customer. EGL Trade Services delivers its services through custom-designed Vendor and Distribution Hub programs. Through EGL Trade Services, we are able to seamlessly coordinate a customer's procurement, logistics, transportation and distribution activities within a single supply chain program. This enables us to optimize customer supply chains by streamlining the material, information and financial flows through integration of the specific supply chain processes and elimination of redundant transactions.

### INFORMATION SYSTEMS

A primary component of our business strategy is the continued development of advanced information systems. We have invested substantial

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management and financial resources in the

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development of our information systems in an effort to provide accurate and timely information to our management and customers. We believe that our systems have been instrumental in the productivity of our personnel, tracking of revenue and costs and the quality of our operations and service, and have resulted in substantial reductions in paperwork, and expedited the entry, processing, retrieval and internal dissemination of critical information. These systems also enable us to provide customers with accurate and up-to-date information on the status of their shipments, through a wide range of media, which has become increasingly important.

We continue to expand our product offering to provide air, ocean and ground transportation services, warehousing and inventory management, customs and purchase order processing. Each of the services is supported by specific computer applications that facilitate the operational processes. In addition, we image many of the documents to support proof of delivery, compliance and retention.

We have organized our computer applications to support the supply chain process. These applications are grouped into four broad categories as follows:

- o Transportation Management Systems, which include our traditional freight forwarding and consolidation systems, our pick up and delivery systems for dispatching our owner operated vehicles, and route optimization systems for our dedicated fleet of vehicles,
- o Regulatory Management Systems, which support our export and import processing. These are country specific to comply with local regulatory and reporting requirements,
- o Material Management Systems, for our logistics, warehouse management and distribution program and
- o Financial Management Systems, for our global accounting, intercompany settlement, receivables and payable management, and consolidation/financial reporting.

These applications are linked together through our data repositories or data warehouse to enable us to deliver information and provide visibility both internally and externally.

Currently our Information Technology strategic initiatives include:

- o continuing to integrate our service applications to further expand and enhance the value of our supply chain management programs,
- o developing customer oriented information delivery tools using extranets and data marts, which provide our customers direct access to information associated with their transportation, inventory, and logistics activity,
- o leveraging the power of the Internet to provide easy access to

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this information using web-based tools,

- o upgrading our financial management, human resources and international operational systems on a global basis and
- o continuing to expand our activities in business to business connectivity with our customers' systems. This includes, but is not limited to, receiving shipment requests, advance shipments notices, commercial invoices, etc. and providing status information electronically back to our customers.

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### SALES AND MARKETING

We market services and supply chain solutions through a global organization of nearly 500 full-time sales people. Our sales organization continues to be one of our differentiating factors in the marketplace. All of our leaders, from Senior Management down through the regions to the station managers, support our sales people with an active and targeted selling approach. Our managers at each station are responsible for customer service and the daily execution of customer requirements focusing on a level of service that we believe will exceed customer expectations. This includes proactively managing existing customer requirements for accounts with national and global scope as well as coordinating and communicating requirements for local customers or national/global account affiliates. Our station managers are responsible for the overall results of their facility and are empowered to make decisions to support our customers and return a fair profit. In addition, our regional managers are responsible for the financial performance of the assigned stations within their region. Our employees are available 24 hours a day, seven days a week to respond to our customers.

In the third quarter of 2002, we realigned our North America organization to provide a more customer-focused approach. Our US operations were reorganized from three expansive divisions to eight narrower regions, similar to the operating model we used prior to the acquisition with Circle. This realignment has improved our responsiveness to our customers and has enhanced our ability to make day-to-day decisions at the customer and station level. As part of the realignment, approximately 30 of our major global customers were assigned dedicated senior sales and operating "sponsors" who are responsible for the overall results of the customer/EGL relationship and are focused on customizing global solutions and services. We continue to invest in the development of our seven major vertical industry groups where we can leverage our low-cost operating model to further enhance our revenue mix globally.

Customer retention and mining deeper into current relationships to participate in new business opportunities is important to us, and we emphasize this throughout our organization. Our logistics or "non-transportation" revenue has grown at a greater rate than our transportation revenue, and we will continue to market, design and execute supply chain solutions aimed at reducing our customer's delivered costs and strengthening our customer alliances. We continue to emphasize the development of high-revenue potential national and global accounts with our corporate and global selling while aggressively targeting local accounts where we can leverage our array of services and North America network. The larger, more complex accounts typically have many requirements ranging from very detailed standard operating procedures on international opportunities to customized IT requirements. Our global network

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and operating continuity allows us to provide one-stop shopping, all-in solutions for these multi-national organizations. We believe our recent growth and cost optimization has enabled us to more effectively compete for and obtain many new accounts.

### CUSTOMERS

Our customers are manufacturers and distributors of a vast array of goods including, but not limited to, electronic and high-technology, automotive, oil and gas, energy, retail, pharmaceutical and health care, machinery, printed matter, trade show materials and aerospace. We also continue to expand our business with government agencies and defense entities globally. In 2002, no customer accounted for more than 10% of our revenues. Despite this healthy diversification of customers, adverse conditions in some of our larger business sectors could have an impact on our growth targets should there be a significant decrease in our customers' volumes. We expect that demand for our services, and consequently results of operations, will continue to be sensitive to domestic and global economic conditions and other factors we cannot directly control. As such, our focus will remain on expanding lines of business with current customers and adding new accounts through our superior field and global sales teams.

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### REGULATION

We do not believe that transportation and customs-related regulatory compliance have had a material adverse impact on operations to date. However, failure to comply with the applicable regulations or to maintain required permits or licenses could result in substantial fines or revocation of our operating permits or authorities. We cannot give assurance as to the degree or cost of future regulations on our business. Some of the regulations affecting our operations are described below.

#### Air Freight Forwarding

Our air freight forwarding business is subject to regulation, as an indirect air cargo carrier, under the Federal Aviation Act by the U.S. Department of Transportation, although air freight forwarders are exempted from most of the Federal Aviation Act's requirements by the Economic Aviation Regulations. Our foreign air freight forwarding operations are subject to similar regulation by the regulatory authorities of the respective foreign jurisdictions. The air freight forwarding industry is subject to regulatory and legislative changes that can affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and the costs of providing, services to customers.

#### Domestic Local Delivery Services and Domestic Truck Brokerage Services

Our delivery operations are subject to various state and local regulations and, in many instances, require permits and licenses from state authorities. In addition, some of our delivery operations are regulated by the Surface Transportation Board. These federal, state and local authorities have broad powers, including the power to approve specified mergers, consolidations and acquisitions, and to regulate the delivery of some types of shipments and operations within particular geographic areas. The Surface Transportation Board

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has the power to regulate motor carrier operations, to approve some rates, charges and accounting systems and to require periodic financial reporting. Interstate motor carrier operations are also subject to safety requirements prescribed by the U.S. Department of Transportation. In some potential locations for our delivery operations, state and local permits and licenses may be difficult to obtain. Our truck brokerage operations subject us to regulation as a property broker by the Surface Transportation Board, and we have obtained a property broker license and surety bond.

### Ocean Freight Forwarding

The Federal Maritime Commission, or FMC, regulates our ocean forwarding operations. The FMC licenses ocean freight forwarders. Indirect ocean carriers (non-vessel operating common carriers) are subject to FMC regulation, under the FMC tariff filing and surety bond requirements, and under the Shipping Act of 1984, particularly those terms proscribing rebating practices.

### Customs Brokerage

Our United States customs brokerage operations are subject to the licensing requirements of the U.S. Treasury and are regulated by the U.S. Customs Service. We have received our customs brokerage license from the U.S. Customs Service and additional related approvals. Our foreign customs brokerage operations are licensed in and subject to the regulations of their respective countries.

### Logistics and Other Services

Some portions of our warehouse operations require:

- o registration under the Gambling Act of 1962 and a license or registration by the U.S. Department of Justice,

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- o authorizations and bonds by the U.S. Treasury,
- o a license by the Bureau of Alcohol, Tobacco & Firearms of the U.S. Treasury, and
- o approvals by the U.S. Customs Service.

### Environmental

In the United States, we are subject to federal, state and local provisions relating to the discharge of materials into the environment or otherwise for the protection of the environment. Similar laws apply in many foreign jurisdictions where we operate or may operate in the future. Although current operations have not been significantly affected by compliance with these environmental laws, governments are becoming increasingly sensitive to environmental issues, and we cannot predict what impact future environmental regulations may have on our business. We do not anticipate making any material capital expenditures for environmental control purposes during the remainder of the current or succeeding years.

### EMPLOYEES

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We had approximately 8,700 employees at December 31, 2002, including approximately 500 sales personnel. None of our employees are currently covered by a collective bargaining agreement. We have experienced no work stoppages and consider our relations with employees to be good. We also had contracts with approximately 1,500 independent owner/operators of local delivery services as of December 31, 2002. The independent owner/operators own, operate and maintain the vehicles they use in their work for us and may employ qualified drivers of their choice. Our owned or leased vehicles were driven by approximately 190 of our employees as of December 31, 2002.

We pay our entire sales force and most of our operations personnel what we believe is significantly more than the industry average through the use of incentive and commission programs. We offer a broad-based compensation plan to these employees. Sales personnel are paid a gross commission based on the net revenue of shipments sold. Operations personnel and management are paid bonuses based on the profitability of their locations as well as on our overall profitability.

### EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information concerning our executive officers as of January 31, 2003:

| NAME<br>----      | AGE<br>--- | POSITION<br>-----  |
|-------------------|------------|--|
| James R. Crane    | 49         | Chairman of the Board of Directors,<br>President and Chief Executive Officer |
| Elijio V. Serrano | 45         | Chief Financial Officer  |
| E. Joseph Bento   | 40         | Chief Marketing Officer and President of<br>North America                    |
| Ronald E. Talley  | 51         | President of Select Carrier Group, a<br>division of EGL, Inc.                |

James R. Crane. Mr. Crane has served as our President, Chief Executive Officer and a director since he founded EGL in March 1984.

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Elijio V. Serrano. Mr. Serrano joined us as Chief Financial Officer in October 1999 and has served as a director since 2000. From 1998 to 1999, he served as Vice President and General Manager for a Geco-Prakla business unit at Schlumberger Limited, an international oilfield services company. From 1992 to 1998, Mr. Serrano served as controller for various Schlumberger business units. From 1982 to 1992, he served in various financial management positions within the Schlumberger organization.

E. Joseph Bento. Mr. Bento was appointed President of North America in July 2002 and Chief Marketing Officer in September 2000. He joined us in February 1992 as an account executive. From March 1994 to December 1994, he



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served as a sales manager in Los Angeles, and from January 1995 to September 1997, he served as Regional Sales Manager (West Coast). From June 1994 to May 1995, he also served as station manager in Los Angeles. Prior to assuming his current position, Mr. Bento held the position of Executive Vice President of Sales and Marketing from March 1999 to August 2000 and Vice President of Sales and Marketing from October 1997 to February 1999.

Ronald E. Talley. Mr. Talley was appointed President of Select Carrier Group, a division of EGL in July 2002. He served as Chief Operating Officer, Domestic from December 1997 to June 2002. He joined us in 1990 as a station manager and later served as a regional manager. In 1996, he served as a Senior Vice President of Eagle Freight Services, and our truck brokerage and charter operations, and most recently, he has served as Senior Vice President of our air and truck operations. Prior to joining us, Mr. Talley served as a station manager at Holmes Freight Lines from 1982 to 1990. From 1979 to 1982, Mr. Talley held a variety of management positions with Trans Con Freight Lines. From 1969 to 1979, Mr. Talley served in several management positions at Roadway Express.

John C. McVaney resigned from EGL as of January 17, 2003.

### FORWARD-LOOKING STATEMENTS

The statements contained in all parts of this document (including the portion, if any, appended to this Form 10-K) 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:

- o the realignment of sales organization including its effects and cost synergies,
- o the DHL arrangement (including its effect, timing, DHL's use of our ground network, time of arrival in markets and cost savings),
- o the effect and benefits of the Circle merger,
- o our asset based credit facility,
- o expectations or arrangements for our leased planes and the effects thereof,
- o the expected completion and/or effects of the Circle integration plan,
- o the termination of joint venture/agency agreements and our ability to recover assets in connection therewith,
- o our plan to reduce costs (including the scope, timing, impact and effects thereof), cost management efforts and potential annualized costs savings,
- o past and planned headcount reductions (including the scope, timing, impact and effects thereof),
- o consolidation of field offices (including the scope, timing and effects thereof),
- o anticipated future recoveries from actual or expected sublease agreements,
- o the sensitivity of demand for our services to domestic and global

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- economic conditions,
- o ability to fund operations,
- o expectations regarding an economic recovery in the U.S. and general economic conditions,
- o expected growth,

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- o construction of new facilities,
- o the development, implementation, upgrading, and integration of any of our computer system solutions,
- o the results, timing, outcome or effect of matters relating to the Commissioner's Charge (including the settlement thereof) or other litigation and our intentions or expectations of prevailing with respect thereto,
- o future operating expenses,
- o future margins,
- o use of credit facility proceeds,
- o fluctuations in currency valuations,
- o fluctuations in interest rates,
- o our Miami Air investment and credit support, including any future results or plans relating to Miami Air or its planes,
- o future acquisitions and any effects, benefits, results, terms or other aspects of such acquisitions,
- o ability to continue growth and implement growth and business strategy,
- o the ability of expected sources of liquidity to support working capital and capital expenditure requirements,
- o the tax benefit of any stock option exercises, and
- o 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.

Forward-looking statements in this Form 10-K (including the portion, if any, appended to the Form 10-K) are also identifiable by use of the following words and other similar expressions, among others:

- o "anticipate,"
- o "believe,"
- o "budget,"

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- o "could,"
- o "estimate,"
- o "expect,"
- o "forecast,"
- o "intend,"
- o "may,"
- o "might,"
- o "plan,"
- o "predict,"
- o "project," and
- o "should."

Our actual results may differ significantly from the results discussed in the forward-looking statements. Such statements involve risks and uncertainties, including, but not limited to, the matters discussed in the subsection entitled "Factors That May Affect Future Results and Financial Condition" below, our accounting policies, our future financial and operating results, financial condition, cash needs and demand for our services, actions by customers, suppliers and other third parties, success in plans with respect to information systems, success of cost reduction efforts, as well as other factors detailed in this document and our other filings with the Securities and Exchange Commission. If one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. We undertake no responsibility to update for changes related to these or any other factors that may occur subsequent to this filing for any reason.

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### FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

You should read carefully the following factors and all other information contained in this report. If any of the risks and uncertainties described below or elsewhere in this report actually occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our common stock could decline, and an investor may lose all or part of his investment.

We may not be successful in growing either internally or through acquisitions.

Our growth strategy primarily focuses on internal growth in domestic and international freight forwarding, local pick up and delivery, customs brokerage and truck brokerage business and, to a lesser extent, on acquisitions. Our ability to grow will depend on a number of factors, including:

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- o existing and emerging competition,
- o ability to open new terminals,
- o ability to operate profitably in the face of competitive pressures,
- o the recruitment, training and retention of operating and management employees,
- o the strength of demand for our services,
- o the availability of capital to support our growth, and
- o the ability to identify, negotiate and fund acquisitions when appropriate.

Acquisitions involve risks, including those relating to:

- o the integration of acquired businesses, including different information systems,
- o the retention of prior levels of business,
- o the retention of employees,
- o the diversion of management attention,
- o the amortization of acquired intangible assets, and
- o unexpected liabilities.

We cannot assure you that we will be successful in implementing any of our business strategies or plans for future growth.

Risks associated with operating in international markets could restrict our ability to expand globally and harm our business and prospects.

We market and sell our services in the United States and internationally. We anticipate that international sales will continue to account for a significant portion of our total revenues for the foreseeable future. We presently conduct our international sales in the following geographic areas: North America, Europe, Asia, Middle East, South America and South Pacific. There are some risks inherent in conducting our business internationally, including:

- o general political and economic instability in international markets, including the uncertainty of war in the Middle East, as well as a result of the terrorist attacks in the United States on

September 11, 2001 and the subsequent terror alerts, could impede our ability to deliver our services to customers and harm our results of operations,

- o changes in regulatory requirements could restrict our ability to deliver services to our international customers,

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- o export restrictions, tariffs, licenses and other trade barriers could prevent us from adequately equipping our facilities worldwide,
- o differing technology standards across countries may impede our ability to integrate our services across international borders,
- o increased expenses associated with marketing services in foreign countries could affect our ability to compete,
- o difficulties in staffing and managing foreign operation could affect our ability to compete,
- o adverse taxes could potentially affect our results of operations,
- o complex foreign laws and treaties could adversely affect our ability to compete, and
- o difficulties in collecting accounts receivable could adversely affect our results of operations.

These and other risks could impede our ability to manage our international operations effectively, limit the future growth of our business, increase our costs and require significant management attention.

Events impacting the volume of international trade and international operations could adversely affect our international operations.

Our international operations are directly related to and dependent on the volume of international trade, particularly trade between the United States and foreign nations. This trade as well as our international operations are influenced by many factors, including:

- o economic and political conditions in the United States and abroad,
- o major work stoppages,
- o exchange controls, the Euro conversion and currency fluctuations,
- o wars, other armed conflicts and terrorism, and
- o United States and foreign laws relating to tariffs, trade restrictions, foreign investment and taxation.

Trade-related events beyond our control, such as a failure of various nations to reach or adopt international trade agreements or an increase in bilateral or multilateral trade restrictions, could have a material adverse effect on our international operations. Our operations also depend on availability of carriers that provide cargo space for international operations.

Our business has been and could continue to be adversely impacted by negative conditions in the United States economy or the industries of our principal customers.

Demand for our services has been adversely impacted by negative conditions in the United States economy or the industries of our customers. A substantial number of our principal customers are in the automotive, personal computer, electronics, telecommunications and related industries and their business has been adversely affected, particularly during the past year. These customers collectively account for a substantial percentage of our revenues. Continued adverse conditions or worsening conditions in the industries of our customers could cause us to lose a significant customer or experience a decrease

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in the shipment volume and business levels of our customers. Either of these events could negatively impact our financial results. Adverse economic conditions outside the United States can also have an adverse

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effect on our customers and our business. We expect that demand for our services, and consequently our results of operations, will be sensitive to domestic and global economic conditions and other factors beyond our control.

Currency devaluations in the foreign markets in which we operate could decrease demand for our services.

We denominate our foreign sales in U.S. dollars. Consequently, decreases in the value of local currencies relative to the U.S. dollar in the markets in which we operate could adversely affect the demand for our services by increasing the price of our services in the currencies of the countries in which they are sold.

The terrorist attacks on September 11, 2001, and subsequent terrorist threats have created economic, political and regulatory uncertainties, some of which may materially harm our business and prospects and our ability to conduct business in the ordinary course.

The terrorist attacks that took place in the United States on September 11, 2001, and subsequent terrorist threats have adversely affected many businesses, including our business. The national and global responses many of which are still being formulated, to these terrorist attacks and related threats, may materially affect us adversely in ways we cannot currently predict. Some of the possible future effects include reduced business activity by our customers, changes in security measures or regulatory requirements for air travel and reductions in available commercial flights that may make it more difficult for us to arrange for the transport of our customers' freight and increased credit and business risk for customers in industries that were severely impacted by the attacks.

Our ability to serve our customers depends on the availability of cargo space from other parties.

Our ability to serve our customers depends on the availability of air and sea cargo space, including space on passenger and cargo airlines and ocean carriers that service the transportation lanes that we use. Shortages of cargo space are most likely to develop around holidays and in especially heavy transportation lanes. In addition, available cargo space could be reduced as a result of decreases in the number of passenger airlines or ocean carriers serving particular transportation lanes at particular times. This could occur as a result of economic conditions, transportation strikes, regulatory changes and other factors beyond our control. Our future operating results could be adversely affected by significant shortages of suitable cargo space and associated increases in rates charged by passenger airlines or ocean carriers for cargo space.

We may lose business to competitors.

Competition within the freight industry is intense. We compete in North America primarily with fully integrated carriers, including BAX, Menlo and

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smaller freight-forwarders. Internationally, we compete primarily with the major European based freight forwarders, Expeditors International, BAX, Menlo and other freight forwarders. We expect to encounter continued competition from those forwarders that have a predominantly international focus and have established international networks, including those based in the United States and Europe. We also expect to continue to encounter competition from other forwarders with nationwide networks, regional and local forwarders, passenger and cargo air carriers, trucking companies, cargo sales agents and brokers, and carriers and associations of shippers organized for the purpose of consolidating their members' shipments to obtain lower freight rates from carriers. As a customs broker and ocean freight forwarder, we encounter strong competition in every port in which we do business, often competing with large domestic and foreign firms as well as local and regional firms. Our inability to compete successfully in our industry could cause us to lose customers or lower the volume of our shipments.

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Our success depends on the efforts of our founder and other key managers and personnel.

Our founder, James R. Crane, continues to serve as President, Chief Executive Officer and Chairman of the board of directors. We believe that our success is highly dependent on the continuing efforts of Mr. Crane and other executive officers and key employees, as well as our ability to attract and retain other skilled managers and personnel. The loss of the services of any of our key personnel could have a material adverse effect on us.

We are subject to claims arising from our pick up and delivery operations.

We use the services of thousands of drivers in connection with our local pick up and delivery operations. From time to time, these drivers are involved in accidents. Although most of these drivers are independent contractors, we could be held liable for their actions. Claims against us may exceed the amount of insurance coverage. A material increase in the frequency or severity of accidents, liability claims or workers' compensation claims, or unfavorable resolutions of claims, could materially adversely affect us. In addition, significant increases in insurance costs as a result of these claims could reduce our profitability.

We could incur additional expenses or taxes if the independent owner/operators we use in connection with our local pick up and delivery operations are found to be "employees" rather than "independent contractors."

The Internal Revenue Service, state authorities and other third parties have at times successfully asserted that independent owner/operators in the transportation industry, including those of the type we use in connection with our local pick up and delivery operations, are "employees" rather than "independent contractors." Although we believe that the independent owner/operators we use are not employees, the IRS, state authorities or others could challenge this position, and federal and state tax or other applicable laws, or interpretations of applicable laws, could change. If they do, we could incur additional employee benefit-related expenses and could be liable for additional taxes, penalties and interest for prior periods and additional taxes for future periods.

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Our failure to comply with governmental permit and licensing requirements could result in substantial fines or revocation of our operating authorities, and changes in these requirements could adversely affect us.

Our operations are subject to various state, local, federal and foreign regulations that in many instances require permits and licenses. Our failure to maintain required permits or licenses, or to comply with applicable regulations, could result in substantial fines or revocation of our operating authorities. Moreover, government deregulation efforts, "modernization" of the regulations governing customs clearance and changes in the international trade and tariff environment could require material expenditures or otherwise adversely affect us.

Our settlement with the U.S. Equal Employment Opportunity Commission relating to discrimination allegations is subject to challenge and does not affect the claims asserted in the purported class action lawsuit.

Our settlement with the U.S. Equal Employment Opportunity Commission relating to discrimination allegations is subject to challenge and appeal. If a challenge or appeal is successful, any modifications to the settlement or the reassertion of the original charges could have a material adverse effect on us. In addition, the purported class action lawsuit relating to discrimination allegations could result in the payment of substantial amounts and subject us to significant non-monetary requirements that could have a material adverse effect on us.

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Our chairman beneficially owns approximately 22.5% of our outstanding common stock and has the greatest influence of any of our stockholders.

James R. Crane beneficially owns approximately 22.5% of our outstanding common stock. Based on the ownership positions of our current stockholders, his ability to influence matters submitted to a vote of stockholders is greater than any other stockholder.

Provisions of our charter, bylaws and shareholder rights plan and of Texas law may delay or prevent transactions that would benefit stockholders.

Our articles of incorporation and bylaws and Texas law contain provisions that may have the effect of delaying, deferring or preventing a change of control. These provisions, among other things:

- o authorize our board of directors to set the terms of preferred stock,
- o provide that any stockholder who wishes to propose any business or to nominate a person or persons for the election as director at any meeting of stockholders may do so only if advance notice is given to our corporate secretary,
- o restrict the ability of stockholders to take action by written consent, and
- o restrict our ability to engage in transactions with some 20%



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stockholders.

Because of these provisions, persons considering unsolicited tender offers or other unilateral takeover proposals may be more likely to negotiate with our board of directors rather than pursue non-negotiated takeover attempts. In addition, we have adopted a shareholder rights plan that will cause substantial dilution to any person or group that attempts to acquire us without the approval of our board of directors. The provisions of our charter, bylaws and shareholder rights plan may make it more difficult for our stockholders to benefit from transactions that are opposed by an incumbent board of directors.

### ITEM 2. PROPERTIES

The properties used in our domestic and foreign operations consist principally of air and ocean freight forwarding offices, customs brokerage offices and warehouse and distribution facilities. Our freight forwarding terminal locations are typically located at or near major metropolitan airports and occupy between 1,000 and 160,000 square feet of leased or owned space and typically consist of offices, warehouse space, bays for loading and unloading and facilities for packing. Terminals are managed by a station manager who is assisted by operation managers. We also have locations that are limited to sales and administrative activities. The leased terminals are under noncancelable leases that expire on various dates through 2025. From time to time, we may expand or relocate terminals to accommodate growth.

The following table sets forth certain information as of December 31, 2002 concerning the number of our domestic and foreign facilities and freight handling terminals:

|                              | OWNED | LEASED | TOTAL |
|------------------------------|-------|--------|-------|
|                              | ----- | -----  | ----- |
| North America .....          | 7     | 126    | 133   |
| South America .....          | 6     | 15     | 21    |
| Europe and Middle East ..... | 8     | 108    | 116   |
| Asia and South Pacific ..... | 15    | 77     | 92    |
| Corporate .....              | --    | 1      | 1     |
|                              | ----- | -----  | ----- |
| Total .....                  | 36    | 327    | 363   |
|                              | ===== | =====  | ===== |

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As of December 31, 2002, our corporate office occupied approximately 166,000 square feet of space in a facility located in Houston, Texas.

For information regarding the consolidation of facilities at our operating locations, see note 4 of the notes to our consolidated financial statements. For further information regarding our lease commitments, see note 17 of the notes to our consolidated financial statements.

### ITEM 3. LEGAL PROCEEDINGS

In December 1997, the U.S. Equal Employment Opportunity Commission

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("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, resulting from (1) engaging in unlawful discriminatory hiring, recruiting and promotion practices and maintaining a hostile work environment, based on one or more of race, national origin, age and gender, (2) failures to investigate, (3) failures to maintain proper records and (4) failures to file accurate reports. The Commissioner's Charge states that the persons aggrieved include all Blacks, Hispanics, Asians and females who are, have been or might be affected by the alleged unlawful practices.

On May 12, 2000, four individuals filed suit against us alleging gender, race and national origin discrimination, as well as sexual harassment. This lawsuit was filed in the United States District Court for the Eastern District of Pennsylvania in Philadelphia, Pennsylvania. The EEOC was not initially a party to the Philadelphia litigation. In July 2000, four additional individual plaintiffs were allowed to join the Philadelphia litigation. We filed an Answer in the Philadelphia case and extensive discovery was conducted. The individual plaintiffs sought to certify a class of approximately 1,000 of our current and former employees and applicants. The plaintiff's initial motion for class certification was denied in November 2000.

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. Subsequent to the settlement of the EEOC action described below, the claims of one of the eight named plaintiffs were ordered to binding arbitration at our request. We recognized a charge of \$7.5 million in the fourth quarter of 2000 as an estimated cost of defending and settling the asserted claims.

On October 2, 2001, we and the EEOC announced the filing of a Consent Decree settlement. This settlement resolves all claims of discrimination and/or harassment raised by the EEOC's Commissioner's Charge mentioned above. Under the Consent Decree, we agreed to pay \$8.5 million into a fund that will compensate individuals who claim to have experienced discrimination. The settlement covers (1) claims by applicants arising between December 1, 1995 and December 31, 2000; (2) disparate pay claims arising between January 1, 1995 and April 30, 2000; (3) promotion claims arising between December 1, 1995 and December 31, 1998; and (4) all other adverse treatment claims arising between December 31, 1995 and December 31, 2000. In addition, we agreed to contribute \$500,000 to establish a Leadership Development Program. The Program will provide training and educational opportunities for women and minorities already employed by us and will also establish scholarships and work study opportunities at educational institutions. In entering the Consent Decree, we have not made any admission of liability or

wrongdoing. The Consent Decree was approved by the District Court in Houston on October 1, 2001. The Consent Decree became effective on October 3, 2002 following the dismissal of all appeals related to the Decree. During the quarter ended September 30, 2001, we accrued \$10.1 million related to the settlement,

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which includes the \$8.5 million payment into the fund and \$500,000 to the Leadership Development Program described above, administrative costs, legal fees and other costs associated with the EEOC litigation and settlement.

Of the eight named Plaintiffs, one has accepted a settlement of her claims against us. The remaining individuals who were named Plaintiffs in the underlying action have submitted claims to be considered for settlement compensation under the Consent Decree. The claims administration process is currently underway; however, it could be several months before it is completed and Claimants are notified of whether they qualify for settlement compensation and, if so, the amount for which they qualify. Once Claimants are notified of their eligibility status by the Claims Administrator, they have an option to reject the settlement compensation and pursue litigation on their own behalf and without the aid of the EEOC. To the extent any of the individual plaintiffs or any other persons who might otherwise be covered by the settlement opt out of the settlement, 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 the other lawsuits and related issues or the degree of any adverse effect 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. The Consent Decree settlement provides that we establish and maintain segregated accounts for the Class Fund and Leadership Development Fund. As of March 24, 2003, we have deposited \$5.0 million of the required \$8.5 million into the Class Fund. See note 16 of the notes to our consolidated financial statements for a discussion of commitments and contingencies.

From time to time we are a party to various legal proceedings arising in the ordinary course of business. Except as described above, we are not currently a party to any material litigation and are not aware of any litigation threatened against us, which we believe would have a material adverse effect on our business.

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

No matters were submitted to a vote of security holders during the fourth quarter of our fiscal year ended December 31, 2002.

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

Our common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market under the symbol EAGL. The following table sets forth the quarterly high and low closing sales prices for each indicated quarter of 2001 and 2002.

| QUARTER ENDED        | HIGH     | LOW      |
|----------------------|----------|----------|
| March 31, 2001 ..... | \$ 31.38 | \$ 22.00 |
| June 30, 2001 .....  | 25.71    | 14.56    |

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|                          |          |         |
|--------------------------|----------|---------|
| September 30, 2001 ..... | 16.00    | 7.45    |
| December 31, 2001 .....  | 17.50    | 8.40    |
| March 31, 2002 .....     | \$ 15.87 | \$ 9.50 |
| June 30, 2002 .....      | 19.29    | 13.50   |
| September 30, 2002 ..... | 16.85    | 9.18    |
| December 31, 2002 .....  | 16.15    | 10.11   |

The closing price for our common stock was \$12.62 on February 28, 2003. There were approximately 322 stockholders of record (excluding brokerage firms and other nominees) of our common stock as of February 28, 2003.

Since our initial public offering in November 1995, EGL has not paid cash dividends on our common stock, although Circle had regularly declared semi-annual dividends prior to the merger of EGL and Circle. It is the current intention of our management to retain earnings to finance the growth of our business in lieu of paying dividends. Our bank credit agreement prohibits us from declaring or paying any cash dividends without the bank's consent. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" for a discussion of our repurchases of our common stock.

In December 2001, we issued \$100 million aggregate principal amount of 5% convertible subordinated notes to Credit Suisse First Boston Corporation, as initial purchaser, in a "Rule 144A Offering," pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933. Our net proceeds from the issuance and sale of the notes were approximately \$96.7 million after deducting the discount to the initial purchaser and estimated expenses of the offering. We used all of the net proceeds to repay a portion of our borrowings under our then existing amended and restated credit facility.

The notes bear interest at an annual rate of 5%, payable on June 15 and December 15 of each year beginning June 15, 2002. The notes mature on December 15, 2006. The notes are convertible at any time four trading days prior to maturity into shares of our common stock at a conversion price of approximately \$17.4335 per share, subject to certain adjustments. This is equivalent to a conversion rate of 57.3608 shares per \$1,000 principal amount of notes. Upon conversion, a noteholder will not receive any cash representing accrued interest, other than in the case of a conversion in connection with an optional redemption. We may redeem the notes on or after December 20, 2004 at specified redemption prices, plus accrued and unpaid interest to, but excluding, the redemption date. Upon a change in control, a noteholder may require us to purchase its notes at 100% of the principal amount of the notes, plus accrued and unpaid interest to, but excluding, the purchase date.

### ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data that have been derived from our consolidated financial statements. The information set forth below is not necessarily indicative of results of future operations and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto, included elsewhere in this report.

