EGL INC
Form 10-Q
November 09, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[x]

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2005

or

[

]

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

Commission File Number 0-27288

EGL, INC.

(Exact name of registrant as specified in its charter)

Texas	**76-0094895**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

15350 Vickery Drive, Houston, Texas 77032

(281) 618-3100

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

N/A

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

nt (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 1
nd (2) has been subject to such filing requirements for the past 90 days.

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

is a shell company (as defined in Rule 12b-2 of the Exchange Act).

tstanding of the registrant s common stock was 39,271,002 (net of 5,856,177 treasury shares).

EGL, INC.
INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 130,877	$ 92,918
Restricted cash	11,933	17,004
Short-term investments and marketable securities	47	587
Trade receivables, net of allowance of $12,730 and $14,069	541,242	611,594
Other receivables	26,863	21,147
Deferred income taxes	11,004	10,106
Other current assets	30,910	24,781
Total current assets	752,876	778,137
Property and equipment, net	190,317	178,218
Investment in an unconsolidated affiliate	553	619
Goodwill	110,960	108,470
Deferred income taxes	2,401	648
Other assets, net	34,866	28,771
Total assets	$ 1,091,973	$ 1,094,863
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Trade payables and accrued transportation costs	$ 363,230	$ 337,137
Accrued salaries and related costs	58,253	46,465
Current portion of long-term debt	13,492	19,426

Income taxes payable	17,289	4,716
Accrued selling, general and administrative expenses and other liabilities	85,223	82,926
Total current liabilities	537,487	490,670
Deferred income taxes	20,315	19,421
Long-term debt	19,817	12,752
Other noncurrent liabilities	17,255	18,786
Total liabilities	594,874	541,629
Minority interests	1,419	802
Commitments and contingencies (Notes 3, 10 and 11)		
Stockholders equity:		
Common stock, $0.001 par value, 200,000 shares authorized; 53,178 and 52,841 shares issued; 47,322 and 51,915 shares outstanding	53	53
Additional paid-in capital	248,623	241,117
Retained earnings	378,975	339,876
Accumulated other comprehensive loss	(22,437)	(12,625)
Unearned compensation	(99)	(124)
Treasury stock, 5,856 and 926 shares held	(109,435)	(15,865)
Total stockholders equity	495,680	552,432
Total liabilities and stockholders equity	$ 1,091,973	$ 1,094,863

See notes to unaudited condensed consolidated financial statements.

1

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

	Nine Months Ended September 30,	
	2005	**2004 (Restated)**
Revenues	$ 2,261,427	$ 1,941,285
Cost of transportation	1,564,539	1,305,548
Net revenues	696,888	635,737
Operating expenses:		
Personnel costs	390,473	356,336
Other selling, general and administrative expenses	244,620	226,368
EEOC legal settlement	(5,975)	-
Operating income	67,770	53,033
Nonoperating income, net	2,242	8,942
Income before provision for income taxes	70,012	61,975
Provision for income taxes	30,913	23,987
Net income	$ 39,099	$ 37,988
Basic earnings per share	$ 0.78	$ 0.84
Basic weighted-average common shares outstanding	49,974	45,478
Diluted earnings per share	$ 0.78	$ 0.79
Diluted weighted-average common shares outstanding	50,316	51,687

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2005	**2004 (Restated)**
Revenues	$ 779,507	$ 719,417
Cost of transportation	532,547	493,492
Net revenues	246,960	225,925
Operating expenses:		
Personnel costs	129,349	126,555
Other selling, general and administrative expenses	84,567	75,545
Operating income	33,044	23,825
Nonoperating income, net	380	3,121
Income before provision for income taxes	33,424	26,946
Provision for income taxes	14,192	10,371
Net income	$ 19,232	$ 16,575
Basic earnings per share	$ 0.41	$ 0.37
Basic weighted-average common shares outstanding	47,300	44,801
Diluted earnings per share	$ 0.40	$ 0.34
Diluted weighted-average common shares outstanding	47,602	51,202

See notes to unaudited condensed consolidated financial statements.

3

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

	Nine Months Ended September 30,	
	2005	**2004 (Restated)**
Cash flows from operating activities:		
	$	$
Net income	39,099	37,988
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	26,860	25,912
Bad debt expense	6,412	4,857
Stock-based compensation expense	206	382
Impairment of assets	112	51
Deferred income tax benefit	(1,852)	(1,504)
Tax benefit of stock options exercised	1,307	2,604
Equity in (earnings) losses of affiliates	66	(1,730)
Minority interests	55	340
Transfers (to) from restricted cash, net	5,042	(351)
Gain on sale of unconsolidated affiliates	-	(12,091)
Other	(297)	400
Net effect of changes in working capital, net of assets acquired	92,970	(15,204)
Net cash provided by operating activities	169,980	41,654
Cash flows from investing activities:		
Capital expenditures	(32,623)	(31,448)
(Purchase) sale of short-term investments	540	(43)
Proceeds from sales of other assets	1,456	873
Acquisitions of businesses, net of cash acquired	-	(16,216)
Earnout payments	(4,186)	(3,291)
Proceeds from sale of unconsolidated affiliate	-	52,123
Collection of notes receivable	1,618	552
Net cash provided by (used in) investing activities	(33,195)	2,550
Cash flows from financing activities:		
Issuance (repayment) of other debt, net	(4,834)	2,234

Payment of financing fees	(1,055)	(1,067)
Repayment of financed insurance premiums and software maintenance, net	(2,251)	(4,666)
Repayment of capital leases	(1,525)	(781)
Repurchases of common stock	(94,293)	(59,079)
Proceeds from exercise of stock options	6,206	22,932
Issuance of common stock for employee stock purchase plan	535	319
Cash received from minority interest partners	636	-
Dividends paid to minority interest partners	(82)	(114)
Net cash used in financing activities	(96,663)	(40,222)
Effect of exchange rate changes on cash	(2,163)	(3,203)
Increase in cash and cash equivalents	37,959	779
Cash and cash equivalents, beginning of the period	92,918	94,099
	$	$
Cash and cash equivalents, end of the period	130,877	94,878

See notes to unaudited condensed consolidated financial statements.

