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	76-0094895
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
15350 VICKERY DRIVE HOUSTON, TEXAS	77032
(Principal executive offices)	(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.

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).

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

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.

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

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

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

- domestic freight forwarding,
- global freight forwarding,
- 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),
- cargo assembly,
- export packing and vendor shipment consolidation,
- receiving and breaking down consolidated air freight shipments and arranging for distribution of the individual shipments,
- charter arrangement and handling,
- electronic transmittal of logistics documentation,
- electronic purchase order/shipment tracking,
- expedited document delivery to overseas destinations for customs clearance, and
- 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

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

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:

- computers and other electronic and high-technology equipment,

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

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

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

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

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.

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:

- electronic document preparation,

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

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

management and financial resources in the

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:

- 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,

- Regulatory Management Systems, which support our export and import processing. These are country specific to comply with local regulatory and reporting requirements,

- Material Management Systems, for our logistics, warehouse management and distribution program and

- 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:

- continuing to integrate our service applications to further expand and enhance the value of our supply chain management programs,

- 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,

- leveraging the power of the Internet to provide easy access to

this information using web-based tools,

- upgrading our financial management, human resources and international operational systems on a global basis and

- 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.

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

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.

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

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:

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

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

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

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

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:

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

economic conditions,

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

- construction of new facilities,
- the development, implementation, upgrading, and integration of any of our computer system solutions,
- 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,
- future operating expenses,
- future margins,
- use of credit facility proceeds,
- fluctuations in currency valuations,
- fluctuations in interest rates,
- our Miami Air investment and credit support, including any future results or plans relating to Miami Air or its planes,
- future acquisitions and any effects, benefits, results, terms or other aspects of such acquisitions,
- ability to continue growth and implement growth and business strategy,
- the ability of expected sources of liquidity to support working capital and capital expenditure requirements,
- the tax benefit of any stock option exercises, and
- 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:

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

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

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:

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

Acquisitions involve risks, including those relating to:

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

- 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,

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

- export restrictions, tariffs, licenses and other trade barriers could prevent us from adequately equipping our facilities worldwide,

- differing technology standards across countries may impede our ability to integrate our services across international borders,

- increased expenses associated with marketing services in foreign countries could affect our ability to compete,

- difficulties in staffing and managing foreign operation could affect our ability to compete,

- adverse taxes could potentially affect our results of operations,

- complex foreign laws and treaties could adversely affect our ability to compete, and

- 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:

- economic and political conditions in the United States and abroad,

- major work stoppages,

- exchange controls, the Euro conversion and currency fluctuations,

- wars, other armed conflicts and terrorism, and

- 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

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

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

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.

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.

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.

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:

- authorize our board of directors to set the terms of preferred stock,
- 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,
- restrict the ability of stockholders to take action by written consent, and
- restrict our ability to engage in transactions with some 20%

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

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

("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,

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.

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

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.

	YEAR ENDED DECEMBER 31,			
	2002	2001	2000	19
	(in thousands, except per share amo			
STATEMENT OF OPERATIONS DATA:				
Revenues(2)	$ 1,869,333	$ 1,860,749	$ 2,079,863	$ 1,
Net revenues	672,132	644,183	719,512	
Operating income (loss)(3)(4)(5)(7)	29,672	(57,569)	9,892	
Net income(loss)	9,434	(40,177)	(722)	
Basic earnings(loss) per share(6)	$ 0.20	$ (0.84)	$ (0.02)	$
Basic weighted average shares outstanding(6)	47,610	47,558	46,600	
Diluted earnings(loss) per share(6)	$ 0.20	$ (0.84)	$ (0.02)	$
Diluted weighted average shares outstanding(6)	47,811	47,558	46,600	
BALANCE SHEET DATA (at year end):				
Working capital	$ 201,511	$ 190,564	$ 240,484	$
Total assets	850,307	812,471	904,225	
Long-term indebtedness, net of current portion	103,993	103,774	91,051	
Stockholders' equity	376,541	366,091	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"

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

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.

	YEAR ENDED DECEMBER 31,			
	2002		2001	
	AMOUNT	% OF REVENUES	AMOUNT	% OF 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

	AMOUNT	% OF NET REVENUES	AMOUNT	% OF NET REVENUES
Net revenues:				
Air freight forwarding	$ 405,404	60.3	$ 386,171	59
Ocean freight forwarding	57,831	8.6	58,514	9
Customs brokerage and other	208,897	31.1	199,498	31
Net revenues	$ 672,132	100.0	$ 644,183	100
Operating expenses:				
Personnel costs	370,817	55.2	383,211	59
Other selling, general and administrative expenses	274,878	40.9	294,488	45
Air transportation safety and system stabilization grant ...	(8,923)	(1.3)	--	
EEOC legal settlement	--	--	10,089	1
Transaction, restructuring and intergration costs	5,688	0.8	13,964	2
Operating income (loss)	29,672	4.4	(57,569)	(8
Nonoperating income (expense), net	(14,556)	(2.2)	(8,442)	(1
Income (loss) before provision (benefit) for income taxes	15,116	2.2	(66,011)	(10
Provision (benefit) for income taxes ...	5,895	0.8	(25,834)	(4
Income (loss) before cumulative effect of change in accounting for negative goodwill	9,221	1.4	(40,177)	(6
Cumulative effect of change in accounting principle	213	--	--	
Net income (loss)	$ 9,434	1.4	$ (40,177)	(6

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

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

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 Balance at December 31, 2000	New Charges 2001	Revisions to Estimates 2001	Amounts Paid/ Written Off in 2001
Cash costs:				
Severance costs	$ 6,267	$ 3,345	$ (398)	$ (8,301)
Future lease obligations, net of expected sublease income	10,063	1,917	2,746	(7,763)
Termination of joint venture/agency agreements	5,212	--	(3,000)	(1,209)
Charter lease obligations, 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

Total	$ 24,976	$ 15,113	$ (1,149)	$ (30,061)

	Revisions to Estimates 2002	Amounts Paid/ Written Off in 2002	Accrued Balance at December 31, 2002
Cash costs:			
Severance costs	$ --	$ (126)	$ 787
Future lease obligations, net of expected sublease income	5,939	(5,687)	7,215
Termination of joint venture/agency agreements	(251)	(527)	225
Charter lease obligations, 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

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.

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

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

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

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.

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

Severance costs	8,377	(2,110)	6,267	3,345
Future lease obligations, net of expected sublease income	11,105	(1,042)	10,063	1,917
Termination of joint venture/agency agreements	9,322	(4,110)	5,212	--
Charter lease obligation, 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 to Estimates 2001	Amounts Paid/Written Off in 2001	Accrued Balance at December 31, 2001
Cash costs:			
Transaction costs	$ --	$ --	$ --
Severance costs	(398)	(8,301)	913
Future lease obligations, net of expected sublease income	2,746	(7,763)	6,963
Termination of joint venture/agency agreements	(3,000)	(1,209)	1,003
Charter lease obligation, 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

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

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

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

significant near-term revenue growth, we may experience a need for increased working capital financing as a result of the difference between our collection cycles and the timing of our payments to vendors.

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

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

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

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:

- $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
- an amount equal to:
  - 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
  - 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
  - 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
  - reserves from time to time established by Bank of

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:

- our borrowings under the amended and restated credit facility, and
- 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:

- LIBOR plus an applicable margin of 2.50%, which is subject to adjustment to:
  - 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,
  - 2.25% if the borrowing availability is less than $65 million, but greater than or equal to $45 million,

  - 2.50% if the borrowing availability is less than $45 million, but greater than or equal to $25 million, and
  - 2.75% if the borrowing availability is less than $25 million, or
- 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

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

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.

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

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

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

CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	4 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

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

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

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:

- 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,

- each of EGL and Mr. Crane has the right to appoint one member of Miami Air's board of directors, and

- 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

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.

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

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 rotable 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

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 - domestically, globally and within various sectors that serve as principal customers and suppliers of goods and services,
- expected rates of change, sensitivity and volatility associated with the assumptions used in developing estimates, and
- whether historical trends are expected to be representative of future trends.

The estimation process often times may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that lies within that range of reasonable estimates - which may result in the selection of estimates which could be viewed as conservative or aggressive by others - 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

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.

	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

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.

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

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

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

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.

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

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	
Bristish 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.

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

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)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (2)	Weighted-average exercise price of outstanding options, warrants and rights (3)
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

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(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 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.

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

(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

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).

+*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).

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

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

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.

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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.

SIGNATURES

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

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

/s/ Paul William Hobby
---------- Director
Paul William Hobby

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):

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

I, Elijio 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,

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/ Elijio V. Serrano

Elijio V. Serrano, Chief Financial Officer

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

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

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

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, no shares issued	
Common stock, $0.001 par value, 200,000 shares authorized; 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
Total liabilities and stockholders' equity	$ 850,307

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

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

	2002	2001
	(in thousands, except per sha	
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 stablization grant (Note 2)	(8,923)	--
Merger related transaction, restructuring and integration costs (Note 4)	5,688	13,964

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.

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

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.

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

(continued)

	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.

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

Common stock Additional

	Shares	Amount	paid-in capital	Retained earnings	Comprehens 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 marketable securities, net	--	--	--	--	
Foreign currency translation adjustments	--	--	--	--	(12,0
Comprehensive loss					$ (12,7
Issuance of shares under employee stock purchase plan	26	--	921	--	
Issuance of common stock for acquisitions	--	--	49	--	
Exercise of stock options and issuance of restricted stock awards with related tax benefit	1,162	1	25,195	--	
Purchase of treasury stock	--	--	--	--	
Cash dividends	--	--	--	(2,415)	
Amortization of unearned 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 securities, net	--	--	--	--	(
Change in fair value of cash flow hedge	--	--	--	--	(2,0
Foreign currency translation adjustments	--	--	--	--	(7,2
Comprehensive loss					$ (49,4
Issuance of shares under employee stock purchase plan	--	--	29	--	
Issuance of common stock for acquisitions	--	--	2,073	--	
Exercise of stock options and issuance of restricted stock 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 hedge	--	--	--	--	4
Amortization of deferred loss on interest rate swap	--	--	--	--	1,5
Foreign currency translation adjustments	--	--	--	--	6,5

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		Ob to
	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			

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.

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

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

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

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

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

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.

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

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.

	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	$1
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	2
Cost of transportation:						

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.

	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)

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

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

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

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):

	CARRYING AMOUNT		FA
	2002	2001	2002
Cash and cash equivalents	$ 119,669	$ 77,440	$ 119,66
Restricted cash	7,806	5,413	7,80
Short-term investments and marketable securities	12	3,442	1
Convertible subordinated notes	(100,000)	(100,000)	(110,93
Notes payable	(9,632)	(11,724)	(9,63
Interest rate swap agreement	(729)	(2,028)	(72
Jet fuel swap agreement	421	--	42
Off balance sheet financial instruments:			
Letters of credit	--	--	(31,39
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

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

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.