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|   | YEAR ENDED DECEMBER 31,                  |              |              |              |
|---|--|--------------|--------------|--------------|
|   | 2002                                     | 2001         | 2000         | 1999         |
|   | (in thousands, except per share amounts) |              |              |              |
| <b>STATEMENT OF OPERATIONS DATA:</b>                    |  |              |              |              |
| Revenues(2).....  | \$ 1,869,333                             | \$ 1,860,749 | \$ 2,079,863 | \$ 1,860,749 |
| Net revenues .....                                      | 672,132                                  | 644,183      | 719,512      | 719,512      |
| Operating income (loss) (3) (4) (5) (7) ....            | 29,672                                   | (57,569)     | 9,892        | 9,892        |
| Net income(loss) .....                                  | 9,434                                    | (40,177)     | (722)        | (722)        |
| Basic earnings(loss)<br>per share(6) .....              | \$ 0.20                                  | \$ (0.84)    | \$ (0.02)    | \$ (0.02)    |
| Basic weighted average shares<br>outstanding(6) .....   | 47,610                                   | 47,558       | 46,600       | 46,600       |
| Diluted earnings(loss)<br>per share(6) .....            | \$ 0.20                                  | \$ (0.84)    | \$ (0.02)    | \$ (0.02)    |
| Diluted weighted average<br>shares outstanding(6) ..... | 47,811                                   | 47,558       | 46,600       | 46,600       |
| <b>BALANCE SHEET DATA (at year end):</b>                |  |              |              |              |
| Working capital .....                                   | \$ 201,511                               | \$ 190,564   | \$ 240,484   | \$ 240,484   |
| Total assets .....                                      | 850,307                                  | 812,471      | 904,225      | 904,225      |
| Long-term indebtedness, net<br>of current portion ..... | 103,993                                  | 103,774      | 91,051       | 91,051       |
| Stockholders' equity .....                              | 376,541                                  | 366,091      | 403,767      | 403,767      |

(1) In July 2000, we changed our fiscal year end to December 31 beginning with the December 31, 2000 year end. Prior to 2000, our fiscal years ended on September 30. In October 2000, we completed a merger with Circle International Group, Inc., accounted for as a pooling of interests. The statement of operations data has been prepared by combining our results of operations for the years ended September 30, 1999 and 1998, with Circle's results of operations for the years ended December 31, 1999 and 1998. The balance sheet data has been prepared by combining our financial results as of September 30, 1999 and 1998, with Circle's financial results as of December 31, 1999 and 1998. The periods have been labeled year ended December 31 to be more consistent with our current year-end. The stand-alone results of operations of EGL for the three months ended December 31, 1999 have been omitted from the information presented.

EGL stand-alone revenues, net revenues, operating income, net income and basic and diluted earnings per share for the period October 1, 1999 through December 31, 1999 were \$187.4 million, \$78.2 million, \$15.7 million, \$9.9 million, \$0.35 and \$0.33, respectively. Unaudited pro forma revenues, net revenues, operating income, net income and basic and diluted earnings per share for the year ended December 31, 1999 depicting the combined results of EGL and Circle as if EGL had a fiscal year ended December 31, 1999 are \$1,451.7 million, \$601.9 million, \$75.6 million, \$53.9 million, \$1.18 and \$1.14, respectively.

- (2) We have reclassified to cost of sales, for 2002, 2001 and 2000, the costs of certain reimbursed incidental activities previously reported net in revenues. Amounts for 1999 and 1998 have not been reclassified, as we were utilizing a different system in those years in which the detail is no longer readily available. There is no impact on net revenues, operating income (loss) or net income (loss) as a result of this reclassification. See note 1 of the notes to our consolidated financial statements.
- (3) 2002, 2001 and 2000 include transaction, integration and restructuring charges related to the merger with Circle totaling \$5.7 million or \$3.5 million net of tax (\$0.07 per diluted share), \$14.0 million or \$8.5 million net of tax (\$0.18 per diluted share) and \$67.4 million or \$49.9 million net of tax (\$1.07 per diluted share), respectively. See notes 3 and 4 of the notes to our consolidated financial statements for a discussion of the Circle merger and other acquisitions made in 2000 and 1999.
- (4) 1998 includes special charges of \$10.7 million or \$8.1 million net of tax (\$0.17 per diluted share) recorded by the former Circle entity.
- (5) 2001 includes a charge of \$10.1 million or \$6.2 million net of tax (\$0.13 per diluted share) related to the EEOC legal settlement. See note 16 of the notes to our consolidated financial statements.
- (6) Earnings (loss) per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period, adjusted to include the following: (a) the retroactive restatement giving effect to the 3-for-2 stock split in August 1999, and (b) the weighted average of common stock equivalents issuable upon exercise of stock options, less the number of shares that could have been repurchased with the exercise proceeds using the treasury stock method. There were no common stock equivalents included in the diluted weighted average share calculation for the years ended December 31, 2001 and 2000, as their effect is anti-dilutive given our net loss for those periods.
- (7) 2002 includes grant proceeds of \$8.9 million or \$5.4 million net of tax (\$0.11 per diluted share) received in the third quarter of 2002 from the United States Department of Transportation under the Air Transportation Safety and System Stabilization Act signed into law on September 22, 2001. See note 2 of the notes to our consolidated financial statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this report. In addition, for information on our critical accounting policies and the judgment made in their application, please read "Critical Accounting Policies"

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beginning on page 44.

### MERGER

On October 2, 2000, we completed a merger with Circle International Group, Inc. by issuing approximately 17.9 million shares of our common stock for all of the outstanding common stock of Circle. Each share of Circle common stock was exchanged for one share of our common stock. Circle was a leader in providing transportation and integrated logistics services for the international movement of goods and the furnishing of value-added information, distribution and inventory management services to customers worldwide. Circle was principally engaged in international air and ocean freight forwarding, customs brokerage and logistics. The merger was accounted for as a pooling of interests and, accordingly, all of our prior period consolidated financial statements have been restated to include the

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results of operations, financial position and cash flows of Circle. No goodwill or other fair value adjustments to assets and liabilities were recorded in connection with the merger.

### RESULTS OF OPERATIONS

Our principal services are air freight forwarding, ocean freight forwarding, customs brokerage and other value-added logistics services. The following table provides certain statement of operations data attributable to our principal services during the periods indicated. Revenues for air freight and ocean freight consolidations (indirect shipments) include the cost of transporting such freight, whereas net revenues do not. Revenues for air freight and ocean freight agency or direct shipments, customs brokerage and import services, include only the fees or commissions for these services. A comparison of net revenues best measures the relative importance of our principle services.

|                                | 2002                           |                  | YEAR ENDED DECEMBER 31,<br>2001 |                  |
|--------------------------------|--------------------------------|------------------|---------------------------------|------------------|
|                                | AMOUNT                         | % OF<br>REVENUES | AMOUNT                          | % OF<br>REVENUES |
|                                | (in thousands, except percent) |                  |                                 |                  |
| Revenues:                      |                                |                  |                                 |                  |
| Air freight forwarding .....   | \$ 1,283,025                   | 68.6             | \$ 1,307,101                    | 70               |
| Ocean freight forwarding ..... | 216,298                        | 11.6             | 194,642                         | 10               |
| Customs brokerage .....        | 370,010                        | 19.8             | 359,006                         | 19               |
| Revenues .....                 | \$ 1,869,333                   | 100.0            | \$ 1,860,749                    | 100              |
|                                | =====                          | =====            | =====                           | =====            |

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|  | AMOUNT     | % OF NET REVENUES | AMOUNT      | % OF NET REVENUES |
|--|------------|-------------------|-------------|-------------------|
|  | -----      | -----             | -----       | -----             |
| Net revenues:  |            |                   |             |                   |
| Air freight forwarding .....   | \$ 405,404 | 60.3              | \$ 386,171  | 59.9              |
| Ocean freight forwarding .....   | 57,831     | 8.6               | 58,514      | 9.1               |
| Customs brokerage and other .....  | 208,897    | 31.1              | 199,498     | 31.0              |
|  | -----      | -----             | -----       | -----             |
| Net revenues .....   | \$ 672,132 | 100.0             | \$ 644,183  | 100.0             |
|  | =====      | =====             | =====       | =====             |
| Operating expenses:  |            |                   |             |                   |
| Personnel costs .....  | 370,817    | 55.2              | 383,211     | 59.5              |
| Other selling, general and administrative expenses .....                                   | 274,878    | 40.9              | 294,488     | 45.7              |
| Air transportation safety and system stabilization grant ...                               | (8,923)    | (1.3)             | --          | --                |
| EEOC legal settlement .....  | --         | --                | 10,089      | 1.6               |
| Transaction, restructuring and intergration costs .....                                    | 5,688      | 0.8               | 13,964      | 2.2               |
|  | -----      | -----             | -----       | -----             |
| Operating income (loss) .....  | 29,672     | 4.4               | (57,569)    | (8.9)             |
| Nonoperating income (expense), net .....   | (14,556)   | (2.2)             | (8,442)     | (1.3)             |
|  | -----      | -----             | -----       | -----             |
| Income (loss) before provision (benefit) for income taxes .....                            | 15,116     | 2.2               | (66,011)    | (10.2)            |
| Provision (benefit) for income taxes ...   | 5,895      | 0.8               | (25,834)    | (4.0)             |
|  | -----      | -----             | -----       | -----             |
| Income (loss) before cumulative effect of change in accounting for negative goodwill ..... | 9,221      | 1.4               | (40,177)    | (6.2)             |
| Cumulative effect of change in accounting principle .....                                  | 213        | --                | --          | --                |
|  | -----      | -----             | -----       | -----             |
| Net income (loss) .....  | \$ 9,434   | 1.4               | \$ (40,177) | (6.2)             |
|  | =====      | =====             | =====       | =====             |

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2002 Compared to 2001

Revenues. Revenues increased \$8.6 million, or 0.5%, to \$1,869.3 million in 2002 compared to \$1,860.7 million in 2001 primarily due to an increase in ocean freight consolidations of \$21.7 million and an increase in customs brokerage and other of \$11.0 million offset by a decrease of \$24.1 million in air freight forwarding revenues. Net revenues, which represent revenues less freight transportation costs, increased \$27.9 million, or 4.3%, to \$672.1 million in 2002 compared to \$644.2 million in 2001.

Air freight forwarding revenues. Air freight forwarding revenues decreased \$24.1 million, or 1.8%, to \$1,283.0 million in 2002 compared to \$1,307.1 million in 2001 primarily as a result of volume decreases in North



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America offset by volume increases in South America and Asia Pacific. The volume decreases in North America were primarily due to the weakened U.S. economy. North America was also adversely affected by the shift from air expedited shipments (next flight out, next day or second day time definite shipments) to economy ground deferred shipments (third through fifth day). Air freight forwarding revenues increased \$41.4 million, or 12.2% to \$380.2 million in the fourth quarter of 2002 compared to \$338.8 million in the fourth quarter of 2001. During the fourth quarter of 2002, we benefited from the U.S. West Coast port strike and chartered 42 dedicated planes to move product from Asia to North America.

Air freight forwarding net revenues increased \$19.2 million, or 5.0%, to \$405.4 million in 2002 compared to \$386.2 million in 2001. The air freight forwarding margin (net revenues as a percentage of revenues) increased to 31.6% in 2002 as compared to 29.5% for 2001. The increase in margin was primarily related to the elimination of the U.S. dedicated charter commitments in 2002, better yield management and better buying opportunities on our international freight forwarding services.

Ocean freight forwarding revenues. Ocean freight forwarding revenues increased \$21.7 million, or 11.2%, to \$216.3 million in 2002 compared to \$194.6 million in 2001 primarily as a result of volume increases in Europe and Asia Pacific offset by decreases in North and South America. Ocean freight forwarding net revenues decreased \$683,000, or 1.2%, to \$57.8 million in 2002 compared to \$58.5 million in 2001 and the ocean freight forwarding margin decreased to 26.7% in 2002 compared to 30.1% in 2001 primarily due to a decrease in the number of shipments moving on a direct basis rather than through consolidation service.

Customs brokerage and other revenues. Customs brokerage and other revenues, which include warehousing, distribution and other logistics services, increased \$11.0 million, or 3.1%, to \$370.0 million in 2002 compared to \$359.0 million in 2001. The increase is due to higher warehousing, distribution and other logistics revenues resulting from new warehousing customers and expansion of existing warehousing business in Europe and Asia Pacific. Customs brokerage revenues remained constant in 2002 compared to 2001 with increases in inbound traffic in Asia Pacific offset by decreases across all other geographic divisions.

Operating expenses. Personnel costs include all compensation expenses, including those relating to sales commissions and salaries and to headquarters employees and executive officers. Personnel costs decreased \$12.4 million, or 3.2%, to \$370.8 million in 2002 compared to \$383.2 million in 2001. As a percentage of net revenues, personnel costs were 55.2% in 2002 compared to 59.5% in 2001. The reduction in personnel costs was a result of headcount reductions throughout 2001, which eliminated approximately 500 full-time employees, a reduction of approximately 225 employees during 2002, controls in the use of contract labor and a temporary salary reduction for five pay periods implemented in the U.S. during the first quarter of 2002. The cost savings from the reduction in headcount in 2002 were offset by approximately \$1.0 million of severance costs recorded in the third quarter of 2002.

Other selling, general and administrative expenses, excluding EEOC legal costs and transaction, restructuring and integration costs, decreased \$19.6 million, or 6.7%, to \$274.9 million in 2002 compared to \$294.5 million in 2001. As a percentage of net revenues, other selling, general and administrative

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expenses, excluding EEOC legal costs and transaction, restructuring and integration costs, were 40.9% in 2002 compared to 45.7% in 2001. This decrease is primarily due to management initiatives on costs savings, the realization of merger related cost synergies, and the elimination of goodwill amortization expense due to the implementation of SFAS 142. These cost savings were partially offset by an increase in facility costs, insurance premiums, and depreciation expense. Although we completed the consolidation of many of our facilities, our facility costs increased by approximately \$9.7 million because we are leasing more space than in the previous year for our expanded warehousing and logistics services. The increase in depreciation expense was largely related to increases in computer software and office equipment depreciation. During the third quarter of 2002, we took an impairment charge of \$500,000 related to a management decision not to use certain architectural design plans for a proposed building in Canada.

EEOC legal settlement. In October 2001, we settled our claim with the EEOC and recorded a charge of \$10.1 million during the third quarter 2001, which included \$8.5 million placed into a settlement fund, \$500,000 to establish a leadership development program, legal fees, administrative costs and other costs associated with the litigation and settlement. The \$10.1 million charge was in addition to the \$7.5 million charge we recognized in 2000 for the estimated costs of defending against these claims.

Air Transportation Safety and System Stabilization Act grant. During the third quarter 2002, we received a total of \$8.9 million related to the Air Transportation Safety and system Stabilization Act, which was signed into law on September 22, 2001 (See note 2 of the notes to our consolidated financial statements).

Transaction, restructuring and integration costs. Primarily in connection with the Circle merger and our decision to terminate certain charter lease obligations, we recorded charges of \$5.7 million, or \$3.5 million after tax, during 2002 and \$14.0 million, or \$8.5 million after tax, during 2001. The categories of costs incurred, the actual cash payments made in 2002 and 2001 and the accrued balances at December 31, 2002 and 2001 are summarized below (in thousands):

|   | Accrued<br>Balance at<br>December 31,<br>2000<br>----- | New Charges<br>2001<br>----- | Revisions<br>to<br>Estimates<br>2001<br>----- | Amounts Paid/<br>Written Off<br>in<br>2001<br>----- |
|---|--|------------------------------|---|---|
| <b>Cash costs:</b>  |  |                              |   |   |
| Severance costs .....   | \$ 6,267   | \$ 3,345                     | \$ (398)                                      | \$ (8,301)  |
| Future lease obligations,<br>net of expected sublease<br>income ..... | 10,063   | 1,917                        | 2,746   | (7,763)   |
| Termination of joint<br>venture/agency<br>agreements .....            | 5,212  | --                           | (3,000)                                       | (1,209)   |
| Charter lease obligations,<br>net of sublease income .....            | --   | 2,287                        | --  | (2,287)   |
| Integration costs .....   | 3,434  | 7,564                        | --  | (10,998)  |
|   | -----  | -----                        | -----   | -----   |
| Subtotal cash cost .....  | 24,976   | 15,113                       | (652)   | (30,558)  |
| Noncash cost .....  | --   | --                           | (497)   | 497   |
|   | -----  | -----                        | -----   | -----   |

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|   |    |        |    |                                      |    |  |    |   |
|---|----|--------|----|--------------------------------------|----|--|----|---|
| Total .....   | \$ | 24,976 | \$ | 15,113                               | \$ | (1,149)                                    | \$ | (30,061)                                      |
|   |    | =====  |    | =====                                |    | =====                                      |    | =====   |
|   |    |        |    | Revisions<br>to<br>Estimates<br>2002 |    | Amounts Paid/<br>Written Off<br>in<br>2002 |    | Accrued<br>Balance at<br>December 31,<br>2002 |
|   |    |        |    | -----                                |    | -----                                      |    | -----   |
| Cash costs:   |    |        |    |                                      |    |  |    |   |
| Severance costs .....   | \$ | --     | \$ | (126)                                | \$ | 787  |    |   |
| Future lease obligations,<br>net of expected sublease<br>income ..... |    | 5,939  |    | (5,687)                              |    | 7,215                                      |    |   |
| Termination of joint<br>venture/agency<br>agreements .....            |    | (251)  |    | (527)                                |    | 225  |    |   |
| Charter lease obligations,<br>net of sublease income .....            |    | --     |    | --                                   |    | --   |    |   |
| Integration costs .....   |    | --     |    | --                                   |    | --   |    |   |
|   |    | -----  |    | -----                                |    | -----                                      |    | -----   |
| Subtotal cash cost .....  |    | 5,688  |    | (6,340)                              |    | 8,227                                      |    |   |
| Noncash cost .....  |    | --     |    | --                                   |    | --   |    |   |
|   |    | -----  |    | -----                                |    | -----                                      |    | -----   |
| Total .....   | \$ | 5,688  | \$ | (6,340)                              | \$ | 8,227                                      |    |   |
|   |    | =====  |    | =====                                |    | =====                                      |    | =====   |

Severance costs. Severance costs were recorded for certain employees at the former Circle headquarters and former Circle management at certain international locations who were terminated or notified of their termination under our integration plan prior to December 31, 2000. As of December 31, 2000, we no longer employed approximately 60 of the 150 employees included in the integration plan we established in connection with the Circle acquisition. The termination of substantially all of the remaining 90 employees occurred in the first quarter of 2001. Additional severance costs of approximately \$3.2 million were recorded during the year ended December 31, 2001.

Also, during January 2001, we announced an additional reduction in our workforce of approximately 125 additional employees. The charge for this workforce reduction is approximately \$100,000 and was recorded during the first quarter of 2001.

Future lease obligations. Future lease obligations consist of our remaining lease obligations under noncancelable operating leases at domestic and international locations that we are in the process of vacating and consolidating due to excess capacity resulting from having multiple facilities in certain locations. The provisions of our integration plan include the consolidation of facilities of approximately 80 of our operating locations. During the second half of 2001, we determined the estimated consolidation dates for several of the remaining facilities and recorded an additional charge of \$1.9 million. All

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lease costs for facilities being consolidated are charged to operations until the date that we vacate each facility.

Amounts recorded for future lease obligations under our integration plan are net of approximately \$37.0 million in anticipated future recoveries from actual or expected sublease agreements as of December 31, 2002. Sublease income has been anticipated under the integration plan only in locations where sublease agreements have been executed as of December 31, 2002 or are deemed probable of execution during the first half of 2003. There is a risk that subleasing transactions will not occur within the same timing or pricing assumptions made by us or at all, which could result in future revisions to these estimates. During 2002 and 2001, we recorded an additional charge of \$5.9 million and \$4.7 million, respectively, based on revised estimates for future recoveries from actual or expected sublease agreements that were or are expected to be less favorable than anticipated due to the weakened U.S. economy. In addition, during the fourth quarter of 2001, we decided to utilize two of the facilities in our logistics operations as we determined the expected return on operations was greater than the sublease income we expected to obtain in these two markets. Therefore, we reversed the \$2.0 million reserve established for these facilities.

Termination of joint venture/agency agreements. Costs to terminate joint venture/agency agreements represent contractually obligated costs incurred to terminate selected joint venture and agency agreements with certain of our former business partners along with assets that were not expected to be fully recoverable as a result of our decision to terminate these agreements. In conjunction with our integration plan, we completed the termination of joint venture and agency agreements in Brazil, Chile, Panama, Venezuela, Taiwan and South Africa in 2001. We completed the termination of joint venture agreements in South Africa and Taiwan on more favorable terms than originally expected and revised the related estimate by reducing the expected charge by \$3.0 million in 2001. In the fourth quarter of 2002, we reversed an additional \$251,000 of this reserve due to more favorable settlements.

Charter lease obligation. In August 2001, we negotiated agreements to reduce our exposure to future losses on leased aircraft. A lease for two of the aircraft was terminated with no financial penalty. We subleased five aircraft to a third party at rates below our contractual commitment and recorded a charge of approximately \$2.3 million in the third quarter of 2001 for the excess of our commitment over the sublease income through the end of the lease term.

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Integration costs. Integration costs of approximately \$7.6 million were incurred during 2001 and include the costs of changing legal registrations in various jurisdictions, changing signs and logos at our major facilities around the world, and other integration costs. These costs were expensed as incurred.

Noncash charge. During 2000, we recorded a charge for assets not expected to be recoverable which primarily consisted of fixed assets at the various locations that were being consolidated under our integration plan and will no longer be used in our ongoing operations. In 2001, we revised these estimates by \$497,000 for assets that were determined to be recoverable since they will continue to be used in operations.

Operating income (loss). Operating income was \$29.7 million in 2002 as compared to an operating loss of \$57.6 million for 2001. The increase in

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operating income was primarily due to an increase in net revenues of \$27.9 million, decreases in personnel costs of \$12.4 million, other selling, general and administrative expenses of \$19.6 million and transaction, restructuring and integration costs of \$8.3 million as well as \$8.9 million received from the Air Transportation Safety and System Stabilization Act.

Nonoperating income (expense), net. Nonoperating expense, net was \$14.6 million in 2002 as compared to \$8.4 million in 2001. The \$6.2 million increase was primarily due to an impairment charge of approximately \$6.7 million for our investment in Miami Air and a \$1.3 million reserve established for Miami Air's outstanding letters of credit guaranteed by us offset by lower interest expense as a result of the lower interest rate on our convertible notes compared to the interest rate on debt outstanding in 2001. See note 8 of the notes to our consolidated financial statements. Additionally, we incurred net foreign exchange gains of \$366,000 in 2002 compared to a net foreign exchange loss of \$55,000 in 2001. Nonoperating expense in 2001 was reduced by a \$2.3 million gain recognized by recording the market value of a nonmarketable investment in equity securities that became marketable and was classified as available for sale.

Effective tax rate. The effective tax rate for 2002 was 39.0% compared to 39.1% for 2001. Our overall effective tax rate fluctuates primarily due to changes in the level of pre-tax income in foreign countries that have different rates and certain income and/or expenses that are permanently non-taxable or non-deductible in certain jurisdictions, respectively.

### 2001 Compared to 2000

Revenues. Revenues decreased \$219.2 million, or 10.5%, to \$1,860.7 million in 2001 compared to \$2,079.9 million in 2000 primarily due to decreases in air freight forwarding revenues. Net revenues, which represents revenues less freight transportation costs, decreased \$75.3 million, or 10.5%, to \$644.2 million in 2001 compared to \$719.5 million in 2000.

Air freight forwarding revenues. Air freight forwarding revenues decreased \$204.6 million, or 13.5%, to \$1,307.1 million in 2001 compared to \$1,511.7 million in 2000 primarily as a result of volume decreases in North America and Asia. The volume decreases in North America were primarily attributable to the weakened U.S. economy. North America was also adversely affected by the shift from air expedited shipments (next flight out, next day or second day time definite shipments) to economy ground deferred shipments (third through fifth day).

Air freight forwarding net revenues decreased \$87.2 million, or 18.4%, to \$386.2 million in 2001 compared to \$473.4 million in 2000. The air freight forwarding margin (net revenues as a percentage of revenues) declined to 29.5% in 2001 as compared to 31.3% for 2000 due to a softening of the U.S. economy, primarily in the technology, telecommunications and automotive industries, and the resulting shift from air expedited shipments to economy ground deferred shipments which generate lower revenues and lower margins. The air freight forwarding margin was also adversely impacted in 2001 by the fixed

costs of transportation related to 14 charter aircraft leases mainly utilized in North America which were carrying less freight than targeted operating levels as a result of the factors discussed in the previous sentence. In June 2001, we

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paid \$2.0 million to terminate one of our air charter lease agreements. In mid-August 2001, we negotiated agreements to reduce our exposure to future losses on leased aircraft. A lease for two of the aircraft was terminated with no financial penalty, and we agreed to sublease five aircraft on another lease to a third party at rates below our contractual commitment, which resulted in a charge in 2001 of approximately \$2.3 million. Although Asia experienced lower revenues from lower activity, the air freight forwarding net revenue margin for Asia improved due to better buying opportunities from carriers.

Ocean freight forwarding revenues. Ocean freight forwarding revenues decreased \$8.4 million, or 4.1%, to \$194.6 million in 2001 compared to \$203.0 million in 2000 primarily as a result of volume decreases in North America and Asia. Ocean freight forwarding net revenues increased \$5.0 million, or 9.4%, to \$58.5 million in 2001 compared to \$53.5 million in 2000 due to increased direct activity volumes in Europe, coupled with lower transportation costs in Asia, North America and Europe for consolidation services. Activity from expanded operations in France resulting from a joint venture with the Mory Group contributed to the improved results in Europe. The ocean freight forwarding margin increased to 30.1% in 2001 compared to 26.3% in 2000 primarily due to an increase in the number of shipments moving on a direct basis rather than through consolidation services and, to a lesser extent, better buying opportunities on consolidation activity.

Customs brokerage and other revenues. Customs brokerage and other revenues, which includes warehousing, distribution and other logistics services, decreased \$6.2 million, or 1.7%, to \$359.0 million in 2001 compared to \$365.2 million in 2000, while net customs brokerage and other revenues increased \$6.8 million, or 3.5%, to \$199.5 million in 2001 compared to \$192.7 million in 2000. Customs brokerage revenues were lower in 2001 due to a decrease in inbound traffic in all geographic divisions except Europe and the Middle East. Activity from substantially expanded operations in France and Ireland and the opening of a wholly owned subsidiary in South Africa significantly contributed to the higher revenues in the Europe and the Middle East segment. Warehousing and distribution revenues increased as a result of new and expanded warehousing customers mainly in North America, partially offset by a decline in activity in Asia.

Operating expenses. Total operating expenses (personnel and other selling, general and administrative expenses, excluding EEOC legal costs and transaction, restructuring and integration costs) were not reduced commensurate with the decline in revenues during the early part of 2001 in anticipation of improved activity levels. Additionally, actions taken during 2000 to add additional warehouse and dock space in anticipation of continued market share gains and growth in activity resulted in higher occupancy related expenses that came on line during 2001. We also added significant information technology ("IT") related consultant expenses during 2001 to develop an integration plan and to begin the integration of the EGL and Circle IT systems. The combination of a delay in implementing reductions in personnel related expenses consistent with the lower activity levels, the addition of warehouse and dock space that started in 2000 and higher IT related expenses contributed to our losses in 2001.

Personnel costs include all compensation expenses, including those relating to sales commissions and salaries and to headquarters employees and executive officers. Personnel costs increased \$4.7 million, or 1.2%, to \$383.2 million in 2001 compared to \$378.5 million in 2000. As a percentage of net revenues, personnel costs were 59.5%, in 2001 compared to 52.6% in 2000. Our history of rapid revenue growth has historically required us to increase our headcount at a fast pace to prepare for increased levels of activity to maintain our high level of customer service. As a result, employee headcount increased throughout 2000 and into early 2001 in anticipation of efforts to integrate and grow in connection with the EGL/Circle merger. When freight shipments began to

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slow toward the end of the first quarter of 2001, we attempted to alleviate the impact of the slowdown by implementing a furlough program in March 2001.

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With no strong signs of a near-term economic rebound, we reduced our headcount during the remainder of 2001 to bring it in line with then current activity levels. During 2001, approximately 980 regular full-time and contract employees were released, including the former Circle headquarters employees. These reductions represented approximately 17% of our U.S. workforce. In the Europe and Middle East region, headcount was increased by 11% due to new and expanded operations in France, Ireland and South Africa. The associated compensation expenses were the main cause of the increase in our total personnel costs. We implemented a temporary salary reduction for five pay periods during the first quarter of 2002 for salaried personnel in the U.S. in an effort to decrease personnel costs during our seasonally slow first quarter.

Other selling, general and administrative expenses, excluding EEOC legal costs and transaction, restructuring and integration costs, increased \$38.2 million, or 14.9%, to \$294.5 million in 2001 compared to \$256.3 million in 2000. As a percentage of net revenues, other selling, general and administrative expenses, excluding EEOC legal costs and transaction, restructuring and integration costs, were 45.7% in 2001 compared to 35.6% in 2000. This increase is due to an overall increase in the level of our activities during 2000 and the first nine months of 2001 without the corresponding net revenue growth in 2001 due to the reduced shipping volumes and the shift from air expedited shipments to economy ground deferred shipments which generate lower revenues at lower margins, but with a similar cost structure.

EEOC legal settlement. In 2001, we entered into an agreement to settle a claim with the EEOC and recorded a charge of \$10.1 million during the third quarter, which included \$8.5 million placed into a settlement fund, \$500,000 million to establish a leadership development program, legal fees, administrative costs and other costs associated with the litigation and settlement. The \$10.1 million charge was in addition to the \$7.5 million charge we recognized in 2000 for the estimated costs of defending against these claims.

Transaction, restructuring and integration costs. Primarily in connection with the Circle merger and our decision to terminate certain charter lease obligations, we recorded charges of \$14.0 million, or \$8.5 million after tax, during 2001 and \$67.4 million or \$49.9 million after tax, during 2000. The categories of costs incurred, the actual cash payments made in 2001 and 2000 and the accrued liabilities at December 31, 2001 and 2000 are summarized below (in thousands):

|                         | New<br>Charges<br>2000<br>----- | Amounts<br>Paid/Written<br>Off in 2000<br>----- | Accrued<br>Balance at<br>December 31,<br>2000<br>----- | New<br>Charges<br>2001<br>----- |
|-------------------------|---------------------------------|---|--|---------------------------------|
| Cash costs:             |                                 |   |  |                                 |
| Transaction costs ..... | \$ 9,774                        | \$ (9,774)                                      | \$ --  | \$ --                           |

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|  |           |             |           |           |
|--|-----------|-------------|-----------|-----------|
| Severance costs  | 8,377     | (2,110)     | 6,267     | 3,345     |
| Future lease obligations,<br>net of expected sublease income | 11,105    | (1,042)     | 10,063    | 1,917     |
| Termination of joint<br>venture/agency agreements ....       | 9,322     | (4,110)     | 5,212     | --        |
| Charter lease obligation,<br>net of sublease income .....    | --        | --          | --        | 2,287     |
| Integration costs .....                                      | 8,214     | (4,780)     | 3,434     | 7,564     |
| Subtotal cash cost .....                                     | 46,792    | (21,816)    | 24,976    | 15,113    |
| Noncash costs .....  | 20,597    | (20,597)    | --        | --        |
| Total .....  | \$ 67,389 | \$ (42,413) | \$ 24,976 | \$ 15,113 |

|  | Revisions<br>to<br>Estimates<br>2001 | Amounts<br>Paid/Written<br>Off in 2001 | Accrued<br>Balance at<br>December 31,<br>2001 |
|--|--------------------------------------|--|---|
| Cash costs:  |                                      |  |   |
| Transaction costs .....                                      | \$ --                                | \$ --                                  | \$ --   |
| Severance costs  | (398)                                | (8,301)                                | 913   |
| Future lease obligations,<br>net of expected sublease income | 2,746                                | (7,763)                                | 6,963   |
| Termination of joint<br>venture/agency agreements ....       | (3,000)                              | (1,209)                                | 1,003   |
| Charter lease obligation,<br>net of sublease income .....    | --                                   | (2,287)                                | --  |
| Integration costs .....                                      | --                                   | (10,998)                               | --  |
| Subtotal cash cost .....                                     | (652)                                | (30,558)                               | 8,879   |
| Noncash costs .....  | (497)                                | 497                                    | --  |
| Total .....  | \$ (1,149)                           | \$ (30,061)                            | \$ 8,879                                      |

Transaction costs. Transaction costs of \$9.8 million incurred in 2000 include investment banking, legal, accounting and printing fees and other costs directly related to the merger.