EGL, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(unaudited)

(in thousands)

	Common stock		Additional paid-in capital	Retained earnings	Treasury stock		Accumulated other comprehensive income (loss)	Unearned compensation	Total
	Shares	Amount			Shares	Amount			
		$	$	$		$	$	$	$
Balance at December 31, 2004	52,841	53	241,117	339,876	(926)	(15,865)	(12,625)	(124)	552,432
Net income	-	-	-	39,099	-	-	-	-	39,099
Change in value of marketable securities, net	-	-	-	-	-	-	2	-	2
Foreign currency translation adjustments	-	-	-	-	-	-	(9,814)	-	(9,814)
Issuance of shares under employee stock purchase plan	-	-	(43)	-	31	578	-	-	535
Repurchase of common stock	-	-	-	-	(4,969)	(94,293)	-	-	(94,293)
Exercise of stock options and issuance of restricted stock awards with related tax benefit	337	-	7,518	-	8	145	-	(150)	7,513
Stock-based compensation	-	-	31	-	-	-	-	175	206

expense									
Balance at September 30, 2005	53,178	$ 53	$ 248,623	$ 378,975	(5,856)	$ (109,435)	$ (22,437)	$ (99)	$ 495,680

See notes to unaudited condensed consolidated financial statements.

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared by EGL, Inc. (EGL or the Company) in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) for interim financial statements and, accordingly, do not include all information and footnotes required under generally accepted accounting principles for complete financial statements. The financial statements have been prepared in conformity with the accounting principles and practices disclosed in, and should be read in conjunction with, the annual financial statements of the Company included in the Company s Annual Report on Form 10-K (File No. 0-27288). In the opinion of management, these interim financial statements contain all adjustments necessary for a fair presentation of the Company s financial position at September 30, 2005 and the results of its operations for the three and nine months ended September 30, 2005, its cash flows for the nine months ended September 30, 2005. Results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for EGL s full fiscal year.

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

EGL is a global transportation, supply chain management and information services company dedicated to providing flexible logistics solutions on a price competitive basis. The Company s services include air and ocean freight forwarding, customs brokerage, local pick up and delivery service, materials management, warehousing, trade facilitation and procurement and integrated logistics and supply chain management services. The Company provides services in over 100 countries on six continents through offices around the world as well as through its worldwide network of exclusive and nonexclusive agents. The principal markets for all lines of business are North America, Europe and Asia with significant operations in the Middle East, India, South America and South Pacific (see Note 14).

Basis of presentation and principles of consolidation

The accompanying condensed consolidated financial statements include EGL and all of its wholly-owned subsidiaries and investments that the Company controls through majority ownership or other variable interests. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in less than majority owned affiliates, over which the Company has significant influence in and does not control through variable interests, are accounted for by the equity method. The Company has reclassified certain prior period amounts to conform with the current period presentation.

Restatement of previously issued financial statements

The Company restated its historical financial statements for the first three quarters of 2004 for errors related to (1) recognition of straight-line rent expense when the lease term in a real estate operating lease contains a period when there are free or reduced rents (commonly referred to as rent holidays) and scheduled rent increases, (2) reconciliation of various account balances and (3) certain reclassification adjustments. See the Company s 2004 Form 10-K for disclosures relating to this restatement of the Company s financial statements. All applicable amounts relating to the restatement have been reflected in the condensed consolidated financial statements and notes to the condensed consolidated financial statements.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Management considers many factors in selecting appropriate operational and financial accounting policies and controls, and in developing the assumptions that are used in the preparation of these financial statements. Management must apply significant judgment in this process. Factors that may be considered by management making these assumptions and estimates include, but are not limited to: 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; expectations of the future performance of

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

the economy, both domestically and globally, within various areas that serve the Company s principal customers and suppliers of goods and services; expected rates of change, sensitivity and volatility associated with the assumptions used in developing estimates; and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that lies within that range of reasonable estimates which may result in the selection of estimates which could be viewed as conservative or aggressive by others. Management uses its business and financial accounting judgment in selecting the most appropriate estimates; however, actual amounts could and will differ from those estimates.

Stock-based compensation

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

	Nine Months Ended September 30,		**Three Months Ended September 30,**	
	2005	**2004 (Restated)**	**2005**	**2004 (Restated)**
	$	$	$	$
Net income as reported	39,099	37,988	19,232	16,575
Add: Total stock-based compensation expense included in net income, net of tax	115	234	22	99
	1,439	2,220	451	680

Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax				
	$	$	$	$
Pro forma net income	37,775	36,002	18,803	15,994
Earnings per share:				
	$	$	$	$
Basic-as reported	0.78	0.84	0.41	0.37
Basic-pro forma	0.76	0.79	0.40	0.36
Diluted-as reported	0.78	0.79	0.40	0.34
Diluted-pro forma	0.75	0.75	0.40	0.33

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Comprehensive income (loss)

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
	$	$	$	$
Net income	39,099	37,988	19,232	16,575
Valuation change of marketable securities, net	2	-	4	-
Foreign currency translation adjustments	(9,814)	(2,299)	(1,915)	601
	$	$	$	$
Comprehensive income	29,287	35,689	17,321	17,176

Accumulated other comprehensive loss consists of the following:

	September 30, 2005	December 31, 2004
	(in thousands)	
	$	$
Cumulative foreign currency translation adjustment	(20,499)	(10,685)
Minimum pension liability adjustment, net of tax	(1,970)	(1,970)
Unrealized gain on marketable securities, net	32	30
	$	$

(22,437)	(12,625)

New accounting pronouncements

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

On August 31, 2005, the FASB issued FSP No. FAS 123(R)-1, Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement 123(R). This guidance applies to equity shares, as well as stock options, and requires that a freestanding financial instrument issued to an employee in exchange for past or future employee services that is subject to SFAS No. 123(R) Share Based Payments shall continue to be subject to the recognition and measurement provisions of SFAS No. 123(R) throughout the life of the instrument, unless its terms are modified when the holder is no longer an employee. The effective date of this guidance is upon initial adoption of SFAS 123(R). The Company is evaluating the new guidance and anticipates adopting it with the implementation of SFAS 123(R) beginning January 1, 2006.