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

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

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

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

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

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

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

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

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

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.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	ESTIMATED USEFUL LIVES	2002	20
		(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

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

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 AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	AC AM

		(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 DECEMBER 31:	ESTIMATED FUTURE EXPENSE
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.

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)	

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 AMERICA	SOUTH AMERICA	EUROPE & MIDDLE EAST	A 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)
EGL 40% equity interest in TDS earnings (loss)	278	(1,765)
Amortization of investment premium and other adjustments	--	(1,004)

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

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

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	2001
		(in thousands)
Revenues	$ 94,992	$ 113,937
Operating income (loss)	3,227	(4,580)
Loss before change in accounting priniciple	(16,226)	(7,380)
Cumulative effect of change in accounting priniciple	--	8,667
Net income (loss)	(16,226)	1,287
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

Condensed balance sheet information at December 31:

	2002	2001

	(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%

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.

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:

- $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

- an amount equal to:
  - up to 85% of the net amount of the Company's billed and posted eligible accounts receivable and the billed and posted eligible accounts receivable of its wholly owned domestic subsidiaries and its operating subsidiary in Canada, subject to some exceptions and limitations, plus
  - up to 85% of the net amount of the Company's billed and unposted eligible accounts receivable and billed and unposted eligible accounts receivable of its wholly owned domestic subsidiaries owing by account debtors located in the United States, subject to a maximum aggregate availability cap of $10 million, plus
  - 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
  - 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.

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

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.

OTHER BANK LINES OF CREDIT

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.

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.

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

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	2001	2000
		(in thousands)	
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 federal income tax effect	(146)	(3,075)	511
Other	276	(815)	1,527
Total provision (benefit)	$ 5,895	$ (25,834)	$ 13,163

Significant components of the Company's net deferred tax assets are as follows at December 31:

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

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.

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

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

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

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

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

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

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 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.

EGL, INC.
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DECEMBER 31, 2002 AND 2001

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

	OUTSTANDING			EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER	AVERAGE REMAINING LIFE IN YEARS	WEIGHTED AVERAGE PRICE	NUMBER	WEIGHTE AVERAGE PRICE
$8.09 - $15.00	1,389	5.33	$ 10.20	351	$ 10
$15.08 - $19.42	2,029	3.19	18.75	1,709	18
$19.83 - $25.06	1,702	4.71	24.08	987	23
$25.13 - $33.81	581	3.85	29.29	414	28
$8.09 - $33.81	5,701	3.85	$ 19.34	3,461	$ 20

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

In conjunction w; font-size:10pt; font-family:Times New Roman">Based on our discussions
meets the primary endpoint and at least one key secondary endpoint, the data and results from thi
seek or to obtain full or even conditional approval of GBT440 for the treatment of SCD, we may be
studies. The FDA may also require a longer follow-up period for subjects treated with GBT440 prio
from various European regulatory authorities regarding a pathway to approval of GBT440 for the po

The FDA or the comparable foreign authorities may not consider the results of our ongoing (including our HOPE study in SCD patients), planned or potential future clinical trials, to be sufficient for approval of GBT440 for SCD patients or hypoxemia in IPF patients. If the FDA or comparable foreign regulatory authorities require additional clinical trials or data beyond that which we currently anticipate, we would incur increased costs and delays in the clinical development and marketing approval process, which may require us to expend more resources than are available to us. In addition, it is possible that the FDA and the comparable foreign authorities may have divergent opinions on the elements necessary for a successful NDA and Marketing Authorization Application, or MAA, respectively, which may cause us to alter our development, regulatory and/or commercialization strategies.

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We may encounter substantial delays in conducting or completing our clinical trials, which in turn will result in additional costs and may ultimately prevent successful or timely completion of the clinical development and commercialization of our lead product candidate or any other product candidates.

Before obtaining marketing approval from regulatory authorities for the sale of any our product candidates, we must conduct extensive clinical trials to demonstrate the safety and efficacy of the product candidates in humans. Clinical testing is expensive, time-consuming and uncertain as to outcome. We expect to conduct the HOPE study, which will enroll up to 400 SCD patients, at multiple clinical sites located in the United States, Europe, Africa and the Middle East, with top line data and results expected in the first half of 2019. In addition, we have multiple ongoing Phase 1/2 clinical studies of GBT440 for the potential treatment of SCD patients or hypoxemia in IPF patients. We cannot guarantee that the HOPE study or any other clinical trials for GBT440 or any other product candidates we may pursue will be conducted as planned or completed on schedule, if at all. A failure of one or more clinical trials can occur at any stage of testing. Events that may prevent successful or timely completion of clinical development include:

delays or failures in reaching a consensus with regulatory agencies on study design, including clinical endpoints sufficient to support an approval decision;

delays or failures to receive approval for conduct of clinical studies in one or more geographies which could result in delays in enrollment and availability of data and results;

delays or failures in reaching agreement on acceptable terms with a sufficient number of prospective contract research organizations, or CROs, and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;

delays in obtaining required Institutional Review Board, or IRB, or ethics committee approval for each clinical trial site;

delays in recruiting a sufficient number of suitable patients to participate in our clinical trials;

imposition of a clinical hold by any regulatory authority, including if imposed due to safety concerns after an inspection of our clinical trial operations or study sites;

failure by our CROs, clinical sites, participating clinicians or patients, other third parties or us to adhere to clinical trial, regulatory or legal requirements;

failure to perform in accordance with the FDA s good clinical practices, or GCPs, or applicable regulatory requirements in other countries;

delays in the testing, validation, manufacturing and delivery of sufficient quantities of our product candidates or study related devices (such as the hand-held PRO instrument being used by patients in our HOPE study) to the clinical sites and patients;

delays in having patients enroll or complete participation in a study in accordance with applicable protocols, or return for post-treatment follow-up;

reduction in the number of participating clinical trial sites or patients, including by dropping out of a trial;

failure to address in an adequate or timely manner any patient safety concerns that arise during the course of a trial;

unanticipated costs or increases in costs of clinical trials of our product candidates;

the occurrence of serious adverse events or other safety concerns associated with our product candidates; or

changes in regulatory requirements and guidance that require amending or submitting new clinical protocols or obtaining additional IRB or other approvals to conduct or complete clinical studies of our product candidates.

We could also encounter delays if a clinical trial is suspended or terminated for any reason (which could occur as a result of termination by us, by the IRBs or ethics committees of the institutions in which such trials are being conducted, by an independent Safety Review Board for such trial, or by the FDA or other regulatory authorities). A clinical trial can be suspended or terminated for a wide variety of reasons, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by us, or the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, or failure to demonstrate a benefit from using a drug candidate. In addition, if we make manufacturing or formulation changes to our product candidates, we may need to conduct additional studies to bridge the development program from the data and results for the earlier product candidate to the modified product candidate.

Clinical trial delays could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before we do, which could impair our ability to successfully commercialize our product candidates. In addition, any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process and jeopardize our ability to obtain regulatory approvals, commence product sales and generate revenues. Any of these occurrences may significantly harm our business, prospects, financial condition and results of operations.

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Difficulty in enrolling patients or maintaining patient compliance with dosing requirements in our clinical trials could delay or prevent clinical trials of our product candidates, which in turn could delay or prevent our ability to obtain the regulatory approvals necessary to commercialize our product candidates.

Identifying and qualifying patients to participate in our ongoing and planned clinical trials of GBT440, especially for the multi-national Phase 3 HOPE study, and any other product candidates that we may develop are critical to our success. Our clinical development efforts are initially focused on rare chronic blood diseases. For example, according to CDC estimates, the prevalence of SCD, for which GBT440 is being studied, is 90,000 to 100,000 individuals in the United States. For IPF, it is estimated that there are less than 150,000 people in the United States that are affected. Accordingly, there are limited patient pools from which to draw for clinical trials in our target indications. The HOPE study is designed to enroll up to 400 adult and adolescent SCD patients in multiple study centers in the United States, Europe, Africa and the Middle East. We may not be able to identify, recruit, and enroll a sufficient number of subjects to complete the HOPE study or our other clinical trials of GBT440 because of the perceived risks and benefits of GBT440, the availability of competing therapies and clinical trials, the proximity and availability of clinical trial sites for prospective subjects and the subject referral practices of physicians, among other factors.

Further, if subjects in our clinical trials fail to comply with our dosing regimens, we may not be able to generate clinical data acceptable to the FDA in our trials. For our HOPE study of GBT440 in adult and adolescent SCD patients, enrolled participants must use a patient reported outcomes, or PRO, instrument to complete very frequent patient surveys generating data relevant to a secondary endpoint. If HOPE study participants fail to comply consistently with these PRO-related steps and procedures, the quality of these study data and our ability to interpret these data and results could be impaired, and these data and results may not be acceptable to the FDA or comparable regulatory authorities or may be interpreted differently. If patients are unwilling or unable to participate in, complete or comply with the protocols for our studies for any reason, the timeline for recruiting subjects, conducting studies and obtaining regulatory approval of potential products may be delayed.

If we experience difficulties or delays in enrollment or are otherwise unable to successfully complete any clinical trial of GBT440, especially the HOPE study, or any other product candidates we may pursue, our costs are likely to increase, and our ability to obtain regulatory approval and generate product revenue from any of these product candidates will be impaired. Any of these occurrences would harm our business, prospects, financial condition and results of operations.

If serious adverse events or unacceptable side effects are identified during the development of our product candidates, we may need to delay, limit or terminate our clinical development activities.

Clinical trials by their nature utilize only a small sample of the potential patient population. Our Phase 1/2 clinical program of GBT440 in SCD patients and IPF patients are providing only very limited experience of GBT440 in SCD patients and IPF patients. For example, our Phase 1/2a clinical trials of GBT440 in SCD are designed to enroll between 96 and 128 subjects, and our ongoing Phase 2a clinical trials of hypoxemia in IPF patients are designed to enroll only up to 49 subjects. In contrast, the Phase 3 HOPE study is designed to enroll up to 400 adult and adolescent SCD patients. However, even this larger trial design will enroll only a very small fraction of all patients with SCD. Any rare and severe side effects of GBT440 may be uncovered only in later stages of our ongoing clinical trials (such as our larger HOPE study), or only in trials involving different patient populations (such as pediatric patients or IPF patients), or only during post-approval studies or safety reporting. Many product candidates that initially showed promise in early stage testing have later been found to cause side effects that prevented their further development. Moreover, a nonclinical toxicology study with GBT440 in non-humans and clinical trials involving other hemoglobin modifiers (other than GBT440) have shown a decrease in oxygen delivery to tissue when a significant percentage of hemoglobin is modified. Hemoglobin modifiers, by increasing HbS s affinity for oxygen, can cause a shift in oxygen

levels, potentially resulting in tissue hypoxia. To date, clinical studies of GBT440 have not shown evidence of tissue hypoxia. However, if GBT440 or any other product candidates that we may develop are associated with tissue hypoxia or any other undesirable side effects or unexpected undesirable characteristics in clinical trials or nonclinical studies, we may need to abandon their development or limit their development to more narrow uses or subpopulations, which could adversely affect our business, prospects, financial condition and results of operations.