Severance costs. Severance costs were recorded for certain employees at the former Circle headquarters and former Circle management at certain international locations who were terminated or notified of their termination under our integration plan prior to December 31, 2000. As of December 31, 2000, we no longer employed approximately 60 of the 150 employees included in the integration plan we established in connection with the Circle acquisition. The termination of substantially all of the remaining 90 employees occurred in the first quarter of 2001. Additional severance costs of approximately \$3.2 million



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were recorded during the year ended December 31, 2001.

Also, during January 2001, we announced an additional reduction in our workforce of approximately 125 additional employees. The charge for this workforce reduction was approximately \$100,000 and was recorded during the first quarter of 2001.

Future lease obligations. Future lease obligations consist of our remaining lease obligations under noncancelable operating leases at domestic and international locations that we were in the process of vacating and consolidating due to excess capacity resulting from having multiple facilities in certain locations. The provisions of our integration plan include the consolidation of facilities of approximately 80 of our operating locations. As of December 31, 2001, consolidation of facilities has been completed at substantially all of these locations with the remaining locations expected to be completed by the end of the first quarter of 2002. During the second quarter of 2001, we determined the estimated consolidation dates for several of the remaining facilities and recorded an additional charge of \$1.9 million. All lease costs for facilities being consolidated are charged to operations until the date that we vacate each facility.

Amounts recorded for future lease obligations under our integration plan were net of approximately \$31.3 million in anticipated future recoveries from actual or expected sublease agreements as of December 31, 2001. Sublease income has been anticipated under the integration plan only in locations where sublease agreements have been executed as of December 31, 2001 or are deemed probable of execution during the first half of 2002. There is a risk that subleasing transactions will not occur within the same timing or pricing assumptions made by us or at all, which could result in future revisions to these estimates. During the year ended December 31, 2001, we recorded an additional charge of \$4.7 million based on revised estimates for future recoveries from actual or expected sublease agreements that were or are expected to be less favorable than anticipated due to the weakened U.S. economy. In addition, during the fourth quarter of 2001, we decided to utilize two of the facilities in our logistics operations as we determined the expected return on operations was greater than the sublease income we expected to obtain in these two markets. Therefore, we reversed the \$2.0 million reserve established for these facilities.

Termination of joint venture/agency agreements. Costs to terminate joint venture/agency agreements represent contractually obligated costs incurred to terminate selected joint venture and agency agreements with certain of our former business partners along with assets that were not expected to be fully recoverable as a result of our decision to terminate these agreements. In conjunction with our integration plan, during the year ended December 31, 2001, we completed the termination of joint venture and agency agreements in Brazil, Chile, Panama, Venezuela, Taiwan and South Africa. We completed the termination of joint venture agreements in South Africa and Taiwan on more favorable terms than originally expected and revised the related estimate by reducing the expected charge by \$3.0 million.

Charter lease obligation. In August 2001, we negotiated agreements to reduce our exposure to future losses on leased aircraft. A lease for two of the aircraft was terminated with no financial penalty. We subleased five aircraft to a third party at rates below our contractual commitment and recorded a

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charge of approximately \$2.3 million in the third quarter of 2001 for the excess of our commitment over the sublease income through the end of the lease term.

Integration costs. Integration costs of approximately \$7.6 million and \$8.2 million were incurred during 2001 and 2000, respectively, and include the costs of changing legal registrations in various jurisdictions, changing signs and logos at our major facilities around the world, and other integration costs. These costs have been expensed as incurred. Approximately \$3.4 million of this amount was unpaid at December 31, 2000.

Noncash charge. The noncash charge of \$20.6 million in 2000 consisted of assets not expected to be recoverable, which include: (a) fixed assets at various locations that will no longer be used in our ongoing operations after we consolidate those locations; (b) computer hardware and software at the former Circle operations that will no longer be used as these assets are not compatible with our existing information technology strategy; and (c) assets not expected to be fully recoverable as a result of our decision to terminate certain joint venture/agency agreements. In 2001, we revised these estimates by \$497,000 for assets that were determined to be recoverable since they will continue to be used in operations.

Operating income (loss). We incurred an operating loss of \$57.6 million in 2001 as compared to operating income of \$9.9 million for 2000. The decrease in operating income was primarily due to the 2001 decline in net revenues of \$75.3 million and the \$38.2 million increase in other selling general and administrative expenses, offset by a \$53.4 million reduction in transaction, restructuring and integration costs.

Nonoperating income (expense), net. Nonoperating expense, net of \$8.4 million was incurred in 2001 as compared to nonoperating income, net of \$2.5 million in 2000. During 2001, nonoperating expense, net resulted from a lower level of interest income resulting from reduced short-term investments that were liquidated to fund expansion activities and support operations, higher interest expense from increased borrowings, losses from unconsolidated affiliates and no benefit of net foreign exchange gains. These were partially offset by a \$2.3 million gain recognized by recording the market value of a nonmarketable investment in equity securities that became marketable and classified as available for sale during the second quarter of 2001 and a lower expense for recognition of minority interests.

Effective tax rate. The effective income tax rate for 2001 was 39.1% compared to 105.8% for 2000. The 2000 effective tax rate was adversely impacted by the transaction, restructuring and integration charges discussed in note 4 of the notes to our consolidated financial statements. The effective tax rate for 2000 excluding these charges was 38.4%. Our effective tax rate fluctuates primarily due to changes in the level of pre-tax income in foreign countries that have different rates and certain income and expenses that are permanently non-taxable or non-deductible in certain jurisdictions, respectively.

### 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. We substantially reduced operating costs between the second and third quarter of 2001 and worked to diversify our customer base. Additionally, we made significant efforts to collect outstanding customer accounts receivable amounts and were able to use the cash from these collections to avoid additional net

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borrowings on our line of credit during 2002. If we achieve

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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.

Based on current plans, we believe that our existing capital resources will be sufficient to meet working capital requirements through December 31, 2003. However, we cannot provide assurance that there will be no change that would consume available resources significantly before that time. For example, the terrorist attacks on the United States in 2001, as well as future events occurring in response to, or in connection with them, including, without limitation, future terrorist attacks against the United States or its allies or military or trade or travel disruptions impacting our ability to sell and market our services in the United States and internationally may impact our results of operations. 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, 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.

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 revenue and fees derived from these transactions, are not recorded as revenue 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.

### 2002 Compared to 2001

Net cash provided by operating activities. Net cash provided by operating activities was \$72.8 million in 2002 compared to \$23.5 million in 2001. The increase in 2002 was primarily due to the net income in 2002 as compared to the loss incurred in 2001 and improved days sales outstanding reflecting improved operational performance.

Net cash used in investing activities. Net cash used in investing activities in 2002 was \$23.9 million compared to \$23.2 million in 2001. Capital expenditures were \$41.4 million during 2002 as compared to \$64.9 million during 2001, a \$23.5 million decrease. These expenditures were mainly due to information technology initiatives and general facilities expansion in North America. The sale and sale-leaseback of real estate and the sale of other assets resulted in cash proceeds of \$26.0 million in 2002 compared to \$37.3 million in 2001. The purchase of assets held for sale totaled \$11.6 million in 2002.

Net cash provided by (used in) financing activities. Net cash used in

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financing activities in 2002 was \$9.7 million compared to \$19.0 million provided by financing activities in 2001. We expended \$10.0 million to repurchase and retire common stock in 2002. In 2001 net proceeds from the sale of 5% convertible subordinated notes were \$96.9 million. Proceeds from this sale were used to repay amounts borrowed against the revolving line of credit of \$82.0 million. Net borrowings were \$14.5 million in 2001. Proceeds from the exercise of stock options were \$687,000 in 2002 compared to \$3.3 million in 2001. We did not purchase any treasury stock in 2001.

### 2001 Compared to 2000

Net cash provided by operating activities. Net cash provided by operating activities was \$23.5 million in 2001 compared to cash provided by operating activities of \$33.4 million in 2000. The decrease

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in 2001 was primarily due to the loss incurred in 2001 and transaction, integration and restructuring costs paid during 2001 as compared to income and corresponding cash flows that were produced in 2000, partially offset by cash provided by collections of receivables, net of other working capital uses.

Net cash used in investing activities. Net cash used in investing activities in 2001 was \$23.2 million compared to \$94.8 million in 2000. Capital expenditures were \$64.9 million during 2001 as compared to \$70.4 million during 2000, a \$5.5 million decrease. These expenditures were mainly due to information technology initiatives and general facilities expansion in North America. Acquisitions of businesses including the buyout of certain joint venture agreements in foreign locations accounted for \$4.6 million of cash used as compared to \$28.7 million in 2000. The sale and sale-leaseback of real estate and the sale of other assets resulted in cash proceeds of \$37.3 million in 2001.

Net cash provided by financing activities. Net cash provided by financing activities in 2001 was \$19.0 million compared to \$48.3 million in 2000. Net proceeds from the sale of 5% convertible subordinated notes were \$96.9 million in 2001. Proceeds from this sale were used to repay amounts borrowed against the revolving line of credit of \$82.0 million. Net borrowings were \$14.5 million in 2001 as compared to net borrowings of \$43.6 million in 2000. Proceeds from the exercise of stock options were \$3.3 million in 2001 compared to \$18.9 million in 2000. We expended \$10.5 million to purchase treasury stock in 2000. We did not repurchase any stock in 2001.

### Other factors affecting our liquidity and capital resources

Convertible subordinated notes. In December 2001, we issued \$100 million aggregate principal amount of 5% convertible subordinated notes. The notes bear interest at an annual rate of 5%. Interest is payable on June 15 and December 15 of each year, beginning June 15, 2002. The notes mature on December 15, 2006.

The notes are convertible at any time four trading days prior to maturity into shares of our common stock at a conversion price of approximately \$17.4335 per share, subject to certain adjustments, which was a premium of 20.6% of the stock price at the issuance date. This is equivalent to a conversion rate of 57.3608 shares per \$1,000 principal amount of notes. Upon conversion, a noteholder will not receive any cash representing accrued interest, other than

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in the case of a conversion in connection with an optional redemption. The shares that are potentially issuable may impact our diluted earnings per share calculation in future periods by approximately 5.7 million shares. As of December 31, 2002, the fair value of the notes was \$110.9 million.

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

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

Credit agreement. Effective December 20, 2001, we amended and restated our existing credit agreement. The amended and restated credit facility, which was last amended effective as of October 14, 2002, is with a syndicate of three financial institutions, with Bank of America, N.A. as collateral and administrative agent for the lenders, and matures on December 20, 2004. The amended and restated credit facility provides a revolving line of credit of up to the lesser of:

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- o \$75 million, which increases to \$100 million if an additional \$25 million of the revolving line of credit commitment is syndicated to other financial institutions, or
- o an amount equal to:
  - o up to 85% of the net amount of our billed and posted eligible accounts receivable and the billed and posted eligible accounts receivable of our wholly owned domestic subsidiaries and our operating subsidiary in Canada, subject to some exceptions and limitations, plus
  - o up to 85% of the net amount of our billed and unposted eligible accounts receivable and billed and unposted eligible accounts receivable of our wholly owned domestic subsidiaries owing by account debtors located in the United States, subject to a maximum aggregate availability cap of \$10 million, plus
  - o up to 50% of the net amount of our unbilled, fully earned and unposted eligible accounts receivable and unbilled, fully earned and unposted eligible accounts receivable of our wholly owned domestic subsidiaries owing by account debtors located in the United States, subject to a maximum aggregate availability cap of \$10 million, minus
  - o reserves from time to time established by Bank of

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America in its reasonable credit judgment.

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

The maximum amount that we can borrow at any particular time may be less than the amount of our revolving credit line because we are required to maintain a specified amount of borrowing availability under the amended and restated credit agreement based on our eligible borrowing base. The required amount of borrowing availability is currently \$25 million. The amount of borrowing availability is determined by subtracting the following from our eligible borrowing base:

- o our borrowings under the amended and restated credit facility, and
- o our accounts payable and the accounts payable of all of our domestic subsidiaries and our Canadian operating subsidiary that remain unpaid more than the longer of (i) sixty days from their respective invoice dates or (ii) thirty days from their respective due dates.

The amended and restated credit facility includes a \$50 million letter of credit subfacility. We had \$31.4 million in standby letters of credit outstanding as of December 31, 2002 under this facility. The collateral value associated with the revolving line of credit at December 31, 2002 was \$180.7 million. No amounts were outstanding under the revolving line of credit as of December 31, 2002. Therefore, our available, unused borrowing capacity was \$43.6 million as of December 31, 2002.

For each tranche of principal borrowed under the revolving line of credit, we may elect an interest rate of either:

- o LIBOR plus an applicable margin of 2.50%, which is subject to adjustment to:
  - o 2.00% if the amount available to be borrowed under the line of credit, which we call our borrowing availability, is greater than or equal to \$65 million,
  - o 2.25% if the borrowing availability is less than \$65 million, but greater than or equal to \$45 million,

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- o 2.50% if the borrowing availability is less than \$45 million, but greater than or equal to \$25 million, and
- o 2.75% if the borrowing availability is less than \$25 million, or
- o the prime rate announced by Bank of America, plus, if the borrowing availability is less than \$25 million, an applicable margin of 0.25%.

We refer to borrowings bearing interest based on LIBOR as a LIBOR

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

A termination fee would be payable upon termination of the amended and restated credit facility during the first two years after the closing thereof, in the amount of 0.50% of the total revolving line commitment if the termination occurs on or before the first anniversary of the closing and 0.25% of the total revolving line commitment if the termination occurs after the first anniversary, but on or before the second anniversary of such closing (unless terminated in connection with a refinancing arranged or underwritten by Bank of America or its affiliates).

We are subject to certain covenants under the terms of the amended and restated credit facility, including, but not limited to, (a) maintenance at the end of each fiscal quarter of a minimum specified adjusted tangible net worth and (b) quarterly and annual limitations on capital expenditures of \$12 million per quarter or \$48 million cumulative per year.

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

Other guarantees. Several of our foreign operations guarantee amounts associated with our international freight forwarding services. As of December 31, 2002, these outstanding guarantees approximated \$6.9 million.

Synthetic lease agreements. Entering 2002, EGL was the lessee in two synthetic lease agreements with special purpose entities. Both of these lease agreements were terminated during 2002 as a result of the expiration of the original lease terms as further discussed below.

In November 2002, our \$20 million master operating synthetic lease agreement expired. This lease facility financed the acquisition, construction and development of five terminal and warehouse facilities throughout the United States. Upon termination of this agreement, we purchased the five properties leased under this agreement for \$14.1 million which was the amount of the outstanding lease balance at the time of termination. Three of these terminal facilities were then sold and leased back from an unrelated party in the fourth quarter of 2002 as discussed below. A sale-leaseback transaction for a

fourth terminal facility is expected to be completed in the first half of 2003 and its cost basis is included in assets held for sale on the consolidated balance sheet as of December 31, 2002. The remaining terminal facility, with a book value of approximately \$3.4 million, was retained by us and is leased to an

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unrelated party under a lease to purchase agreement that requires the lessor to purchase the property by October 2005.

In December 2002, we were required to pay the lease balance and related interest of \$15.5 million under a second synthetic lease agreement entered into during 1998 by Circle. This lease facility financed the acquisition, construction and development of a terminal facility located in New York, New York. The land leased under this agreement was accounted for as a synthetic operating lease and the building and improvements were accounted for as a capital lease. As of December 31, 2002, the carrying value of the land and property is included in property and equipment on the consolidated balance sheet and the building is being depreciated over its useful life.

As a result of the above two lease expirations, we are no longer a party to any lease agreements with special purpose entities as of December 31, 2002.

Sale-leaseback agreements. In the fourth quarter of 2002, we completed transactions to sell three of our terminal and warehouse facilities located in Grapevine, Texas, Austin, Texas and South Bend, Indiana to an unrelated party for \$14.1 million, net of related closing costs. One of our subsidiaries then leased these properties for a term of 11 years, with options to extend the initial term for up to 20 years. Under the terms of the lease agreements, the monthly lease payments average approximately \$141,000 in total for these facilities. These facilities were constructed under our master operating synthetic lease agreement, which became due in November 2002. The sale-leaseback transactions were completed in conjunction with paying the master operating synthetic lease balance for two of the facilities. The third facility was completed in December 2002. The lease payment for these facilities and related closing costs was \$10.5 million resulting in a gain of \$3.6 million on the sale of the properties. The gain was deferred and is being recognized over the term of the lease agreements.

In December 2002, we entered into agreements to sell land in Miami, Florida and Toronto, Canada to developers who will build-to-suit terminal warehouse facilities and lease them back to us upon completion of the facilities. The purchase price of the Miami land was \$9.8 million, which equaled its carrying value. The Miami land was originally purchased by EGL from James R. Crane, President and Chief Executive Officer of EGL. See note 19 of the notes to our consolidated financial statements. The purchase price of the Toronto land was \$4.8 million and the carrying value was \$4.4 million resulting in a gain of \$358,000, which has been deferred as of December 31, 2002, and will be recognized over the term of the lease agreement. In the third quarter of 2002, we recorded an impairment charge of \$500,000 related to a management decision not to use certain architectural design plans for the proposed Toronto building. The Miami facility is estimated to be complete in November 2003. The terms of the Miami lease agreement include average monthly lease payments of \$196,000 for 125 months with options to extend the initial term for up to an additional 120 months commencing with the month of completion. The Toronto facility is estimated to be complete in December 2003. The terms of the Toronto lease agreement include average monthly lease payments of approximately \$110,000 for 185 months with options to extend the initial term for up to an additional 120 months commencing with the month of completion.

On March 31, 2002, we entered into a transaction whereby we sold our San Antonio, Texas property with a net book value of \$2.5 million to an unrelated party for \$2.5 million, net of closing costs. One of our subsidiaries subsequently leased the property for a term of 10 years, with options to extend the initial term for up to 23 years. Under the terms of the lease agreement, the quarterly lease payment is approximately \$85,000, which amount is subject to escalation after the first year based on increases in the Consumer Price Index. A loss of \$42,000 on the sale of this property was recognized in the first



quarter of 2002.

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On December 31, 2001, we terminated an operating lease agreement relating to our corporate headquarters facility in Houston, Texas and purchased the property covered by this agreement for \$8.1 million. In connection with the termination of the lease agreement and the purchase of the property, we entered into a transaction whereby we sold this property and certain other properties in Houston and Denver owned by us with a net book value of \$17.2 million to an unrelated party for \$18.6 million, net of closing costs of \$771,000. Mr. Crane also conveyed his ownership in a building adjacent to the Houston facility directly to the buyer and received \$5.8 million in proceeds. Mr. Crane's investment in the building was approximately \$5.8 million. One of our subsidiaries then leased these properties for a term of 16 years, with options to extend the initial term for up to an additional 15 years. Under the terms of the new lease agreement, the quarterly lease payment is approximately \$865,000, which amount is subject to escalation after the first two years based on increases in the Consumer Price Index. A gain of \$641,000 on the sale of the properties was deferred and is being recognized over the term of the lease agreement.

The future lease payments for each of these transactions are included in the table of future minimum lease payments in note 17 of the notes to our consolidated financial statements.

Computer system upgrades. We are in the process of developing and implementing computer system solutions for operational, human resources and financial systems. As of December 31, 2002, we had capitalized approximately \$28.7 million related to the development of these systems. This amount is currently not being depreciated. Once placed into service, depreciation related to the systems will be charged.

Miami Air. Please read "--Certain Relationships and Related Transactions--Miami Air" for information on our investment in Miami Air, including Miami Air's efforts to renegotiate its loan obligations and lease commitments with its creditors given the status of the airline industry as a result of the events of September 11 and the weak economy.

Share repurchase program. In August 2002, our Board of Directors authorized the repurchase of up to \$15.0 million in value of our outstanding common stock. Under this authorization, which expired on December 8, 2002, we repurchased 920,200 shares for total of \$10.0 million.

Stock options. As of December 31, 2002, we had outstanding non-qualified stock options to purchase an aggregate of 5.7 million shares of common stock at exercise prices equal to the fair market value of the underlying common stock on the dates of grant (prices ranging from \$8.09 to \$33.81). At the time a non-qualified stock option is exercised, we will generally be entitled to a deduction for federal and state income tax purposes equal to the difference between the fair market value of the common stock on the date of exercise and the option price. As a result of exercises in 2002 and 2001 of non-qualified stock options to purchase an aggregate of 72,000 and 528,000 shares of common stock, we are entitled to a federal income tax deduction of approximately \$539,000 and \$7.8 million, respectively. We have recognized a reduction of our federal and state income tax liability of approximately \$198,000 and \$3.0 million in 2002 and 2001. Accordingly, we recorded an increase to additional paid-in capital and a reduction to current taxes payable. Any exercises of

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non-qualified stock options in the future at exercise prices below the then fair market value of the common stock may also result in tax deductions equal to the difference between those amounts. There is uncertainty as to whether the exercises will occur, the amount of any deductions, and our ability to fully utilize any tax deductions.

### DISCLOSURES ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

A summary of payments due by period of our contractual obligations and commercial commitments as of December 31, 2002 are shown in the tables below (in thousands). A more complete

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description of these obligations and commitments is included in the notes to our consolidated financial statements as referenced below.

| CONTRACTUAL OBLIGATIONS                  | TOTAL      | LESS THAN<br>1 YEAR | 1 - 3<br>YEARS | 4<br>Y |
|--|------------|---------------------|----------------|--------|
|  | -----      | -----               | -----          | -----  |
| Long-term debt (Note 9) .....            | \$ 109,632 | \$ 5,639            | \$ 2,020       | \$     |
| Capital lease obligations (Note 17) .... | 312        | 97                  | 215            |        |
| Operating leases (Note 17) .....         | 588,708    | 68,862              | 129,976        |        |
|  | -----      | -----               | -----          | -----  |
| Total contractual obligations .....      | \$ 698,652 | \$ 74,598           | \$ 132,211     | \$     |
|  | =====      | =====               | =====          | =====  |

As of December 31, 2002, we had approximately \$48.6 million of standby letters of credit and surety bonds maturing in less than one year, approximately \$2.7 million of standby letters of credit and surety bonds maturing in one to three years and no standby letters of credit and surety bonds maturing in more than three years. As of December 31, 2002, we also had \$3.7 million of other commercial commitments without a maturity.

### CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

#### Aircraft Usage Payments

James R. Crane, our Chairman of the Board, President and Chief Executive Officer, holds interests in two entities (one of which is 50% owned and one of which is wholly owned by Mr. Crane) that lease passenger aircraft to us. From time to time, our employees use these aircraft in connection with travel associated with our business, for which we make payments to those entities. Under our arrangement with Mr. Crane during the period from January 1, 2001 through July 31, 2001, we reimbursed Mr. Crane for approximately \$100,000 per month in monthly lease obligations for a total of \$800,000. In August 2001, we revised our agreement with Mr. Crane whereby we are now charged for actual company usage of the aircraft on an hourly basis and are billed on a periodic

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basis. During the period August 1, 2001 through December 31, 2001, we reimbursed Mr. Crane \$49,000 for hourly usage of the aircraft. During the year ended December 31, 2002, we reimbursed Mr. Crane \$1.2 million for actual hourly usage of the aircraft.

### Investment in Miami Air International, Inc.

In July 2000, we purchased 24.5% of the outstanding common stock of Miami Air International, Inc., a privately held domestic and international passenger charter airline headquartered in Miami, Florida, for approximately \$6.3 million in cash. Our primary objective for engaging in the transaction was to develop a business relationship with Miami Air in order to obtain access to an additional source of reliable freight charter capacity. In the transaction, certain stockholders of Miami Air sold 82% of the aggregate number of outstanding shares of Miami Air common stock to private investors, including EGL, James R. Crane and Frank J. Hevrdejs, a member of our Board of Directors. Mr. Crane purchased 19.2% of the outstanding common stock for approximately \$4.7 million in cash, and Mr. Hevrdejs purchased 6.0% of the outstanding common stock for approximately \$1.5 million in cash.

In connection with the Miami Air investment, Miami Air and EGL entered into an aircraft charter agreement whereby Miami Air agreed to convert certain of its passenger aircraft to cargo aircraft and to provide aircraft charter services to EGL for a three-year term, and we caused a \$7 million standby letter

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of credit to be issued in favor of certain creditors for Miami Air to assist Miami Air in financing the conversion of its aircraft. Miami Air agreed to pay EGL an annual fee equal to 3.0% of the face amount of the letter of credit and to reimburse EGL for any payments made by EGL in respect of the letter of credit. As of December 31, 2002, Miami Air had no funded debt under the line of credit that is supported by the standby letter of credit. Additionally, as of December 31, 2002, Miami Air had outstanding \$2.2 million in letters of credit and surety bonds that were supported by the standby letter of credit. This letter of credit was reduced to \$3.0 million in January 2003.

There were previously four aircraft subject to the aircraft charter agreement. During 2001, we paid Miami Air approximately \$11.8 million under the aircraft charter agreement for use of four 727 cargo airplanes under an aircraft, crew, maintenance and insurance, or ACMI, arrangement. The payments were based on market rates in effect at the time the lease was entered into. In late February 2002, EGL and Miami Air mutually agreed to ground one of these aircraft because of the need for maintenance on that plane. During the first four months of 2002, there were three aircraft subject to the aircraft charter agreement and we paid approximately \$6.1 million related to this agreement. In May 2002, EGL and Miami Air mutually agreed to cancel the aircraft charter agreement for the three planes as of May 9, 2002 and we paid \$450,000 for services rendered in May 2002 and aircraft repositioning costs.

The weak economy and events of September 11, 2001 significantly reduced the demand for cargo plane services, particularly 727 cargo planes. As a result, the market value of these planes declined dramatically. Miami Air made EGL aware that the amounts due Miami Air's bank (which are secured by seven 727 planes) were significantly higher than the market value of those planes. In addition, Miami Air had outstanding operating leases for 727 and 737 airplanes at above current market rates, including two planes that were expected to be delivered in 2002. Throughout the fourth quarter of 2001 and the first quarter of 2002, Miami

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Air was in discussions with its bank to obtain debt concessions on the seven 727 planes, to buy out the lease on a 727 cargo plane and to reduce the rates on the 737 passenger planes. Miami Air had informed us that its creditors had indicated a willingness to make concessions. In May 2002, we were informed that Miami Air's creditors were no longer willing to make concession and that negotiations with its creditors had reached an impasse and no agreement appeared feasible. As such, in the first quarter of 2002, we recognized an other than temporary impairment of the entire carrying value of our \$6.7 million investment in Miami Air, which included a \$509,000 increase in value attributable to EGL's 24.5% share of Miami Air's first quarter 2002 results of operations. In addition, we recorded an accrual of \$1.3 million for our estimated exposure on the outstanding funded debt and letters of credit supported by the \$7 million (subsequently reduced to \$3.0 million in January 2003) standby letter of credit. During the third quarter of 2002, Miami Air informed us that certain of its creditors had, in fact, made certain concessions. We have not adjusted our accrual, and there can be no assurance that the ultimate loss, if any, will not exceed such estimate requiring an additional charge.

Miami Air, each of the private investors and the continuing Miami Air stockholders also entered into a stockholders agreement under which:

- o Mr. Crane and Mr. Hevrdejs are obligated to purchase up to approximately \$1.7 million and \$500,000, respectively, worth of Miami Air's Series A preferred stock upon demand by the board of directors of Miami Air,
- o each of EGL and Mr. Crane has the right to appoint one member of Miami Air's board of directors, and
- o the other private investors in the stock purchase transaction, including Mr. Hevrdejs, collectively have the right to appoint one member of Miami Air's board of directors.

As of February 28, 2003, directors appointed to Miami Air's board include a designee of Mr. Crane, Mr. Elijio Serrano (our Chief Financial Officer) and three others. The Series A preferred stock was issued in December 2002, when all investors expect one were called upon by the Board of Directors of

Miami Air to purchase their preferred shares. The Series A preferred stock (1) is not convertible, (2) has a 15.0% annual dividend rate and (3) is subject to mandatory redemption in July 2006 or upon the prior occurrence of specified events.

The original charter transactions between Miami Air and us were negotiated with Miami Air's management at arms length at the time of our original investment in Miami Air. Miami Air's pre-transaction Chief Executive Officer has remained in that position and as a director following the transaction and together with other original Miami Air investors, remained as substantial shareholders of Miami Air. Other private investors in Miami Air have participated with our directors in other business transactions unrelated to Miami Air.

Miami Land Purchase

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Currently, our operations in Miami, Florida are located in three different facilities. In order to increase operational efficiencies, we acquired land to be used as the site for a new facility to consolidate our Miami operations. The land was acquired on August 30, 2002 from a related party entity controlled by James R. Crane for \$9.8 million in cash, including our acquisition costs of \$131,000. This parcel of land had been previously identified by EGL as the most advantageous property on which to consolidate its Miami operations. EGL entered into negotiations on the land and reached agreement with the seller on terms. However, given the downturn in the economy and our weakening financial condition at that point in time, EGL elected to delay purchasing this property until our financial condition improved. On July 10, 2001, Mr. Crane purchased the land in anticipation of reselling the land to EGL. The purchase price represented the lower of current market value, based on an independent appraisal, or Mr. Crane's purchase price plus carrying costs for the land. EGL's Audit Committee, consisting of five independent directors, engaged in an analysis and discussion regarding whether it was in the best interest of EGL to enter into a purchase agreement to purchase this particular tract of land from Mr. Crane. The Audit Committee analysis included, but was not limited to, obtaining an independent appraisal of the land, reviewing a comparative properties analysis performed by an outside independent real estate company and performing a cost benefit analysis for several different alternatives. Based upon the data obtained from the analysis, the Audit Committee determined the best alternative for EGL, in its opinion, was for EGL to purchase the property from Mr. Crane. The Audit Committee then made a recommendation to EGL's Board of Directors, which includes six independent directors, to purchase this land at Mr. Crane's purchase price plus carrying costs, which was lower than the current market value. In August 2002, the purchase was approved unanimously by EGL's Board of Directors, with Mr. Crane abstaining from the vote.

### EGL Subsidiaries in Spain and Portugal

In 1999, Circle sold a 49% interest in two previously wholly-owned subsidiaries in Spain and Portugal to Peter Gibert, who relocated to Barcelona, Spain. Mr. Gibert currently serves as the managing director of both subsidiaries and was one of our directors in 2000 and 2001 and resigned from our Board of Directors in May 2002.

Circle's outside advisors determined the methodology for determining the value of the subsidiaries, which was deemed to be fair by an independent valuation expert. The agreed purchase price was \$1.3 million, paid one-third at closing, and the balance to be paid in equal installments 18 and 36 months following closing. The two installment payments were evidenced by a promissory note bearing interest at six percent (6%) and secured by a pledge of Mr. Gibert's interest in the subsidiaries. The loan was paid in full during 2002.

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In addition, the purchase agreement provides Mr. Gibert with the right at his option to require Circle, and now EGL, to purchase his interest in the subsidiaries at a price based on the same valuation methodology. After December 31, 2005 (or earlier under certain circumstances), we have the right to require Mr. Gibert to sell his entire interest in the subsidiaries at a price based on the valuation methodology.

### Consulting Agreement

In connection with Peter Gibert stepping down as Chief Executive

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Officer of Circle and relocating to Spain in 1999, Mr. Gibert entered into a consulting agreement with Circle pursuant to which he agreed to provide sales, marketing, strategic planning, acquisition, training and other assistance as reasonably requested wherever Circle has operations, other than in the United States, Spain and Portugal. The consulting agreement provided for annual compensation in the first year of \$375,000 and annual compensation in the second and third years of \$275,000 per year. The consulting agreement, which has a three-year term that commenced January 1, 1999, also prohibited Mr. Gibert, directly or indirectly, from competing against Circle during the term of the consulting agreement, plus six months thereafter.

Upon returning to Circle as Interim Chief Executive Officer in May 2000, Mr. Gibert agreed to suspend the term of the consulting agreement until he was no longer an employee of Circle, which occurred in November 2000 as a result of our merger with Circle. The original term of the consulting agreement has been extended for a period equal to the period during which the consulting agreement was suspended. This arrangement was extended until May 31, 2004 in June 2001.

### Source One Spares

Mr. Crane is a director and 24.9% shareholder of Source One Spares, Inc., a company specializing in the "just-in-time" delivery of overhauled flight control, actuation and other rotatable airframe components to commercial aircraft operators around the world. In May 1999, we began subleasing a portion of our warehouse space in Houston, Texas and London, England to Source One Spares pursuant to a five-year sublease, which terminated in early 2002. Rental income was approximately \$30,000 for the year ended December 31, 2002. During 2002, we billed Source One Spares approximately \$133,000 for freight forwarding services.