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On October 18, 2005, the FASB issued FSP No. FAS 123(R)-2, Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R), to provide guidance on determining the grant date for an award as defined in SFAS No. 123(R). This FSP stipulates that assuming all other criteria in the grant date definition are met, a mutual understanding of the key terms and conditions of an award to an individual employee is presumed to exist upon the award s approval in accordance with the relevant corporate governance requirements, provided that the key terms and conditions of an award (a) cannot be negotiated by the recipient with the employer because the award is a unilateral grant, and (b) are expected to be communicated to an individual recipient within a relatively short time period from the date of approval. The Company is evaluating the new guidance and anticipates adopting it with the implementation of SFAS No. 123(R) beginning January 1, 2006.

In December 2004, the FASB issued FASB Staff Position (FSP) No. 109 2 (FSP 109 2), Accounting and Disclosure Guidance for the Foreign Repatriation Provision within the American Jobs Creation Act of 2004 , which provides guidance under SFAS No. 109 with respect to recording the potential impact of the repatriation provisions of the Act on a company s income tax expense and deferred tax liability. FSP 109 2 states that a company is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The Company has determined that it does not intend to repatriate foreign earnings under the provisions in the Act. Thus, the Company s consolidated financial statements do not reflect a provision for taxes related to this guidance. Any such repatriation under the Act would need to occur by December 31, 2005.

In March 2005, the FASB issued FIN 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies that the term conditional asset retirement obligation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. An entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company has evaluated the impact of this interpretation and does not expect that it will have any material impact on its results of operations, financial position or cash flow.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS No. 154). SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes , and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. The Company is required to adopt SFAS No. 154 for accounting changes and error corrections that occur after the beginning of 2006. The Company s results of operations and financial condition will only be impacted by SFAS No. 154 if it implements changes in accounting principle that are addressed by the standard or discovers errors in future periods errors which require correction.

On July 14, 2005, the FASB issued an exposure draft of a proposed Interpretation, Accounting for Uncertain Tax Positions an Interpretation of FASB Statement No. 109. The proposed interpretation would require companies to recognize the best estimate of an uncertain tax position only if it is probable of being sustained on audit by the taxation authorities. Subsequently, the tax benefit would be derecognized (by either recording a tax liability or decreasing a tax asset) when the probable threshold is no longer met and it is more likely than not that the tax position will not be sustained. The proposed guidance in the Interpretation would require companies to assess all uncertain tax positions and only those meeting the probable threshold at the transition date would continue to be recognized. The difference between the amount previously recognized and the amount recognized after applying the proposed Interpretation would be recorded as the cumulative effect adjustment in the statement of operations (restatement is not permitted). At its October 10, 2005 meeting the FASB said that its guidance for this proposed Interpretation will not be finalized before the first quarter of 2006. The Company has not yet determined the impact of the Interpretation on its results of operations, financial position or cash flow.

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 - Earnings per share

Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the three and nine months ended September 30, 2005 and 2004. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. Stock options are the only potentially dilutive share equivalents the Company currently has outstanding for the three and nine months ended September 30, 2005. In addition, shares related to the convertible notes issued in December 2001 are included in diluted earnings per share for the nine months and three months ended September 30, 2004. The notes were converted to common shares in December 2004.

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
	$	$	$	$
Net income used in basic earnings per common share	39,099	37,988	19,232	16,575
Interest expense and deferred financing fee amortization on convertible notes, net of tax	-	2,760	-	920
	$	$	$	$
Net income used in diluted earnings per common share	39,099	40,748	19,232	17,495
Weighted-average common shares outstanding used in basic earnings per common share	49,974	45,478	47,300	44,801
Net dilutive potential common shares issuable on exercise of options	342	473	302	665
Conversion of convertible senior notes	-	5,736	-	5,736
	50,316	51,687	47,602	51,202

Weighted-average common shares and dilutive potential common shares
used in diluted earnings per common share

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

	Nine Months Ended September 30,		**Three Months Ended September 30,**	
	2005	**2004**	**2005**	**2004**
Net dilutive potential common shares issuable:				
On exercise of options - exercise price greater than average market value during period	1,215	4,213	1,277	3,899

In addition, up to 311,000 shares associated with the December 2004 grant of contingently issuable restricted stock and options have been excluded from the basic and diluted earnings per share calculation as the contingency has not been met.

Note 3 Future lease obligations

The Company maintains facility accruals for its remaining lease obligations under noncancelable operating leases at domestic and international locations that the Company has vacated due to excess capacity resulting from the Company having multiple facilities in certain locations and changing business needs. All lease costs for facilities being consolidated were charged to operations until the date that the Company vacated each facility. Vacant facility accruals

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

are included in other liabilities and other non-current liabilities on the condensed consolidated balance sheet. The changes in these accruals during the nine months ended September 30, 2005 are as follows:

	Future lease obligations, net of subleasing income
	(in thousands)
Accrued liability at December 31, 2004	$ 6,576
Revisions to estimates	1,150
Payments	(2,375)
Accrued liability at September 30, 2005	$ 5,351

Amounts recorded for future lease obligations are net of approximately $18.7 million in anticipated future recoveries from actual sublease agreements and $8.5 million from expected sublease agreements as of September 30, 2005. Sublease income has been anticipated only in locations where sublease agreements have been executed as of September 30, 2005 or are deemed probable of execution. The Company s lease agreements for these facilities expire from 2005 to 2025 and sublease agreements expire from 2006 to 2012. There is a risk that subleasing transactions will not occur within the same timing or pricing assumptions made by the Company, or at all, which could result in future revisions to these estimates.

Note 4 Restructuring

In June 2005, the Company announced that it was eliminating approximately 350 full-time, part-time and contractor positions in connection with a cost reduction plan. The reductions were primarily in the United States and Europe. The Company incurred a pre-tax charge of approximately $1.6 million in connection with the reductions in workforce in the second quarter of 2005. In Europe, the Middle East and Africa, North America and South America, the charges incurred in the second quarter of 2005 were approximately $1.1 million, $392,000 and $97,000, respectively. Of this amount, approximately $537,000 was paid in the second quarter of 2005 and the remainder was paid in the third quarter of 2005.