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Although we intend to pursue expedited regulatory approval for GBT440, our lead product candidate may not qualify for expedited development or, if it does so qualify, such expedited development may not actually lead to a faster development or regulatory review or approval process.

We believe there may be an opportunity to accelerate the development of our lead product candidate GBT440 through one or more of the FDA s expedited programs, such as fast track, breakthrough therapy, accelerated approval or priority review, or through EMA s new PRIME program, and we have pursued and intend to pursue one or more of these expedited programs for GBT440. However, we cannot be assured that GBT440 or any other product candidates that we may develop will qualify for or benefit from any such programs in the United States or any foreign regulatory jurisdictions.

In 2015, the FDA designated our investigation of GBT440 for the treatment of SCD as a Fast Track development program. Fast Track is a process designated to facilitate the development and expedite the review of drugs to treat serious conditions and that demonstrate the potential to address an unmet medical need. While Fast Track designation may provide more frequent access and communication with the FDA, it does not ensure that regulatory review or approval for GBT440 will occur on an expedited basis, if at all.

In addition, a drug may be eligible for designation as a breakthrough therapy if the drug is intended, alone or in combination with one or more other drugs, to treat a serious or life-threatening condition and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints.

In June 2017, EMA granted PRIME designation for GBT440 for the treatment of SCD. The PRIME program is a new regulatory mechanism that provides for early and proactive EMA support to medicine developers to help patients benefit as early as possible from innovative new products that have demonstrated the potential to significantly address an unmet medical need. Although breakthrough designation or access to any other expedited program, including EMA s new PRIME program, may expedite the development or approval process, it does not change the standards for approval. Even if we are successful in obtaining a fast-track or breakthrough therapy designation or access to any other expedited program through the FDA or any other regulatory authority, such as the PRIME program, we may not experience faster development timelines or achieve faster review or approval compared to conventional FDA or foreign regulatory procedures.

Furthermore, access to an expedited program, if provided, may be withdrawn by the FDA or a foreign regulatory authority if it believes that the designation is no longer supported by data from our clinical development program. Additionally, qualification for Fast Track or any other expedited review procedure does not ensure that ultimately we will obtain regulatory approval for GBT440 or any other product candidate that we may develop in a timely manner, or at all.

Although the FDA and the European Commission have each granted orphan drug designation to our lead product candidate GBT440 for the potential treatment of SCD, we may not receive orphan drug designation for any other product candidates for which we may submit new applications for orphan drug designation, and any orphan drug designations that we have received or may receive in the future may not confer marketing exclusivity or other expected commercial benefits.

Our business strategy focuses on the development of product candidates for the treatment of rare, chronic blood disorders that may be eligible for FDA or European Union, or EU, orphan drug designation. Regulatory authorities in some jurisdictions, including the United States and the EU, may designate drugs for relatively small patient populations as orphan drugs. Under the Orphan Drug Act, the FDA may designate a drug as an orphan drug if it is

intended to treat a rare disease or condition, which is generally defined as a patient population of fewer than 200,000 individuals annually in the United States. In the EU, the Committee for Orphan Medicinal Products of the EMA recommends orphan drug designation to promote the development of medical products that are intended for the diagnosis, prevention or treatment of a life-threatening or chronically debilitating condition affecting not more than five in 10,000 persons in the EU and for which no satisfactory method of diagnosis, prevention, or treatment is authorized (or in other very limited circumstances). In 2015 and 2016, respectively, the FDA and the European Commission (acting on a positive recommendation by the EMA) each granted orphan drug designation for GBT440 for the treatment of patients with SCD.

Generally, if a drug with an orphan drug designation subsequently receives the first marketing approval for the indication for which it has such designation, the drug is entitled to a period of marketing exclusivity, which precludes the FDA or the EMA from approving another marketing application for the same drug for the same indication for that time period. The applicable period is seven years in the United States and 10 years in the EU. The EU exclusivity period can be reduced to six years if a drug no longer meets the criteria for orphan drug designation or if the drug is sufficiently profitable so that market exclusivity is no longer justified. Orphan drug exclusivity may be lost if the FDA or EMA determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the drug to meet the needs of patients with the rare disease or condition.

Although the FDA and the EMA have each granted orphan drug designation to GBT440 for the treatment of SCD, we may apply for orphan drug designation for GBT440 in other jurisdictions or for other indications, or for other product candidates we may develop and pursue in the future. Applicable regulatory authorities may not grant us these additional designations. In addition, the exclusivity granted under any orphan drug designations that we have received or may receive may not effectively protect the product candidate from competition because different drugs can be approved for the same condition. For example, in the United States, even after an orphan drug is approved, the FDA can subsequently approve another drug for the same condition if the FDA concludes that the later drug is clinically superior, or the FDA can approve a competitor application for the same drug for a different indication than the orphan drug designation. Any inability to secure or maintain orphan drug designation or the exclusivity benefits of this designation would have an adverse impact on our ability to develop and commercialize our product candidates.

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Even if we receive regulatory approval for our lead product candidate GBT440 or any other product candidate that we may develop and pursue, we will be subject to ongoing regulatory obligations and scrutiny and may be subject to significant restrictions relating to product labeling, distribution or other post-marketing requirements.

Even if a product candidate such as GBT440 is approved, regulatory authorities may still impose significant restrictions on its indicated uses, approved labeling, distribution or marketing or may impose ongoing requirements for potentially costly post-marketing studies. Furthermore, any new legislation addressing drug safety or other drug related issues could result in delays or increased costs to assure compliance. If GBT440 or any other product candidates that we may develop are approved, at a minimum they will each be subject to current standard ongoing regulatory requirements for labeling, packaging, storage, advertising, promotion, sampling, record-keeping and submission of safety and other post-market information, including both federal and state requirements in the United States. In addition, regulatory agencies may not approve the labeling claims that are necessary or desirable for the successful commercialization GBT440 or any other product candidates. For example, the development of GBT440 for the prophylactic treatment of SCD in pediatric patients is an important part of our current business strategy, and if we are unable to obtain regulatory approval for this product candidate for the desired age ranges or other key labeling parameters, our business is likely to suffer.

In addition, manufacturers and manufacturers facilities are required to comply with extensive FDA requirements, including ensuring that quality control and manufacturing procedures conform to current Good Manufacturing Practices, or cGMP s. For our lead product candidate GBT440 and any other product candidates we may pursue, we are wholly reliant on third party contract manufacturers for clinical as well as any commercial supplies of product candidates and products. As such, we and our contract manufacturers are subject to continual review and periodic inspections to assess compliance with cGMP requirements and must continue to expend time, money, and effort in all areas of regulatory compliance, including manufacturing, production, and quality control. We will also be required to report certain adverse reactions and production problems, if any, to the FDA and comparable foreign regulatory authorities, and to comply with requirements concerning advertising and promotion for our products. In addition, we are subject to very rapid reporting obligations relating to any adverse events or serious adverse events relating to our product candidates and any approved products, if any. Our failure to report adverse events we become aware of within the prescribed timeframes could have serious negative consequences for our development programs, business and operations. In addition, any promotional communications or materials for prescription drugs are subject to a variety of complex legal and regulatory restrictions, including but not limited to consistency with the approved product s approved label. Failure to obey these standard marketing requirements for any approved product (if any) could have serious negative consequences for our commercialization activities (if any), business and operations.

If the FDA or any comparable foreign regulatory agency discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, or disagrees with sponsor s activities relating to the promotion, marketing, or labeling of a product, these regulatory agencies may impose restrictions or sanctions on that product or us, including requiring withdrawal of the product from the market. In addition, in the United States, a wide range of commercialization and pre-launch activities relating to a drug candidate are subject to potential for significant civil and/or criminal liability and sanctions under federal anti-kickback and fraud and abuse statutes and regulations. If we fail to comply with any of these complex applicable regulatory requirements, a regulatory agency or enforcement authority may:

- issue untitled or warning letters;

impose civil or criminal penalties;

impose injunctions;

impose fines;

impose additional specialized restrictions on the company s activities and practices;

suspend regulatory approval;

suspend ongoing clinical trials;

seek voluntary product recalls and impose publicity requirements;

refuse to approve pending applications or supplements to approved applications submitted by us;

impose restrictions on our operations, including closing our contract manufacturers facilities; or

seize or detain products.

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As a company, we have no experience with obtaining approval for, launching or commercializing any product candidates or products, or with complying with most of these complex ongoing regulatory requirements. It will take significant effort and management attention to address how to comply with these requirements in any jurisdiction for which we seek any product approval. Any government investigation of alleged violations of law could require us to expend significant time and resources in response, and could generate negative publicity even if significant liabilities do not result. Any failure to comply with these complex ongoing regulatory requirements may significantly and adversely affect our ability to obtain approval for, launch, commercialize and generate revenues from GBT440 or any future product candidates. If we are subject to regulatory sanctions or if regulatory approval for our product candidates is withdrawn or limited, our business, prospects, financial condition and results of operations would be significantly harmed.

Risks Related to Our Reliance on Third Parties

We rely, and will continue to rely, on third parties to conduct some of our nonclinical studies and all of our clinical trials and also to perform other tasks for us. If these third parties perform in an unsatisfactory manner, it may harm our business.

We have relied upon and plan to continue to rely upon third-party CROs, including our CROs for our clinical trials of GBT440, to monitor and manage data for some of our ongoing nonclinical studies and for all of our clinical programs. We rely on these parties for execution of these nonclinical studies and clinical trials, and control only certain aspects of their activities. Nevertheless, we are responsible for ensuring that each of our studies and trials are conducted in accordance with the applicable protocol, legal, regulatory, and scientific standards and our reliance on the CROs does not relieve us of our regulatory responsibilities. We and our CROs and other vendors are required to comply with all applicable cGMPs, GCPs, and Good Laboratory Practices, or GLPs, which are regulations and guidelines enforced by the FDA, the Competent Authorities of the Member States of the European Economic Area, or EEA, and comparable foreign regulatory authorities. Regulatory authorities enforce these regulations through periodic inspections of study sponsors, principal investigators, study sites, manufacturing facilities, nonclinical testing facilities and other contractors. If we or any of our CROs or other vendors fail to comply with applicable regulations, the data generated in our nonclinical studies and clinical trials may be deemed unreliable and the applicable regulatory authorities may require us to repeat or to perform additional nonclinical and clinical studies before approving our marketing applications, which would delay the regulatory review and approval process, perhaps significantly.