### Houston Property

In connection with a sale-leaseback agreement entered into by us in 2001, Mr. Crane conveyed his ownership in a property adjacent to the Houston facility directly to an unrelated buyer. We then leased the property directly from the buyer. See "--Other factors affecting our liquidity and capital resources."

### SEASONALITY

Historically, our operating results have been subject to a limited degree to seasonal trends when measured on a quarterly basis. The first quarter, ending March 31, has traditionally been the weakest, and the third quarter, ending September 30, has traditionally been the strongest. This pattern is the result of, or is influenced by, numerous factors, including climate, national holidays, consumer demand, economic conditions and a myriad of other similar and subtle forces. In addition, this historical quarterly trend has been influenced by the growth and diversification of our terminal network. We cannot accurately forecast many of these factors, nor can we estimate accurately the relative influence of any particular factor. As a result, there can be no assurance that historical patterns, if any, will continue in future periods.

### CRITICAL ACCOUNTING POLICIES

Use of estimates

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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:

- o the range of accounting policies permitted by accounting principles generally accepted in the United States of America,
- o management's understanding of the company's business - both historical results and expected future results,
- o 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,
- o expectations of the future performance of the economy - domestically, globally and within various sectors that serve as principal customers and suppliers of goods and services,
- o expected rates of change, sensitivity and volatility associated with the assumptions used in developing estimates, and
- o whether historical trends are expected to be representative of future trends.

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The estimation process often times may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that lies within that range of reasonable estimates - which may result in the selection of estimates which could be viewed as conservative or aggressive by others - based upon the quantity, quality and risks associated with the variability that might be expected from the future outcome and the factors considered in developing the estimate. Management attempts to use its business and financial accounting judgment in selecting the most appropriate estimate, however, actual amounts could and will differ from those estimates.

### Revenue recognition

Revenue and freight consolidation costs are recognized at the time the freight departs the terminal of origin, one of the permissible methods authorized by Emerging Issues Task Force (EITF) Issue No. 91-9, "Revenue and Expense Recognition for Freight Services in Process." This method generally results in recognition of revenue and gross profit earlier than methods that do not recognize revenue until a proof of delivery is received. Customs brokerage and other revenues are recognized upon completing the documents necessary for customs clearance or completing other fee-based services. Revenue recognized as an indirect air carrier or an ocean freight consolidator includes the direct carrier's charges to EGL for carrying the shipment. Revenue recognized in other capacities includes only the commission and fees received. In January 2002, EITF

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Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out of Pocket' Expenses Incurred" was effective for EGL. This issue clarified certain provisions of EITF No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," and among other things established when reimbursements are required to be shown gross as opposed to net. EITF No. 01-14 also directed that the new rules should be applied in financial reporting periods beginning after December 15, 2001. The clarifying rules now require the Company to report revenues from certain reimbursed incidental activities on a gross rather than net basis. The Company has complied with the guidance in EITF No. 01-14 and reclassified to cost of transportation, for all periods presented, the costs of certain reimbursed incidental activities previously reported net in revenues. The following table illustrates the financial statement impact of the reclassification by comparing revenues previously reported on a net basis with revenues reported on a gross basis in this Annual Report on Form 10-K. There is no impact on net revenues, operating income (loss) or net income (loss) as a result of this reclassification.

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|                             | YEAR ENDED DECEMBER 31, |             |             |             |             |    |
|-----------------------------|-------------------------|-------------|-------------|-------------|-------------|----|
|                             | 2002                    |             | 2001        |             | 2000        |    |
|                             | NET                     | GROSS       | NET         | GROSS       | NET         |    |
|                             | (in thousands)          |             |             |             |             |    |
| Revenues:                   |                         |             |             |             |             |    |
| Air freight forwarding      | \$1,273,540             | \$1,283,025 | \$1,296,026 | \$1,307,101 | \$1,465,438 | \$ |
| Ocean freight forwarding    | 197,846                 | 216,298     | 176,470     | 194,642     | 184,602     |    |
| Customs brokerage and other | 208,897                 | 370,010     | 199,498     | 359,006     | 211,166     |    |
| Total revenues              | 1,680,283               | 1,869,333   | 1,671,994   | 1,860,749   | 1,861,206   |    |
| Cost of transportation:     |                         |             |             |             |             |    |
| Air freight forwarding      | 868,136                 | 877,621     | 909,855     | 920,930     | 992,041     |    |
| Ocean freight forwarding    | 140,015                 | 158,467     | 117,956     | 136,128     | 131,140     |    |
| Customs brokerage and other | --                      | 161,113     | --          | 159,508     | 18,513      |    |
| Total costs                 | 1,008,151               | 1,197,201   | 1,027,811   | 1,216,566   | 1,141,694   |    |
| Net revenues                | \$ 672,132              | \$ 672,132  | \$ 644,183  | \$ 644,183  | \$ 719,512  | \$ |

Computer software

Certain costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software. Costs related to the preliminary project stage, data conversion and



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the post-implementation/operation stage of a software development project are expensed as incurred. On retirement or sale of assets, the cost of such assets and accumulated depreciation are removed from the accounts and the gain or loss, if any, is credited or charged to income.

We have incurred substantial costs during the periods presented related to a number of information systems projects that were being developed over that time period. Inherent in the capitalization of those projects are the assumptions that after considering the technological and business issues related to their development, such development efforts will be successfully completed and that benefits to be provided by the completed projects will exceed the costs capitalized to develop the systems. Management believes that all projects capitalized at December 31, 2002 will be successfully completed and will result in benefits recoverable in future periods.

### Goodwill and other intangibles

Goodwill represents the excess of purchase price over the fair value of net assets acquired. Goodwill is a residual amount and is determined after numerous estimates are made regarding the fair value of assets and liabilities included in a business combination, and therefore, indirectly affected by management's estimates and judgments. Prior to January 1, 2002, we amortized goodwill and other intangible assets on a straight-line basis over the period of expected benefit, not exceeding 40 years. In 2002, we adopted the provisions of SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Effective January 1, 2002, we no longer amortize goodwill and indefinite lived intangible assets but instead test for impairment at least annually or wherever circumstances indicate a possible impairment. Finite lived intangible assets are amortized over the period of expected benefit.

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### Impairment of assets

Substantial judgment is necessary in the determination as to whether an event or circumstance has occurred that may trigger an impairment analysis and in determination of the related cash flows from the asset. Estimating cash flows related to long-lived assets is a difficult and subjective process that applies historical experience and future business expectations to revenues and related operating costs of assets. Should impairment appear to be necessary, subjective judgment must be applied to estimate the fair value of the asset, for which there may be no ready market, which oftentimes results in the use of discounted cash flow analysis and judgmental selection of discount rates to be used in the discounting process. If we determine an asset has been impaired based on the projected undiscounted cash flows of the related asset or the business unit over the remaining amortization period, and if the cash flow analysis indicates that the carrying amount of an asset exceeds related undiscounted cash flows, the carrying value is reduced to the estimated fair value of the asset or the present value of the expected future cash flows.

### Other critical accounting policies

See note 1 of the notes to our consolidated financial statements for further information on our critical accounting policies and the judgment made in their application.

### NEW ACCOUNTING PRONOUNCEMENTS

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See note 1 of the notes to our consolidated financial statements for a description of new accounting pronouncements.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our cash flows and net income are subject to fluctuations due to changes in exchange rates. We attempt to limit our exposure to changing foreign exchange rates through operational actions. We provide services to customers in locations throughout the world and, as a result, operate with many functional currencies including the key currencies of North America, Latin America, Asia, the South Pacific and Europe. This diverse base of local currency costs serves to partially counterbalance the effect of potential changes in the value of our local currency denominated revenues and expenses. Short-term exposures to changing foreign currency exchange rates are related primarily to intercompany transactions. The duration of these exposures is minimized through the use of an intercompany netting and settlement system that settles the majority of intercompany obligations two times per month.

As of December 31, 2002, we had no amounts outstanding under our line of credit. Our lease payments on certain financed facilities are tied to market interest rates. At December 31, 2002, a 10% rise in the base rate for these financing arrangements would not have a material impact on operating income in 2002.

We have not purchased any material futures contracts nor have we purchased or held any material derivative financial instruments for trading purposes during 2002. In December 2002, we entered into a contract for the purpose of hedging the costs of a portion of our anticipated jet fuel purchases for chartered aircraft during the following twelve months. This contract matures in November 2003. See note 14 of the notes to our consolidated financial statements.

In April 2001, we entered into a three year interest rate swap agreement, which was designated as a cash flow hedge, to reduce our exposure to fluctuations in interest rates on \$70 million of our LIBOR-based revolving credit facility or any substitutive debt agreements we enter into. In December 2001, we issued \$100 million of 5% convertible subordinated notes due December 15, 2006. The proceeds from these notes substantially retired the LIBOR-based debt outstanding under the then-existing revolving

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credit agreement. The interest rate on the convertible notes is fixed; therefore, the variability of the future interest payments has been eliminated. The swap agreement no longer qualifies for cash flow hedge accounting and has been undesignated as of December 7, 2001. The net loss on the swap agreement included in other comprehensive income (loss) as of December 7, 2001 was \$2.0 million and is being amortized to interest expense over the remaining life of the swap agreement and changes in fair value of the swap agreement are recorded in interest expense. During the twelve months ended December 31, 2002, we recorded \$2.2 million net interest expense which includes \$220,000 relating to amortization of the deferred loss and changes in the fair value of the swap agreement.

### EXCHANGE RATE SENSITIVITY

The following tables provide comparable information about our

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non-functional currency components of balance sheet items by currency, and presents such information in U.S. dollar equivalents at December 31, 2002 and 2001. These tables summarize information on transactions that are sensitive to foreign currency exchange rates, including non-functional currency-denominated receivables and payables. The net amount that is exposed to changes in foreign currency rates is then subjected to a 10% change in the value of the functional currency versus the non-functional currency.

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### NON-FUNCTIONAL CURRENCY EXPOSURE IN U.S. DOLLAR EQUIVALENTS AS OF DECEMBER 31, 2002 (IN THOUSANDS)

| NON-FUNCTIONAL CURRENCY  | ASSET     | LIABILITY | LONG/ (SHORT) | FOREIGN EXCHANGE<br>GAIN/ (LOSS) IF<br>FUNCTIONAL CURRENCY |                       |
|--------------------------|-----------|-----------|---------------|--|-----------------------|
|                          |           |           |               | APPRECIATES<br>BY 10%                                      | DEPRECIATES<br>BY 10% |
| United States dollar ... | \$ 2,847  | \$ 15,187 | \$ (12,340)   | \$ (1,234)   | \$ 1,118              |
| Hong Kong dollar .....   | 12,275    | 1,093     | 11,182        | 1,118  | (1,118)               |
| European Union euro .... | 9,564     | 2,832     | 6,732         | 673  | (673)                 |
| Singaporean dollar ..... | 4,110     | 8,341     | (4,231)       | (423)  | (423)                 |
| Canadian dollar .....    | 3,936     | 72        | 3,864         | 386  | (386)                 |
| South Africa rand .....  | 990       | 3,991     | (3,001)       | (300)  | (300)                 |
| Chilean pesos .....      | 622       | 2,357     | (1,735)       | (174)  | (174)                 |
| British pound .....      | 3,117     | 1,791     | 1,326         | 133  | (133)                 |
| Indian rupee .....       | 3,994     | 2,891     | 1,103         | 110  | (110)                 |
| All others .....         | 13,840    | 12,171    | 1,669         | 167  | (167)                 |
| Totals .....             | \$ 55,295 | \$ 50,726 | \$ 4,569      | \$ 456   | \$ (456)              |

### NON-FUNCTIONAL CURRENCY EXPOSURE IN U.S. DOLLAR EQUIVALENTS AS OF DECEMBER 31, 2001 (IN THOUSANDS)

| NON-FUNCTIONAL CURRENCY | ASSET | LIABILITY | LONG/ (SHORT) | FOREIGN EXCHANGE<br>GAIN/ (LOSS) IF<br>FUNCTIONAL CURRENCY |                       |
|-------------------------|-------|-----------|---------------|--|-----------------------|
|                         |       |           |               | APPRECIATES<br>BY 10%                                      | DEPRECIATES<br>BY 10% |
|                         |       |           |               |  |                       |

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|                          |    |        |    |        |    |         |    |       |    |       |
|--------------------------|----|--------|----|--------|----|---------|----|-------|----|-------|
| United States dollar ... | \$ | 10,095 | \$ | 1,134  | \$ | 8,961   | \$ | 896   | \$ | (     |
| Singaporean dollar ..... |    | 2,890  |    | 9,094  |    | (6,204) |    | (620) |    | (     |
| Hong Kong dollar .....   |    | 6,430  |    | 1,438  |    | 4,992   |    | 499   |    | (     |
| European Union euro .... |    | 6,449  |    | 2,832  |    | 3,617   |    | 362   |    | (     |
| Brazilian reals .....    |    | 4,296  |    | 7,164  |    | (2,868) |    | (287) |    | (     |
| Taiwanese dollar .....   |    | 14,037 |    | 10,794 |    | 3,243   |    | 324   |    | (     |
| Chilean pesos .....      |    | 430    |    | 3,099  |    | (2,669) |    | (267) |    | (     |
| Indian rupee .....       |    | 4,197  |    | 3,526  |    | 671     |    | 67    |    | (     |
| British pound .....      |    | 3,524  |    | 3,415  |    | 109     |    | 11    |    | (     |
| All others .....         |    | 8,068  |    | 11,119 |    | (3,051) |    | (305) |    | (     |
| Totals .....             | \$ | 60,416 | \$ | 53,615 | \$ | 6,801   | \$ | 680   | \$ | (     |
|                          |    | =====  |    | =====  |    | =====   |    | ===== |    | ===== |

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is submitted in a separate section of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference to information under the caption "Proposal 1--Election of Directors" and to the information under the caption "Section 16(a) Reporting Delinquencies" in our definitive Proxy Statement (the "2003 Proxy Statement") for our annual meeting of shareholders to be held on May 12, 2003. The 2003 Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days subsequent to December 31, 2002.

Pursuant to Item 401(b) of Regulation S-K, the information required by this item with respect to our executive officers is set forth in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the 2003 Proxy Statement, which will be filed with the SEC not later than 120 days subsequent to December 31, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by

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reference to the 2003 Proxy Statement, which will be filed with the SEC not later than 120 days subsequent to December 31, 2002.

### EQUITY COMPENSATION PLANS

The following table sets forth information about EGL's common stock that may be issued under all of our existing equity compensation plans as of December 31, 2002 (shares in thousands):

|   | (a)   | (b)     |
|---|-------|---------|
|   |       |         |
|   |       |         |
|   |       |         |
| Equity compensation plans approved by security holders (1)..... | 5,701 | \$19.34 |
| Equity compensation plans not approved by security holders..... | --    | --      |
| Total.....  | 5,701 | \$19.34 |

(1) These plans include the EGL Long-Term Incentive Plan, the EGL Employee Stock Purchase Plan and the EGL 1995 Non-Employee Director Stock Option Plan.

(2) Includes 567,924 shares of EGL common stock to be issued upon the exercise of outstanding options assumed in connection with the acquisition of Circle International Group, Inc. at a

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weighted average exercise price of \$21.78, which options were originally issued under one of the following Circle plans: the 1982 Stock Option Plan, the 1990 Stock Option Plan, the 1994 Omnibus Equity Incentive Plan, the 1999 Stock Option Plan and the Employee Stock Purchase Plan. No additional awards may be granted under the Circle plans. Also excludes shares of EGL common stock issuable under the EGL Employee Stock Purchase Plan.

(3) Excludes restricted stock.

(4) Includes 355,000 shares of EGL common stock remaining available for future issuance under the EGL Employee Stock Purchase Plan.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the 2003 Proxy Statement, which will be filed with the SEC not later than 120 days subsequent to December 31, 2002.

ITEM 14. CONTROLS AND PROCEDURES

Within 90 days of the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15 and 15d-14 of the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective. No significant changes were made in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

ITEM  
----

|  |       |
|--|-------|
| Index.....   | ..... |
| Report of Independent Accountants.....   | ..... |
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| Consolidated Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000..                 | ..... |
| Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2002, 2001<br>and 2000..... | ..... |
| Notes to Consolidated Financial Statements.....  | ..... |

(a)(2) Financial Statement Schedules

All schedules for which provision is made in the applicable regulations of the Commission have been omitted because they are not required under the relevant instructions or because the required information is given in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

| EXHIBIT NUMBER | DESCRIPTION   |
|----------------|---|
| *3.1           | -- Second Amended and Restated Articles of Incorporation of |

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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).
- \*4.1 -- Rights Agreement dated as of May 23, 2001 between EGL, Inc. and Computershare Investor Services, L.L.C., as Rights Agent, which includes as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights to Purchase Common Stock. (filed as Exhibit 4.1 to the EGL's Form 10Q for the fiscal quarter ended September 30, 2001 and incorporated herein by reference).
- \*4.2 -- Indenture dated December 7, 2001 between EGL and JPMorgan Chase Bank, as trustee (filed as Exhibit 4.1 to EGL's Current Report on Form 8-K filed on December 10, 2001 and incorporated herein by reference).
- \*4.3 -- First Supplemental Indenture dated December 7, 2001 between EGL and JPMorgan Chase Bank, as trustee (filed as Exhibit 4.2 to EGL's Current Report on Form 8-K filed on December 10, 2001 and incorporated herein by reference).
- \*4.4 -- Form of 5% Convertible Subordinated Note due December 15, 2006 (filed as Exhibit 4.3 to EGL's Current Report on Form 8-K filed on December 10, 2001 and incorporated herein by reference).
- \*4.5 -- Registration Rights Agreement dated December 7, 2001 between EGL and Credit Suisse First Boston Corporation (filed as Exhibit 4.4 to EGL's Current Report on Form 8-K filed on December 10, 2001 and incorporated herein by reference).
- +\*10.1 -- Long-Term Incentive Plan, as amended and restated effective July 26, 2000 (filed as Exhibit 10(ii) to EGL's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference).
- +\*10.2 -- 1995 Non-employee Director Stock Option Plan (filed as Exhibit 10.2 to EGL's Registration Statement on Form S-1, Registration No. 33-97606 and incorporated herein by reference).
- +\*10.3 -- 401(k) Profit Sharing Plan (filed as Exhibit 10.3 to EGL's Registration Statement on Form S-1, Registration No. 33-97606 and incorporated herein by reference).

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+\*10.4 -- Circle International Group, Inc. 1994 Omnibus Equity Incentive Plan (filed as Exhibit 10.11 to Annual Report on Form 10-K of Circle (SEC File No. 0-8664) for the fiscal year ended December 31, 1993 and incorporated herein by reference).

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| EXHIBIT NUMBER | DESCRIPTION   |
|----------------|---|
| +*10.5         | -- Amendment No. 1 to Circle International Group, Inc. 1994 Omnibus Equity Incentive Plan (filed as Exhibit 10.11.1 to Annual Report on Form 10-K of Circle (SEC File No. 9-8664) for the fiscal year ended December 31, 1995 and incorporated herein by reference).  |
| +*10.6         | -- Circle International Group, Inc. Employee Stock Purchase Plan (filed as Exhibit 99.1 to the Registration Statement on Form S-8 of Circle (SEC Registration No. 333-78747) filed on May 19, 1999 and incorporated herein by reference).   |
| +*10.7         | -- Circle International Group, Inc. 1999 Stock Option Plan (filed as Exhibit 99.1 to the Form S-8 Registration Statement of Circle (SEC Registration No. 333-85807) filed on August 24, 1999 and incorporated herein by reference).   |
| +*10.8         | -- Form of Nonqualified Stock Option Agreement for Circle International Group, Inc. 2000 Stock Option Plan (filed as Exhibit 4.8 to Post-Effective Amendment No. 1 on Form S-8 to Registration Statement on Form S-4 (SEC Registration No. 333-42310) filed on October 2, 2000 and incorporated herein by reference). |
| *10.9          | -- Shareholders' Agreement dated as of October 1, 1994 among EGL and Messrs. Crane, Swannie, Seckel and Roberts (filed as Exhibit 10.4 to EGL's Registration Statement on Form S-1, Registration No. 33-97606 and incorporated herein by reference).  |
| *10.10         | -- Form of Indemnification Agreement (filed as Exhibit 10.6 to EGL's Registration Statement on Form S-1, Registration No. 33-97606 and incorporated herein by reference).   |
| *10.11A        | -- Credit Agreement dated December 20, 2001 between EGL and Bank of America, N.A., and the other financial institutions named therein (filed as Exhibit 10.11A to EGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference).                                 |
| *10.11B        | -- First Amendment to Credit Agreement dated March 7, 2002 between EGL and Bank of America, N.A., and the other financial institutions named therein (filed as Exhibit 10.11B to EGL's Annual Report on for 10-K for the fiscal year ended December 31, 2001 and incorporated herein by                               |



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reference).

- \*10.11C -- Consent and Second Amendment to Credit Agreement dated October 14, 2002 between EGL and Bank of America, N.A., and the other financial institutions named therein (filed as Exhibit 10.1 to EGL's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference).
- +\*10.12 -- Employment Agreement dated as of October 1, 1996 between EGL and James R. Crane (filed as Exhibit 10.7 to EGL's Annual Report on Form 10-K for the fiscal year ended September 30, 1996 and incorporated herein by reference).
- +\*10.13 -- Employment Agreement dated as of September 24, 1998 between EGL and John C. McVaney (filed as Exhibit 10.9 to EGL's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 and incorporated herein by reference).
- +\*10.14 -- Employment Agreement dated as of May 19, 1998 between EGL and Ronald E. Talley (filed as Exhibit 10.10 to EGL's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 and incorporated herein by reference).
- +\*10.15 -- Employment Agreement dated as of October 19, 1999 between EGL and Elijio Serrano (filed as Exhibit 10.11 to EGL's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 and incorporated herein by reference).

| EXHIBIT NUMBER | DESCRIPTION  |
|----------------|--|
| +*10.16        | -- Employee Stock Purchase Plan, as amended and restated effective July 26, 2000 (filed as Exhibit 10(iii) to EGL's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference).  |
| *10.17A        | -- Lease Agreement dated as of December 31, 2001 between iStar Eagle LP, as landlord, and EGL Eagle Global Logistics, LP, as tenant.   |
| *10.17B        | -- Guaranty dated as of December 31, 2001 among iStar Eagle LP, EGL Eagle Global Logistics, LP and EGL, Inc.   |
| +*10.19        | -- Consulting Agreement dated as of January 1, 1999 between Zita Logistics, Ltd. and Circle International European Holdings Limited (filed as Exhibit 10.4.3 to Circle's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated herein by reference). |
| +*10.20        | -- Executive Deferred Compensation Plan (filed as Exhibit 10.2 to EGL's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 and incorporated  |

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herein by reference).

- +\*10.21 -- Amendment Number 1 to 1995 Non-Employee Director Stock Option Plan (filed as Exhibit 10.4 to EGL's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference).
- 10.22 -- Agreement for Purchase and Sale of Real Property, dated September 17, 2002 by and between MacFarlan Holdings, Ltd., as buyer, and EGL, Inc., as seller.
- 10.23 -- Lease Agreement for real property in Austin, Texas, dated as of November 13, 2002, by and between EGL Texas Partners, L.P., as landlord, and EGL Eagle Global Logistics, LP, as tenant.
- 10.24 -- Lease Agreement for real property in Grapevine, Texas, dated as of November 13, 2002, by and between EGL Texas Partners, L.P., as landlord, and EGL Eagle Global Logistics, LP, as tenant.
- 10.25 -- Lease Agreement for real property in South Bend, Indiana, dated as of December 20, 2002, by and between South Bend Partners, LP, as landlord, and EGL Eagle Global Logistics, LP, as tenant.
- 10.26 -- Agreement for Purchase and Sale of Real Property, dated as of December 15, 2002, by and between McMillan Investment Company, Ltd., as buyer, and EGL Eagle Global Logistics, LP, as seller.
- 10.27 -- Lease Agreement, dated as of December 20, 2002, by and between McMillan/Miami LLC, as landlord, and EGL Eagle Global Logistics, LP, as buyer.
- 10.28 -- Agreement for Purchase and Sale of Real Property, dated as of December 30, 2002, by and between Giffels Development Inc., as buyer, and EGL Eagle Global Logistics (Canada) Corp., as seller.
- 10.29 -- Lease Agreement, dated as of December 30, 2002, by and between Giffels Development Inc., as landlord, and EGL Eagle Global Logistics (Canada) Corp., as tenant.
- 12 -- Ratio of Earnings to Fixed Charges.
- 21 -- Subsidiaries of EGL.
- 23.1 -- Consent of PricewaterhouseCoopers LLP.

-----  
\* Incorporated by reference as indicated.

+ Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to the requirements of Item 14(c) of Form 10-K.

### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities

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

EGL, INC.

By /s/ James R. Crane

-----  
James R. Crane  
Chairman, President  
and Chief Executive Officer

Date: March 26, 2003

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Name<br>-----   | Capacity<br>-----  |
|---|--|
| /s/ James R. Crane<br>-----<br>James R. Crane           | Chairman, President and Chief Executive Officer<br>(Principal Executive Officer) |
| /s/ Elijio V. Serrano<br>-----<br>Elijio V. Serrano     | Chief Financial Officer (Principal Financial<br>and Accounting Officer)          |
| /s/ Michael Jhin<br>-----<br>Michael Jhin               | Director   |
| /s/ Frank J. Hevrdejs<br>-----<br>Frank J. Hevrdejs     | Director   |
| /s/ Neil E. Kelley<br>-----<br>Neil E. Kelley           | Director   |
| -----<br>Norwood W. Knight-Richardson                   | Director   |
| /s/ Rebecca A. McDonald<br>-----<br>Rebecca A. McDonald | Director   |

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/s/ Paul William Hobby

-----

Paul William Hobby

Director

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### CERTIFICATIONS

I, James R. Crane, certify that:

1. I have reviewed this annual report on Form 10-K of EGL, Inc. (the "registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

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- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

By /s/ James R. Crane

-----  
James R. Crane, Chief Executive Officer

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I, Elijo V. Serrano, certify that:

1. I have reviewed this annual report on Form 10-K of EGL, Inc. (the "registrant");
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities,

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particularly during the period in which this annual report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
- c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

By /s/ Eljio V. Serrano

-----  
Eljio V. Serrano, Chief Financial Officer

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Report of Independent Accountants

Consolidated Balance Sheets as of December 31, 2002 and 2001

Consolidated Statements of Operations for the Years Ended  
December 31, 2002, 2001 and 2000

Consolidated Statements of Cash Flows for the Years Ended  
December 31, 2002, 2001 and 2000

Consolidated Statements of Stockholders' Equity for the Years Ended  
December 31, 2002, 2001 and 2000

Notes to Consolidated Financial Statements

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### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of EGL, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of EGL, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 7 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets on January 1, 2002.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas  
March 21, 2003

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EGL, INC.  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2002 AND 2001

2002  
-----  
(in thousands, e

ASSETS

|  |            |
|--|------------|
| Current assets:  |            |
| Cash and cash equivalents                                    | \$ 119,669 |
| Restricted cash  | 7,806      |
| Short-term investments and marketable securities             | 12         |
| Trade receivables, net of allowance of \$13,717 and \$11,628 | 371,024    |
| Other receivables  | 13,213     |
| Deferred income taxes  | 6,228      |
| Income tax receivable  | 1,019      |
| Other current assets   | 32,952     |
|  | -----      |
| Total current assets   | 551,923    |
| Property and equipment, net                                  | 157,403    |
| Assets held for sale   | 644        |
| Investments in unconsolidated affiliates                     | 40,042     |
| Goodwill   | 81,881     |
| Deferred income taxes  | 5,327      |
| Other assets, net  | 13,087     |
|  | -----      |
| Total assets   | \$ 850,307 |
|  | =====      |

LIABILITIES AND STOCKHOLDERS' EQUITY

|   |            |
|---|------------|
| Current liabilities:                                |            |
| Trade payables and accrued transportation costs     | \$ 232,324 |
| Accrued salaries and related costs                  | 31,218     |
| Accrued restructuring, merger and integration costs | 8,227      |
| Current portion of long-term notes payable          | 5,639      |
| Income taxes payable                                | 2,595      |
| Other liabilities                                   | 70,409     |
|   | -----      |
| Total current liabilities                           | 350,412    |
| Deferred income taxes                               | 3,720      |
| Long-term notes payable                             | 103,993    |
| Other noncurrent liabilities                        | 6,789      |
|   | -----      |



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|  |                |
|--|----------------|
| Total liabilities  | 464,914        |
|  | -----          |
| Minority interests   | 8,852          |
|  | -----          |
| Commitments and contingencies (Notes 10, 16, 17 and 18)  |                |
| Stockholders' equity:  |                |
| Preferred stock, \$0.001 par value, 10,000 shares authorized,<br>no shares issued  |                |
| Common stock, \$0.001 par value, 200,000 shares authorized;<br>48,091 and 48,939 shares issued; 47,054 and 47,813 shares outstanding | 48             |
| Additional paid-in capital   | 148,682        |
| Retained earnings  | 274,146        |
| Accumulated other comprehensive loss   | (28,566)       |
| Unearned compensation  | --             |
| Treasury stock, 1,037 and 1,126 shares held  | (17,769)       |
|  | -----          |
| Total stockholders' equity   | 376,541        |
|  | -----          |
| <br>Total liabilities and stockholders' equity   | <br>\$ 850,307 |
|  | =====          |

The accompanying notes are an integral part of these financial statements.

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EGL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

|   | 2002                             | 2001         |
|---|----------------------------------|--------------|
|   | -----                            | -----        |
|   | (in thousands, except per share) |              |
| Revenues (Note 1)   | \$ 1,869,333                     | \$ 1,860,749 |
| Cost of transportation  | 1,197,201                        | 1,216,566    |
|   | -----                            | -----        |
| Net revenues  | 672,132                          | 644,183      |
| Operating expenses:   |                                  |              |
| Personnel costs   | 370,817                          | 383,211      |
| Other selling, general and administrative expenses                          | 274,878                          | 294,488      |
| EEOC legal settlement (Note 16)   | --                               | 10,089       |
| Air transportation safety and system stabilization grant<br>(Note 2)        | (8,923)                          | --           |
| Merger related transaction, restructuring and<br>integration costs (Note 4) | 5,688                            | 13,964       |

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|  |          |             |
|--|----------|-------------|
| Operating income (loss)  | 29,672   | (57,569)    |
| Nonoperating income (expense), net   | (14,556) | (8,442)     |
| Income (loss) before provision (benefit) for income taxes  | 15,116   | (66,011)    |
| Provision (benefit) for income taxes   | 5,895    | (25,834)    |
| Income (loss) before cumulative effect of change in accounting for negative goodwill                     | 9,221    | (40,177)    |
| Cumulative effect of change in accounting for negative goodwill (Note 7)                                 | 213      | --          |
| Net income (loss)  | \$ 9,434 | \$ (40,177) |
| Basic earnings (loss) per share before cumulative effect of change in accounting for negative goodwill   | \$ 0.19  | \$ (0.84)   |
| Cumulative effect of change in accounting for negative goodwill  | 0.01     | --          |
| Basic earnings (loss) per share  | \$ 0.20  | \$ (0.84)   |
| Basic weighted-average common shares outstanding   | 47,610   | 47,558      |
| Diluted earnings (loss) per share before cumulative effect of change in accounting for negative goodwill | \$ 0.19  | \$ (0.84)   |
| Cumulative effect of change in accounting for negative goodwill  | 0.01     | --          |
| Diluted earnings (loss) per share  | \$ 0.20  | \$ (0.84)   |
| Diluted weighted-average common shares outstanding   | 47,811   | 47,558      |

The accompanying notes are an integral part of these financial statements.