Note 5 Financing receivables

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

	September 30, 2005	**December 31, 2004**
	(in thousands)	
	$	$
Minimum lease payments receivable	21,421	13,116
Unearned income	(7,968)	(5,125)
Reserve for estimated driver defaults	(259)	-
Financing receivables, net	13,194	7,991
Less current portion	(3,036)	(1,727)
Amounts due after one year	$ 10,158	$ 6,264

11

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6 Accrued selling, general and administrative expenses and other liabilities

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

	September 30, 2005	December 31, 2004
	(in thousands)	
General and administrative expense accruals	$ 30,211	$ 28,949
Insurance payable	17,412	7,161
Other current liabilities	15,743	13,610
Accrued professional fees and legal matters	12,480	23,723
Other accrued taxes	7,709	6,958
Vacant facilities accruals	1,668	2,525
Total	$ 85,223	$ 82,926

Note 7 Debt

Debt consists of the following amounts:

	September 30, 2005	December 31, 2004
	(in thousands)	

	$	$
Financed vehicles	16,928	9,821
Borrowings on international credit facilities	6,466	8,953
Financed software licenses and maintenance	2,594	3,366
Mortgage payable	1,308	1,347
Notes payable to sellers	600	5,600
Other debt	5,413	3,091
Total debt	33,309	32,178
Current portion of debt	13,492	19,426
Long-term debt	$ 19,817	$ 12,752

Amended and Restated Credit Agreement

The Company entered into an agreement dated as of September 30, 2005 establishing a new $300 million, senior secured revolving credit facility (the Amended and Restated Credit Agreement). The Amended and Restated Credit Agreement amends and restates the Company s existing revolving credit agreement dated as of September 15, 2004, as previously amended (the Existing Credit Agreement). The Amended and Restated Credit Agreement is with a syndicate of 13 financial institutions with Bank of America, N.A., as lender and administrative agent and matures on September 30, 2010.

The Company may use borrowings under the Amended and Restated Credit Agreement for working capital, capital expenditures and other lawful corporate purposes, to make permitted acquisitions and investments, to pay dividends and to repurchase its common stock.

Amounts borrowed under the Amended and Restated Credit Agreement are guaranteed by all of the Company s existing and future direct and indirect domestic subsidiaries and secured equally and ratably by:

-

all of the Company s present and future shares of capital stock of (or other ownership or profit interests in) each of its present and future subsidiaries (limited, in the case of certain material first-tier foreign subsidiaries, to a pledge of 65% of the capital stock of such subsidiaries);

-

all of the Company s and each of its domestic subsidiaries present and future property and assets; and

12

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

-

all proceeds and products of the property and assets described above.

Loans under the Amended and Restated Credit Agreement will initially bear interest at a rate per annum equal to either, at the Company s option, (1) LIBOR plus 1.25% or (2) the Base Rate (defined as the higher of Bank of America, N.A. s prime rate or 0.50% over the Federal Funds rate). In addition, the Company is initially required to pay a commitment fee of 0.30% on the undrawn amounts under the Amended and Restated Credit Agreement. Interest rates and commitment fees under the Amended and Restated Credit Agreement are subject to increase or decrease as a function of the ratio of the Company s Consolidated Net Funded Indebtedness to Consolidated EBITDA (each as defined in the Amended and Restated Credit Agreement). The Company may select interest periods of one, two, three or six months for LIBOR loans, subject to availability. Interest will be payable at the end of the selected interest period, but no less frequently than quarterly.

Under the Amended and Restated Credit Agreement, the Company is subject to various covenants, including, among others, the following:

-

a requirement that the Company maintain, on a rolling four-quarter basis, a ratio of Consolidated Net Funded Indebtedness to Consolidated EBITDA (each as defined in the Amended and Restated Credit Agreement) of not greater than 3.5 to 1.0 through December 31, 2006, and decreasing to 3.0 to 1.0 thereafter;

-

a requirement that, on a rolling four-quarter basis, the Company have a ratio of Consolidated EBIT to Consolidated Interest Charges (each as defined in the Amended and Restated Credit Agreement) of at least 2.5 to 1.0 through December 31, 2006 and increasing to 3.0 to 1.0 thereafter;

-

a requirement that, at the end of each fiscal quarter, the Company have a ratio of book accounts receivable by the Company and its subsidiaries to Consolidated Net Funded Indebtedness (as defined in the Amended and Restated Credit Agreement) of at least 1.1 to 1.0; and

-

limitations on, among other things, liens indebtedness, asset sales, dividends and stock redemptions, investments and acquisitions, transactions with affiliates and consolidations, mergers and sales of all or a substantial part of the Company s consolidated assets.

The Amended and Restated Credit Agreement contains events of default customary for an agreement of this type. The occurrence of certain specified internal control events which could reasonably be expected to have a material adverse effect on the Company also constitutes an event of default under the Amended and Restated Credit Agreement. If a default occurs and is continuing, the administrative agent may, among other things, declare all outstanding principle amounts immediately due and payable.

The Amended and Restated Credit Agreement contains a $75 million sub-facility for letters of credit. The Company had $21.5 million in letters of credit outstanding and unused borrowing capacity of $278.5 million under the Amended and Restated Credit Agreement as of September 30, 2005. On October 4, 2005, the Company borrowed approximately $95.8 million under the Amended and Restated Credit Agreement to partially fund the purchase of shares of our common stock in connection with the tender offer (See Note 8).

Note Repurchase Agreement

On October 12, 2005, the Company entered into a note purchase agreement (the Note Purchase Agreement) providing for the issuance and sale of $100 million aggregate principal amount of floating rate, senior secured notes due October 12, 2012 (the Notes) to the purchasers named therein. Banc of America Securities LLC acted as placement agent for this offering. The issuance and sale of the Notes by the Company, and the resale of the Notes by Banc of America Securities LLC was made pursuant to one or more exemptions from the registration requirements of the Securities Act of 1933.

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company used the proceeds from the sale of the Notes to repay the amounts outstanding under its $100 million bridge loan facility established by an agreement (the Bridge Loan Agreement) dated as of September 30, 2005, among the Company and the other parties thereto. The Bridge Loan Agreement was entered into in connection with the tender offer. The Bridge Loan Agreement was terminated upon repayment.