In addition, the execution of nonclinical studies and clinical trials, the subsequent compilation and analysis of the data and results produced, and the supply of test product for our trials, requires coordination among various parties. In order for these functions to be carried out effectively and efficiently, it is imperative that these parties communicate and coordinate with one another. These third parties may terminate their agreements with us upon short notice for our uncured material breach, or under certain other circumstances. If any of our relationships with our third-party CROs or other key vendors (including manufacturing and testing facilities) terminates, we may not be able to enter into arrangements with alternative CROs or other key vendors on a timely basis or at all, or do so on commercially reasonable terms. In addition, our CROs and other key vendors are not our employees, and except for remedies available to us under our agreements with them, we cannot control whether they devote sufficient time and resources to our programs. Furthermore, these third party CROs or other key vendors may also have relationships with other entities, some of which may be our competitors. If CROs or other key vendors do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced or if the quality or accuracy of the data and results they obtain or the test product they supply is compromised for any reason (including failure to adhere to our protocols, or regulatory requirements), our development activities may be extended, delayed, or terminated and we may not be able to seek or obtain regulatory approval for or successfully commercialize any of our product candidates. Switching or adding CROs or any other key vendors involves additional cost, time and

management resources and focus. In addition, our CROs or other key vendors may also generate higher costs than anticipated.

Accordingly, our dependence on third-party CROs and other key vendors may subject us to challenges, delays and costs that have a material adverse impact on our business, prospects, financial condition and results of operations.

We rely entirely on third parties for the manufacturing of our lead product candidate GBT440 and for any other product candidates we may pursue for nonclinical studies and clinical trials, and we expect to continue to do so for any product commercialization. Our business could be harmed if any of those third parties fail to provide us with sufficient quantities of drug product, or fail to do so at acceptable quality or quantity levels or prices.

We do not currently have, nor do we plan to acquire, the infrastructure or capability internally to manufacture drug supplies for our ongoing and planned clinical trials of GBT440 or any additional clinical trials that we may conduct for GBT440 or any other future product candidates, and we expect to always lack the resources to manufacture any of our product candidates on a commercial scale. We rely, and expect to continue to rely, wholly on third-party manufacturers to produce our product candidates for our clinical trials, including our HOPE study, as well as for commercial manufacture if GBT440 (or any of our product candidates, if any) receives marketing approval. Although we generally do not begin a clinical trial unless we believe we have a sufficient supply of a product candidate to complete the trial, any significant delay or discontinuity in the supply of a product candidate, or the raw material components thereof, for an ongoing clinical trial due to the need to replace a third-party manufacturer could considerably delay the clinical development and potential regulatory approval of our product candidates, which could harm our business and results of operations. We expect to rely on multiple third parties for the manufacture of commercial supplies of GBT440 or any other product candidates, if approved.

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We may be unable to establish or maintain any agreements with third-party manufacturers for GBT440 or any other product candidates, or to do so on acceptable terms. Even if we are able to establish or maintain agreements with third-party manufacturers for GBT440 or any other product candidates, reliance on third-party manufacturers entails additional risks, including:

- reliance on the third party for regulatory compliance and quality assurance;
- the possible breach or termination of the manufacturing agreement by the third party or by us, including at a time that is costly or inconvenient for us;
- the inability of the third party to satisfy our ordering requirements as to quality, quantity and/or price;
- the possible misappropriation of our proprietary information, including our trade secrets and know-how; and
- the unwillingness of the third party to extend or renew terms with us when desired.

Furthermore, all of our contract manufacturers are engaged with other companies to supply and/or manufacture materials or products for such companies, which exposes our manufacturers to regulatory and market risks for the production of such materials and products. As a result, failure to meet the regulatory requirements for the production of those materials and products may affect the regulatory assessment or clearance of our contract manufacturers facilities generally, and industry consolidation, pricing or other market factors may cause our contract manufacturers to scale back, terminate or refuse to renew desired arrangements for our materials. If the FDA or a comparable foreign regulatory agency finds deficiencies in or does not approve these facilities for the manufacture of our product candidates or if any agency later finds deficiencies or withdraws its approval in the future, we may need to find alternative manufacturing facilities. Any of these factors could negatively impact our ability to develop, obtain regulatory approval for or market our product candidates, if approved.

Our lead product candidate GBT440 and any future product candidates that we may develop may compete with other product candidates and marketed drugs for access to manufacturing facilities. Any performance failure on the part of our existing or future manufacturers could delay clinical development or marketing approval. Although we currently have adequate supplies to conduct our ongoing clinical trials, if we are unable to enter into relationships with additional contract manufacturers, or our current or future contract manufacturers cannot perform as agreed, we may experience delays and incur additional costs in our clinical development and potential commercialization activities. Our current and anticipated future dependence upon others for the manufacturing of our product candidates and any marketed drugs may adversely affect our future profit margins and our ability to commercialize any product candidates that receive marketing approval on a timely and competitive basis.

If the contract manufacturing facilities on which we rely do not continue to meet regulatory requirements or are unable to meet our supply demands, our business will be harmed.

All entities involved in the preparation of therapeutics for clinical trials or commercial sale, including our existing contract manufacturers for our lead product candidate GBT440, are subject to extensive regulation. Components of a finished therapeutic product approved for commercial sale or used in late-stage clinical trials must be manufactured in

accordance with cGMPs, or similar regulatory requirements outside the United States. These regulations govern manufacturing processes and procedures, including recordkeeping, and the implementation and operation of quality systems to control and assure the quality of investigational products and products approved for sale. Poor control of production processes can lead to the introduction of contaminants or to inadvertent changes in the properties or stability of our product candidates. Our failure, or the failure of our third-party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including clinical holds, fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocation, suspension of production, seizures or voluntary recalls of product candidates or marketed drugs, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect clinical or commercial supplies of GBT440 or any of our future product candidates.

Among other requirements, we or our contract manufacturers must supply all necessary documentation in support of an NDA or MAA seeking approval of a product candidate on a timely basis and must adhere to GLP and cGMP regulations enforced by the FDA and other regulatory agencies through their facilities inspection programs. Some of our contract manufacturers for GBT440 have never produced a commercially approved pharmaceutical product and therefore have not obtained the requisite regulatory authority pre-approval inspection or approvals to do so. The facilities and quality systems of some or all of our third-party contractors must pass a pre-approval inspection for compliance with the applicable regulations as a condition of regulatory approval of our lead product candidate GBT440. In addition, the regulatory authorities may, at any time, audit or inspect a manufacturing facility involved with the preparation of GBT440 or any of our future product candidates or the associated quality systems. Although we oversee the contract manufacturers, we cannot control the manufacturing process of, and are completely dependent on, our contract manufacturing partners for compliance with these complex regulatory requirements. If these manufacturers, facilities, records or systems do not pass pre-approval inspections and reviews, regulatory approval of GBT440 or any of our other future product candidates may never be granted or may be substantially delayed.

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In addition, at any time following approval of a product for sale, the regulatory authorities also may audit the manufacturing facilities of our third-party contractors. If any such inspection or audit identifies a failure to comply with applicable regulations or if a violation of our product specifications or applicable regulations occurs independent of such an inspection or audit, we or the relevant regulatory authority may require remedial measures that could be costly and/or time consuming for us or a third party to implement, and that may include the temporary or permanent suspension of a clinical study or commercial sales or the temporary or permanent closure of a facility. Any such remedial measures imposed upon us or third parties with whom we contract could materially harm our business.

Additionally, if supply from one approved manufacturer is interrupted, an alternative manufacturer would need to be qualified through a supplement to an NDA, MAA variation or equivalent foreign regulatory filing, which could result in further delay, uncertainty and costs. Regulatory agencies may also require additional clinical studies if a new manufacturer is relied upon for commercial production. Switching manufacturers may involve substantial costs and is likely to result in a delay in our programs, results and activities (including commercial timelines).

These factors could cause us to incur higher costs and could cause the delay or termination of clinical trials, regulatory submissions, required approvals, or commercialization of our product candidates. Furthermore, if our suppliers fail to meet contractual requirements and we are unable to secure one or more replacement suppliers capable of production at a substantially equivalent cost, our clinical trials may be delayed or we could lose potential revenue.

Our reliance on third parties requires us to share our trade secrets and confidential information, which increases the possibility that a competitor will discover them or that our critical information will be misappropriated or disclosed.

Because we rely on third parties to manufacture our lead product candidate GBT440 and to conduct other aspects of our clinical development activities, we must, at times, share trade secrets with them. We seek to protect our proprietary technology in part by entering into confidentiality agreements and, if applicable, other forms of agreement with any collaborators, CROs, manufacturers and consultants prior to beginning research or disclosing proprietary information. These agreements typically limit the rights of the third parties to use or disclose our confidential information. Despite the contractual provisions employed when working with third parties, the need to share trade secrets and other confidential information increases the risk that such trade secrets and confidential information may become known by our competitors, may inadvertently be incorporated into the technology of others, or are disclosed or used in violation of these agreements. Given that our proprietary position is based, in part, on our know-how and trade secrets, a competitor s discovery of our trade secrets or confidential information, or other unauthorized use or disclosure would impair our competitive position and may have a material adverse effect on our business.

Our agreements typically restrict the ability of certain collaborators, CROs, manufacturers, other key vendors and consultants to publish data, although many of our contracts provide for the right to publish data in specified circumstances. A significant breach of these publication provisions could impair our competitive position. In addition, we conduct joint research and development programs that may require us to share trade secrets and other confidential information. Despite our efforts to protect our trade secrets and confidential information, our competitors may discover them, either through breach of agreements relating to these programs, independent development or publication of information where we do not have proprietary or otherwise protected rights at the time of publication. A competitor s discovery of our trade secrets or confidential information would impair our competitive position and have an adverse impact on our business.

Risks Related to Our Intellectual Property

If we or our licensors are unable to obtain and maintain sufficient intellectual property protection for our product candidates, or if the scope of the intellectual property protection obtained is not sufficiently broad, our competitors could develop and commercialize product candidates similar or identical to ours, and our ability to successfully commercialize our lead product candidate GBT440 and other product candidates that we may pursue may be impaired. Changes in patent policy and rules could impair our ability to protect our products and increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents.

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As is the case with other biopharmaceutical companies, our success depends in large part on our ability to obtain and maintain protection of the intellectual property, particularly patents, that we may exclusively license or own solely and jointly with others in the United States and other countries with respect to our product candidates and technology, including our lead product candidate GBT440. We seek to protect our proprietary position by filing patent applications in the United States and abroad related to our product candidates.