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EGL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

|                                       |          |
|---------------------------------------|----------|
|                                       | 2002     |
|                                       | -----    |
| Cash flows from operating activities: |          |
| Net income (loss)                     | \$ 9,434 |

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|  |          |
|--|----------|
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |          |
| Depreciation and amortization  | 30,527   |
| Impairment of assets   | 635      |
| Bad debt expense   | 7,669    |
| Amortization of unearned compensation  | 635      |
| Deferred income tax expense (benefit)  | 1,365    |
| Amortization of debt issuance costs  | 2,078    |
| Interest capitalization  | (986)    |
| Tax benefit of stock options exercised   | 196      |
| Amortization of deferred loss on interest rate swap                                      | 1,518    |
| Unrealized gain on derivatives   | (1,298)  |
| Cumulative effect of change in accounting for negative goodwill                          | (213)    |
| Impairment of investment in an unconsolidated affiliate                                  | 6,653    |
| Gain on sales of assets  | (89)     |
| Equity in (earnings) losses of affiliates, net of dividends received                     | (814)    |
| Minority interests, net of dividends paid  | 1,006    |
| Transfer to restricted cash  | (2,393)  |
| Other  | --       |
| Changes in assets and liabilities:   |          |
| (Increase) decrease in trade receivables   | 1,897    |
| (Increase) decrease in other receivables   | (1,935)  |
| (Increase) decrease in other assets and liabilities                                      | 2,278    |
| Increase (decrease) in payables and other accrued liabilities                            | 15,306   |
| Increase (decrease) in accrual for merger, restructuring and integration costs           | (652)    |
|  | -----    |
| Net cash provided by operating activities  | 72,817   |
|  | -----    |
| Cash flows from investing activities:  |          |
| Capital expenditures   | (41,429) |
| Purchase of assets for sale-leaseback transactions                                       | (11,570) |
| Proceeds from sales/maturities of marketable securities                                  | 3,430    |
| Proceeds from sale-leaseback transactions  | 21,487   |
| Proceeds from sales of property and equipment  | 4,544    |
| Acquisitions of businesses, net of cash acquired   | (1,081)  |
| Disposal of a consolidated subsidiary  | --       |
| Cash received from disposal of an unconsolidated affiliate                               | 385      |
| Cash received from minority interest partner   | 301      |
| Investment in unconsolidated affiliate   | --       |
| Other  | --       |
|  | -----    |
| Net cash used in investing activities  | (23,933) |
|  | -----    |

The accompanying notes are an integral part of these financial statements.

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EGL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

(continued)

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|   | 2002       | 2001           |
|---|------------|----------------|
|   | -----      | -----          |
|   |            | (in thousands) |
| Cash flows from financing activities:                     |            |                |
| Issuance (repayment) of notes payable, net                | \$ (1,407) | \$ (82,383)    |
| Net proceeds from convertible subordinated debt offering  | --         | 96,875         |
| Issuance of common stock for employee stock purchase plan | 1,033      | 1,236          |
| Proceeds from exercise of stock options                   | 687        | 3,319          |
| Repurchases of common stock                               | (10,014)   | --             |
| Dividends paid  | --         | --             |
| Other   | --         | --             |
|   | -----      | -----          |
| Net cash provided by (used in) financing activities       | (9,701)    | 19,047         |
|   | -----      | -----          |
| Effect of exchange rate changes on cash                   | 3,046      | (1,955)        |
|   | -----      | -----          |
| Increase (decrease) in cash and cash equivalents          | 42,229     | 17,439         |
| Cash and cash equivalents, beginning of the year          | 77,440     | 60,001         |
|   | -----      | -----          |
| Cash and cash equivalents, end of the year                | \$ 119,669 | \$ 77,440      |
|   | =====      | =====          |
| Supplemental cash flow information:                       |            |                |
| Cash paid for interest                                    | \$ 8,985   | \$ 8,552       |
| Cash paid for income taxes                                | 10,756     | 9,704          |
| Cash received from income tax refund                      | 11,540     | 27,456         |
| Noncash transactions:                                     |            |                |
| Issuance of stock for acquisitions                        | --         | 5,426          |
| Mortgages assumed in acquisitions                         | --         | --             |
| Issuance of notes payable for acquisition                 | 603        | --             |
| Obligation to deliver common stock                        | --         | (1,923)        |
| Exchange of investment as payment of a liability          | --         | 2,234          |
| Change in fair value of cash flow hedge                   | 421        | 2,024          |
| Financing of insurance premiums                           | 11,428     | --             |

The accompanying notes are an integral part of these financial statements.

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EGL, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

Common stock                      Additional

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|  | Shares         | Amount | paid-in<br>capital | Retained<br>earnings | Comprehens<br>income (lo |
|--|----------------|--------|--------------------|----------------------|--------------------------|
|  | (in thousands) |        |                    |                      |                          |
| Balance at January 1, 2000   | 47,223         | \$ 47  | \$ 123,638         | \$ 308,026           |                          |
| Comprehensive loss:  |                |        |                    |                      |                          |
| Net loss   | --             | --     | --                 | (722)                | \$ (7                    |
| Change in value of<br>marketable securities, net   | --             | --     | --                 | --                   |                          |
| Foreign currency translation<br>adjustments  | --             | --     | --                 | --                   | (12,0                    |
| Comprehensive loss   |                |        |                    |                      | \$ (12,7                 |
| Issuance of shares under<br>employee stock purchase plan   | 26             | --     | 921                | --                   |                          |
| Issuance of common stock for<br>acquisitions   | --             | --     | 49                 | --                   |                          |
| Exercise of stock options and<br>issuance of restricted stock<br>awards with related tax benefit | 1,162          | 1      | 25,195             | --                   |                          |
| Purchase of treasury stock   | --             | --     | --                 | --                   |                          |
| Cash dividends   | --             | --     | --                 | (2,415)              |                          |
| Amortization of unearned<br>compensation   | --             | --     | --                 | --                   |                          |
| Balance at December 31, 2000   | 48,411         | 48     | 149,803            | 304,889              |                          |
| Comprehensive loss:  |                |        |                    |                      |                          |
| Net loss   | --             | --     | --                 | (40,177)             | \$ (40,1                 |
| Change in value of marketable<br>securities, net   | --             | --     | --                 | --                   |                          |
| Change in fair value of cash<br>flow hedge   | --             | --     | --                 | --                   | (2,0                     |
| Foreign currency translation<br>adjustments  | --             | --     | --                 | --                   | (7,2                     |
| Comprehensive loss   |                |        |                    |                      | \$ (49,4                 |
| Issuance of shares under employee<br>stock purchase plan   | --             | --     | 29                 | --                   |                          |
| Issuance of common stock for<br>acquisitions   | --             | --     | 2,073              | --                   |                          |
| Exercise of stock options and<br>issuance of restricted stock<br>awards with related tax benefit | 528            | 1      | 6,412              | --                   |                          |
| Amortization of unearned compensation  | --             | --     | --                 | --                   |                          |
| Balance at December 31, 2001   | 48,939         | 49     | 158,317            | 264,712              |                          |
| Comprehensive income:  |                |        |                    |                      |                          |
| Net income   | --             | --     | --                 | 9,434                | \$ 9,4                   |
| Change in fair value of cash flow<br>hedge   | --             | --     | --                 | --                   | 4                        |
| Amortization of deferred loss on<br>interest rate swap   | --             | --     | --                 | --                   | 1,5                      |
| Foreign currency translation<br>adjustments  | --             | --     | --                 | --                   | 6,5                      |

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|  |        |       |            |            |
|--|--------|-------|------------|------------|
| Comprehensive income   |        |       |            | \$ 17,9    |
| Issuance of shares under employee stock purchase plan                                      | --     | --    | (436)      | --         |
| Exercise of stock options and issuance of restricted stock awards with related tax benefit | 72     | --    | 814        | --         |
| Repurchase and retirement of common stock  | (920)  | (1)   | (10,013)   | --         |
| Amortization of unearned compensation  | --     | --    | --         | --         |
| Balance at December 31, 2002   | 48,091 | \$ 48 | \$ 148,682 | \$ 274,146 |

|  | Treasury stock |             |  |
|--|----------------|-------------|--|
|  | Shares         | Amount      |  |
|  | (in thousands) |             |  |
| Balance at January 1, 2000   | (1,022)        | \$ (14,595) |  |
| Comprehensive loss:  |                |             |  |
| Net loss   | --             | --          |  |
| Change in value of marketable securities, net  | --             | --          |  |
| Foreign currency translation adjustments   | --             | --          |  |
| Comprehensive loss   |                |             |  |
| Issuance of shares under employee stock purchase plan                                      | 26             | 413         |  |
| Issuance of common stock for acquisitions  | 9              | 151         |  |
| Exercise of stock options and issuance of restricted stock awards with related tax benefit | 45             | 642         |  |
| Purchase of treasury stock   | (450)          | (10,478)    |  |
| Cash dividends   | --             | --          |  |
| Amortization of unearned compensation  | --             | --          |  |
| Balance at December 31, 2000   | (1,392)        | (23,867)    |  |
| Comprehensive loss:  |                |             |  |
| Net loss   | --             | --          |  |
| Change in value of marketable securities, net  | --             | --          |  |
| Change in fair value of cash flow hedge  | --             | --          |  |
| Foreign currency translation adjustments   | --             | --          |  |
| Comprehensive loss   |                |             |  |
| Issuance of shares under employee  |                |             |  |

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|  |         |             |       |
|--|---------|-------------|-------|
| stock purchase plan  | 70      | 1,207       |       |
| Issuance of common stock for acquisitions  | 196     | 3,353       |       |
| Exercise of stock options and issuance of restricted stock awards with related tax benefit | --      | --          |       |
| Amortization of unearned compensation  | --      | --          |       |
|  | -----   | -----       |       |
| Balance at December 31, 2001   | (1,126) | (19,307)    |       |
| Comprehensive income:  |         |             |       |
| Net income   | --      | --          |       |
| Change in fair value of cash flow hedge  | --      | --          |       |
| Amortization of deferred loss on interest rate swap  | --      | --          |       |
| Foreign currency translation adjustments   | --      | --          |       |
| Comprehensive income   |         |             |       |
| Issuance of shares under employee stock purchase plan                                      | 85      | 1,469       |       |
| Exercise of stock options and issuance of restricted stock awards with related tax benefit | 4       | 69          |       |
| Repurchase and retirement of common stock  | --      | --          |       |
| Amortization of unearned compensation  | --      | --          |       |
|  | -----   | -----       |       |
| Balance at December 31, 2002   | (1,037) | \$ (17,769) | \$    |
|  | =====   | =====       | ===== |

The accompanying notes are an integral part of these financial statements.

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EGL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2002 AND 2001

NOTE 1 - ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

EGL, Inc. (EGL or the Company) is a leading global transportation, supply chain management and information services company 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 through offices around the world as well as through its worldwide network of exclusive and nonexclusive agents. In October

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2000, the Company merged with Circle International Group, Inc. (Circle) and expanded its operations to over 100 countries on six continents (see Note 3). The principal markets for all lines of business are North America, Europe and Asia with significant operations in the Middle East, South America and South Pacific (see Note 20).

On February 21, 2000, the Company's stockholders approved changing the Company's name to EGL, Inc. from Eagle USA Airfreight, Inc. in recognition of EGL's increasing globalization, broader spectrum of services and long-term growth strategy.

### CHANGE IN FISCAL YEAR END

On July 2, 2000, the Company changed its fiscal year end from a twelve-month period ending September 30 to a twelve-month period ending December 31.

### BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

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

### USE OF ESTIMATES

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



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DECEMBER 31, 2002 AND 2001

selection of estimates which could be viewed as conservative or aggressive by others - based upon the quantity, quality and risks associated with the variability that might be expected from the future outcome and the factors considered in developing the estimate. Management attempts to use its business and financial accounting judgment in selecting the most appropriate estimate, however, actual amounts could and will differ from those estimates.

### CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

### RESTRICTED CASH

As part of the settlement with the EEOC, the Company is required to place certain amounts on deposit in a financial institution for the Class Fund and Leadership Development Fund. The total amount included in restricted cash related to the settlement with the EEOC was \$3.0 million as of December 31, 2002 (see Note 16). Additionally, the Company has certain requirements related to security deposits that are restricted from withdrawal for a specified timeframe and therefore are classified as restricted cash (see Note 10).

### SHORT-TERM INVESTMENTS AND MARKETABLE SECURITIES

At December 31, 2002 and 2001, the Company had short-term investments in commercial paper, certificates of deposits, U.S. Treasury Bills and Tax Exempt Municipal Bonds with a carrying value of \$12,000 and \$3.4 million, respectively. All outstanding securities at December 31, 2002 mature in less than one year. By policy, the Company invests primarily in high-grade marketable securities. All marketable securities are designated as available-for-sale securities. Unrealized holding gains or losses have been recorded by the Company as a component of other comprehensive income and loss at each balance sheet date. As such, changes in the fair value of available-for-sale securities, net of deferred taxes, are excluded from income and presented in the stockholders' equity section of the balance sheet as a component of accumulated other comprehensive loss. As of December 31, 2002 and 2001, these investments are stated at amortized cost, which approximates fair value.

### TRADE RECEIVABLES

Management establishes an allowance for doubtful accounts on trade receivables based on the expected ultimate recovery of these receivables. Management considers many factors including historical customer collection experience, general and specific economic trends and known specific issues related to individual customers, sectors and transactions that might impact collectibility. Trade receivables include disbursements made by EGL on behalf of its customers for transportation costs and customs duties. As the billings to customers for these disbursements may be several times the amount of revenue and fees derived from these transactions and are not recorded as revenue and expense on the Company's statement of operations, the inability to collect such amounts could result in losses greater than the revenues recognized when such amounts were believed to be collectible. Unrecovered trade accounts receivable charged against the allowance for doubtful accounts were \$5.9 million and \$15.2 million in 2002 and 2001, respectively.

### PROPERTY AND EQUIPMENT

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Property and equipment are stated at cost. The cost of property held under capital leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease. Depreciation is computed principally by the straight-line method at rates based on the estimated useful lives of the various classes of property. Estimates of useful lives are

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### EGL, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

based upon a variety of factors including durability of the asset, the amount of usage that is expected from the asset, the rate of technological change and the Company's business plans for the asset. Should the Company change its plans with respect to the use and productivity of property and equipment, it may require a change in the useful life of the asset or incur a charge to reflect the difference between the carrying value of the asset and the proceeds expected to be realized upon the asset's sale or abandonment. Expenditures for maintenance and repairs are expensed as incurred and significant major improvements are capitalized.

#### ASSETS HELD FOR SALE

The Company classifies assets for which a buyer has been identified or an active program to find a buyer is in progress as assets held for sale on the consolidated balance sheet.

#### COMPUTER SOFTWARE

Certain costs related to the development or purchase of internal-use software are capitalized and amortized over the estimated useful life of the software. Costs related to the preliminary project stage, data conversion and the post-implementation/operation stage of a software development project are expensed as incurred. Upon retirement or sale of assets, the cost of such assets and accumulated depreciation are removed from the accounts and the gain or loss, if any, is credited or charged to income.

The Company has incurred substantial costs during 2002, 2001 and 2000 related to a number of information systems projects that were being developed during that time period. Inherent in the capitalization of those projects are the assumptions that after considering the technological and business issues related to their development, such development efforts will be successfully completed and that benefits to be provided by the completed projects will exceed the costs capitalized to develop the systems. Management believes that all projects capitalized at December 31, 2002 will be successfully completed and will result in benefits recoverable in future periods.

#### INTEREST CAPITALIZATION

The Company is in the process of constructing several computer systems for future use. Interest associated with these assets is capitalized and included in the cost of the asset. The amount capitalized is calculated based

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upon the Company's current incremental borrowing rate and was \$986,000 and \$854,000 in 2002 and 2001, respectively.

### GOODWILL AND OTHER INTANGIBLES

Goodwill represents the excess of purchase price over the fair value of net assets acquired. Goodwill is a residual amount and is determined after numerous estimates are made regarding the fair value of assets and liabilities included in a business combination, and therefore, indirectly affected by management's estimates and judgments. Prior to January 1, 2002, the Company amortized goodwill and other intangible assets on a straight-line basis over the period of expected benefit, not exceeding 40 years. In 2002, the Company adopted the provisions of SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Effective January 1, 2002, the Company no longer amortizes goodwill and indefinite lived intangible assets but instead tests for impairment at least annually or whenever circumstances indicate a possible impairment. Finite lived intangible assets are amortized over the period of expected benefit.

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

### IMPAIRMENT OF ASSETS

Substantial judgment is necessary in the determination as to whether an event or circumstance has occurred that may trigger an impairment analysis and in the determination of the related cash flows from the asset. Estimating cash flows related to long-lived assets is a difficult and subjective process that applies historical experience and future business expectations to revenues and related operating costs of assets. Should impairment appear to be necessary, subjective judgment must be applied to estimate the fair value of the asset, for which there may be no ready market, which oftentimes results in the use of discounted cash flow analysis and judgmental selection of discount rates to be used in the discounting process. If the Company determines an asset has been impaired based on the projected undiscounted cash flows of the related asset or the business unit over the remaining amortization period, and if the cash flow analysis indicates that the carrying amount of an asset exceeds related undiscounted cash flows, the carrying value is reduced to the estimated fair value of the asset or the present value of the expected future cash flows.

### FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at year-end rates of exchange and income and expenses are translated at average exchange rates during the year. Adjustments resulting from translating financial statements into U.S. dollars are reported as cumulative translation adjustments and are shown as a separate component of other comprehensive income (loss). Gains and losses from foreign currency transactions are included in net income.

### REVENUE RECOGNITION

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Revenue and freight consolidation costs are recognized at the time the freight departs the terminal of origin, one of the permissible methods authorized by Emerging Issues Task Force (EITF) Issue No. 91-9, "Revenue and Expense Recognition for Freight Services in Process." This method generally results in recognition of revenue and gross profit earlier than methods that do not recognize revenue until a proof of delivery is received. Customs brokerage and other revenues are recognized upon completing the documents necessary for customs clearance or completing other fee-based services. Revenue recognized as an indirect air carrier or an ocean freight consolidator includes the direct carrier's charges to EGL for carrying the shipment. Revenue recognized in other capacities includes only the commission and fees received. In January 2002, EITF Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out of Pocket' Expenses Incurred" was effective for the Company. This issue clarified certain provisions of EITF No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent," and among other things established when reimbursements are required to be shown gross as opposed to net. EITF No. 01-14 also directed that the new rules should be applied in financial reporting periods beginning after December 15, 2001. The clarifying rules now require the Company to report revenues from certain reimbursed incidental activities on a gross rather than net basis. The Company has complied with the guidance in EITF No. 01-14 and reclassified to cost of transportation, for all periods presented, the costs of certain reimbursed incidental activities previously reported net in revenues. The following table illustrates the financial statement impact of the reclassification by comparing revenues previously reported on a net basis with revenues reported on a gross basis in this Annual Report on Form 10-K. There is no impact on net revenues, operating income (loss) or net income (loss) as a result of this reclassification.

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

|                             | 2002           |             | YEAR ENDED DECEMBER 31,<br>2001 |             | 2000        |             |
|-----------------------------|----------------|-------------|---------------------------------|-------------|-------------|-------------|
|                             | NET            | GROSS       | NET                             | GROSS       | NET         |             |
|                             | (in thousands) |             |                                 |             |             |             |
| Revenues:                   |                |             |                                 |             |             |             |
| Air freight forwarding      | \$1,273,540    | \$1,283,025 | \$1,296,026                     | \$1,307,101 | \$1,465,438 | \$1,465,438 |
| Ocean freight forwarding    | 197,846        | 216,298     | 176,470                         | 194,642     | 184,602     | 184,602     |
| Customs brokerage and other | 208,897        | 370,010     | 199,498                         | 359,006     | 211,166     | 211,166     |
| Total revenues              | 1,680,283      | 1,869,333   | 1,671,994                       | 1,860,749   | 1,861,206   | 1,861,206   |
| Cost of transportation:     |                |             |                                 |             |             |             |

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|                             |            |            |            |            |            |       |
|-----------------------------|------------|------------|------------|------------|------------|-------|
| Air freight forwarding      | 868,136    | 877,621    | 909,855    | 920,930    | 992,041    | 1     |
| Ocean freight forwarding    | 140,015    | 158,467    | 117,956    | 136,128    | 131,140    |       |
| Customs brokerage and other | --         | 161,113    | --         | 159,508    | 18,513     |       |
|                             | -----      | -----      | -----      | -----      | -----      | ----- |
| Total costs                 | 1,008,151  | 1,197,201  | 1,027,811  | 1,216,566  | 1,141,694  | 1     |
|                             | -----      | -----      | -----      | -----      | -----      | ----- |
| Net revenues                | \$ 672,132 | \$ 672,132 | \$ 644,183 | \$ 644,183 | \$ 719,512 | \$    |
|                             | =====      | =====      | =====      | =====      | =====      | ===== |

STOCK-BASED COMPENSATION

At December 31, 2002, the Company has six stock-based employee compensation plans under which stock-based awards have been granted. The Company accounts for stock-based awards to employees and non-employee directors using the intrinsic value method prescribed in Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees," and related interpretations. The intrinsic value method used by the Company generally results in no compensation expense being recorded related to stock option grants made by the Company because those grants are typically made with option exercise prices equal to fair market value at the date of option grant. This method is used by the vast majority of public reporting companies. The application of the alternative fair value method under SFAS No. 123, "Accounting for Stock-Based Compensation," which estimates the fair value of the option awarded to the employee, would result in compensation expense being recognized over the period of time that the employee's rights in the options vest. The following table illustrates the pro forma effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

|   | 2002           | 2001        | 2000       |
|---|----------------|-------------|------------|
|   | -----          | -----       | -----      |
|   | (in thousands) |             |            |
| Net income (loss) as reported   | \$ 9,434       | \$ (40,177) | \$ (722)   |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 5,419          | 6,930       | 7,971      |
|   | -----          | -----       | -----      |
| Pro forma net income (loss)   | \$ 4,015       | \$ (47,107) | \$ (8,693) |
|   | =====          | =====       | =====      |

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### Earnings (loss) per share:

|                     |    |      |    |        |    |        |
|---------------------|----|------|----|--------|----|--------|
| Basic-as reported   | \$ | 0.20 | \$ | (0.84) | \$ | (0.02) |
| Basic-pro forma     |    | 0.08 |    | (0.99) |    | (0.19) |
| Diluted-as reported |    | 0.20 |    | (0.84) |    | (0.02) |
| Diluted-pro forma   |    | 0.08 |    | (0.99) |    | (0.19) |

### PROVISION (BENEFIT) FOR INCOME TAXES

The Company accounts for income taxes using the asset and liability method. Deferred tax liabilities and assets are determined based on temporary differences between the bases of assets and liabilities for income tax and financial reporting purposes. The deferred tax assets and liabilities are classified according to the financial statement classification of the assets and liabilities generating the differences. Valuation allowances are established when necessary based upon the judgment of management to reduce deferred tax assets to the amount expected to be realized and could be necessary based upon estimates of future profitability and expenditure levels over specific time horizons in particular tax jurisdictions.

### EARNINGS (LOSS) 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 period. Diluted earnings per share includes potential dilution that could occur if options to issue common stock were exercised. Stock options and shares related to the convertible subordinated notes issued in December 2001 are the only potentially dilutive share equivalents the Company has outstanding for the periods presented. For the year ended December 31, 2002, incremental shares of 201,000 were used in the calculation of diluted earnings per share, all of which were attributable to stock options. The shares related to the convertible subordinated notes were excluded from the diluted earnings per share calculation as their effect was antidilutive. No shares related to options or the convertible subordinated notes were included in diluted earnings per share for the years ended December 31, 2001 and 2000, as their effect would have been antidilutive as the Company incurred a net loss during those periods.

### COMPREHENSIVE INCOME (LOSS)

In addition to net income (loss), comprehensive income (loss), includes, as applicable, foreign currency translation adjustments, minimum pension liability adjustments, unrealized gains and losses on certain investments in debt and equity securities, the effects of qualifying hedging activities and changes in stockholders' equity that are not the result of transactions with stockholders. The Company's components of other comprehensive income (loss) are foreign currency translation adjustments, change in the value of marketable securities and changes in the fair value of cash flow hedges.

Accumulated other comprehensive loss consists of the following as of December 31:

|  | 2002<br>-----  | 2001<br>----- |
|--|----------------|---------------|
|  | (in thousands) |               |
| Cumulative foreign currency translation adjustment | \$ (28,481)    | \$ (35,021)   |
| Fair value of cash flow hedge                      | 421            | --            |

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|                                     |             |             |
|-------------------------------------|-------------|-------------|
| Deferred loss on interest rate swap | (506)       | (2,024)     |
|                                     | -----       | -----       |
|                                     | \$ (28,566) | \$ (37,045) |
|                                     | =====       | =====       |

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values presented throughout these financial statements have been estimated using appropriate valuation methodologies and market information available at December 31, 2002 and 2001. However, ready trading markets do not exist for all of these items and considerable judgment is required in interpreting market data to develop estimates of fair value and the estimates presented are not necessarily indicative of the amounts that EGL could realize in a current market exchange. The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair values. Additionally, the fair values presented throughout these financial statements have not been estimated since December 31, 2002. Current estimates of fair value may differ significantly from the amounts presented. The following method and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents, restricted cash and short-term investments and marketable securities - The carrying amount approximates fair value because of the short maturity of those instruments.

Notes payable - The fair value of the Company's convertible subordinated notes was estimated based upon an indicative price quotation of the notes on December 31, 2002 and the closing price of the Company's stock on December 31, 2001. An indicative price quotation includes a bid and offer price provided by a market maker for the purpose of evaluation or information. At December 31, 2001, no indicative price quotation information was available as the notes were just recently issued. The Company's notes payable approximates fair value based upon the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Foreign currency forward contracts - The fair value is estimated based on the U.S. dollar equivalent at the contract exchange rate. Any gain or loss is largely offset by a change in the value of the underlying transaction, and is recorded as an unrealized foreign exchange gain or loss until the contract maturity date. Such amounts are insignificant.

Swap agreements - The fair value of interest rate swaps and jet fuel swaps (used for hedging purposes) is the estimated amount that the Company would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and jet fuel prices.

Letters of credit - The Company utilizes letters of credit to back certain financing instruments and payment obligations. The letters of credit reflect fair values as a condition of their underlying purpose and are subject

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to fees competitively determined.

Synthetic leases - The fair value of synthetic leases is the outstanding lease balance and represents the amount the Company would be obligated to pay to terminate the lease agreement.

The carrying amounts and fair values of financial instruments (assets and (liabilities)) at December 31, 2002 and 2001 are as follows (in thousands):

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

|  | CARRYING AMOUNT |           | FAIR VALUE |
|--|-----------------|-----------|------------|
|  | 2002            | 2001      | 2002       |
| Cash and cash equivalents                        | \$ 119,669      | \$ 77,440 | \$ 119,669 |
| Restricted cash                                  | 7,806           | 5,413     | 7,806      |
| Short-term investments and marketable securities | 12              | 3,442     | 12         |
| Convertible subordinated notes                   | (100,000)       | (100,000) | (110,933)  |
| Notes payable                                    | (9,632)         | (11,724)  | (9,632)    |
| Interest rate swap agreement                     | (729)           | (2,028)   | (729)      |
| Jet fuel swap agreement                          | 421             | --        | 421        |
| Off balance sheet financial instruments:         |                 |           |            |
| Letters of credit                                | --              | --        | (31,396)   |
| Synthetic leases                                 | --              | --        | --         |

### RISKS AND UNCERTAINTIES

The Company's operations are influenced by many factors, including the global economy, international laws and currency exchange rates. The impact of some of these risk factors is reduced by having customers in a wide range of industries located throughout the world. However, contractions in the more significant economies of the world (either countries or industrial sectors) could have a substantial negative impact on the rate of the Company's growth and its profitability. The availability and affordability of airlift and other transportation capacity could also significantly influence the Company's operations. Acts of war or terrorism could influence these areas of risk and the Company's operations. Doing business in foreign locations subjects the Company to various risks and considerations typical to foreign enterprises including, but not limited to, economic and political conditions in the United States and abroad, currency exchange rates, tax laws and other laws and trade restrictions.

### CONCENTRATION OF CREDIT RISK



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The Company's customers include retailing, wholesaling, manufacturing, electronics and telecommunications companies, as well as international agents throughout the world. Management believes that concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base and their dispersion across many different industries and geographic regions. The Company performs ongoing credit evaluation of its customers to minimize credit risk. The Company's investment policies restrict investments to low-risk, highly liquid securities and the Company performs periodic evaluations of the relative credit standing of the financial institutions with which it deals.

### DERIVATIVE INSTRUMENTS

The Company recognizes all derivative instruments on the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge, cash flow hedge or a hedge of the foreign currency exposure of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the

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hedged risk are recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of the interest rate or foreign currency exposure. For derivative instruments that are designated and qualify as a hedge of a net investment in a foreign operation currency, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

The Company uses derivative financial instruments to reduce its exposure to fluctuations in interest rates and jet fuel prices. The Company formally designates and documents the financial instrument as a hedge of a specific underlying exposure when it is entered into, as well as the risk, management objectives and strategies for undertaking the hedge transaction.

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Derivatives are recorded in the balance sheet at fair value in either other assets or other liabilities. The earnings impact resulting from the derivative instruments is recorded in the same line item within the statement of operations as the underlying exposure being hedged. The Company also formally assesses, both at inception and at least quarterly thereafter, whether the derivative instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposures. The ineffective portion of a derivative instrument's change in fair value is recognized in earnings.

### NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and that the associated long-lived asset retirement costs are capitalized. This statement is effective for fiscal years beginning after June 15, 2002. The Company will adopt SFAS 143, beginning January 1, 2003, and does not believe that it will have any material impact on its results of operations, financial position or cash flows.

In June 2002, the Financial Accounting Standards Board issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 supersedes EITF Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and establishes fair value as the objective for initial measurement of a liability. SFAS 146 states that an entity's commitment to a plan does not create a present obligation to others that meets the definition of a liability. Generally, SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company will adopt SFAS 146 as of January 1, 2003.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. (FIN), 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 expands on the accounting guidance of SFAS 5, 57 and 107 and incorporates without change the provisions of FIN 34, which is being superseded. FIN 45 elaborates on the existing disclosure requirements for most guarantees and clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market

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value, of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure

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requirements in FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company adopted the recognition and measurement provisions of FIN 45 effective January 1, 2003 and is currently evaluating the impact on its results of operations, financial position and cash flows. The Company adopted the disclosure provisions of FIN 45 effective December 31, 2002 (see Note 10).

In December 2002, the Financial Accounting Standards Board issued SFAS No. 148, "Accounting for Stock Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Generally, SFAS 148 transition guidance and provisions for disclosure are effective for fiscal years ending after December 15, 2002 and is effective for interim period disclosures for interim periods beginning after December 15, 2003. The Company adopted the disclosure provisions of SFAS 148 effective December 31, 2002 as previously detailed in this note.

In January 2003, the Financial Accounting Standards Board issued FIN No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51." The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights ("variable interest entities" or "VIEs") and how to determine when and which business enterprise should consolidate the VIE (the "primary beneficiary"). This new model for consolidation applies to an entity in which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. The provisions of FIN 46 are effective for the Company as of July 1, 2003. The Company is not presently a party to any transactions with VIEs.

### NOTE 2 - AIR TRANSPORTATION SAFETY AND SYSTEM STABILIZATION ACT

On September 11, 2001, terrorists hijacked and used four commercial aircraft in terrorist attacks on the United States. As a result of these terrorist attacks, the Federal Aviation Administration immediately suspended all commercial airline flights from September 11, 2001 until September 14, 2001, which effectively shut down the Company's air freight forwarding operations. Once the Company resumed air shipment operations, the passenger load factors on commercial airlines had been severely impacted which caused the airlines to cancel flights and greatly limited the movement of freight by air, along with increased pricing from the airlines on the remaining flights.

On September 22, 2001, President Bush signed into law the Air Transportation Safety and System Stabilization Act (the Act). The Act provides for up to \$5 billion in cash grants to qualifying U.S. airlines and freight carriers to compensate for direct and incremental losses, as defined in the Act, from September 11, 2001 through December 31, 2001, associated with the terrorist attacks. The Department of Transportation (DOT) makes the final determination of the amount of eligible direct and incremental losses incurred by each airline and freight carrier. The DOT issued its final rules with respect to the Act on April 16, 2002. The Company filed its final application for grant proceeds on August 26, 2002. During the third quarter of 2002, the Company received grant proceeds of \$8.9 million from the DOT and

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recorded this amount in operating income. The DOT, Congress, or other governmental agencies may perform an additional audit and/or review of the Company's application. No assurance can be provided that the result of such an audit/review would not result in a refund of a portion of the grant.

#### NOTE 3 - BUSINESS COMBINATIONS

On October 2, 2000, EGL completed its merger with Circle pursuant to the terms and conditions of the Agreement and Plan of Merger dated as of July 2, 2000 (the Merger Agreement). EGL issued 17.9 million shares of EGL common stock in exchange for all issued and outstanding shares of Circle common stock and assumed options exercisable for 1.1 million shares of EGL common stock. The exchange ratio of one share of EGL common stock for each share of Circle common stock was determined by arms-length negotiations between EGL and Circle. The Merger qualified as a tax-free reorganization for U.S. federal income tax purposes and as a pooling of interests for accounting and financial reporting purposes.

EGL and Circle had no significant intercompany transactions prior to the merger and no material adjustments were necessary to conform the accounting policies of EGL and Circle.