The Notes are guaranteed by all of the Company s existing and future direct and indirect domestic subsidiaries and are secured by:

- all of the Company s present and future shares of capital stock of (or other ownership or profit interests in) each of its present and future subsidiaries (limited, in the case of certain material first-tier foreign subsidiaries, to a pledge of 65% of the capital stock of such subsidiaries);

- all of the Company s and each of its domestic subsidiaries present and future property and assets; and

- all proceeds and products of the property and assets described above.

The Notes rank pari passu in right of payment with the Company s obligations under its Amended and Restated Credit Agreement and the obligations of the Company s guarantor subsidiaries to guarantee the Company s obligations under the Note Purchase Agreement rank pari passu in right of payment with their guarantees in respect of the Amended and Restated Credit Agreement.

Interest on the Notes will accrue at a floating rate per annum equal to LIBOR plus 1.65% for the applicable interest period. Interest periods are defined as the three month period commencing on the closing date and each successive three month period thereafter. Interest on the Notes is payable quarterly in arrears on the last day of each interest period.

Under the Note Purchase Agreement, the Company is subject to various covenants, including, among others, the following:

-

a requirement that the Company maintain, on a rolling four-quarter basis, a ratio of Consolidated Net Debt to Consolidated EBITDA (each as defined in the Note Purchase Agreement) of not greater than 3.5 to 1.0;

-

a requirement that the Company maintain, on a rolling four-quarter basis, a ratio of Consolidated EBIT to Consolidated Interest Expense (each as defined in the Note Purchase Agreement) of at least 2.5 to 1.0;

-

a requirement that the Company have, at all times, a ratio of (x) book accounts receivable of the Company and certain subsidiaries to (y) Consolidated Net Debt (as defined in the Note Purchase Agreement) of at least 1.1 to 1.0;

-

a requirement that the Company not, at any time, permit the aggregate amount of all Priority Debt (as defined in the Note Purchase Agreement) to exceed 10% of its Consolidated Net Worth (as defined in the Note Purchase Agreement) as of the most recently ended fiscal quarter; and

-

limitations on, among other things, liens asset sales, dividends and stock redemptions, investments and acquisitions, transactions with affiliates and consolidations and mergers.

The Note Purchase Agreement contains customary events of default. If a default occurs and is continuing, the Notes then outstanding shall (either automatically or by declaration of the holders of more than 50% of the principal amount of Notes then outstanding, depending upon the circumstances resulting in the default) become immediately due and payable. If an event of default occurs and is continuing because the Company failed to pay principal, interest or other amounts due and payable on the Notes, then any Note holder may declare all of the Notes held by it to be immediately due and payable.

On October 4, 2005, the Company borrowed $100 million under the Bridge Loan Agreement, which was repaid by borrowings under the Note Purchase Agreement. These borrowings were used to purchase shares of the Company s common stock pursuant to the tender offer and to pay related fees and expenses.

International credit facilities and other debt

As of September 30, 2005, the Company had $20.4 million capacity on international credit facilities and $6.5 million outstanding under those facilities. Borrowings under international bank lines of credit are generally renewed upon expiration. The notes payable to seller is composed of a note payable to the former owners of the Company s wholly-owned subsidiary in Thailand, which is payable in annual installments of $200,000 through 2008. As of September 30, 2005, the Company has no amounts outstanding under financed insurance premiums; however, the Company may finance future insurance premiums as the Company s insurance policies renew. Financed software licenses and maintenance are payable in quarterly installments of approximately $736,000 each through March 2007. Loans for financed vehicles are payable in monthly payments totaling approximately $339,000 through December 2010 and have implied interest rates averaging 6.6%.

Note 8 Share repurchase program

On April 4, 2005, the Company s Board of Directors adopted a stock repurchase program to repurchase up to $60 million in value of the Company s outstanding common stock depending on market conditions and other factors with an expiration date of August 4, 2005. On May 31, 2005, the Board of Directors approved an increase in the maximum dollar amount of shares to be repurchased from $60 million to $120 million and extended the expiration date to September 28, 2005. As of September 28, 2005, the Company has repurchased a total of 5.0 million shares at an average price of $18.98 per share for approximately $94.3 million.

On August 29, 2005, the Company s Board of Directors authorized a modified Dutch Auction self-tender offer to purchase up to 9,615,000 shares (up to $250 million) of its common stock, representing approximately 20% of its approximately 47.2 million outstanding shares as of August 24, 2005. The tender offer commenced on Tuesday, August 30, 2005 and expired on Wednesday, September 28, 2005. In the tender offer, shareholders had the opportunity to tender some or all of their shares at a price not less than $22.50 per share or more than $26.00 per share, net to the seller in cash, without interest.

On October 4, 2005, the Company announced the final results of the tender offer. An aggregate of 8,085,958 shares were properly tendered and not withdrawn at or below a price of $26.00. Because shareholders tendered less than 9,615,000 shares, there was no proration of tendered shares. The Company financed the tender offer with the use of cash on hand and borrowings of $196.0 million under both the new $300.0 million line of credit facility and the $100.0 million bridge loan that was refinanced by the issuance of $100.0 million of floating rate senior secured notes due in October 2012 (See Note 7). As a result, EGL accepted for purchase and paid approximately $210.2 million for all 8,085,958 shares at a price of $26.00 per share. Any shares received in the tender offer that were not tendered properly were returned to the tendering shareholders. The shares purchased pursuant to the tender offer represented approximately 17.1% of EGL s outstanding shares as of September 30, 2005.

Note 9 Earnout payments

In connection with the Company s acquisition of Miami International Forwarders in 2003 and the buyout of a minority interest partner in Thailand in 2001, the Company made earnout payments totaling $4.2 million in the nine months ended September 30, 2005.

Note 10 Guarantees

The Company guarantees certain financial liabilities, the majority of which relate to the Company s freight forwarding operations. The Company, in the normal course of business, is required to guarantee certain amounts related to customs bonds and services received from airlines. These types of guarantees are usual and customary in the freight

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

forwarding industry. The Company operates as a customs broker and prepares and files all formal documentation required for clearance through customs agencies, obtains customs bonds, facilitates the payment of import duties on behalf of the importer and arranges for payment of collect freight charges. The Company also assists the importer in obtaining the most advantageous commodity classifications, qualifying for duty drawback refunds and arranging for surety bonds for importers.