Obtaining and enforcing biopharmaceutical patents is costly, time consuming, uncertain and complex, and we or our licensors may not be able to file and prosecute all necessary or desirable patent applications, or maintain, enforce and license any patents that may issue from such patent applications, at a reasonable cost or in a timely manner. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. We may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the rights to patents licensed to third parties. Therefore, these patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business. If our current or future licensors, licensees or collaboration partners fail to establish, maintain or protect such patents and other intellectual property rights, such rights may be reduced or eliminated. If our licensors, licensees or collaboration partners are not fully cooperative or disagree with us as to the prosecution, maintenance or enforcement of any patent rights, such patent rights could be compromised.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal, technological and factual questions and has in recent years been the subject of much litigation. In addition, the laws of foreign countries may not protect our rights to the same extent as the laws of the United States, or vice versa. Further, we may not be aware of all third-party intellectual property rights potentially relating to our product candidates. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing or, in some cases, not at all. Therefore, we cannot know with certainty whether we were the first to make the inventions claimed in our patents or pending patent applications, or that we were the first to file for patent protection of such inventions. As a result, the issuance, scope, validity, enforceability and commercial value of our patent rights are and will remain highly uncertain. The patent examination process may require us or our licensors, licensees or collaboration partners to narrow the scope of the claims of our or our licensors , licensees or collaboration partners pending and future patent applications, which may limit the scope of patent protection that may be obtained. Our pending and future patent applications may not result in patents being issued that protect our lead product candidate GBT440 or any future product candidates, in whole or in part, or which effectively prevent others from commercializing competitive product candidates. Even if our patent applications issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors from competing with us or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our patents by developing similar or alternative product candidates in a non-infringing manner, or by successful seeking to narrow or invalidate our patents or render them unenforceable. Our and our licensors , licensees or collaboration partners patent applications cannot be enforced against third parties practicing the technology claimed in such applications unless and until a patent issues from such applications, and then only to the extent the issued claims cover the technology.

We cannot assure you that all of the potentially relevant prior art relating to our patents and patent applications has been found. If such prior art exists, it can invalidate a patent or prevent a patent from issuing from a pending patent application. Moreover, we may be subject to a third-party preissuance submission of prior art to the United States Patent and Trademark Office, or the USPTO, or become involved in opposition, derivation, reexamination, *inter partes* review, post-grant review or interference proceedings challenging our patent rights or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate, our patent rights, allow third parties to commercialize our product candidates and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize drugs without infringing third-party

patent rights. In addition, if the breadth or strength of protection provided by our patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize GBT440 or any future product candidates.

In addition, the issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, and our patents may be challenged in the courts or patent offices in the United States and abroad. Such challenges may result in loss of exclusivity or freedom to operate or in patent claims being narrowed, invalidated or held unenforceable, in whole or in part, which could limit our ability to stop others from using or commercializing similar or identical product candidates, or limit the duration of the patent protection of our product candidates. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing drugs similar or identical to ours.

The United States has enacted and is currently implementing wide-ranging patent reform legislation. The United States Supreme Court has ruled on several patent cases in recent years, either narrowing the scope of patent protection available in certain circumstances or weakening the rights of patent owners in certain situations. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents once obtained. Depending on future actions by the U.S. Congress, the federal courts, and the USPTO, the laws and regulations governing patents could change in unpredictable ways that would diminish the value of our patents and patent applications or narrow the scope of our patent protection, or weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future.

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Assuming the other requirements for patentability are met, in the United States prior to March 15, 2013, the first to make the claimed invention is entitled to the patent, while outside the United States, the first to file a patent application is entitled to the patent. After March 15, 2013, under the Leahy-Smith America Invents Act, or the AIA, enacted in 2011, the United States has moved to a first to file system similar to other countries systems. The AIA also includes a number of significant changes that affect the way patent applications are prosecuted, and may also affect patent litigation. The effects of these changes are currently unclear as the USPTO must still implement various regulations, the courts have yet to address certain of these provisions and the applicability of the AIA and new regulations remain to be issued. Accordingly, it is not clear what, if any, impact the AIA will have on the operation of our business. However, the AIA and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of patents that may issue from such patent applications, all of which could have a material adverse effect on our business and financial condition. Any further changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents and patent applications or narrow the scope of our potential patent protection.

We may become subject to claims alleging infringement of third parties patents or proprietary rights and/or claims seeking to invalidate our patents, which would be costly, time consuming and, if successfully asserted against us, delay or prevent the development and commercialization of our lead product candidate GBT440 or any future product candidates that we may develop.

We cannot assure that our lead product candidate GBT440 or any future product candidates that we may develop will not infringe existing or future third-party patents. Because patent applications can take many years to issue and may be confidential for 18 months or more after filing, there may be applications now pending of which we are unaware and which may later result in issued patents that we may infringe by commercializing GBT440 or any future product candidates that we may develop. We may additionally be unaware of one or more issued patents that would be infringed by the manufacture, sale or use of GBT440 or any of our other product candidates.

We may in the future become party to, or be threatened with, adversarial proceedings or litigation against us regarding third party intellectual property rights with respect to GBT440 or our future product candidates, that would cause us to incur substantial expenses and, if successful against us, could cause us to pay substantial damages, including treble damages and attorneys fees if we are found to be willfully infringing a third party s patents. We may also be required to indemnify parties with whom we have contractual relationships against such claims. If a patent infringement suit were brought against us, we could be forced to stop or delay research, development, manufacturing or sales of the product or product candidate that is the subject of the suit. As a result of patent infringement claims, or in order to avoid potential claims, we may choose to seek, or be required to seek, a license from the third party to continue developing, manufacturing and marketing our product candidates and would most likely be required to pay license fees or royalties or both, that could be significant. These licenses may not be available on acceptable terms, or at all. Even if we were able to obtain a license, the rights may be nonexclusive, which would give our competitors access to the same intellectual property licensed to us. Ultimately, we could be prevented from commercializing a product, or forced to redesign it, or to cease some aspect of our business operations if, as a result of actual or threatened patent infringement claims, we are unable to enter into licenses on acceptable terms. Even if we are successful in defending against such claims, such litigation can be expensive, uncertain, and time consuming to litigate, and would divert management s attention from our core business. Any of these events could harm our business significantly.

In addition to infringement claims against us, if third parties prepare and file patent applications in the United States that also claim technology similar or identical to ours, we may have to participate in interference or derivation proceedings in the USPTO, to determine which party is entitled to a patent on the disputed invention. We may also become involved in similar opposition proceedings in the European Patent Office or similar offices in other jurisdictions regarding our intellectual property rights with respect to our product candidates and technology.

We may become involved in lawsuits to protect or enforce our patents or other intellectual property, which could be expensive, time consuming and unsuccessful.

Competitors or other parties may infringe our patents or other intellectual property. Although we are not currently involved in any litigation, if we were to initiate legal proceedings against a third party to enforce a patent covering one of our product candidates, the defendant could counterclaim that the patent covering our product candidate is invalid and/or unenforceable. In patent litigation in the United States, defendant counterclaims alleging invalidity and/or unenforceability are commonplace, and there are multiple potential grounds for a validity challenge or an unenforceability assertion. The outcome following legal assertions of invalidity and unenforceability is often highly unpredictable.

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Interference or derivation proceedings provoked by third parties or brought by us or declared by the USPTO may be necessary to determine the priority of inventions with respect to our patents or patent applications. An unfavorable outcome could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms.

In addition, our defense of litigation, interference or derivation proceedings may fail and, even if successful, may result in substantial costs and distract our management and other employees. In addition, the uncertainties associated with litigation could have a material adverse effect on our business and operations including our ability to raise the funds necessary to continue our clinical trials, continue our research programs, license necessary technology from third parties, or enter into development partnerships that would help us bring our product candidates to market.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also be public announcements of the results of hearings, motions, or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock.

We may become subject to claims challenging the inventorship or ownership of our patents and other intellectual property.

We may be subject to claims that former employees, collaborators or other third parties have an interest in our patents or other intellectual property as an inventor or co-inventor. For example, inventorship disputes may arise from conflicting obligations of third parties involved in developing our product candidates or as a result of questions regarding co-ownership of potential joint inventions. Litigation may be necessary to defend against these and other claims challenging inventorship or ownership or we may enter into agreements to clarify the scope of our rights in such intellectual property. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, valuable intellectual property. Such an outcome could have a material adverse effect on our business and operations including our ability to raise the funds necessary to continue our clinical trials, continue our research programs, license necessary technology from third parties, or enter into development partnerships that would help us bring our product candidates to market. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

We jointly own patents and patent applications with third parties. Our ability to exploit or enforce these patent rights, or to prevent the third party from granting licenses to others with respect to these patent rights, may be limited in some circumstances.

We jointly own certain patents and patent applications with third parties. In the absence of an agreement with each co-owner of jointly owned patent rights, we will be subject to default rules pertaining to joint ownership. Some countries require the consent of all joint owners to exploit, license or assign jointly owned patents, and if we are unable to obtain that consent from the joint owners, we may be unable to exploit the invention or to license or assign our rights under these patents and patent applications in those countries. For example, in 2015 we secured exclusive rights from the Regents of the University of California, or the Regents, for certain patents and patent applications that they jointly own with us related to our lead product candidate GBT440 and GBT440 analogs. Additionally, in the United States, each co-owner may be required to be joined as a party to any claim or action we may wish to bring to enforce these patent rights, which may limit our ability to pursue third party infringement claims.

We may be subject to claims that our employees, consultants or independent contractors have wrongfully used or disclosed confidential information of third parties or that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

We employ individuals who were previously employed at universities or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Although we try to ensure that our employees, consultants and independent contractors do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or our employees, consultants or independent contractors have inadvertently or otherwise used or disclosed intellectual property, including trade secrets or other proprietary information, of any of our employees former employers or other third parties. Litigation may be necessary to defend against these claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel, which could adversely impact our business. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

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If we are unable to protect the confidentiality of our trade secrets or other confidential information, the value of our technology could be materially adversely affected and our business would be harmed.

We seek to protect our confidential proprietary information, in part, by confidentiality agreements and invention assignment agreements with our employees, consultants, scientific advisors, contractors and collaborators. These agreements are designed to protect our proprietary information. However, we cannot be certain that such agreements have been entered into with all relevant parties, and we cannot be certain that our trade secrets and other confidential proprietary information will not be disclosed or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. For example, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. We also seek to preserve the integrity and confidentiality of our confidential proprietary information by maintaining physical security of our premises and physical and electronic security of our information technology systems, but it is possible that these security measures could be breached. Enforcing a claim that a third party obtained illegally and is using trade secrets or confidential know-how is expensive, time consuming and unpredictable. The enforceability of confidentiality agreements may vary from jurisdiction to jurisdiction. If any of our confidential proprietary information were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent such competitor from using that technology or information to compete with us, which could harm our competitive position. Additionally, if the steps taken to maintain our trade secrets are deemed inadequate, we may have insufficient recourse against third parties for misappropriating the trade secret.