The Company entered into six business combination transactions between January 1, 2000 and December 31, 2002 which have been accounted for using the purchase method of accounting, with the related results of operations being included in the Company's consolidated financial statements from the date of acquisition forward. The aggregate consideration paid for these acquisitions totaled \$46.5 million, comprised of \$34.4 million in cash, \$6.5 million notes payable and stock consideration valued at approximately \$5.6 million. The Company has recognized \$42.2 million in goodwill in connection with these acquisitions. Two of the acquisitions provided for the payment of additional contingent consideration if certain post-acquisition performance criteria are satisfied for periods as long as three years which could aggregate as much as \$7.9 million in cash and Company common stock. All contingent payments on acquisitions made by the Company are accounted for as adjustments to goodwill and are recorded at the time that the amounts of the payments are determinable by the Company. Through December 31, 2002, the Company had recognized \$8.2 million in additional contingent consideration on these acquisitions paid in cash and the Company's common stock. The pro forma effect on revenues and net income of the Company assuming each of these acquisitions were consummated at the beginning of the year of acquisition would have been immaterial.

#### NOTE 4 - MERGER TRANSACTION, RESTRUCTURING AND INTEGRATION COSTS

##### TRANSACTION AND INTEGRATION COSTS

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As a result of the merger with Circle, as discussed in Note 3, the Company incurred and expensed transaction and integration costs during the years ended December 31, 2001 and 2000. Merger related transaction costs of \$9.8 million were incurred in 2000 and included investment banking, legal, accounting, printing fees and other costs directly related to the merger. During the years ended December 31, 2001 and 2000 integration costs of approximately \$7.6 million and \$8.2 million, respectively, were incurred and included the costs of legal registrations in various jurisdictions, changing signs and logos at major facilities around the world and other integration costs.

### RESTRUCTURING CHARGES

In the fourth quarter of 2000, the Company developed a plan (the Plan) to integrate the former EGL and Circle operations and to eliminate duplicate facilities as a result of the merger. The principal components of the Plan involved the termination of certain employees at the former Circle headquarters

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and various international locations, elimination of duplicate facilities in the United States and certain international locations including the Circle headquarters facility, and the termination of selected international joint venture and agency agreements. The Company recorded restructuring charges of \$5.7 million, \$6.4 million and \$49.4 million in 2002, 2001 and 2000, respectively, primarily as a result of the Plan and the decision to terminate certain charter lease obligations. With the exception of payments to be made for remaining future lease obligations, the terms of the Plan were substantially completed as of December 31, 2001.

The charges incurred in 2002, 2001 and 2000 and the remaining portion of the unpaid accrued charges as of December 31, 2002 and 2001 are as follows:

|   | Income<br>statement<br>charge<br>Q4 2000 | Payments/<br>reductions | Accrued<br>liability<br>December 31,<br>2000 | Income st<br>2<br>-----<br>New<br>charges<br>----- |
|---|--|-------------------------|--|--|
| (in thousands)  |  |                         |  |  |
| Severance costs .....                                       | \$ 8,377                                 | \$ (2,110)              | \$ 6,267                                     | \$ 3,34  |
| Future lease obligations, net of<br>subleasing income ..... | 11,105                                   | (1,042)                 | 10,063                                       | 1,91   |
| Assets not expected to be<br>recoverable .....              | 18,284                                   | (18,284)                | --   | -  |

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|   |           |             |           |         |
|---|-----------|-------------|-----------|---------|
| Termination of joint venture/<br>agency agreements .....    | 11,635    | (6,423)     | 5,212     | —       |
| Charter lease obligation, net of<br>subleasing income ..... | --        | --          | --        | 2,28    |
|   | -----     | -----       | -----     | -----   |
|   | \$ 49,401 | \$ (27,859) | \$ 21,542 | \$ 7,54 |
|   | =====     | =====       | =====     | =====   |

|   | Accrued<br>liability<br>December 31,<br>2001 | Income<br>statement<br>charge 2002<br>-----<br>Revisions<br>to<br>estimates | Payments/<br>reductions | Accrue<br>liabili<br>December<br>2002 |
|---|--|---|-------------------------|---------------------------------------|
|   | -----  | -----   | -----                   | -----                                 |
|   | (in thousands)                               |   |                         |                                       |
| Severance costs .....                                       | \$ 913                                       | \$ --   | \$ (126)                | \$                                    |
| Future lease obligations, net of<br>subleasing income ..... | 6,963  | 5,939   | (5,687)                 | 7                                     |
| Assets not expected to be<br>recoverable .....              | --   | --  | --                      |                                       |
| Termination of joint venture/<br>agency agreements .....    | 1,003  | (251)   | (527)                   |                                       |
| Charter lease obligation, net of<br>subleasing income ..... | --   | --  | --                      |                                       |
|   | -----  | -----   | -----                   | -----                                 |
|   | \$ 8,879                                     | \$ 5,688  | \$ (6,340)              | \$ 8                                  |
|   | =====  | =====   | =====                   | =====                                 |

SEVERANCE COSTS

Severance costs were recorded for certain employees at the former Circle headquarters and former Circle management at certain international locations who were terminated or notified of their termination under the Plan prior to December 31, 2000. As of December 31, 2000, approximately 60 of the 150 employees included in the Plan were no longer employed by the Company. The termination of substantially all of the remaining 90 employees occurred in the first quarter of 2001. Additional severance costs of approximately \$3.2 million were recorded during the year ended December 31, 2001.

Also, during January 2001 the Company announced an additional reduction in the Company's workforce of approximately 125 additional employees. The charge for this workforce reduction was approximately \$100,000 and was recorded during the first quarter of 2001.

FUTURE LEASE OBLIGATIONS

Future lease obligations consist of the Company's remaining lease obligations under noncancelable operating leases at domestic and international locations that the Company is in the process of vacating and consolidating due to excess capacity resulting from the Company having multiple facilities in certain locations. The provisions of the Plan include the consolidation of facilities at

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approximately 80 of the Company's operating locations. During the second half of 2001, the Company determined the estimated consolidation dates for several of the remaining facilities and recorded an additional charge of \$1.9 million. All lease costs for facilities being consolidated are charged to operations until the date that the Company vacates each facility.

Amounts recorded for future lease obligations under the Plan are net of approximately \$37.0 million in anticipated future recoveries from actual or expected sublease agreements as of December 31, 2002. Sublease income has been anticipated under the Plan only in locations where sublease agreements have been executed as of December 31, 2002 or are deemed probable of execution during the first half of 2003. 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. During 2002 and 2001, the Company recorded an additional charge of \$5.9 million and \$4.7 million, respectively, based on revised estimates for future recoveries from actual or expected sublease agreements that were or are expected to be less favorable than anticipated due to the weakened U.S. economy. In addition, during the fourth quarter of 2001, the Company decided to utilize two of the facilities in its logistics operations as the Company determined the expected return on operations was greater than the sublease income it could obtain in these two markets. The \$2.0 million reserve established for these facilities was reversed.

### ASSETS NOT EXPECTED TO BE RECOVERABLE

During 2000, the Company recorded a charge for assets not expected to be recoverable which primarily consisted of fixed assets at the various locations that are being consolidated under the Plan and will no longer be used in the Company's ongoing operations. In 2001, the Company revised this estimate by \$497,000 for assets that were determined to be recoverable since they will continue to be used in operations.

### TERMINATION OF JOINT VENTURE/AGENCY AGREEMENTS

Costs to terminate joint venture/agency agreements represent contractually obligated costs incurred to terminate selected joint venture and agency agreements with certain of the Company's former business partners along with assets that are not expected to be fully recoverable as a result of the Company's decision to terminate these agreements. In conjunction with the Plan, the Company completed the termination of joint venture and agency agreements in Brazil, Chile, Panama, Venezuela, Taiwan and South Africa in 2001. The joint venture agreements in South Africa and Taiwan were terminated on more favorable terms than originally expected and the related estimate was revised downward by \$3.0 million in 2001. In the fourth quarter of 2002, the Company reversed an additional \$251,000 of this reserve due to more favorable settlements.

### CHARTER LEASE OBLIGATION

In August 2001, the Company negotiated agreements to reduce its exposure to future losses on leased aircraft. A lease for two of the aircraft was terminated with no financial penalty. The Company subleased five aircraft to a third party at rates below the Company's contractual commitment and recorded a

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charge of approximately \$2.3 million in the third quarter of 2001 for the excess of the Company's commitment over the sublease income through the end of the lease term.

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NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

|                                 | ESTIMATED<br>USEFUL LIVES | 2002           | 2001  |
|---------------------------------|---------------------------|----------------|-------|
|                                 |                           | -----          | ----- |
|                                 |                           | (in thousands) |       |
| Land                            |                           | \$ 10,139      | \$    |
| Software                        | 1 to 5 years              | 69,950         |       |
| Buildings and improvements      | 5 to 50 years             | 91,516         |       |
| Equipment and furniture         | 3 to 10 years             | 124,980        |       |
|                                 |                           | -----          | ----- |
|                                 |                           | 296,585        |       |
| Less - accumulated depreciation |                           | 139,182        |       |
|                                 |                           | -----          | ----- |
|                                 |                           | \$ 157,403     | \$    |
|                                 |                           | =====          | ===== |

Depreciation expense for 2002, 2001 and 2000 was \$30.4 million, \$28.6 million and \$25.8 million, respectively.

The Company is in the process of developing and implementing computer system solutions for its operational, human resources and financial systems. As of December 31, 2002 and 2001, the Company had capitalized approximately \$28.7 million and \$20.9 million, respectively, related to the development of these systems. These amounts are included in the software amount above and are currently not being depreciated. Once placed into service, depreciation related to the systems will be charged.

The Company sold the former Circle headquarters facility in December 2001 for \$12.3 million and recognized a pretax gain of \$1.6 million included as a reduction of other selling, general and administrative expenses in the accompanying consolidated statement of operations.

In 2002, the Company sold and leased back four terminal and warehouse facilities, three of which were constructed under its master operating synthetic lease agreement. In December 2002, the Company sold land that it held in Miami, Florida and Toronto, Canada to a developer to develop terminal and warehouse



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facilities under build-to-suit agreements whereby the Company will lease back the buildings upon their completion. In December 2001, the Company sold and leased back its corporate headquarters, terminal and warehouse facilities in Houston and a terminal facility in Denver to an unrelated party. See Note 18 for additional discussion related to the sale-leaseback agreements entered into by the Company.

In December 2002, the Company was required to pay off the lease balance and related interest of \$15.5 million under a synthetic lease agreement entered into during 1998 by Circle. This lease facility financed the acquisition, construction and development of a terminal facility located in New York, New York. The land leased under this agreement was accounted for as a synthetic operating lease and the building and improvements were accounted for as a capital lease. As of December 31, 2002, the carrying value of the land and property is included in property and equipment on the consolidated balance sheet and the building is being depreciated over its useful life.

### NOTE 6 - ASSETS HELD FOR SALE

In November 2002, the Company purchased its terminal facility in Hartford, Connecticut. This facility was previously financed under its master synthetic lease agreement that became due in November

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2002. The Hartford property is expected to be sold to an unrelated investor and leased back by the Company in the first half of 2003. The carrying value of this asset has been classified as assets held for sale on the Company's balance sheet as of December 31, 2002.

### NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted SFAS 141 and SFAS 142 effective January 1, 2002. SFAS 142 requires the suspension of the amortization of goodwill and certain identifiable intangible assets with an indefinite useful life. The Company has suspended its amortization of goodwill and does not have any identifiable intangible assets that have an indefinite useful life.

Intangible assets subject to amortization are as follows at December 31:

| 2002                     |                             | 2001                     |          |
|--------------------------|-----------------------------|--------------------------|----------|
| GROSS CARRYING<br>AMOUNT | ACCUMULATED<br>AMORTIZATION | GROSS CARRYING<br>AMOUNT | AC<br>AM |

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|                           | (in thousands) |            |          |    |
|---------------------------|----------------|------------|----------|----|
| Noncompetition agreements | \$ 1,256       | \$ (969)   | \$ 1,256 | \$ |
| Customer lists            | 464            | (88)       | --       |    |
| Total                     | \$ 1,720       | \$ (1,057) | \$ 1,256 | \$ |

Aggregate amortization expense for 2002, 2001 and 2000 was \$164,000, \$417,000 and \$339,000, respectively. The following table shows the estimated future amortization expense for the next five years (in thousands).

| YEAR ENDED<br>DECEMBER 31:<br>----- | ESTIMATED<br>FUTURE EXPENSE<br>----- |
|-------------------------------------|--------------------------------------|
| 2003                                | \$ 401                               |
| 2004                                | 92                                   |
| 2005                                | 60                                   |
| 2006                                | 60                                   |
| 2007                                | 50                                   |
|                                     | -----                                |
|                                     | \$ 663                               |
|                                     | =====                                |

The implementation of SFAS 141 required any unallocated negative goodwill to be written off immediately. Accordingly, the Company recognized approximately \$213,000 of negative goodwill as a cumulative effect of a change in accounting principle in 2002.

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The following table shows the pro forma effects for 2001 and 2000 had goodwill not been amortized during those years:

| YEAR ENDED DECEMBER 31,                  |      |
|--|------|
| 2001                                     | 2000 |
| -----                                    |      |
| (in thousands, except per share amounts) |      |

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|                                      |    |          |    |        |
|--------------------------------------|----|----------|----|--------|
| Net loss, as reported                | \$ | (40,177) | \$ | (722)  |
| Amortization of goodwill, net of tax |    | 2,459    |    | 2,532  |
|                                      |    | -----    |    | -----  |
| Pro forma net income (loss)          | \$ | (37,718) | \$ | 1,810  |
|                                      |    | =====    |    | =====  |
| Earnings (loss) per share:           |    |          |    |        |
| Basic - as reported                  | \$ | (0.84)   | \$ | (0.02) |
| Basic - pro forma                    |    | (0.79)   |    | 0.04   |
| Diluted - as reported                |    | (0.84)   |    | (0.02) |
| Diluted - pro forma                  |    | (0.79)   |    | 0.04   |

The implementation of SFAS 142 requires that goodwill be tested for impairment using a two-step approach. The first step is used to identify potential impairment by calculating a "fair value" of the reporting unit. The calculated fair value amount in step one is then compared to the carrying amount of the reporting unit including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the estimated fair value is less than the carrying value of the assets, a prescribed step two calculation is required to determine the amount of impairment to be recorded in the Company's statement of operations. The initial impairment recognition, if any, would be accounted for as a cumulative effect of change in an accounting principle.

A reporting unit is an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and management regularly reviews the operating results of that component. The Company's assessment of reporting units included an analysis of its network of approximately 400 facilities, agents and distribution centers located in over 100 countries on six continents. SFAS 142 required the Company to evaluate how its international units function within its network and how its international management reviews the results of operations. The Company determined that its reporting units for the purpose of SFAS 142 are its geographic divisions which are: North America, Europe and Middle East, South America and Asia and South Pacific.

The Company performed the step one analysis under SFAS 142 to test for goodwill impairment in the second quarter of 2002 for its initial test and selected October 31, 2002 for its annual test date. The Company's required assessments of goodwill related to each of its reporting units under step one of SFAS 142 did not result in an impairment; therefore step two was not required at either testing dates. The estimated fair value calculated and referred to above is merely an estimate based upon a number of assumptions. The actual fair value of each reporting unit may vary significantly from its estimated fair value.

The changes in the carrying amount of goodwill for the year ended December 31, 2002 are as follows:

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|   | NORTH<br>AMERICA | SOUTH<br>AMERICA | EUROPE &<br>MIDDLE<br>EAST | A<br>P |
|---|------------------|------------------|----------------------------|--------|
|   | -----            | -----            | -----                      | -----  |
|   | (in thousands)   |                  |                            |        |
| Balance at January 1, 2001                  | \$ 49,373        | \$ 35            | \$ 9,929                   | \$     |
| Goodwill acquired during the year           | 3,503            | 1,135            | --                         |        |
| Amortization expense                        | (2,542)          | (51)             | (638)                      |        |
| Effect of exchange rate changes on goodwill | (332)            | (223)            | (927)                      |        |
|   | -----            | -----            | -----                      | -----  |
| Balance at December 31, 2001                | 50,002           | 896              | 8,364                      |        |
| Goodwill acquired during the year           | 268              | 597              | --                         |        |
| Change in accounting for negative goodwill  | --               | --               | 213                        |        |
| Effect of exchange rate changes on goodwill | 5                | (109)            | 873                        |        |
|   | -----            | -----            | -----                      | -----  |
| Balance as of December 31, 2002             | \$ 50,275        | \$ 1,384         | \$ 9,450                   | \$     |
|   | =====            | =====            | =====                      | =====  |

## NOTE 8 - INVESTMENTS IN UNCONSOLIDATED AFFILIATES

Investments in net assets of unconsolidated affiliated companies were \$40.0 million and \$46.0 million as of December 31, 2002 and 2001, respectively. This balance primarily consists of a 40% investment in TDS Logistics, Inc. (TDS), a 5% investment in TDS Europe SA and a 24.5% investment in Miami Air International, Inc. (Miami Air).

### TDS

The investment balance in TDS was \$39.9 million and \$39.6 million as of December 31, 2002 and 2001, respectively, and includes the excess of purchase price over net assets of \$24.1 million as of December 31, 2002 and 2001. The investment balance at December 31, 2001 included the Company's 5% investment in TDS Europe SA. In May 2002, the Company sold its 5% interest in TDS Europe SA for \$385,000 and recognized a gain of \$402,000. Summarized results of operations and financial position of TDS are as follows:

Condensed consolidated statement of operations information for the years ended December 31:

|  | 2002           | 2001       |
|--|----------------|------------|
|  | -----          | -----      |
|  | (in thousands) |            |
| Revenues   | \$ 196,929     | \$ 100,690 |
| Operating income (loss)                                  | 17,330         | (7,736)    |
| Net income (loss)  | 696            | (4,413)    |
| <br>   |                |            |
| EGL 40% equity interest in TDS earnings (loss)           | 278            | (1,765)    |
| Amortization of investment premium and other adjustments | --             | (1,004)    |

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|  |        |            |
|--|--------|------------|
| Amount included in EGL nonoperating income (expense) | \$ 278 | \$ (2,769) |
|  | =====  | =====      |

Condensed balance sheet information at December 31:

|                        | 2002           | 2001      |
|------------------------|----------------|-----------|
|                        | -----          | -----     |
|                        | (in thousands) |           |
| Current assets         | \$ 44,824      | \$ 40,539 |
| Noncurrent assets      | 66,136         | 63,377    |
| Current liabilities    | 41,852         | 50,908    |
| Noncurrent liabilities | 29,952         | 14,998    |
| Minority interest      | 163            | 163       |
| Stockholders' equity   | 38,993         | 37,847    |

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

MIAMI AIR

In July 2000, the Company purchased 24.5% of the outstanding common stock of Miami Air, a privately held domestic and international passenger charter airline headquartered in Miami, Florida, for approximately \$6.3 million in cash. The Company's primary objective for engaging in the transaction was to develop a business relationship with Miami Air in order to obtain access to an additional source of reliable freight charter capacity. The Company's Chairman and President and a member of EGL's board of directors also purchased 19.2% and 6.0% of Miami Air, respectively. See Note 19 for additional information related to Miami Air.

The weak economy and events of September 11, 2001 significantly reduced the demand for cargo plane services, particularly 727 cargo planes. As a result, the market value of these planes declined dramatically. Miami Air informed EGL that the amount due Miami Air's bank (which is secured by seven 727 planes) was significantly higher than the market value of those planes. In addition, Miami Air had outstanding operating leases for 727 and 737 airplanes at above current market rates, including two planes that were expected to be delivered in 2002. Throughout the fourth quarter of 2001 and the first quarter of 2002, Miami Air was in discussions with its bank and lessors to obtain debt concessions on the seven 727 planes, to buy out the lease on a 727 cargo plane and to reduce the rates on the 737 passenger planes. Miami Air had informed the Company that its creditors had indicated a willingness to make concessions. In May 2002, the Company was informed that Miami Air's creditors were no longer

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willing to make concessions and that negotiations with creditors had reached an impasse and no agreement appeared feasible. As such, in the first quarter of 2002, the Company recognized an other than temporary impairment of the entire \$6.7 million carrying value of its common stock investment in Miami Air, which included a \$509,000 increase in value attributable to EGL's 24.5% share of Miami Air's first quarter 2002 results of operations. In addition, the Company recorded an accrual of \$1.3 million for its estimated exposure on the outstanding funded debt and letters of credit supported by the \$7 million (subsequently reduced to \$3 million in January 2003) standby letter of credit. During the third quarter of 2002, Miami Air informed the Company that certain of its creditors had, in fact, made certain concessions. The Company has not adjusted its accrual, and there can be no assurance that the ultimate loss, if any, will not exceed such estimate requiring an additional charge. The investment balance in Miami Air was \$6.1 million as of December 31, 2001 and included the excess of purchase price over net assets of \$5.2 million. Summarized results of operations and financial position of Miami Air are as follows:

Condensed statement of operations information for the years ended December 31, 2002 and December 31, 2001, and for the period from July 2000 (date of EGL investment) to December 31, 2000:

|  | 2002<br>----- | 2001<br>-----<br>(in thousands) |
|--|---------------|---------------------------------|
| Revenues   | \$ 94,992     | \$ 113,937                      |
| Operating income (loss)                                  | 3,227         | (4,580)                         |
| Loss before change in accounting principle               | (16,226)      | (7,380)                         |
| Cumulative effect of change in accounting principle      | --            | 8,667                           |
| Net income (loss)  | (16,226)      | 1,287                           |
| <br>   |               |                                 |
| Impairment and letter of credit accrual                  | \$ (8,254)    | \$ --                           |
| EGL 24.5% equity interest in Miami Air earnings (loss)   | 509           | 315                             |
| Amortization of investment premium and other adjustments | --            | (292)                           |
|  | -----         | -----                           |
| Amount included in EGL nonoperating income (expense)     | \$ (7,745)    | \$ 23                           |
|  | =====         | =====                           |

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

Condensed balance sheet information at December 31:

2002

2001

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|                                | -----          | -----     |
|--------------------------------|----------------|-----------|
|                                | (in thousands) |           |
| Current assets                 | \$ 14,295      | \$ 10,676 |
| Noncurrent assets              | 5,354          | 33,453    |
| Current liabilities            | 17,068         | 19,660    |
| Noncurrent liabilities         | 13,908         | 20,569    |
| Stockholder's equity (deficit) | (11,327)       | 3,899     |

### NOTE 9 - NOTES PAYABLE

Notes payable consist of the following amounts as of December 31:

|                                | 2002           | 2001       |
|--------------------------------|----------------|------------|
|                                | -----          |            |
|                                | (in thousands) |            |
| Convertible subordinated notes | \$ 100,000     | \$ 100,000 |
| Notes payable                  | 9,632          | 11,724     |
|                                | -----          | -----      |
|                                | 109,632        | 111,724    |
| Less - current portion         | 5,639          | 7,950      |
|                                | -----          | -----      |
| Long-term notes payable        | \$ 103,993     | \$ 103,774 |
|                                | =====          | =====      |

Future scheduled principal payments on debt are as follows (in thousands):

|                 |            |
|-----------------|------------|
| 2003            | \$ 5,639   |
| 2004            | 1,406      |
| 2005            | 614        |
| 2006            | 100,571    |
| 2007 and beyond | 1,402      |
|                 | -----      |
| Total           | \$ 109,632 |
|                 | =====      |

### CONVERTIBLE SUBORDINATED NOTES

In December 2001, the Company issued \$100 million aggregate principal amount of 5% convertible subordinated notes. The notes bear interest at an annual rate of 5%. Interest is payable on June 15 and December 15 of each year, beginning June 15, 2002. The notes mature on December 15, 2006. Deferred financing fees incurred in connection with the transaction totaled \$3.2 million and are being amortized over five years as a component of interest expense.

The notes are convertible at any time four trading days prior to maturity into shares of our common stock at a conversion price of approximately \$17.4335 per share, subject to certain adjustments, which was a premium of 20.6%

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of the stock price at the issuance date. This is equivalent to a conversion rate of 57.3608 shares per \$1,000 principal amount of notes. Upon conversion, a noteholder will not receive any cash representing accrued interest, other than in the case of a conversion in connection with an optional redemption. The shares that are potentially issuable may impact the Company's diluted earnings per share calculation in future periods by approximately 5.7 million shares. At December 31, 2002 and 2001, the fair value of these notes was \$110.9 million and \$80.0 million.

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

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### EGL, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

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

#### CREDIT AGREEMENTS

On January 5, 2001, the Company entered into an agreement (the Credit Facility) with various financial institutions, with Bank of America, N.A. (the Bank) serving as administrative agent, to replace its previous credit facility. The Credit Facility provided a \$150 million revolving line of credit and included a \$30 million sublimit for the issuance of letters of credit and a \$15 million sublimit for a swing line loan. The Credit Facility was scheduled to mature on January 5, 2004. The Company was subject to certain covenants under the terms of the Credit Facility. The Company was in violation of several of these covenants at various times during 2001. As a result, the Credit Facility was amended on June 28, 2001 and again on November 9, 2001. In connection with the November 9, 2001 amendment, the borrowing capacity of the Credit Facility was reduced and the Company wrote off approximately \$694,000 of deferred debt costs associated with the Credit Facility.

Effective December 20, 2001, the Company amended and restated the Credit Facility. The amended and restated credit facility (Restated Credit Facility), which was last amended effective as of October 14, 2002, is with a syndicate of three financial institutions, with the Bank as collateral and administrative agent for the lenders, and matures on December 20, 2004. The Restated Credit Facility provides a revolving line of credit of up to the lesser of:

- o \$75 million, which increases to \$100 million if an additional \$25 million of the revolving line of credit commitment is syndicated to other financial institutions, or



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- o an amount equal to:
  - o up to 85% of the net amount of the Company's billed and posted eligible accounts receivable and the billed and posted eligible accounts receivable of its wholly owned domestic subsidiaries and its operating subsidiary in Canada, subject to some exceptions and limitations, plus
  - o up to 85% of the net amount of the Company's billed and unposted eligible accounts receivable and billed and unposted eligible accounts receivable of its wholly owned domestic subsidiaries owing by account debtors located in the United States, subject to a maximum aggregate availability cap of \$10 million, plus
  - o up to 50% of the net amount of the Company's unbilled, fully earned and unposted eligible accounts receivable and unbilled, fully earned and unposted eligible accounts receivable of its wholly owned domestic subsidiaries owing by account debtors located in the United States, subject to a maximum aggregate availability cap of \$10 million, minus
  - o reserves from time to time established by the Bank in its reasonable credit judgment.

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

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

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

The Restated Credit Facility includes a \$50 million letter of credit subfacility. The Company had \$31.4 million and \$17.3 million in standby letters of credit outstanding as of December 31, 2002, and 2001, respectively, under

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this facility. The collateral value associated with the revolving line of credit at December 31, 2002 was \$180.7 million. No amounts were outstanding under the revolving line of credit as of December 31, 2002. Therefore, the Company had available, unused borrowing capacity of \$43.6 million and \$57.7 million as of December 31, 2002 and 2001, respectively.

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

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

A termination fee would be payable upon termination of the Restated Credit Facility during the first two years after the closing thereof, in the amount of 0.50% of the total revolving line commitment if the termination occurs on or before the first anniversary of the closing and 0.25% of the total revolving line commitment if the termination occurs after the first anniversary, but on or before the second anniversary of such closing (unless terminated in connection with a refinancing arranged or underwritten by the Bank or its affiliates).

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

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

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

OTHER BANK LINES OF CREDIT

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The Company maintained a \$10 million bank line of credit, in addition to the \$50 million sublimit under the Restated Credit Facility, to secure customs bonds and bank letters of credit to guarantee certain transportation expenses in foreign locations. At December 31, 2001, the Company was contingently liable for approximately \$6.7 million, under outstanding letters of credit and guarantees related to its \$10 million line of credit. At June 30, 2002, this bank line of credit expired. The Company did not renew this line of credit, and the Company's foreign operations replaced the previous outstanding letters of credit with other working capital lines of credit and other types of guarantees. Additionally, notes payable includes a mortgage for one of the Company's facilities in Chile.

### INTEREST RATE SWAP AGREEMENT

In April 2001, the Company entered into a three year interest rate swap agreement, which was designated as a cash flow hedge, to reduce its exposure to fluctuations in interest rates on \$70 million of its LIBOR-based revolving credit facility or any substitutive debt agreements the Company enters into. Accordingly, the change in the fair value of the swap agreement is recorded in other comprehensive income (loss).

In December 2001, the Company issued \$100 million of 5% convertible subordinated notes due December 15, 2006. The proceeds from these notes substantially retired the LIBOR based debt outstanding under the then-existing revolving credit agreement. The interest rate on the convertible notes is fixed; therefore, the variability of the future interest payments has been eliminated. The swap agreement no longer qualifies for cash flow hedge accounting and has been undesignated as of December 7, 2001. The net loss on the swap agreement included in other comprehensive income (loss) as of December 7, 2001, was \$2.0 million and is being amortized to interest expense over the remaining life of the swap agreement. Subsequent changes in the fair value of the swap agreement are recorded in interest expense. During 2002, the Company recorded \$2.2 million net interest expense, which includes \$220,000 relating to amortization of deferred loss and changes in the fair value of the swap agreement.

### NOTE 10 - GUARANTEES

At December 31, 2002, the Company had guaranteed 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 and include IATA (International Air Transport Association) guarantees together with customs bonds. The Company operates as a customs broker and prepares and files all formal documentation required for clearance through customs agencies, obtains customs bonds, in many cases facilitates the payment of import duties on behalf of the importer, arranges for payment of collect freight charges and assists the importer in obtaining the most advantageous commodity classifications and in qualifying for duty drawback refunds. The Company also arranges for surety bonds for importers as part of our customs brokerage activities.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

The Company secures guarantees primarily by three methods: a \$50 million letter of credit subfacility discussed in Note 9, surety bonds and security time deposits which are restricted as to withdrawal for a specified timeframe and are classified on the Company's balance sheet in restricted cash (see Note 1).

The total guarantees for IATA related guarantees and customs bonds as of December 31, 2002 were approximately \$46.1 million with \$16.6 million outstanding at December 31, 2002 to facilitate the movement and clearance of freight.

The Company guarantees other working capital credit lines and guarantees in the normal course of business. These lines of credit include but are not limited to guarantees associated with insurance requirements and certain taxing authorities. Generally, guarantees have a one-year term and are renewed annually. EGL, Inc. guarantees up to approximately \$30.0 million of such working capital lines of credit and surety bonds; however, as of December 31, 2002, the amount of the maximum potential payment is \$18.6 million. These guarantees are associated with outstanding liabilities which are reflected in the Company's consolidated financial statements.

Additionally, at December 31, 2002 the Company had guaranteed certain other financial liabilities related to unconsolidated affiliates and joint venture investments.

In connection with its equity investment in Miami Air, the Company caused a \$7 million standby letter of credit to be issued in favor of certain creditors for Miami Air to assist Miami Air in financing the conversion of its aircraft. Miami Air agreed to pay the Company an annual fee equal to 3.0% of the face amount of the letter of credit and to reimburse the Company for any payments made by the Company in respect of the letter of credit. As of December 31, 2002, Miami Air had no funded debt under the line of credit that is supported by the \$7 million standby letter of credit. Additionally, as of December 31, 2002, Miami Air had outstanding \$2.2 million in letters of credit and surety bonds that were supported by the standby letter of credit. Payment by the Company would be required upon default by Miami Air. The maximum potential amount of future payments which the Company could be required to make under this guarantee at December 31, 2002 is \$7.0 million. This letter of credit was reduced to \$3.0 million in January 2003.

The Company is a guarantor on a revolving line of credit with respect to another of the Company's unconsolidated affiliates. The outstanding balance owed by the unconsolidated affiliate was \$60,000 as of December 31, 2002 and the maximum exposure to the Company under this guarantee is \$300,000.

In connection with two of the Company's 51% owned subsidiaries, the Company has guaranteed 100% of the working capital line of credit and other various operational guarantees of each of these joint ventures. As of December 31, 2002, the maximum amount of these guarantees was \$3.0 million with \$2.7 million drawn against these obligations at December 31, 2002.

The Company is a guarantor for 40% of outstanding amounts on a \$5.0 million revolving line of credit for one of the Company's unconsolidated affiliates. The unconsolidated affiliate's outstanding balance was approximately \$1.9 million at December 31, 2002; therefore, the amount of the Company's guarantee was approximately \$752,000. The future maximum exposure to the Company under this guarantee is \$2.0 million.