The Company secures guarantees primarily by three methods: a $75 million standby letter of credit subfacility (Note 7), surety bonds and security time deposits, which are restricted as to withdrawal for a specified timeframe and are classified on the Company s balance sheet as restricted cash.

The Company issues IATA (International Air Transportation Association) related guarantees, customs bonds and other working capital credit line facilities issued in the normal course of business. IATA-related guarantees and customs bonds are issued to facilitate the movement and clearance of freight. Working capital credit line facilities include, but are not limited to, facilities associated with insurance requirements and certain potential tax obligations. Generally, facilities have one-year or two-year terms and are renewed upon expiration. As of September 30, 2005, total IATA-related guarantees, customs bonds and other working capital credit line facilities were approximately $71.5 million. Approximately $51.1 million of guarantees, customs bonds and borrowings against credit line facilities were outstanding, including guarantees of the Company s trade payables and accrued transportation costs and borrowings against its international credit facilities of $16.7 million which were recorded as liabilities on the Company s consolidated balance sheet.

Note 11 Contingencies

EEOC legal settlement

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

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

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

On October 2, 2001, the Company and the EEOC announced the filing of a Consent Decree settlement. Under the Consent Decree, the Company agreed to pay $8.5 million into a fund to compensate individuals who claim to have experienced discrimination (Settlement Fund). In addition, the Company agreed to contribute $500,000 to establish a Leadership Development Program (LDP). In entering the Consent Decree, the Company made no admission of liability or wrongdoing. The Consent Decree was approved by the District Court in Houston on October 1, 2001, became effective on October 3, 2002 and expired on October 3, 2005.

The Claims administration process under the Consent Decree was completed by the Company and the EEOC in early 2005. Of the 2,073 claims received, only 203 were deemed to be eligible for a monetary distribution from the Settlement Fund. The total distribution amount for these 203 claims is approximately $903,000. The Company and the EEOC submitted a proposed agreement to the Court in February 2005 regarding disbursements of the excess funds in the

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Settlement Fund. On February 10, 2005 the Court entered an Order directing that the Company recapture $6.0 million plus accrued interest from the Settlement Fund. Release of these funds resulted in $6.0 million in income in the first quarter of 2005. The Court also approved the parties agreement to transfer $1.4 million to the LDP. From that amount, the Company reimbursed itself $582,000 for corporate funds previously expended on LDP expenses as of December 31, 2004. The Court further approved the parties agreement to retain $1.1 million in the Settlement Fund for the payment of eligible claims.

Notices were sent to all ineligible and eligible claimants who had forty-five days to accept a monetary distribution or opt out of the Consent Decree settlement. Through October 27, 2005, 174 eligible Claimants have been sent settlement checks totaling approximately $808,000. Only three Claimants have rejected awards and opted out of the settlement. Eligible claimants also had the option of objecting to an award, but to do so they must have notified the Claims Administrator within thirty days of the date of their eligibility notice. To date, all objections have been resolved by agreement between the EEOC and the Company s counsel. If any funds remain in the Settlement Fund after payment of all claims, the remainder shall be deposited in the LDP.

To the extent any of the individual plaintiffs or any other persons who have opted out of the settlement pursue individual claims; the Company intends to continue to vigorously defend against their allegations. The Company currently expects to prevail in its defense of any remaining individual claims. There can be no assurance as to what amount of time it will take to resolve any other lawsuits and related issues or the degree of any adverse affect these matters may have on the Company s financial condition and results of operations. A substantial settlement payment or judgment could result in a significant decrease in the Company s working capital and liquidity and recognition of a loss in the Company s consolidated statement of operations.

Other legal matters

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

Fire damage

On January 9, 2005, the Company s London (Thurrock) warehouse and all contents were destroyed by fire. The Company maintains insurance coverage for damaged property, business interruption and cargo losses with insurance limits of $35 million for damaged property and business interruption and $10 million for cargo losses.

During the first quarter of 2005, the Company recorded a loss and recognized an insurance recovery of $721,000 for property destroyed in the fire. In February 2005, the Company received an interim payment on its property claim of $673,000. The Company incurred $1.2 million of pre-tax operating losses in the first quarter of 2005 as a result of the fire. A preliminary business interruption claim related to the fire has been submitted to our insurance carriers with a $928,000 initial payment received in May 2005, of which $567,000, $163,000 and $198,000 are recorded in revenues, personnel costs and other selling, general and administrative expenses, respectively, in the accompanying condensed consolidated statement of operations. In the first quarter of 2005, the Company recorded a liability of $6.5 million for its estimated cargo losses due to customers and an insurance receivable of $6.5 million as the insurance recovery is deemed probable. As of September 30, 2005, $4.0 million of cargo claims have been settled under the Company s insurance policy. An additional estimated $6.6 million of claims remain open of which $6.0 million is deemed probable of recovery under the Company s insurance policy. The Company recorded a liability of $590,000 for the estimated claims in excess of its insurance policy limits. At September 30, 2005, a $6.0 million insurance receivable and a $6.6 million insurance liability for these estimated cargo losses was included in the Company s condensed consolidated balance sheet.

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

However, existing claims could be settled in excess of the Company s insurance limits, which could have a material impact on its financial position, cash flows and results of operations.

Federal income tax audit

The Company s U.S. federal income tax returns from fiscal years 2000 to 2001 are currently subject to examination by the Internal Revenue Service (IRS). On April 8, 2005, the Company received a Revenue Agent Report from the IRS field examination team for which the Company was required to respond by May 16, 2005. On May 16th, the Company responded with a protest in response to the Agents Report contesting the proposed adjustments. On June 8th, the IRS prepared a rebuttal report to the Company s protest for which no issues were resolved and the IRS examination team subsequently forwarded the case to the Appeals division of the IRS for resolution. A formal initial appeals conference has been scheduled for mid-November 2005. The income tax returns that are under audit are the income tax returns filed by EGL for fiscal years ended September 30, 2000, September 30, 2001, December 31, 2001, and the final income tax return filed by Circle International Group, Inc., a subsidiary of EGL, for the fiscal year ended October 2, 2000, when it was a separate company prior to the merger with EGL.