Failure to obtain or maintain trade secrets or confidential know-how trade protection could adversely affect our competitive position. Moreover, our competitors may independently develop substantially equivalent proprietary information and may even apply for patent protection in respect of the same. If successful in obtaining such patent protection, our competitors could limit our use of our trade secrets or confidential know-how.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and/or applications will be due to be paid to the USPTO and various governmental patent agencies outside of the United States in several stages over the lifetime of the patents and/or applications. We employ outside firms and rely on them to pay many of these fees. The USPTO and various non-U.S. governmental patent agencies require compliance with a number of complex procedural, documentary, fee payment and other similar provisions during the patent application process. We employ reputable law firms and other professionals to help us comply, and in many cases, an inadvertent lapse can be cured by payment of a late fee or by other means in accordance with the applicable rules. However, non-compliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, our competitors might be able to enter the market, with a material adverse effect on our business.

We may not be able to protect our intellectual property rights throughout the world.

Filing, prosecuting and defending patents on our product candidates in all countries throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States can be less extensive than those in the United States. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries worldwide, or from selling or importing products

made using our inventions in and into the United States or other jurisdictions. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and may also export infringing products to territories where we have patent protection but patent enforcement is not strong. These products may compete with our products and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights throughout the world. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets, and other intellectual property protection, particularly those relating to biotechnology products, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights, whether or not successful, could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

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Changes in patent laws or patent jurisprudence could diminish the value of patents in general, thereby impairing our ability to protect our products.

As is the case with other biopharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biopharmaceutical industry involve both technological complexity and legal complexity. Therefore, obtaining and enforcing biopharmaceutical patents is costly, time-consuming and inherently uncertain. In addition, the AIA has been recently enacted in the United States, resulting in significant changes to the U.S. patent system.

An important change introduced by the AIA is that, as of March 16, 2013, the United States transitioned to a first-to-file system for deciding which party should be granted a patent when two or more patent applications are filed by different parties claiming the same invention. A third party that files a patent application in the USPTO after that date but before us could therefore be awarded a patent covering an invention of ours even if we had made the invention before it was made by the third party. This will require us to be cognizant going forward of the time from invention to filing of a patent application, but circumstances could prevent us from promptly filing patent applications on our inventions.

Among some of the other changes introduced by the AIA are changes that limit where a patentee may file a patent infringement suit and provide opportunities for third parties to challenge any issued patent in the USPTO. This applies to all of our U.S. patents, even those issued before March 16, 2013. Because of a lower evidentiary standard in USPTO proceedings compared to the evidentiary standard in United States federal courts necessary to invalidate a patent claim, a third party could potentially provide evidence in a USPTO proceeding sufficient for the USPTO to hold a claim invalid even though the same evidence would be insufficient to invalidate the claim if first presented in a district court action. Accordingly, a third party may attempt to use the USPTO procedures to invalidate our patent claims that would not have been invalidated if first challenged by the third party as a defendant in a district court action. The AIA and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents.

The USPTO recently developed new regulations and procedures to govern administration of the AIA, and many of the substantive changes to patent law associated with the AIA, and, in particular, the first to file provisions, only became effective on March 16, 2013. Accordingly, it is not clear what, if any, impact the AIA will have on the operation of our business. However, the AIA and its implementation could increase the uncertainties and costs surrounding the prosecution of our or our licensors or collaboration partners patent applications and the enforcement or defense of our or our licensors or collaboration partners issued patents, all of which could have an adverse effect on our business and financial condition.

Additionally, the U.S. Supreme Court has ruled on several patent cases in recent years narrowing the scope of patent protection available in certain circumstances or weakening the rights of patent owners in certain situations. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this has also contributed to uncertainty with respect to the value of patents, once obtained. Depending on decisions by the U.S. Congress, the federal courts, and the USPTO, the laws and regulations governing patents could change in unpredictable ways that could weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future. Similarly, the complexity and uncertainty of European patent laws has also increased in recent years. In addition, the European patent system is relatively stringent in the type of amendments that are allowed during prosecution. These changes could limit our ability to obtain new patents in the future that may be important for our business.

Risks Related to Commercialization

Even if our lead product candidate GBT440 or any other product candidate that we may develop receives marketing approval, commercial success will depend upon the degree of market acceptance by physicians, patients, third-party payors and others in the medical community and marketplace.

If our lead product candidate GBT440 or other product candidates that we may pursue receives marketing approval, the product may nonetheless fail to gain sufficient market acceptance by physicians, patients, third-party payors and others in the medical community and marketplace. If any approved product (if any) does not achieve an adequate level of acceptance, we may not generate significant revenue from drug sales and we may not become profitable. Before granting reimbursement approval, healthcare payors may require us to demonstrate that our product candidates, in addition to treating the target indication, also provide incremental health benefits to patients. Our efforts to educate the medical community and third-party payors about the benefits of our product candidates may require significant resources and may never be successful. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a wide range of factors, including:

the efficacy and potential advantages of our drugs compared to alternative treatments;

our ability to offer our drugs for sale at competitive prices;

the convenience and ease of administration of our drugs compared to alternative current and future treatments;

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the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;

the availability of drugs and their ability to meet market demand, including a reliable supply for long-term chronic treatment;

the strength of marketing and distribution support;

the availability of third-party coverage and adequate reimbursement;

the clinical indications and approved labeling for which the drug is approved;

the prevalence and severity of any side effects and overall safety profile of the drug; and

any restrictions on the use of the drug, including together with other medications.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our product candidates, we may be unsuccessful in commercializing our product candidates when approved by health authorities.

Although some of our employees have experience with commercializing products while employed at other companies, as a company we have no experience selling and marketing our product candidates, as a management team we have not commercialized any product candidates, and we currently have no marketing or sales organization. To successfully commercialize any products that may result from our development programs, we will need to develop these capabilities, either on our own or with others. If our product candidates receive regulatory approval, we intend to establish a sales and marketing organization with technical expertise and supporting distribution capabilities to commercialize our product candidates in major markets, which will be expensive, difficult, risky and time consuming. Any failure or delay in the development of our internal sales, marketing, and distribution capabilities would adversely impact the commercialization of our products, if any are approved.

Further, given our lack of prior experience in marketing and selling biopharmaceutical products, our initial estimate of the size of the required sales force may be materially more or less than the size of the sales force actually required to effectively commercialize our product candidates. As such, we may be required to hire substantially more sales representatives to adequately support the commercialization of our product candidates or we may incur excess costs as a result of hiring more sales representatives than necessary. With respect to certain geographical markets, we may enter into collaborations with other entities to utilize their local marketing and distribution capabilities, but we may be unable to enter into such agreements on favorable terms, if at all. If our future collaborators do not commit sufficient resources to commercialize our future products, if any, and we are unable to develop the necessary marketing capabilities on our own, we will be unable to generate sufficient product revenue to sustain our business. We may be competing with companies that currently have extensive and well-funded marketing and sales operations. Without an internal team or the support of a third party to perform marketing and sales functions, we may be unable to compete successfully against more established companies.

The insurance coverage and reimbursement status of newly-approved products is uncertain. Failure to obtain or maintain adequate coverage and reimbursement for new or current products could limit our ability to market those products and decrease our ability to generate revenue.

Our target patient populations are small, and accordingly the pricing, coverage and reimbursement of our product candidates, if approved, must be adequate to support our commercial infrastructure. Our per-patient prices must be sufficient to recover our development and manufacturing costs and potentially achieve profitability. Accordingly, the availability of government funded or private insurance coverage for our product candidates for any approved indications, and the extent of reimbursement by governmental and private payors, will be essential for most patients to be able to afford expensive treatments, such as we expect ours to be assuming approval. Sales of our product candidates will depend substantially, both domestically and abroad, on the extent to which the costs of our product candidates will be paid by third party payors, like private health insurers, including health maintenance, managed care, pharmacy benefit and similar healthcare management organizations, and government health administration authorities, like Medicare and Medicaid. If reimbursement is not available, or is available only to limited levels, we may not be able to successfully commercialize our product candidates. Even if coverage is provided, the approved reimbursement amount may not be high enough to allow us to establish or maintain pricing sufficient to realize a sufficient return on our investment.

There is significant uncertainty related to the insurance coverage and reimbursement of newly approved drug products. The process for determining whether a third-party payor will provide coverage for a product may be separate from the process for setting the reimbursement rate that the payor will pay for the product. Third-party payors may limit coverage to specific products on an approved list, or formulary, which might not include all of the FDA-approved products for a particular indication. Moreover, a third-party payor s decision to provide coverage for a product does not imply that an adequate reimbursement rate will be approved. For example, the payor s reimbursement payment rate may not be adequate or may require co-payments that patients find unacceptably high. Additionally, coverage and reimbursement for products can differ significantly from payor to payor.

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In the United States, significant decisions about reimbursement for new medicines are made by the Centers for Medicare & Medicaid Services, or CMS, an agency within the U.S. Department of Health and Human Services, as CMS decides whether and to what extent a new medicine will be covered and reimbursed under Medicare and enters into contracts with drug manufacturers for discounted drug prices for Medicaid under the Medicaid Drug Rebate Program. The practices and requirements relating to the payment of rebates by drug manufacturers for Medicaid purchases are determined by each state, and in some cases, if a company does not enter into a rebate agreement, its Medicaid sales will be subjected to a prior authorization procedure that requires state agency approval to qualify a doctor s prescription for reimbursement.

Outside the United States, international operations are generally subject to extensive governmental price controls and other market regulations, and we believe the increasing emphasis on cost-containment initiatives in Europe, Canada, and other countries has and will continue to put pressure on the pricing and usage of our product candidates. In many countries, the prices of medical products are subject to varying price control mechanisms as part of national health systems, and changes to these regulations over time contribute to uncertainty regarding the ability to obtain pricing and usage approvals for our product candidates outside of the United States. In general, the prices of medicines under such systems are substantially lower than in the United States. Other countries allow companies to fix their own prices for medicines, but monitor and control company profits. Additional foreign price controls or other changes in pricing regulation could restrict the amount that we are able to charge for our product candidates. Accordingly, in markets outside the United States, the reimbursement for our products may be reduced compared with the United States and may be insufficient to generate commercially reasonable revenues and profits.