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EGL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2002 AND 2001

NOTE 11 - INCOME TAXES

Sources of pretax income (loss) are summarized as follows for the years ended December 31:

|          | 2002        | 2001           | 2000        |
|----------|-------------|----------------|-------------|
|          | -----       | -----          | -----       |
|          |             | (in thousands) |             |
| Domestic | \$ (10,543) | \$ (90,125)    | \$ (20,804) |
| Foreign  | 25,659      | 24,114         | 33,245      |
|          | -----       | -----          | -----       |
| Total    | \$ 15,116   | \$ (66,011)    | \$ 12,441   |
|          | =====       | =====          | =====       |

Provision (benefit) for income taxes includes the following for the years ended December 31:

|  | 2002       | 2001           | 2000      |
|--|------------|----------------|-----------|
|  | -----      | -----          | -----     |
|  |            | (in thousands) |           |
| Current income tax expense (benefit):  |            |                |           |
| U.S. Federal                           | \$ (4,460) | \$ (18,592)    | \$ 10,612 |
| U.S. State                             | (532)      | (3,826)        | 1,488     |
| Foreign                                | 9,509      | 7,479          | 12,340    |
|  | -----      | -----          | -----     |
|  | 4,517      | (14,939)       | 24,440    |
| Deferred income tax expense (benefit): |            |                |           |
| U.S. Federal                           | 1,784      | (9,924)        | (9,689)   |
| U.S. State                             | 307        | (904)          | (1,284)   |
| Foreign                                | (713)      | (67)           | (304)     |
|  | -----      | -----          | -----     |
|  | 1,378      | (10,895)       | (11,277)  |
|  | -----      | -----          | -----     |
| Total provision (benefit)              | \$ 5,895   | \$ (25,834)    | \$ 13,163 |
|  | =====      | =====          | =====     |

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Taxes on income were different than the amount computed by applying the statutory income tax rate. Such differences are summarized as follows for the years ended December 31:

|  | 2002<br>-----     | 2001<br>-----<br>(in thousands) | 2000<br>-----      |
|--|-------------------|---------------------------------|--------------------|
| Tax computed at statutory rate                             | \$ 5,291          | \$ (23,104)                     | \$ 4,354           |
| Increases (decreases) resulting from:                      |                   |                                 |                    |
| Foreign taxes  | (184)             | 601                             | 275                |
| Nondeductible merger related costs                         | --                | --                              | 5,015              |
| Other nondeductible items                                  | 658               | 559                             | 1,481              |
| State taxes on income, net of<br>federal income tax effect | (146)             | (3,075)                         | 511                |
| Other  | 276               | (815)                           | 1,527              |
|  | -----             | -----                           | -----              |
| Total provision (benefit)                                  | \$ 5,895<br>===== | \$ (25,834)<br>=====            | \$ 13,163<br>===== |

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Significant components of the Company's net deferred tax assets are as follows at December 31:

|   | 2002<br>-----   |                      |            |
|---|-----------------|----------------------|------------|
|   | DEFERRED TAX    |                      |            |
|   | ASSETS<br>----- | LIABILITIES<br>----- | A<br>----- |
|   | (in thousands)  |                      |            |
| Undistributed earnings of foreign subsidiaries<br>and equity affiliates | \$ --           | \$ (12,564)          | \$         |

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|   |          |            |       |
|---|----------|------------|-------|
| Depreciation and amortization                             | --       | (9,614)    |       |
| Foreign tax credits                                       | 9,102    | --         |       |
| Federal alternative minimum tax credits                   | 322      | --         |       |
| State net operating losses                                | 5,327    | --         |       |
| Bad debts   | 3,094    | --         |       |
| Accrued liabilities                                       | 13,986   | --         |       |
| Other   | 1,879    | (3,697)    |       |
|   | -----    | -----      | ----- |
| Gross deferred tax assets (liabilities)                   | 33,710   | (25,875)   |       |
| Reclassification, principally netting by tax jurisdiction | (22,155) | 22,155     |       |
|   | -----    | -----      | ----- |
| Net total deferred tax assets (liabilities)               | 11,555   | (3,720)    |       |
| Net current deferred tax assets                           | 6,228    | --         |       |
|   | -----    | -----      | ----- |
| Net noncurrent deferred tax assets (liabilities)          | \$ 5,327 | \$ (3,720) | \$    |
|   | =====    | =====      | ===== |

Taxes on income include deferred income taxes on undistributed earnings (not considered permanently reinvested) of consolidated foreign subsidiaries, net of applicable foreign tax credits. The Company does not provide for United States income taxes on certain specific foreign subsidiaries' undistributed earnings intended to be permanently reinvested in foreign operations. At December 31, 2002, cumulative earnings of consolidated foreign subsidiaries designated as permanently reinvested were approximately \$21.5 million for which the related federal tax impact would approximate \$5.6 million.

The Company also has generated excess foreign tax credits of approximately \$9.1 million that expire in 2003, 2004, 2005 and 2006. There is no assurance the Company will generate sufficient taxable income in the appropriate jurisdictions to fully utilize such carry-forwards and credits.

As a result of stock option exercises for the years ended December 31, 2002, 2001 and 2000 of non-qualified stock options to purchase an aggregate of 72,000, 528,000 and 1.2 million shares of common stock, respectively, the Company is entitled to a federal income tax deduction of approximately \$539,000, \$7.8 million and \$17.0 million, respectively, with a related reduction in its tax obligations of approximately \$198,000, \$3.0 million and \$5.0 million, respectively. Accordingly, the Company recorded an increase to additional paid-in capital and a reduction in current taxes payable. Any exercises of non-qualified stock options in the future at exercise prices below the then fair market value of the common stock may also result in tax deductions equal to the difference between such amounts, although there can be no assurance as to whether or not such exercises will occur, the amount of any deductions or the Company's ability to fully utilize such tax deductions.

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DECEMBER 31, 2002 AND 2001

### NOTE 12 - STOCKHOLDERS' EQUITY

In August 2002, the Company's Board of Directors authorized the repurchase and retirement of up to \$15.0 million in value of its outstanding common stock. As of December 31, 2002, the Company had repurchased and retired 920,200 shares for a total of \$10.0 million under this authorization, which expired on December 8, 2002.

During the year ended December 31, 2000, the Board of Directors authorized a repurchase of up to 3.0 million shares under which the Company purchased 450,000 shares of common stock for \$10.5 million. The Company terminated this authorization on July 2, 2000. During 2002, 2001 and 2000, 89,000, 266,000 and 80,000 shares, respectively, were reissued to satisfy, or help offset increases in shares resulting from purchases under the Company's Employee Stock Purchase Plan (Note 13), payment of additional consideration for previous acquisitions (Note 3) and restricted stock awards. As of December 31, 2002 and 2001, 1.0 million and 1.1 million shares, respectively, were held in treasury. The Company accounts for treasury stock using the cost method.

In January 2000, the Company agreed to issue 45,000 shares of restricted common stock to an employee. The Company recorded these shares as unearned compensation of \$1.9 million at the date of the award based on the quoted fair market value of the shares at the time the award was granted. This amount is being amortized over the three-year vesting period of the award. As of December 31, 2002, all shares under this award were vested.

Prior to the merger, as discussed in Note 3, Circle historically paid cash dividends of \$0.27 per common share with cash dividends of \$0.135 per share declared on a semi-annual basis in June and December of each year. In June 2000, Circle declared an additional cash dividend of \$0.135 per share totaling \$2.4 million, which was paid in September 2000. Since the completion of the merger, the Company has not declared any additional dividends and is restricted from doing so under its credit agreement.

On May 23, 2001, the Company's Board of Directors declared a dividend of one right to purchase preferred stock (Right) for each outstanding share of the Company's common stock to shareholders of record at the close of business on June 4, 2001. Each right initially entitles the registered holder to purchase from the Company a fractional share consisting of one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value \$.001 per share, at a purchase price of \$120 per fractional share, subject to adjustment. The Rights generally will not become exercisable until ten days after a public announcement that a person or group has acquired 15% or more of the Company's common stock (thereby becoming an "Acquiring Person") or the commencement of a tender or exchange offer that would result in an Acquiring Person (the earlier of such dates being called the "Distribution Date"). James R. Crane, Chairman of the Board, President and Chief Executive Officer of EGL, will not become an Acquiring Person unless and until he and his affiliates become the beneficial owner of 49% or more of the Common Stock. Rights will be issued with all shares of the Company's common stock issued from the record date to the Distribution Date. Until the Distribution Date, the Rights will be evidenced by the certificates representing the Company's common stock and will be transferable only with our common stock. Generally, if any person or group becomes an Acquiring Person, each right, other than Rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter entitle its holder to purchase, at the Rights' then current exercise price, shares of the Company's common stock having a market value of two times the exercise price of the Right. If, after there is an Acquiring Person, and the Company or a majority



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of its assets is acquired in certain transactions, each Right not owned by an Acquiring Person will entitle its holder to purchase, at a discount, shares of common stock of the acquiring entity (or its parent) in the transaction. At any time until ten days after a public announcement that the rights have been triggered, the Company will generally

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### EGL, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND 2001

be entitled to redeem the Rights for \$.01 and to amend the rights in any manner other than to change the redemption price. Certain subsequent amendments are also permitted. The Rights expire on June 4, 2011.

#### NOTE 13 - EMPLOYEE BENEFIT AND STOCK OPTION PLANS

##### DEFINED CONTRIBUTION PLAN

The Company maintains the EGL, Inc. 401(k) Plan (the EGL 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 years ended December 31, 2002, 2001 and 2000 the Company recorded charges of \$1.0 million, \$1.0 million and \$4.0 million, respectively, related to discretionary contributions to this plan.

Prior to the Circle merger, as discussed in Note 3, Circle maintained the Circle International Group Savings Plan and Trust (the Circle Plan). Effective January 1, 2001, participants under the Circle Plan became eligible to participate in the EGL Plan.

##### DEFINED BENEFIT PLANS

Certain of our international subsidiaries sponsor defined benefit pension plans covering most 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. The Company's obligation related to these plans at December 31, 2002 and 2001 was approximately \$23.0 million and \$18.0 million, respectively. The yearly costs associated with these plans are approximately \$2.5 million to \$3.0 million each year.

##### STOCK PURCHASE PLANS

In 1999, the Company initiated an employee stock purchase plan in order to provide eligible employees of the Company and its participating

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subsidiaries, including subsidiaries based outside of the United States, with the opportunity to purchase the Company's common stock through payroll deductions. Employees may purchase common stock under this plan during a six-month offering period based on a formula provided in the plan document, which generally allows the Company's employees to purchase common stock at 85% of quoted fair market value. Under this plan, 550,000 shares are authorized for purchase. During 2002, 2001 and 2000, 50,000, 70,000 and 52,000 shares of common stock were purchased under this plan at an average price of \$12.09, \$17.65 and \$25.12 per share, respectively.

### STOCK OPTION PLANS

The Company has six option plans whereby certain officers, directors, and employees may be granted options, appreciation rights or awards related to the Company's common stock.

#### Circle Stock Option Plan

The 1982 Stock Option Plan, 1990 Stock Option Plan, 1994 Omnibus Equity Incentive Plan and the 1999 Stock Option Plan were plans created by Circle prior to the merger with EGL. Options

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outstanding pursuant to these plans are exercisable in shares of EGL common stock and were automatically accelerated upon consummation of the merger with EGL. No new options were granted under these plans.

#### EGL Plan

The Long-Term Incentive Plan permits the grant of stock options at an exercise price equal to the fair market value of the common stock on the date of grant. The plan is authorized for a maximum of 12.2 million shares. Options granted under the plan generally vest ratably over a five-year or seven-year period from date of grant (or 100% upon death). Vested options granted to date generally terminate seven years from date of grant.

Additional awards may be granted under the Long-Term Incentive Plan in the form of cash, stock, or stock appreciation rights. The stock appreciation right awards may consist of the right to receive payment in cash or common stock. Any such award may be subject to certain conditions, including continuous service with the Company or achievement of certain business objectives. There have been no awards issued of this kind under the Long-Term Incentive Plan.

#### EGL Director Plan

The Director Plan provides for automatic stock option grants to non-employee directors at the time they join the Board and annually thereafter. These grants vest within one year from the date of grant and terminate ten years

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from date of grant. The plan was authorized for a maximum of 300,000 shares.

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Transaction Summary

A summary of stock option transactions for each of the three years ended December 31, 2002 is as follows (in thousands, except option price):

|                                  | OPTIONS | WEIGHTED-AVERAGE<br>OPTION PRICE |
|----------------------------------|---------|----------------------------------|
|                                  | -----   | -----                            |
| Outstanding at January 1, 2000   | 6,099   | \$ 17.77                         |
| Granted                          | 1,975   | 24.75                            |
| Exercised                        | (1,162) | 16.57                            |
| Cancelled                        | (875)   | 21.59                            |
|                                  | -----   |                                  |
| Outstanding at December 31, 2000 | 6,037   | 20.45                            |
| Granted                          | 839     | 9.23                             |
| Exercised                        | (528)   | 6.55                             |
| Cancelled                        | (487)   | 23.09                            |
|                                  | -----   |                                  |
| Outstanding at December 31, 2001 | 5,861   | 20.05                            |
| Granted                          | 539     | 11.80                            |
| Exercised                        | (72)    | 6.81                             |
| Cancelled                        | (627)   | 21.70                            |
|                                  | -----   |                                  |
| Outstanding at December 31, 2002 | 5,701   | 19.34                            |
|                                  | =====   |                                  |

Options vested at December 31, 2002, 2001 and 2000 totaled 3.5 million shares, 2.8 million shares and 2.5 million shares, respectively.

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The following table summarizes information about stock options outstanding at December 31, 2002 (in thousands, except option price and average remaining life):

| RANGE OF EXERCISE PRICES | OUTSTANDING |                                 |                        | EXERCISABLE |                        |
|--------------------------|-------------|---------------------------------|------------------------|-------------|------------------------|
|                          | NUMBER      | AVERAGE REMAINING LIFE IN YEARS | WEIGHTED AVERAGE PRICE | NUMBER      | WEIGHTED AVERAGE PRICE |
| \$8.09 - \$15.00         | 1,389       | 5.33                            | \$ 10.20               | 351         | \$ 10.20               |
| \$15.08 - \$19.42        | 2,029       | 3.19                            | 18.75                  | 1,709       | 18.75                  |
| \$19.83 - \$25.06        | 1,702       | 4.71                            | 24.08                  | 987         | 23.85                  |
| \$25.13 - \$33.81        | 581         | 3.85                            | 29.29                  | 414         | 28.50                  |
|                          | -----       | -----                           | -----                  | -----       | -----                  |
| \$8.09 - \$33.81         | 5,701       | 3.85                            | \$ 19.34               | 3,461       | \$ 20.00               |
|                          | =====       | =====                           | =====                  | =====       | =====                  |

As discussed in Note 1, the Company applies the intrinsic value method to account for its stock option plans. No compensation cost has been recognized for these plans. The weighted-average fair values of options granted during 2002, 2001 and 2000 were \$5.97, \$5.85 and \$13.26, respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes model with the following weighted average assumptions used for grants:

|                                 | YEAR ENDED DECEMBER 31, |        |        |
|---------------------------------|-------------------------|--------|--------|
|                                 | 2002                    | 2001   | 2000   |
| Expected volatility             | 51.09%                  | 59.00% | 55.00% |
| Risk-free interest rate         | 3.70%                   | 4.40%  | 6.08%  |
| Dividend yield                  | 0.00%                   | 0.00%  | 0.19%  |
| Expected life of option (years) | 4.56                    | 4.85   | 4.80   |

NOTE 14 - JET FUEL SWAP AGREEMENT

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In conjunction with its aircraft charter agreements, the Company is obligated to pay current market prices for jet fuel. During November 2002, the Company entered into a jet fuel swap agreement. The purpose of this agreement is to hedge the Company's exposure to volatility in market prices for jet fuel. The swap agreement has a term of one year and expires in December 2003. On a monthly basis, the Company pays a fixed rate of approximately \$0.68 per gallon for 400,000 gallons of jet fuel and receives a payment equal to the monthly average commodity price for the same amount of jet fuel. The fair market value of this swap agreement at December 31, 2002 was approximately \$421,000.

The Company has designated this swap as a cash flow hedge under the provisions SFAS 133, "Accounting for Derivative Instruments and Hedging Activities (SFAS 133)." The Company has complied with the provisions of SFAS 133 regarding timely documentation of the hedge and preparation of the necessary effectiveness test. The Company expects that this hedge will be highly effective in offsetting its exposure to future changes in market prices of jet fuel. Under SFAS 133, the Company has

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reflected the fair market value of this swap agreement on its balance sheet at the inception of the hedge and on a quarterly basis will adjust the value of the swap to fair market value and perform additional prospective and retroactive effectiveness tests.

NOTE 15 - NONOPERATING INCOME (EXPENSE), NET

Nonoperating income (expense), net, consists of the following for the years ended December 31:

|   | 2002        | 2001           | 2000  |
|---|-------------|----------------|-------|
|   | -----       | -----          | ----- |
|   |             | (in thousands) |       |
| Interest income                                   | \$ 2,130    | \$ 2,651       | \$    |
| Interest expense                                  | (9,207)     | (10,543)       | (     |
| Income (loss) from unconsolidated affiliates, net | (7,467)     | (3,145)        |       |
| Rental income                                     | 63          | 492            |       |
| Gains (losses) on sales of securities             | (54)        | 2,303          |       |
| Minority interests                                | (1,006)     | (1,161)        | (     |
| Foreign exchange gains (losses), net              | 366         | 55             |       |
| Other   | 619         | 906            |       |
|   | -----       | -----          | ----- |
| Total   | \$ (14,556) | \$ (8,442)     | \$    |
|   | =====       | =====          | ===== |

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The Company held in a trust, equity securities of Equant N.V., an international data network service provider. These shares became marketable in the second quarter of 2001 and a gain of \$2.3 million was recognized. The shares were then exchanged for payment of a portion of the Company's liability with its international data network service provider.

### NOTE 16 - 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, resulting from (i) engaging in unlawful discriminatory hiring, recruiting and promotion practices and maintaining a hostile work environment, based on one or more of race, national origin, age and gender, (ii) failures to investigate, (iii) failures to maintain proper records and (iv) failures to file accurate reports. The Commissioner's Charge states that the persons aggrieved include all Blacks, Hispanics, Asians and females who are, have been or might be affected by the alleged unlawful practices.

On May 12, 2000, four individuals filed suit against EGL alleging gender, race and national origin discrimination, as well as sexual harassment. This lawsuit was filed in the United States District Court for the Eastern District of Pennsylvania in Philadelphia, Pennsylvania. The EEOC was not initially a party to the Philadelphia litigation. In July 2000, four additional individual plaintiffs were allowed to join the Philadelphia litigation. The Company filed an Answer in the Philadelphia case and extensive discovery was conducted. The individual plaintiffs sought to certify a class of approximately 1,000 current and former EGL employees and applicants. The plaintiffs' initial motion for class certification was denied in November 2000.

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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 EGL's motion that the case be transferred to the United States District Court for the Southern District of Texas -- Houston Division where EGL had previously initiated litigation against the EEOC due to what EGL believes to have been inappropriate practices by the EEOC in the issuance of the Commissioner's Charge and in the subsequent investigation. Subsequent to the settlement of the EEOC action described below, the claims of one of the eight named plaintiffs were ordered to binding arbitration at EGL's request. The Company recognized a charge of \$7.5 million in the fourth quarter of 2000 for its estimated cost of defending and settling the asserted claims.

On October 2, 2001, the EEOC and EGL announced the filing of a Consent

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Decree settlement. This settlement resolves all claims of discrimination and/or harassment raised by the EEOC's Commissioner's Charge mentioned above. Under the Consent Decree, EGL has agreed to pay \$8.5 million into a fund (the Class Fund) that will compensate individuals who claim to have experienced discrimination. The settlement covers (1) claims by applicants arising between December 1, 1995 and December 31, 2000; (2) disparate pay claims arising between January 1, 1995 and April 30, 2000; (3) promotion claims arising between December 1, 1995 and December 31, 1998; and (4) all other adverse treatment claims arising between December 31, 1995 and December 31, 2000. In addition, EGL agreed to contribute \$500,000 to establish a Leadership Development Program (the Leadership Development Fund). This Program will provide training and educational opportunities for women and minorities already employed at EGL and will also establish scholarships and work study opportunities at educational institutions. In entering the Consent Decree, EGL has not made any admission of liability or wrongdoing. The Consent Decree was approved by the District Court in Houston on October 1, 2001. The Consent Decree became effective on October 3, 2002 following the dismissal of all appeals related to the Decree. During the quarter ended September 30, 2001, the Company accrued \$10.1 million related to the settlement, which includes the \$8.5 million payment into the fund and \$500,000 into the leadership development program described above, administrative costs, legal fees and other costs associated with the EEOC litigation and settlement.

The Consent Decree settlement provides that the Company establish and maintain segregated accounts for the Class Fund and Leadership Development Fund. The Company is required to make an initial deposit of \$2.5 million to the Class Fund within 30 days after the Consent Decree has been approved and fund the remaining \$6.0 million of the Class Fund in equal installments of \$2.0 million each on or before the fifth day of the first month of the calendar quarter (January 5th, April 5th and October 5th) which will occur immediately after the effective date of the Consent Decree. The Leadership Development Fund will be funded fully at the time of the first quarterly payment as discussed above. As of December 31, 2002, the Company had funded \$2.5 million into the Class Fund and \$500,000 into the Leadership Development Fund. This amount is included as restricted cash in the accompanying consolidated balance sheet. Total related accrued liabilities included in the accompanying consolidated balance sheet at December 31, 2002 and 2001 were \$13.0 million and \$14.3 million, respectively.

Of the eight named Plaintiffs, one has accepted a settlement of her claims against the Company. The remaining individuals who were named Plaintiffs in the underlying action have submitted claims to be considered for settlement compensation under the Consent Decree. The claims administration process is currently underway; however, it could be several months before it is completed and Claimants are notified of whether they qualify for settlement compensation and, if so, the amount for which they qualify. Once Claimants are notified of their eligibility status by the Claims Administrator, they have an option to reject the settlement compensation and pursue litigation on their own behalf and without the aid of the EEOC. To the extent any of the individual plaintiffs or any other persons who might otherwise be covered by the settlement opt out of the settlement, the Company intends to continue to vigorously defend

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itself against their allegations. The Company currently expects to prevail in its defense of any remaining individual claims. There can be no assurance as to what amount of time it will take to resolve the other lawsuits and related

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issues or the degree of any adverse effect 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.

### NOTE 17 - COMMITMENTS AND CONTINGENCIES

#### LEASES

The Company has a number of operating lease agreements, principally for freight operation facilities and office space. These leases are non-cancelable and expire on various dates through 2025. The following is a summary of future minimum payment obligations under non-cancelable leases with remaining lease terms in excess of one year as of December 31, 2002 (in thousands):

|   | CAPITAL<br>LEASES<br>----- | OPERATING<br>LEASES<br>----- |
|---|----------------------------|------------------------------|
| 2003 .....  | \$ 97                      | \$ 68,862                    |
| 2004 .....  | 102                        | 68,943                       |
| 2005 .....  | 113                        | 61,033                       |
| 2006 .....  | --                         | 51,484                       |
| 2007 and thereafter .....                         | --                         | 338,386                      |
|   | -----                      | -----                        |
| Total future minimum lease payments .....         | 312                        | \$ 588,708                   |
|   |                            | =====                        |
| Less - amounts representing interest .....        | (60)                       |                              |
|   | -----                      |                              |
| Present value of net minimum lease payments ..... | 252                        |                              |
| Less - current obligations .....                  | (87)                       |                              |
|   | -----                      |                              |
| Noncurrent obligations .....                      | \$ 163                     |                              |
|   | =====                      |                              |

Included in the above summary of minimum future lease payment obligations are leases on freight operations facilities and office space. The obligations related to approximately 80 of these facilities has been accrued in the Company's merger restructuring and integration reserve as of December 31, 2002 and 2001. As of December 31, 2002, 26 of these leases with an aggregate remaining lease liability of \$29.6 million have been subleased to third parties with aggregate future sublease payments due to the Company under these agreements of \$18.1 million.

Rent expense under non-cancelable operating leases was \$68.2 million, \$63.4 million and \$40.6 million for the years ended December 31, 2002, 2001 and 2000, respectively, which is net of sublease income of \$3.8 million, \$1.2 million and \$700,000, respectively.

#### AGREEMENTS WITH CHARTER AIRLINES

The Company leases cargo aircraft for utilization in its domestic and international heavy-cargo, overnight air network based on actual utilization with no monthly minimum usage. These agreements are cancelable with a 30-day notice;



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therefore, as of December 31, 2002, the Company was not obligated under any long-term lease agreements. Total lease expense for these aircraft recognized by the Company in its statement of operations for 2002 and 2001 approximated \$12.8 million and \$58.7 million, respectively.

### LITIGATION

In addition to the EEOC matter (Note 16), 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 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, results of operations or cash flows.

### NOTE 18 - OFF BALANCE SHEET FINANCING

#### SYNTHETIC LEASE AGREEMENTS

Entering 2002, EGL was the lessee in two synthetic lease agreements with special purpose entities. Both of these lease agreements were terminated during 2002 as a result of the expiration of the original lease terms as further discussed below.

In November 2002, the Company's \$20 million master operating synthetic lease agreement expired. This lease facility financed the acquisition, construction and development of five terminal and warehouse facilities throughout the United States. Upon termination of this agreement, the Company purchased the five properties leased under this agreement for \$14.1 million which was the amount of the outstanding lease balance at the time of termination. Three of these terminal facilities were then sold and leased back from an unrelated party in the fourth quarter of 2002 as discussed below. A sale-leaseback transaction for a fourth terminal facility is expected to be completed in the first half of 2003 and its cost basis is included in assets held for sale on the consolidated balance sheet as of December 31, 2002. The remaining terminal facility, with a book value of approximately \$3.4 million, was retained by the Company and is leased to an unrelated party under a lease to purchase agreement that requires the lessor to purchase the property by October 2005.

In December 2002, the Company was required to pay the lease balance and related interest of \$15.5 million under a second synthetic lease agreement entered into during 1998 by Circle. This lease facility financed the acquisition, construction and development of a terminal facility located in New York, New York. The land leased under this agreement was accounted for as a synthetic operating lease and the building and improvements were accounted for as a capital lease. As of December 31, 2002, the carrying value of the land and property is included in property and equipment on the consolidated balance sheet and the building is being depreciated over its useful life.

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As a result of the above two lease expirations, the Company is no longer a party to any lease agreements with special purpose entities as of December 31, 2002.

### SALE - LEASEBACK AGREEMENTS

In the fourth quarter of 2002, the Company completed transactions to sell three of its terminal and warehouse facilities located in Grapevine, Texas, Austin, Texas and South Bend, Indiana to an unrelated party for \$14.1 million, net of related closing costs. One of the Company's subsidiaries then leased these

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properties for a term of 11 years, with options to extend the initial term for up to 20 years. Under the terms of the lease agreements, the monthly lease payments average approximately \$141,000 in total for these facilities. These facilities were constructed under our master operating synthetic lease agreement, which became due in November 2002. The sale-leaseback transactions were completed in conjunction with paying the master operating synthetic lease balance for two of the facilities. The third facility was completed in December 2002. The lease payment for these facilities and related closing costs was \$10.5 million resulting in a gain of \$3.6 million on the sale of the properties. The gain was deferred and is being recognized over the term of the lease agreements.

In December 2002, EGL entered into agreements to sell land in Miami, Florida and Toronto, Canada to developers who will build-to-suit terminal warehouse facilities and lease them back to the Company upon completion of the facilities. The purchase price of the Miami land was \$9.8 million, which equaled its carrying value. The Miami land was originally purchased by the Company from James R. Crane, President and Chief Executive Officer of EGL (see Note 19). The purchase price of the Toronto land was \$4.8 million and the carrying value was \$4.4 million resulting in a gain of \$358,000, which has been deferred as of December 31, 2002 and will be recognized over the term of the lease agreement. In the third quarter of 2002, the Company recorded an impairment charge of \$500,000 related to a management decision not to use certain architectural design plans for the proposed Toronto building. The Miami facility is estimated to be complete in November 2003. The terms of the Miami lease agreement include average monthly lease payments of \$196,000 for 125 months with options to extend the initial term for up to an additional 120 months commencing with the month of completion. The Toronto facility is estimated to be complete in December 2003. The terms of the Toronto lease agreement include average monthly lease payments of approximately \$110,000 for 185 months with options to extend the initial term for up to an additional 120 months commencing with the month of completion.

On March 31, 2002, the Company entered into a transaction whereby the Company sold its San Antonio, Texas property with a net book value of \$2.5 million to an unrelated party for \$2.5 million, net of closing costs. One of the Company's subsidiaries subsequently leased the property for a term of 10 years, with options to extend the initial term for up to 23 years. Under the terms of the lease agreement, the quarterly lease payment is approximately \$85,000, which amount is subject to escalation after the first year based on increases in the Consumer Price Index. A loss of \$42,000 on the sale of this property was recognized in the first quarter of 2002.

On December 31, 2001, the Company terminated an operating lease

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agreement relating to its corporate headquarters facility in Houston, Texas and purchased the property covered by this agreement for \$8.1 million. In connection with the termination of the lease agreement and the purchase of the property, the Company entered into a transaction whereby it sold this property and certain other properties in Houston and Denver owned by the Company with a net book value of \$17.2 million to an unrelated party for \$18.6 million, net of closing costs of \$771,000. Mr. Crane also conveyed his ownership in a building adjacent to the Houston facility directly to the buyer and received \$5.8 million in proceeds. Mr. Crane's investment in the building was approximately \$5.8 million. One of the Company's subsidiaries then leased these properties for a term of 16 years, with options to extend the initial term for up to 15 years. Under the terms of the new lease agreement, the quarterly lease payment is approximately \$865,000, which amount is subject to escalation after the first two years based on increases in the Consumer Price Index. A gain of \$641,000 on the sale of the properties was deferred and is being recognized over the term of the lease agreement.

The future lease payments for each of these transactions are included in the table of future minimum lease payments in Note 17.

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#### NOTE 19 - RELATED PARTY TRANSACTIONS

##### INVESTMENT IN MIAMI AIR INTERNATIONAL, INC.

In connection with the Miami Air investment (see Note 8), Miami Air and the Company entered into an aircraft charter agreement whereby Miami Air agreed to convert certain of its passenger aircraft to cargo aircraft and to provide aircraft charter services to the Company for a three-year term. There were previously four aircraft subject to the aircraft charter agreement. During 2002, 2001 and 2000, the Company paid Miami Air approximately \$6.1 million, \$11.8 million and \$1.4 million, respectively, under the aircraft charter agreement for use of 727 cargo airplanes under an aircraft, crew, maintenance and insurance, or ACMI arrangement. The payments were based on market rates in effect at the time the lease was entered into. In late February 2002, EGL and Miami Air mutually agreed to ground one of these aircraft because of the need for maintenance on that plane. In May 2002, the Company and Miami Air mutually agreed to cancel the aircraft charter agreement for the three planes and paid \$450,000 for services rendered in May 2002 and aircraft repositioning costs. There were no unpaid balances to Miami Air at December 31, 2002.

Miami Air, each of the private investors and the continuing Miami Air stockholders also entered into a stockholders agreement under which Mr. Crane and Frank J. Hevrdejs (a director of the Company) are obligated to purchase up to approximately \$1.7 million and \$500,000, respectively, worth of Miami Air's Series A preferred stock upon demand by the board of directors of Miami Air. The Company and Mr. Crane both have the right to appoint one member of Miami Air's board of directors. Additionally, the other private investors in the stock purchase transaction, including Mr. Hevrdejs, collectively have the right to appoint one member of Miami Air's board of directors. As of December 31, 2002, directors appointed to Miami Air's board include a designee of Mr. Crane, Mr. Elijio Serrano, the Company's Chief Financial Officer, and three others. The Series A preferred stock was issued in December 2002, when all investors except

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one were called upon by the Board of Directors of Miami Air to purchase their preferred shares. The Series A preferred stock (1) is not convertible, (2) has a 15.0% annual dividend rate and (3) is subject to mandatory redemption in July 2006 or upon the prior occurrence of specified events. The original charter transactions between Miami Air and the Company were negotiated with Miami Air's management at arms length at the time of the Company's original investment in Miami Air. Miami Air's pre-transaction Chief Executive Officer has remained in that position and as a director following the transaction and together with other original Miami Air investors, remained as substantial shareholders of Miami Air. Other private investors in Miami Air have participated with the Company's directors in other business transactions unrelated to Miami Air.

The Company caused a \$7 million standby letter of credit to be issued in favor of certain creditors for Miami Air to assist Miami Air in financing the conversion of its aircraft. This letter of credit was reduced to \$3.0 million in January 2003 (see Note 10).