Specifically, the IRS is proposing to disallow various merger transaction costs taken as tax deductions related to the merger of EGL and Circle, and to allocate certain merger and selling, general and administrative expenses to all of its foreign affiliates which were taken as tax deductions on the 2000 and 2001 fiscal return years for both EGL and Circle. The IRS is also proposing to disallow the deduction of various software research and development expenditures that were taken as tax deductions on the 2000 and 2001 fiscal tax returns for EGL.

If the proposed adjustments were upheld, the Company would be required to pay a total amount of approximately $14 million in cash taxes, of which approximately $6.5 million would impact the consolidated statement of operations, plus accrued interest of approximately $4.7 million through September 30, 2005. No penalties have been proposed by the IRS as part of this examination. Interest will continue to accrue until the matters are resolved. The Company believes that the matters raised by the IRS were properly reported on its U.S. federal income tax returns in accordance with applicable laws and regulations in effect during the tax periods involved and is challenging these adjustments vigorously. While the outcome of proceedings for these matters cannot be predicted with certainty, the Company believes that its U.S. federal income tax returns were completed in accordance with applicable laws and regulations and does not believe material adjustments to its tax returns are probable at this time. However there is no assurance that the final outcome of the future proceedings with the IRS will not result in material adjustments which would have a material adverse impact on the Company s results of operations, financial position and cash flows.

Note 12 Employee benefit plans

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

Components of compensation expense consisted of the following (in thousands):

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net benefit cost for defined benefit plans:				
Service cost	$ 1,397	$ 1,387	$ 232	$ 227
Interest cost	1,127	1,226	1	222
Expected return on plan assets	(1,116)	(1,147)	(10)	(212)
Amortization of prior service cost	179	246	(8)	30
Net pension enhancement and curtailment/ settlement expense	(3)	40	(2)	3
Net benefit cost for defined benefit plans	$ 1,584	$ 1,752	$ 213	$ 270
Contributions to benefit plans	$ 2,125	$ 2,016	$ 844	$ 282

Estimated contributions to the defined benefit plans for the period of October 1 to December 31, 2005 are approximately $501,000.

Note 13 Related party transactions

Aircraft usage payments

In conjunction with the Company s business activities prior to January 2005, the Company periodically utilized aircraft owned by entities controlled by James R. Crane, the Company s Chief Executive Officer. The Company was charged for actual usage of the plane on an hourly basis and billed on a periodic basis. During the three and nine months ended September 30, 2004, the Company reimbursed the entities controlled by Mr. Crane approximately $52,000 and $863,000, respectively, for hourly usage of the plane. In January 2005, the Company purchased from an unrelated third party an aircraft that was previously leased by an entity controlled by Mr. Crane for $12.5 million. The Company now uses its own airplane for business travel, eliminating the use of Mr. Crane s aircraft and reimbursement thereof.

On July 18, 2005, the Compensation Committee of the Company s Board of Directors approved, in lieu of incremental cash compensation, an arrangement to provide Mr. Crane, or his designees, with up to an aggregate of 150 hours per year of personal use of the Company s aircraft without reimbursement by Mr. Crane. The Company intends to include in Mr. Crane s taxable income each year the amount required by then-current U.S. federal income tax regulations. On August 5, 2005, the Board of Directors of the Company approved, in lieu of additional director cash compensation that would make the existing consideration package more competitive, an arrangement to provide the independent members of the Board of Directors (the Directors) with limited personal usage of the Company s aircraft, without reimbursement by the Directors. Personal usage of the aircraft by the Directors is subject to availability, with priority given to the Company s usage, and the cumulative number of hours allowed for all Directors may not exceed 100 hours per year. The Company will record the number of hours utilized by each Director and include in such Director s yearly taxable income the amount required by then current U.S. federal income tax regulations.

Shared employees

Certain of the Company s employees also perform services for unaffiliated companies owned by Mr. Crane. The Company is reimbursed for these services based upon an allocation percentage of total salaries agreed to by the Company and Mr. Crane. During the nine months ended September 30, 2005 and 2004, the Company was reimbursed $230,000 and $95,000, respectively. The Company received reimbursements of $62,000 for the quarter ended September 30, 2005. The amount billed but not received as of September 30, 2005 was $4,000 and is included in other receivables on the consolidated balance sheets.

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Business Segment Information

The Company is organized functionally in geographic operating segments. Accordingly, management focuses its attention on revenues, net revenues, income before taxes, identifiable assets, capital expenditures and depreciation and amortization in each of these geographical divisions when evaluating the effectiveness of geographic management. During the second quarter of 2005, the Company s India operations were transferred from the Europe, Middle East and Africa division to the Asia and South Pacific division. The financial information regarding the Company s operations by geographic division has been revised to reflect this change for all periods presented.

Financial information regarding the Company s operations by geographic division for the three and nine months ended September 30, 2005 and 2004 are as follows (in thousands):

	North America	South America	Europe, Middle East & Africa	Asia & South Pacific	Eliminations	Total Reportable Segments
Nine months ended September 30, 2005:						
	$	$	$	$	$	$
Total revenues	1,032,458	78,589	478,496	723,463	(51,579)	2,261,427
Transfers between divisions	(17,107)	(4,387)	(14,036)	(16,049)	51,579	-
	$	$	$	$	$	$
Revenues from customers	1,015,351	74,202	464,460	707,414	-	2,261,427
	$	$	$	$	$	$
Total net revenues	420,785	20,237	147,718	108,148	-	696,888
				$		
Intercompany (profits) losses	1,480	(2,394)	(4,068)	4,982	-	-
	$	$	$	$	$	$
Net revenues	422,265	17,843	143,650	113,130	-	696,888
Income before taxes	$	$	$	$		$