Moreover, increasing efforts by governmental and third-party payors, in the United States and abroad, to cap or reduce healthcare costs may cause such organizations to limit both coverage and levels of reimbursement for new products approved and, as a result, they may not cover or provide adequate payment for our product candidates. We expect to experience pricing pressures in connection with the sale of any of our product candidates, due to the trend toward managed healthcare, the increasing influence of health maintenance organizations and additional legislative and political changes. The downward pressure on healthcare costs in general, particularly prescription drugs and surgical procedures and other treatments, has become very intense. As a result, increasingly high barriers are being erected to the entry of new products. In addition, drug prices are under significant scrutiny in the markets in which our products may be sold, and drug pricing and other healthcare costs continue to be subject to intense political and social pressures which we anticipate will continue and escalate on a global basis. As a result, our business and reputation may be harmed, our stock price may be adversely impacted and experience periods of volatility, we may have difficulty raising funds and our results of operations may be adversely impacted.

In light of the large population of patients with SCD who reside in foreign countries, our ability to generate meaningful revenues in those jurisdictions may be limited due to the strict price controls and reimbursement limitations imposed by governments outside of the United States.

In some countries, particularly in the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a drug. To obtain coverage and reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies, or to meet other criteria for pricing approval. If reimbursement of our product candidates is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business and operations could be harmed, possibly materially, based on the large population of patients with SCD who reside in foreign countries.

Our business operations and current and future relationships with investigators, health care professionals, consultants, third-party payors and customers will be subject, directly or indirectly, to federal and state healthcare fraud and abuse laws, false claims laws, health information privacy and security laws, and other healthcare laws and regulations. If we are unable to comply, or have not fully complied, with such laws, we could face substantial penalties.

Although we do not currently have any products on the market, our current and future operations may be directly, or indirectly through our prescribers, customers and third-party payors, subject to various U.S. federal and state healthcare laws and regulations. These laws may impact, among other things, our current business operations, including our clinical research activities, and proposed sales, marketing and education programs and constrain our business and financial arrangements and relationships with healthcare providers, physicians and other parties through which we market, sell and distribute our products for which we obtain marketing approval. We may also be subject to additional healthcare, statutory and regulatory requirements and enforcement by foreign regulatory authorities in jurisdictions in which we conduct our business. The laws that may affect our ability to operate include:

the U.S. federal Anti-Kickback Statute, which prohibits, among other things, persons or entities from knowingly and willfully soliciting, offering, receiving or paying any remuneration (including any kickback, bribe, or certain rebates), directly or indirectly, overtly or covertly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, lease, order or recommendation of, any good, facility, item or service, for which payment may be made, in whole or in part, under U.S. federal and state healthcare programs such as Medicare and Medicaid. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation;

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the U.S. federal false claims and civil monetary penalties laws, including the civil False Claims Act, which, among other things, impose criminal and civil penalties, including through civil whistleblower or qui tam actions, against individuals or entities for knowingly presenting, or causing to be presented, to the U.S. federal government, claims for payment or approval that are false or fraudulent, knowingly making, using or causing to be made or used, a false record or statement material to a false or fraudulent claim, or from knowingly making a false statement to avoid, decrease or conceal an obligation to pay money to the U.S. federal government. In addition, the government may assert that a claim including items and services resulting from a violation of the U.S. federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act;

the U.S. federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which imposes criminal and civil liability for, among other things, knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, or knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement, in connection with the delivery of, or payment for, healthcare benefits, items or services; similar to the U.S. federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation;

HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009 and their implementing regulations, including the Final HIPAA Omnibus Rule, published in January 2013, which imposes certain obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information without appropriate authorization by covered entities subject to the Final HIPAA Omnibus Rule, i.e. health plans, healthcare clearinghouses and healthcare providers, as well as their business associates that perform certain services for or on their behalf involving the use or disclosure of individually identifiable health information;

the U.S. Federal Food, Drug and Cosmetic Act, which prohibits, among other things, the adulteration or misbranding of drugs, biologics and medical devices;

the U.S. federal legislation commonly referred to as Physician Payments Sunshine Act, enacted as part of the ACA, and its implementing regulations, which requires certain manufacturers of drugs, devices, biologics and medical supplies that are reimbursable under Medicare, Medicaid, or the Children s Health Insurance Program to report annually to the CMS information related to certain payments and other transfers of value to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, as well as ownership and investment interests held by the physicians described above and their immediate family members;

analogous state laws and regulations, including: state anti-kickback and false claims laws, which may apply to our business practices, including, but not limited to, research, distribution, sales and marketing arrangements and claims involving healthcare items or services reimbursed by any third-party payor, including private insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry s voluntary compliance guidelines and the relevant compliance guidance promulgated by the U.S. federal government, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws and regulations that require drug manufacturers to file reports relating to pricing and marketing information, which requires tracking gifts and other remuneration and items of value provided to healthcare professionals and

entities; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts; and

European and other foreign law equivalents of each of the laws, including reporting requirements detailing interactions with and payments to healthcare providers.

Ensuring that our internal operations and future business arrangements with third parties comply with applicable healthcare laws and regulations will involve substantial costs. It is possible that governmental authorities will conclude that our business practices do not comply with current or future statutes, regulations, agency guidance or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of the laws described above or any other governmental laws and regulations that may apply to us, we may be subject to significant penalties, including civil, criminal and administrative penalties, damages, fines, exclusion from U.S. government funded healthcare programs, such as Medicare and Medicaid, or similar programs in other countries or jurisdictions, disgorgement, individual imprisonment, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, contractual damages, reputational harm, diminished profits, and the curtailment or restructuring of our operations. Further, defending against any such actions can be costly, time-consuming and may require significant financial and personnel resources. Therefore, even if we are successful in defending against any such actions that may be brought against us, our business may be impaired. If any of the physicians or other providers or entities with whom we expect to do business is found to not be in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs and imprisonment. If any of the above occur, it could adversely affect our ability to operate our business and our results of operations.

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Healthcare legislative reform measures may have a material adverse effect on our business and results of operations.

In the United States, there have been and continue to be a number of legislative initiatives to contain healthcare costs. For example, in 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or the Affordable Care Act, or the ACA, was passed, which substantially changes the way health care is financed by both governmental and private insurers, and significantly impacts the U.S. pharmaceutical industry. The provisions of the ACA of importance to the pharmaceutical and biotechnology industry are, among others, the following:

an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs agents and biologic agents, which is apportioned among these entities according to their market share in certain government healthcare programs;

an increase in the rebates a manufacturer must pay under the Medicaid Drug Rebate Program to 23.1% and 13% of the average manufacturer price for branded and generic drugs, respectively;

a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts to negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer s outpatient drugs to be covered under Medicare Part D;

extension of manufacturers Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations, unless the drug is subject to discounts under the 340B drug discount program;

a new methodology by which rebates owed by manufacturers under the Medicaid Drug Rebate Program are calculated for drugs that are inhaled, infused, instilled, implanted or injected;

expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals and by adding new mandatory eligibility categories for certain individuals with income at or below 133% of the federal poverty level, thereby potentially increasing manufacturers Medicaid rebate liability;

expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;

new requirements under the federal Physician Payments Sunshine Act for drug manufacturers to report information related to payments and other transfers of value made to physicians and teaching hospitals as

well as ownership or investment interests held by physicians and their immediate family members;

a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research;

creation of the Independent Payment Advisory Board, which, if and when impaneled, will have authority to recommend certain changes to the Medicare program that could result in reduced payments for prescription drugs; and

establishment of a Center for Medicare and Medicaid Innovation at CMS to test innovative payment and service delivery models to lower Medicare and Medicaid spending, potentially including prescription drug spending.

Since its enactment, there have been judicial and Congressional challenges to numerous aspects of the ACA, and the federal executive and legislative branches are actively seeking to replace the ACA with new federal legislation. There may also be federal and state regulatory changes that impact or repeal the ACA or healthcare programs, insurance coverage or reimbursement generally. These efforts have significantly increased uncertainty regarding the availability of healthcare programs, insurance coverage and reimbursement as a general matter as well as for our product candidates, and we cannot predict how these events will impact our business or operations.

In addition, there has been heightened governmental scrutiny over the manner in which manufacturers set prices for their marketed products, which have resulted in several recent Congressional inquiries and proposed bills designed to, among other things, bring more transparency to product pricing, review the relationship between pricing and manufacturer patient programs, reduce the price of drugs under Medicare and reform government program reimbursement methodologies for products. We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our product candidates or additional pricing pressures.

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We face intense competition and rapid technological change and the possibility that our competitors may develop therapies that are similar, more advanced, or more effective than ours, which may adversely affect our financial condition and our ability to successfully commercialize our product candidates.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. We are currently aware of various existing therapies and development candidates that may compete with our lead product candidate GBT440 for the potential treatment of SCD or IPF. We have competitors both in the United States and internationally, including major multinational pharmaceutical companies, specialty pharmaceutical companies, and biotechnology companies. Many of our competitors have substantially greater financial, technical, and other resources, such as larger research and development, marketing and manufacturing organizations. Additional mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated in our competitors. As a result, these companies may obtain regulatory approval more rapidly than we are able to and may be more effective in selling and marketing their products as well. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies. Competition may increase further as a result of advances in the commercial applicability of technologies and greater availability of capital for investment in these industries. Our competitors may succeed in developing, acquiring or licensing on an exclusive basis, products that are more effective or less costly than any product candidate that we may develop, or achieve earlier patent protection, regulatory approval, product commercialization and market penetration than we do. Additionally, technologies developed by our competitors may render our potential product candidates uneconomical or obsolete, and we may not be successful in marketing our product candidates against competitors.

If the market opportunities for our product candidates are smaller than we believe they are, our revenue may be adversely affected, and our business may suffer. Our ability to successfully identify patients and acquire a significant market share will be necessary for us to achieve profitability and growth.

Our initial research and product development efforts are focused on the potential of our lead and initial product candidate to treat SCD or hypoxemia in IPF. Our projections of both the number of people who have these diseases, as well as the subset of people with these diseases who have the potential to benefit from treatment with our product candidates, are based on our beliefs and estimates. These estimates have been derived from a variety of sources, including the scientific literature, and may prove to be incorrect. Further, new studies may change the estimated incidence or prevalence of these diseases. The number of patients may turn out to be lower than expected. The effort to identify patients with diseases we seek to treat is in early stages, and we cannot accurately predict the number of patients for whom treatment might be possible. Additionally, the potentially addressable patient population for each of our product candidates may be limited or may not be amenable to treatment with our product candidates, and new patients may become increasingly difficult to identify or gain access to, which would adversely affect our results of operations and our business. Further, even if we obtain significant market share for our product candidates, because the potential target populations are small, we may never achieve profitability despite obtaining such significant market share.