### MIAMI LAND PURCHASE

Currently, the Company's operations in Miami, Florida are located in three different facilities. In order to increase operational efficiencies, the Company acquired land to be used as the site for a new facility to consolidate its Miami operations. The land was acquired on August 30, 2002 from a related party entity controlled by James R. Crane for \$9.8 million in cash, including the Company's acquisition costs of \$131,000. This parcel of land had been previously identified by EGL as the most advantageous property on which to consolidate its Miami operations. EGL entered into negotiations on the land and reached agreement with the seller on terms. However, given the downturn in the economy and the Company's weakening financial condition at that point in time, EGL elected to delay purchasing this

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property until its financial condition improved. On July 10, 2001, Mr. Crane purchased the land in anticipation of reselling the land to EGL. The purchase price represented the lower of current market value, based on an independent appraisal, or Mr. Crane's purchase price plus carrying costs for the land. The Company's Audit Committee, consisting of five independent directors, engaged in an analysis and discussion regarding whether it was in the best interest of the Company to enter into a purchase agreement to purchase this particular tract of land from Mr. Crane. The Audit Committee analysis included, but was not limited to, obtaining an independent appraisal of the land, reviewing a comparative properties analysis performed by an outside independent real estate company and performing a cost benefit analysis for several different alternatives. Based upon the data obtained from the analysis, the Audit Committee determined the best alternative for the Company, in its opinion, was for the Company to purchase the property from Mr. Crane. The Audit Committee then made a recommendation to the Company's Board of Directors, which includes six independent directors, to purchase this land at Mr. Crane's purchase price plus carrying costs, which was lower than the current market value. In August 2002, the purchase was approved unanimously by the Company's Board of Directors, with Mr. Crane abstaining from the vote.

SOURCE ONE SPARES

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In May 1999, the Company began subleasing a portion of its warehouse space in Houston, Texas and London, England to a customer pursuant to a five-year sublease which terminated in 2002. The customer is partially owned by Mr. Crane. Rental income was approximately \$30,000, \$105,000 and \$685,000 for the years ended December 31, 2002, 2001 and 2000, respectively. In addition, the Company billed this customer approximately \$133,000, \$511,000 and \$515,000 for freight forwarding services during the years ended December 31, 2002, 2001 and 2000, respectively.

### AIRCRAFT USAGE PAYMENTS

In conjunction with its business activities, the Company periodically utilizes aircraft owned by entities that are controlled by Mr. Crane. Prior to November 1, 2000, the Company was charged for its actual usage on an hourly basis. Total amounts paid by the Company under this arrangement for the ten-month period ended October 31, 2000 was approximately \$1.4 million. On October 30, 2000, the Company's Board of Directors approved a change in this arrangement whereby the Company would reimburse Mr. Crane for the \$112,000 monthly lease obligation on this aircraft and the Company would bill Mr. Crane for any use of this aircraft unrelated to the Company's business on an hourly basis. During the period from November 1, 2000 to December 31, 2000, the Company reimbursed Mr. Crane for \$224,000 in monthly lease payments on the aircraft and billed Mr. Crane \$53,000 for his use of the aircraft that was unrelated to the Company's operations. During the period January 1, 2001 through July 31, 2001, the Company reimbursed Mr. Crane \$800,000 in lease payments and related costs on the aircraft. In August 2001, Mr. Crane and the Company revised their agreement whereby the Company is now charged for actual usage of the aircraft on an hourly basis and is billed on a periodic basis. During the period August 1, 2001 through December 31, 2001, the Company reimbursed Mr. Crane approximately \$49,000 for hourly usage of the aircraft. During the year ended December 31, 2002, the Company reimbursed Mr. Crane \$1.2 million for actual hourly usage of the aircraft.

### HOUSTON PROPERTY

In connection with a sale-leaseback agreement entered into by the Company, Mr. Crane conveyed his ownership in a building adjacent to the Houston facility directly to an unrelated buyer. The Company then leased the property directly from the buyer. See Note 18 for further discussion.

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

### EGL SUBSIDIARIES IN SPAIN AND PORTUGAL

In April 1999, Circle sold a 49% interest in its two previously wholly-owned subsidiaries in Spain and Portugal for \$1.3 million to Peter Gibert. Mr. Gibert currently serves as the managing director of both subsidiaries and was one of EGL's directors in 2000 and 2001 and resigned from the Board of Directors in May 2002. The purchase price was paid one-third at closing, with the balance due in equal installments in October 2000 and April 2002 and interest accruing on the unpaid balance at 6%. Under the terms of the sale agreement, Mr. Gibert has the option to require the Company to purchase this interest at the fair value of these entities at the time the option is exercised and the Company has the option to repurchase these interests after December 31, 2005. The Company has deferred the recognition of the gain of this

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transaction of \$866,000 and has recorded this amount in minority interest.

### CONSULTING AGREEMENT

In connection with Mr. Gibert stepping down as Chief Executive Officer of Circle and relocating to Spain in 1999, Mr. Gibert entered into a consulting agreement with Circle pursuant to which he agreed to provide sales, marketing, strategic planning, acquisition, training and other assistance as reasonably requested wherever Circle has operations, other than in the United States, Spain and Portugal. The consulting agreement provided for annual compensation in the first year of \$375,000 and annual compensation in the second and third years of \$275,000 per year. The consulting agreement, which has a three-year term that commenced January 1, 1999, also prohibits Mr. Gibert, directly or indirectly, from competing against Circle during the term of the consulting agreement, plus six months thereafter.

Upon returning to Circle as Interim Chief Executive Officer in May 2000, Mr. Gibert agreed to suspend the term of the consulting agreement until he was no longer an employee of Circle, which occurred in November 2000 as a result of the Company's merger with Circle. The original term of the consulting agreement has been extended for a period equal to the period during which the consulting agreement was suspended. This arrangement was extended until May 31, 2004 in June 2001.

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

### NOTE 20 - 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, income from operations and identifiable assets associated with each of these geographical divisions when evaluating effectiveness of geographic management.

|                               | NORTH<br>AMERICA | SOUTH<br>AMERICA | EUROPE &<br>MIDDLE<br>EAST | ASIA &<br>SOUTH<br>PACIFIC |
|-------------------------------|------------------|------------------|----------------------------|----------------------------|
|                               | -----            | -----            | -----                      | -----                      |
|                               | (in thousands)   |                  |                            |                            |
| YEAR ENDED DECEMBER 31, 2002: |                  |                  |                            |                            |
| Total revenues                | \$ 1,053,918     | \$ 69,437        | \$ 357,883                 | \$ 438,755                 |
| Transfers between divisions   | (15,658)         | (5,157)          | (13,920)                   | (15,925)                   |
|                               | -----            | -----            | -----                      | -----                      |
| Revenues from customers       | \$ 1,038,260     | \$ 64,280        | \$ 343,963                 | \$ 422,830                 |
|                               | -----            | -----            | -----                      | -----                      |
| Net revenues                  | \$ 446,917       | \$ 14,499        | \$ 123,229                 | \$ 87,487                  |
|                               | -----            | -----            | -----                      | -----                      |
| Income (loss) from operations | \$ 7,490         | \$ (39)          | \$ 2,932                   | \$ 19,289                  |
|                               | -----            | -----            | -----                      | -----                      |
| Identifiable assets           | \$ 538,013       | \$ 18,024        | \$ 154,426                 | \$ 139,844                 |
|                               | -----            | -----            | -----                      | -----                      |

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YEAR ENDED DECEMBER 31, 2001:

|                               |              |            |            |            |
|-------------------------------|--------------|------------|------------|------------|
| Total revenues                | \$ 1,113,430 | \$ 64,050  | \$ 335,892 | \$ 398,316 |
| Transfers between divisions   | (16,679)     | (5,533)    | (15,731)   | (12,996)   |
| Revenues from customers       | \$ 1,096,751 | \$ 58,517  | \$ 320,161 | \$ 385,320 |
| Net revenues                  | \$ 431,414   | \$ 13,392  | \$ 113,669 | \$ 85,708  |
| Income (loss) from operations | \$ (86,306)  | \$ (1,038) | \$ 9,948   | \$ 19,827  |
| Identifiable assets           | \$ 522,970   | \$ 19,149  | \$ 152,285 | \$ 118,067 |

YEAR ENDED DECEMBER 31, 2000:

|                               |              |            |            |            |
|-------------------------------|--------------|------------|------------|------------|
| Total revenues                | \$ 1,281,875 | \$ 55,816  | \$ 308,573 | \$ 469,672 |
| Transfers between divisions   | (9,241)      | (4,481)    | (10,290)   | (12,061)   |
| Revenues from customers       | \$ 1,272,634 | \$ 51,335  | \$ 298,283 | \$ 457,611 |
| Net revenues                  | \$ 518,638   | \$ 15,561  | \$ 99,676  | \$ 85,637  |
| Income (loss) from operations | \$ (14,966)  | \$ (5,553) | \$ 13,401  | \$ 17,010  |
| Identifiable assets           | \$ 530,678   | \$ 41,000  | \$ 173,294 | \$ 159,253 |

Revenues from transfers between divisions represents approximate amounts that would be charged if the services were provided by an unaffiliated company. Total divisional revenues are reconciled with total consolidated revenues by eliminating inter-divisional revenues.

The Company is domiciled in the U.S. and had revenues from external customers in the U.S. of \$947 million in 2002, \$1,007 million in 2001 and \$1,145 million in 2000. The U.S. had long lived assets of \$160 million, \$162 million and \$123 million at the end of 2002, 2001 and 2000, respectively.

The Company charges its subsidiaries and affiliates for management and overhead services rendered in the United States on a cost recovery basis.

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EGL, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2002 AND 2001

The following tables show revenues and net revenues attributable to the Company's principle services during the years ended December 31:

|                |       |       |
|----------------|-------|-------|
| 2002           | 2001  | 2000  |
| -----          | ----- | ----- |
| (in thousands) |       |       |

Revenues:

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|                             |             |             |             |
|-----------------------------|-------------|-------------|-------------|
| Air freight forwarding      | \$1,283,025 | \$1,307,101 | \$1,511,740 |
| Ocean freight forwarding    | 216,298     | 194,642     | 202,956     |
| Customs brokerage and other | 370,010     | 359,006     | 365,167     |
|                             | -----       | -----       | -----       |
| Total                       | \$1,869,333 | \$1,860,749 | \$2,079,863 |
|                             | =====       | =====       | =====       |
| Net revenues:               |             |             |             |
| Air freight forwarding      | \$ 405,404  | \$ 386,171  | \$ 473,397  |
| Ocean freight forwarding    | 57,831      | 58,514      | 53,462      |
| Customs brokerage and other | 208,897     | 199,498     | 192,653     |
|                             | -----       | -----       | -----       |
| Total                       | \$ 672,132  | \$ 644,183  | \$ 719,512  |
|                             | =====       | =====       | =====       |

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

NOTE 21 - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

|  | QUARTER ENDED                    |                  |                       |
|--|----------------------------------|------------------|-----------------------|
|  | MARCH 31,<br>2002                | JUNE 30,<br>2002 | SEPTEMBER 30,<br>2002 |
|  | -----                            | -----            | -----                 |
|  | (in thousands, except per share) |                  |                       |
| Revenues (3)   | \$ 417,109                       | \$ 454,919       | \$ 469,425            |
| Net revenues   | 154,120                          | 163,155          | 171,320               |
| Operating income (loss)  | 1,460                            | 4,801            | 11,757                |
| Income (loss) before provision (benefit)<br>for income taxes   | (6,770)                          | 1,537            | 9,422                 |
| Income (loss) before cumulative effect<br>of change in accounting for negative<br>goodwill                     | (4,130)                          | 938              | 5,747                 |
| Cumulative effect of change in<br>accounting for negative goodwill   | 213                              | --               | --                    |
| Net income (loss)  | (3,917)                          | 938              | 5,747                 |
| Basic earnings (loss) per share before<br>cumulative effect of change in<br>accounting for negative goodwill   | (0.09)                           | 0.02             | 0.12                  |
| Cumulative effect of change in<br>accounting for negative goodwill   | 0.01                             | --               | --                    |
| Basic earnings (loss) per share  | (0.08)                           | 0.02             | 0.12                  |
| Diluted earnings (loss) per share<br>before cumulative effect of change in<br>accounting for negative goodwill | (0.09)                           | 0.02             | 0.12                  |
| Cumulative effect of change in<br>accounting for negative goodwill   | 0.01                             | --               | --                    |
| Diluted earnings (loss) per share  | (0.08)                           | 0.02             | 0.12                  |



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|  | QUARTER ENDED                    |                  |                       |
|--|----------------------------------|------------------|-----------------------|
|  | MARCH 31,<br>2001                | JUNE 30,<br>2001 | SEPTEMBER 30,<br>2001 |
|  | (in thousands, except per share) |                  |                       |
| Revenues (3)   | \$ 470,743                       | \$ 455,341       | \$ 461,213            |
| Net revenues   | 159,190                          | 146,032          | 171,444               |
| Operating income (loss)                                      | (14,309)                         | (35,778)         | (10,958) (2)          |
| Income (loss) before provision (benefit)<br>for income taxes | (15,270)                         | (37,373)         | (14,020)              |
| Net income (loss)  | (9,051)                          | (23,172)         | (8,775)               |
| Basic earnings (loss) per share                              | (0.19)                           | (0.49)           | (0.18)                |
| Diluted earnings (loss) per share                            | (0.19)                           | (0.49)           | (0.18)                |

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

- (1) Includes grant proceeds of \$8.9 million received from the United States Department of Transportation under the Air Transportation Safety and System Stabilization Act and a \$5.5 million charge to merger related restructuring and integration costs. See Notes 2 and 4.
- (2) Includes a pretax charge of \$10.1 million related to the Company's settlement of its EEOC dispute and \$6.3 million related to integration costs associated with the Circle merger and revisions of its restructuring activities. See Notes 4 and 16.
- (3) In the fourth quarter of 2002, the Company adopted EITF No. 01-14 and reclassified to cost of transportation certain reimbursed incidental activities previously reported net in revenues (see Note 1). The following tables illustrate the financial statement impact by quarter of the reclassification by comparing revenues previously reported on a net basis in the Company's Quarterly Reports on Form 10-Q for 2002 with revenues reported on a gross basis in this Annual Report on Form 10-K. There is no impact on net revenues, operating income (loss) or net income (loss) as a result of this reclassification.

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

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### GEOGRAPHIC INFORMATION BY QUARTER:

|                                | QUARTER ENDED     |           |                  |           |                       |           |
|--------------------------------|-------------------|-----------|------------------|-----------|-----------------------|-----------|
|                                | MARCH 31,<br>2002 |           | JUNE 30,<br>2002 |           | SEPTEMBER 30,<br>2002 |           |
|                                | NET               | GROSS     | NET              | GROSS     | NET                   | GROSS     |
|                                | (in thousands)    |           |                  |           |                       |           |
| <b>Revenues:</b>               |                   |           |                  |           |                       |           |
| North America                  | \$225,838         | \$242,449 | \$240,204        | \$256,634 | \$240,995             | \$255,000 |
| South America                  | 15,676            | 16,520    | 16,506           | 17,373    | 13,272                | 13,000    |
| Europe & Middle East           | 58,233            | 77,178    | 62,331           | 88,005    | 69,387                | 93,000    |
| Asia & South Pacific           | 72,252            | 80,962    | 83,221           | 92,907    | 96,577                | 106,000   |
|                                | -----             | -----     | -----            | -----     | -----                 | -----     |
| Total revenues                 | 371,999           | 417,109   | 402,262          | 454,919   | 420,231               | 469,000   |
|                                | -----             | -----     | -----            | -----     | -----                 | -----     |
| <b>Cost of transportation:</b> |                   |           |                  |           |                       |           |
| North America                  | 122,838           | 139,449   | 133,066          | 149,496   | 127,274               | 142,000   |
| South America                  | 11,872            | 12,716    | 12,583           | 13,450    | 9,830                 | 10,000    |
| Europe & Middle East           | 30,044            | 48,989    | 31,526           | 57,200    | 37,509                | 61,000    |
| Asia & South Pacific           | 53,125            | 61,835    | 61,932           | 71,618    | 74,298                | 83,000    |
|                                | -----             | -----     | -----            | -----     | -----                 | -----     |
| Total costs                    | 217,879           | 262,989   | 239,107          | 291,764   | 248,911               | 298,000   |
|                                | -----             | -----     | -----            | -----     | -----                 | -----     |
| <b>Net revenues:</b>           |                   |           |                  |           |                       |           |
| North America                  | 103,000           | 103,000   | 107,138          | 107,138   | 113,721               | 113,000   |
| South America                  | 3,804             | 3,804     | 3,923            | 3,923     | 3,442                 | 3,000     |
| Europe & Middle East           | 28,189            | 28,189    | 30,805           | 30,805    | 31,878                | 31,000    |
| Asia & South Pacific           | 19,127            | 19,127    | 21,289           | 21,289    | 22,279                | 22,000    |
|                                | -----             | -----     | -----            | -----     | -----                 | -----     |
| Total net revenues             | \$154,120         | \$154,120 | \$163,155        | \$163,155 | \$171,320             | \$171,000 |
|                                | =====             | =====     | =====            | =====     | =====                 | =====     |

|                      | QUARTER ENDED     |           |                  |           |                       |           |
|----------------------|-------------------|-----------|------------------|-----------|-----------------------|-----------|
|                      | MARCH 31,<br>2001 |           | JUNE 30,<br>2001 |           | SEPTEMBER 30,<br>2001 |           |
|                      | NET               | GROSS     | NET              | GROSS     | NET                   | GROSS     |
|                      | (in thousands)    |           |                  |           |                       |           |
| <b>Revenues:</b>     |                   |           |                  |           |                       |           |
| North America        | \$266,806         | \$283,761 | \$257,467        | \$272,909 | \$259,355             | \$274,000 |
| South America        | 14,971            | 16,490    | 11,193           | 12,905    | 12,562                | 13,000    |
| Europe & Middle East | 55,655            | 76,235    | 55,616           | 74,703    | 60,218                | 82,000    |
| Asia & South Pacific | 84,887            | 94,257    | 84,925           | 94,824    | 82,857                | 91,000    |
|                      | -----             | -----     | -----            | -----     | -----                 | -----     |
| Total revenues       | 422,319           | 470,743   | 409,201          | 455,341   | 414,992               | 461,000   |
|                      | -----             | -----     | -----            | -----     | -----                 | -----     |

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|                         |           |           |           |           |           |           |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cost of transportation: |           |           |           |           |           |           |
| North America           | 158,144   | 175,099   | 165,689   | 181,131   | 142,071   | 156,000   |
| South America           | 11,496    | 13,015    | 7,757     | 9,469     | 9,098     | 9,000     |
| Europe & Middle East    | 29,214    | 49,794    | 27,635    | 46,722    | 31,278    | 53,000    |
| Asia & South Pacific    | 64,275    | 73,645    | 62,088    | 71,987    | 61,101    | 69,000    |
|                         | -----     | -----     | -----     | -----     | -----     | -----     |
| Total costs             | 263,129   | 311,553   | 263,169   | 309,309   | 243,548   | 289,000   |
|                         | -----     | -----     | -----     | -----     | -----     | -----     |
| Net revenues:           |           |           |           |           |           |           |
| North America           | 108,662   | 108,662   | 91,778    | 91,778    | 117,284   | 117,000   |
| South America           | 3,475     | 3,475     | 3,436     | 3,436     | 3,464     | 3,000     |
| Europe & Middle East    | 26,441    | 26,441    | 27,981    | 27,981    | 28,940    | 28,000    |
| Asia & South Pacific    | 20,612    | 20,612    | 22,837    | 22,837    | 21,756    | 21,000    |
|                         | -----     | -----     | -----     | -----     | -----     | -----     |
| Total net revenues      | \$159,190 | \$159,190 | \$146,032 | \$146,032 | \$171,444 | \$171,000 |
|                         | =====     | =====     | =====     | =====     | =====     | =====     |

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EGL, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

PRINCIPLE SERVICES BY QUARTER:

|                             | QUARTER ENDED     |           |                  |           |                   |           |
|-----------------------------|-------------------|-----------|------------------|-----------|-------------------|-----------|
|                             | MARCH 31,<br>2002 |           | JUNE 30,<br>2002 |           | SEPTEMBER<br>2002 |           |
|                             | NET               | GROSS     | NET              | GROSS     | NET               |           |
| (in thousands)              |                   |           |                  |           |                   |           |
| Revenues:                   |                   |           |                  |           |                   |           |
| Air freight forwarding      | \$279,787         | \$281,687 | \$303,166        | \$305,300 | \$313,899         | \$313,899 |
| Ocean freight forwarding    | 43,608            | 47,937    | 47,788           | 52,526    | 53,752            | 53,752    |
| Customs brokerage and other | 48,604            | 87,485    | 51,308           | 97,093    | 52,580            | 52,580    |
|                             | -----             | -----     | -----            | -----     | -----             | -----     |
| Total revenues              | 371,999           | 417,109   | 402,262          | 454,919   | 420,231           | 420,231   |
|                             | -----             | -----     | -----            | -----     | -----             | -----     |
| Cost of transportation:     |                   |           |                  |           |                   |           |
| Air freight forwarding      | 188,158           | 190,058   | 205,859          | 207,993   | 210,341           | 210,341   |
| Ocean freight forwarding    | 29,721            | 34,050    | 33,248           | 37,986    | 38,570            | 38,570    |
| Customs brokerage and other | --                | 38,881    | --               | 45,785    | --                | --        |
|                             | -----             | -----     | -----            | -----     | -----             | -----     |
| Total costs                 | 217,879           | 262,989   | 239,107          | 291,764   | 248,911           | 248,911   |
|                             | -----             | -----     | -----            | -----     | -----             | -----     |
| Net revenues:               |                   |           |                  |           |                   |           |
| Air freight forwarding      | 91,629            | 91,629    | 97,307           | 97,307    | 103,558           | 103,558   |

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|                             |           |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|
| Ocean freight forwarding    | 13,887    | 13,887    | 14,540    | 14,540    | 15,182    |
| Customs brokerage and other | 48,604    | 48,604    | 51,308    | 51,308    | 52,580    |
|                             | -----     | -----     | -----     | -----     | -----     |
| Total net revenues          | \$154,120 | \$154,120 | \$163,155 | \$163,155 | \$171,320 |
|                             | =====     | =====     | =====     | =====     | =====     |

|                             | QUARTER ENDED     |           |                  |           |                   |
|-----------------------------|-------------------|-----------|------------------|-----------|-------------------|
|                             | MARCH 31,<br>2001 |           | JUNE 30,<br>2001 |           | SEPTEMBER<br>2001 |
|                             | NET               | GROSS     | NET              | GROSS     | NET               |
|                             | -----             | -----     | -----            | -----     | -----             |
|                             | (in thousands)    |           |                  |           |                   |
| Revenues:                   |                   |           |                  |           |                   |
| Air freight forwarding      | \$327,289         | \$330,766 | \$315,851        | \$318,298 | \$316,795         |
| Ocean freight forwarding    | 44,021            | 48,625    | 43,890           | 48,491    | 47,968            |
| Customs brokerage and other | 51,009            | 91,352    | 49,460           | 88,552    | 50,229            |
|                             | -----             | -----     | -----            | -----     | -----             |
| Total revenues              | 422,319           | 470,743   | 409,201          | 455,341   | 414,992           |
| Cost of transportation:     |                   |           |                  |           |                   |
| Air freight forwarding      | 231,972           | 235,449   | 233,741          | 236,188   | 211,105           |
| Ocean freight forwarding    | 31,157            | 35,761    | 29,428           | 34,029    | 32,443            |
| Customs brokerage and other | --                | 40,343    | --               | 39,092    | --                |
|                             | -----             | -----     | -----            | -----     | -----             |
| Total costs                 | 263,129           | 311,553   | 263,169          | 309,309   | 243,548           |
| Net revenues:               |                   |           |                  |           |                   |
| Air freight forwarding      | 95,317            | 95,317    | 82,110           | 82,110    | 105,690           |
| Ocean freight forwarding    | 12,864            | 12,864    | 14,462           | 14,462    | 15,525            |
| Customs brokerage and other | 51,009            | 51,009    | 49,460           | 49,460    | 50,229            |
|                             | -----             | -----     | -----            | -----     | -----             |
| Total net revenues          | \$159,190         | \$159,190 | \$146,032        | \$146,032 | \$171,444         |
|                             | =====             | =====     | =====            | =====     | =====             |

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EXHIBIT INDEX

| EXHIBIT NUMBER | DESCRIPTION   |
|----------------|---|
| -----          | -----   |
| *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   |

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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).
- \*4.1 -- Rights Agreement dated as of May 23, 2001 between EGL, Inc. and Computershare Investor Services, L.L.C., as Rights Agent, which includes as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights to Purchase Common Stock. (filed as Exhibit 4.1 to the EGL's Form 10Q for the fiscal quarter ended September 30, 2001 and incorporated herein by reference).
- \*4.2 -- Indenture dated December 7, 2001 between EGL and JPMorgan Chase Bank, as trustee (filed as Exhibit 4.1 to EGL's Current Report on Form 8-K filed on December 10, 2001 and incorporated herein by reference).
- \*4.3 -- First Supplemental Indenture dated December 7, 2001 between EGL and JPMorgan Chase Bank, as trustee (filed as Exhibit 4.2 to EGL's Current Report on Form 8-K filed on December 10, 2001 and incorporated herein by reference).
- \*4.4 -- Form of 5% Convertible Subordinated Note due December 15, 2006 (filed as Exhibit 4.3 to EGL's Current Report on Form 8-K filed on December 10, 2001 and incorporated herein by reference).
- \*4.5 -- Registration Rights Agreement dated December 7, 2001 between EGL and Credit Suisse First Boston Corporation (filed as Exhibit 4.4 to EGL's Current Report on Form 8-K filed on December 10, 2001 and incorporated herein by reference).
- +\*10.1 -- Long-Term Incentive Plan, as amended and restated effective July 26, 2000 (filed as Exhibit 10(ii) to EGL's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference).
- +\*10.2 -- 1995 Non-employee Director Stock Option Plan (filed as Exhibit 10.2 to EGL's Registration Statement on Form S-1, Registration No. 33-97606 and incorporated herein by reference).
- +\*10.3 -- 401(k) Profit Sharing Plan (filed as Exhibit 10.3 to EGL's Registration Statement on Form S-1, Registration No. 33-97606 and incorporated herein by reference).
- +\*10.4 -- Circle International Group, Inc. 1994 Omnibus Equity Incentive Plan (filed as Exhibit 10.11 to Annual Report on Form 10-K of Circle (SEC File No. 0-8664) for the fiscal year ended December 31, 1993 and incorporated herein by reference).

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| EXHIBIT NUMBER<br>----- | DESCRIPTION<br>-----   |
|-------------------------|--|
| +*10.5 --               | Amendment No. 1 to Circle International Group, Inc. 1994 Omnibus Equity Incentive Plan (filed as Exhibit 10.11.1 to Annual Report on Form 10-K of Circle (SEC File No. 9-8664) for the fiscal year ended December 31, 1995 and incorporated herein by reference).  |
| +*10.6 --               | Circle International Group, Inc. Employee Stock Purchase Plan (filed as Exhibit 99.1 to the Registration Statement on Form S-8 of Circle (SEC Registration No. 333-78747) filed on May 19, 1999 and incorporated herein by reference).   |
| +*10.7 --               | Circle International Group, Inc. 1999 Stock Option Plan (filed as Exhibit 99.1 to the Form S-8 Registration Statement of Circle (SEC Registration No. 333-85807) filed on August 24, 1999 and incorporated herein by reference).   |
| +*10.8 --               | Form of Nonqualified Stock Option Agreement for Circle International Group, Inc. 2000 Stock Option Plan (filed as Exhibit 4.8 to Post-Effective Amendment No. 1 on Form S-8 to Registration Statement on Form S-4 (SEC Registration No. 333-42310) filed on October 2, 2000 and incorporated herein by reference). |
| *10.9 --                | Shareholders' Agreement dated as of October 1, 1994 among EGL and Messrs. Crane, Swannie, Seckel and Roberts (filed as Exhibit 10.4 to EGL's Registration Statement on Form S-1, Registration No. 33-97606 and incorporated herein by reference).  |
| *10.10 --               | Form of Indemnification Agreement (filed as Exhibit 10.6 to EGL's Registration Statement on Form S-1, Registration No. 33-97606 and incorporated herein by reference).   |
| *10.11A --              | Credit Agreement dated December 20, 2001 between EGL and Bank of America, N.A., and the other financial institutions named therein (filed as Exhibit 10.11A to EGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, and incorporated herein by reference).                                |
| *10.11B --              | First Amendment to Credit Agreement dated March 7, 2002 between EGL and Bank of America, N.A., and the other financial institutions named therein (filed as Exhibit 10.11B to EGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference).                  |
| *10.11C --              | Consent and Second Amendment to Credit Agreement dated October 14, 2002 between EGL and Bank of America, N.A., and the other financial institution named therein (filed as Exhibit 10.1 to EGL's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference).     |

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- +\*10.12 -- Employment Agreement dated as of October 1, 1996 between EGL and James R. Crane (filed as Exhibit 10.7 to EGL's Annual Report on Form 10-K for the fiscal year ended September 30, 1996 and incorporated herein by reference).
- +\*10.13 -- Employment Agreement dated as of September 24, 1998 between EGL and John C. McVaney (filed as Exhibit 10.9 to EGL's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 and incorporated herein by reference).
- +\*10.14 -- Employment Agreement dated as of May 19, 1998 between EGL and Ronald E. Talley (filed as Exhibit 10.10 to EGL's Annual Report on Form 10-K for the fiscal year ended September 30, 1998 and incorporated herein by reference).
- +\*10.15 -- Employment Agreement dated as of October 19, 1999 between EGL and Elijio Serrano (filed as Exhibit 10.11 to EGL's Annual Report on Form 10-K for the fiscal year ended September 30, 1999 and incorporated herein by reference).
- +\*10.16 -- Employee Stock Purchase Plan, as amended and restated effective July 26, 2000 (filed as Exhibit 10(iii) to EGL's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference).
- \*10.17A -- Lease Agreement dated as of December 31, 2001 between iStar Eagle LP, as landlord, and EGL Eagle Global Logistics, LP, as tenant.
- \*10.17B -- Guaranty dated as of December 31, 2001 among iStar Eagle LP, EGL Eagle Global Logistics, LP and EGL, Inc.
- +\*10.19 -- Consulting Agreement dated as of January 1, 1999 between Zita Logistics, Ltd. and Circle International European Holdings Limited (filed as Exhibit 10.4.3 to Circle's Annual Report on Form 10-K for the fiscal year ended December 31, 1998 and incorporated herein by reference).
- +\*10.20 -- Executive Deferred Compensation Plan (filed as Exhibit 10.2 to EGL's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference).
- +\*10.21 -- Amendment Number 1 to 1995 Non-Employee Director Stock Option Plan (filed as Exhibit 10.4 to EGL's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference).
- 10.22 -- Agreement for Purchase and Sale of Real Property, dated September 17, 2002, by and between MacFarlan Holdings, Ltd., as buyer, and EGL, Inc., as seller.
- 10.23 -- Lease Agreement for real property in Austin, Texas, dated as of November 13, 2002, by and between EGL Texas Partners, L.P., as landlord, and EGL Eagle Global Logistics, LP, as tenant.

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- 10.24 -- Lease Agreement for real property in Grapevine, Texas, dated as of November 13, 2002, by and between EGL Texas Partners, L.P., as landlord, and EGL Eagle Global Logistics, LP, as tenant.
- 10.25 -- Lease Agreement for real property in South Bend, Indiana, dated as of December 20, 2002, by and between South Bend Partners, LP, as landlord, and EGL Eagle Global Logistics, LP, as tenant.
- 10.26 -- Agreement for Purchase and Sale of Real Property, dated as of December 15, 2002, by and between McMillan Investment Company, Ltd., as buyer, and EGL Eagle Global Logistics, LP, as seller.
- 10.27 -- Lease Agreement, dated as of December 20, 2002, by and between McMillan/Miami LLC, as landlord, and EGL Eagle Global Logistics, LP, as buyer.
- 10.28 -- Agreement for Purchase and Sale of Real Property, dated as of December 30, 2002, by and between Giffels Development Inc., as buyer, and EGL Eagle Global Logistics (Canada) Corp., as seller.
- 10.29 -- Lease Agreement, dated as of December 20, 2002, by and between Giffels Development Inc., as landlord, and EGL Eagle Global Logistics (Canada) Corp., as tenant.
- 12 -- Ratio of Earnings to Fixed Charges.
- 21 -- Subsidiaries of EGL.
- 23.1 -- Consent of PricewaterhouseCoopers LLP.

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\* Incorporated by reference as indicated.

+ Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to the requirements of Item 14(c) of Form 10-K.