	46,952	1,359	4,077	20,346		72,734
	$	$	$	$		$
Capital expenditures	14,656	300	1,654	3,210		19,820
Depreciation and amortization expense	$ 15,640	$ 461	$ 3,218	$ 3,194		$ 22,513
Nine months ended September 30, 2004:						
	$	$	$	$	$	$
Total revenues	952,867	69,823	420,496	547,620	(49,521)	1,941,285
Transfers between divisions	(16,258)	(4,336)	(13,988)	(14,939)	49,521	-
	$	$	$	$	$	$
Revenues from customers	936,609	65,487	406,508	532,681	-	1,941,285
	$	$	$	$	$	$
Total net revenues	393,067	14,492	136,773	91,405	-	635,737
Intercompany (profits) losses	4,847	(2,358)	(6,223)	3,734	-	-
	$	$	$	$	$	$
Net revenues	397,914	12,134	130,550	95,139	-	635,737
	$	$	$	$		$
Income (loss) before taxes	30,487	1,405	2,398	19,190		53,480
	$	$	$	$		$
Capital expenditures	24,510	497	3,356	2,855		31,218
Depreciation and amortization expense	$ 15,444	$ 342	$ 4,012	$ 3,138		$ 22,936

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	North America	South America	Europe, Middle East & Africa	Asia & South Pacific	Eliminations	Total Reportable Segments
Three months ended September 30, 2005:						
Total revenues	$ 357,800	$ 24,094	$ 150,247	$ 265,777	$ (18,411)	$ 779,507
Transfers between divisions	(6,330)	(1,551)	(4,792)	(5,738)	18,411	-
Revenues from customers	$ 351,470	$ 22,543	$ 145,455	$ 260,039	$ -	$ 779,507
Total net revenues	$ 148,783	$ 7,556	$ 52,155	$ 38,466	$ -	$ 246,960
Intercompany (profits) losses	(370)	(914)	(1,296)	$ 2,580	-	-
Net revenues	$ 148,413	$ 6,642	$ 50,859	$ 41,046	$ -	$ 246,960
Income before taxes	$ 20,106	$ 531	$ 6,023	$ 7,351		$ 34,011
Capital expenditures	$ 5,499	$ 78	$ 586	$ 1,043		$ 7,206
Depreciation and amortization expense	$ 5,474	$ 169	$ 1,080	$ 1,107		$ 7,830
Three months ended September 30, 2004:						
Total revenues	$	$	$	$	$	$

	344,502	29,319	151,750	211,331	(17,485)	719,417
Transfers between divisions	(5,691)	(1,433)	(4,886)	(5,475)	17,485	-
	$	$	$	$	$	$
Revenues from customers	338,811	27,886	146,864	205,856	-	719,417
	$	$	$	$	$	$
Total net revenues	140,018	5,754	46,945	33,208	-	225,925
Intercompany (profits) losses	1,492	(502)	(2,097)	1,107	-	-
	$	$	$	$	$	$
Net revenues	141,510	5,252	44,848	34,315	-	225,925
	$	$	$	$		$
Income (loss) before taxes	14,231	657	(476)	7,035		21,447
	$	$	$	$		$
Capital expenditures	7,839	143	648	808		9,438
Depreciation and amortization expense	$ 5,244	$ 114	$ 1,243	$ 1,092		$ 7,693

Revenues from transfers between divisions represent approximate amounts that would be charged if an unaffiliated company provided the services. Revenues and expenses for geographic divisions include 100 percent of amounts for unconsolidated affiliates directly involved in freight forwarding activities. Total divisional revenues are reconciled with total consolidated revenues by eliminating inter-divisional revenues and revenues and expenses for unconsolidated affiliates. Income (loss) before taxes includes profits (losses) on intercompany transactions.

Performance measurement and resource allocation for the reportable segments are based on many factors. The primary financial measures used by management to evaluate the operating performance of the Company s segments include the revenues, costs and expenses directly controlled by each reportable segment and exclude the following:

-

certain costs related to general corporate functions and

-

interest and certain other miscellaneous nonoperating income and expenses not directly used in assessing the performance of the operating segments.

The Company does not maintain a corporate balance sheet, therefore segment asset information monitored by management includes general corporate assets, as applicable, in the respective operating segments.

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The reconciliation between income before taxes, capital expenditures and depreciation and amortization for reportable segments to consolidated amounts is as follows (in thousands):

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2005	2004	2005	2004
Income before taxes for reportable segments	$ 72,734	$ 53,480	$ 34,011	$ 21,447
Interest, corporate administrative expenses and other miscellaneous nonoperating income (expense)	(2,722)	8,495	(587)	5,499
Income before taxes	$ 70,012	$ 61,975	$ 33,424	$ 26,946
Capital expenditures for reportable segments	$ 19,820	$ 31,218	$ 7,206	$ 9,438
Capital expenditures not allocated to segments	12,803	230	(14)	74
Capital expenditures	$ 32,623	$ 31,448	$ 7,192	$ 9,512
Depreciation and amortization for reportable segments	$ 22,513	$ 22,936	$ 7,830	$ 7,693
Depreciation and amortization not allocated to segments	4,347	2,976	1,247	1,189
Depreciation and amortization	$ 26,860	$ 25,912	$ 9,077	$ 8,882

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

	North America	South America	Europe, Middle East & Africa	Asia & South Pacific	Consolidated
Balance at September 30, 2005	$ 590,098	$ 36,793	$ 249,386	$ 215,696	$ 1,091,973
Balance at December 31, 2004	$ 612,072	$ 38,900	$ 242,953	$ 200,938	$ 1,094,863

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

The following is management s discussion and analysis of certain significant factors that have affected selected aspects of the Company s financial position and operating results during the periods included in the accompanying unaudited condensed consolidated financial statements. This discussion should be read in conjunction with the condensed consolidated financial statements as of and for the three and nine months ended September 30, 2005 and the discussion under Management s Discussion and Analysis of Financial Condition and Results of Operations in the annual audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 0-27288).

Restatement of Previously Issued Financial Statements

We restated our historical financial statements for the first three quarters of 2004 for errors related to (1) recognition of straight-line rent expense when the lease term in a real estate operating lease contains a period when there are free or reduced rents (commonly referred to as rent holidays) and scheduled rent increases, (2) reconciliation of various account balances and (3) certain reclassification adjustments. See note 2 of our 2004 Form 10-K for complete disclosures relating to this restatement of the Company s financial statements. All applicable amounts relating to the restatement have been reflected in the condensed consolidated financial statements and notes to the condensed consolidated financial statements included in this report.

Overview