Risks Related to Our Business and Industry

Our future success depends on our ability to retain key employees, consultants and advisors and to attract, retain and motivate qualified personnel.

We are highly dependent on the management, research and development, clinical, financial and business development expertise of our executive officers, as well as the other members of our scientific and clinical teams. Although we have employment offer letters with each of our executive officers, each of them may terminate their employment with

us at any time. We do not maintain key person insurance for any of our executives or employees.

Recruiting and retaining qualified scientific, medical and clinical and technical operations personnel and, if we progress the development of our drug pipeline toward scaling up for commercialization, sales and marketing personnel, will also be critical to our success. The loss of the services of our executive officers or other key employees could impede the achievement of our research, development and commercialization objectives and seriously harm our ability to successfully implement our business strategy. Furthermore, replacing executive officers and key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to successfully develop, gain regulatory approval for and commercialize our product candidates. Competition to hire qualified personnel in our industry and geographic market is intense, and we may be unable to hire, train, retain or motivate these key personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. Furthermore, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or that they have divulged proprietary or other confidential information, or that their former employers own their research output. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability to us. If we are unable to continue to attract and retain high quality personnel, our ability to pursue our growth strategy will be limited.

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We expect to expand our product development capabilities and potentially implement sales, marketing and distribution capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

As our development progresses, we expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of research, drug development, regulatory affairs and, if any of our product candidates are filed for or receives marketing approval, sales, marketing and distribution. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited financial resources, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

If we are not successful in discovering, developing, acquiring or commercializing additional product candidates, our ability to expand our business and achieve our strategic objectives would be impaired.

Although a substantial amount of our effort will focus on the continued clinical testing, potential approval and commercialization of our lead product candidate GBT440, a key element of our strategy is to pursue, develop and commercialize a portfolio of products utilizing proprietary discovery and development technology. We are seeking to do so through our internal research programs and may also selectively pursue commercially synergistic in-licensing or acquisition of additional assets. With the exception of GBT440, all of our other potential product candidates remain in the nonclinical development stage. Research programs to identify product candidates require substantial technical, financial and human resources, whether or not any product candidates are ultimately identified. Our research programs may initially show promise in identifying potential product candidates, yet fail to yield product candidates for clinical development for many reasons, including the following:

- the research methodology used may not be successful in identifying potential product candidates;
- competitors may develop alternatives that render our product candidates obsolete or less attractive;
- product candidates we develop may nevertheless be covered by third parties patents or other exclusive rights;
- the market for a product candidate may change during our program so that such a product may become unreasonable to continue to develop;
- a product candidate may on further study be shown to have harmful side effects, lack of potential efficacy or other characteristics that indicate it is unlikely to meet applicable regulatory criteria or remain reasonable to continue to develop;

a product candidate may not be capable of being produced in commercial quantities at an acceptable cost, or at all; and

a product candidate may not be accepted as safe and effective by patients, the medical community or third-party payors, if applicable.

If we fail to develop and successfully commercialize other product candidates, our business and future prospects may be harmed and our business will be more vulnerable to any problems that we encounter in developing and commercializing our lead product candidate GBT440.

If successful product liability claims are brought against us, we may incur substantial liability and costs. If the use of our product candidates harms patients, or is perceived to harm patients even when such harm is unrelated to our product candidates, our regulatory approvals could be revoked or otherwise negatively impacted and we could be subject to costly and damaging product liability claims.

The use of our product candidates, including our lead product candidate GBT440, in clinical trials and the sale of any products for which we obtain marketing approval exposes us to the risk of product liability claims. Product liability claims might be brought against us by consumers, healthcare providers, pharmaceutical companies or others selling or otherwise coming into contact with our products. There is a risk that our product candidates may induce adverse events. If we cannot successfully defend against product liability claims, we could incur substantial liability and costs. In addition, regardless of merit or eventual outcome, product liability claims may result in:

impairment of our business reputation;

withdrawal of clinical trial participants;

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costs due to related litigation;

distraction of management s attention from our primary business;

substantial monetary awards to patients or other claimants;

increased warnings on product labels or additional restrictions imposed by regulatory authorities;

the recall of our product candidates;

the inability to commercialize our product candidates; and

decreased demand for our product candidates, if approved for commercial sale.

We carry product liability insurance in amounts that we believe are sufficient in light of our current clinical programs, but we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. If and when we obtain marketing approval for product candidates, we intend to expand our insurance coverage to include the sale of commercial products, but we may be unable to obtain product liability insurance on commercially reasonable terms or in adequate amounts. On occasion, large judgments have been awarded in class action lawsuits based on drugs or medical treatments that had unanticipated adverse effects. A successful product liability claim or series of claims brought against us could cause our stock price to decline and, if judgments exceed our insurance coverage, could adversely affect our results of operations and business.

During the course of treatment, patients may suffer adverse events, including death, for reasons that may or may not be related to our product candidates. Such events can be time-consuming to address, could subject us to costly litigation, require us to pay substantial amounts of money to injured patients, can delay, negatively impact or end our opportunity to receive or maintain regulatory approval to market our product candidates, if approved, can require us to suspend or abandon our commercialization efforts of any approved product candidates, or can impair our ability to raise funds to pursue our development or commercialization efforts. Investigations of these events may interrupt our sales efforts, delay our regulatory approval process in other countries, or impact and limit the type of regulatory approvals our product candidates receive or maintain. As a result of these factors, a product liability claim, even if successfully defended, could have a material adverse effect on our business, financial condition or results of operations.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could harm our business.

We are subject to numerous environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals and biological materials. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting

damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties for failure to comply with such laws and regulations.

Although we maintain workers compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological, hazardous or radioactive materials.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Our failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

We may choose to use our financial and human resources to pursue a particular research program or product candidate and fail to capitalize on other programs or product candidates that may ultimately be more profitable or for which there is a greater likelihood of success.

Because we have limited resources, we may forego or delay the pursuit of opportunities with programs or product candidates or for indications that later prove to have greater commercial potential than those we do pursue. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs for product candidates, including our lead product candidate GBT440, may not yield any commercially viable products. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through strategic collaboration, licensing or other partnering arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate, or we may allocate internal resources to a product candidate in a therapeutic area in which it would have been more advantageous to enter into a partnering arrangement.

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Any collaboration arrangements that we might enter into in the future may not be successful, which could adversely affect our operations and financial condition.

We may seek collaboration arrangements with pharmaceutical or biotechnology companies for the development or commercialization of GBT440 and potential future product candidates. We may enter into these arrangements on a selective basis depending on the merits of retaining commercialization rights for ourselves as compared to entering into selective collaboration arrangements with leading pharmaceutical or biotechnology companies for our product candidates, both in the United States and internationally. To the extent that we decide to enter into collaboration agreements, we will face significant competition in seeking appropriate collaborators. Whether we reach a definitive agreement for any collaboration will depend, among other things, upon our assessment of the collaborator s resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator s evaluation of a number of factors. Those factors may include the design or results of clinical trials, the likelihood of approval by the FDA or comparable foreign regulatory authorities, the potential market for a product candidate, the costs and complexities of manufacturing and delivering a product candidate to patients, the potential of competing products, any uncertainty with respect to our ownership of technology, which can occur if there is a challenge to our ownership without regard to the merits of the challenge and industry and market conditions generally. Moreover, collaboration arrangements are complex and time consuming to negotiate, document and implement, and we have not previously established our ability to undertake these activities successfully. We may not be successful in our efforts to establish and implement collaborations or other alternative arrangements should we so chose to enter into such arrangements. The terms of any collaborations or other arrangements that we may establish may not be favorable to us.

Any future collaborations that we enter into may not be successful. The success of our collaboration arrangements will depend heavily on the efforts and activities of us and our collaborators. Collaborators generally have significant discretion in determining the efforts and resources that they will apply to these collaborations. Disagreements between parties to a collaboration arrangement regarding clinical development and commercialization matters can lead to delays in the development process or commercializing the applicable product candidate and, in some cases, costly and time-consuming disputes or termination of the collaboration arrangement. These disagreements can be difficult to resolve successfully, and any such termination or expiration would adversely affect us financially and could harm our business reputation. Many collaborations in the pharmaceutical and biotechnology industries do not result in successful outcomes, for a wide variety of reasons.

Our anticipated international operations may expose us to business, regulatory, political, operational, financial, pricing and reimbursement and economic risks associated with doing business outside of the United States.

Our business strategy currently incorporates potential international expansion as we conduct our multi-national Phase 3 HOPE study of our lead product candidate GBT440 for the potential treatment of SCD inside and outside the United States, and plan to seek to obtain regulatory approval to and commercialize GBT440 in patient populations inside and outside the United States. If GBT440 is approved, we may hire sales representatives and conduct physician and patient association outreach activities outside of the United States. Doing business internationally involves a number of risks, including but not limited to:

- multiple, conflicting, and changing laws and regulations such as privacy regulations, tax laws, export and import restrictions, employment laws, regulatory requirements, and any requirements to obtain other governmental approvals, permits, and licenses;

failure by us to obtain and maintain regulatory approvals for the sale or use of our products in various countries;

additional potentially relevant third-party patent rights;

complexities and difficulties in obtaining protection for and enforcing our intellectual property;

difficulties in staffing and managing foreign operations;

complexities associated with managing multiple payor reimbursement regimes, government payors, or patient self-pay systems;

limits in our ability to penetrate international markets;

financial risks, such as longer payment cycles, difficulty collecting accounts receivable, the impact of local and regional financial crises on demand and payment for our products, and exposure to foreign currency exchange rate fluctuations;

natural disasters, political and economic instability, including wars, terrorism, and political unrest, outbreak of disease, boycotts, curtailment of trade, and other business restrictions;

certain expenses including, among others, expenses for travel, translation, and insurance; and

regulatory and compliance risks that relate to maintaining accurate information and control over sales and activities that may fall within the purview of the U.S. Foreign Corrupt Practices Act, its books and records provisions, or its anti-bribery provisions.

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Any of these factors could significantly harm our future international expansion and operations and, consequently, our results of operations.

We are subject to certain U.S. and foreign anti-corruption, anti-money laundering, export control, sanctions, and other trade laws and regulations (collectively, Trade Laws). We can face serious consequences for violations.

Among other matters, Trade Laws prohibit companies and their employees, agents, clinical research organizations, legal counsel, accountants, consultants, contractors, and other partners from authorizing, promising, offering, providing, soliciting, or receiving directly or indirectly, corrupt or improper payments or anything else of value to or from recipients in the public or private sector. Violations of Trade Laws can result in substantial criminal fines and civil penalties, imprisonment, the loss of trade privileges, debarment, tax reassessments, breach of contract and fraud litigation, reputational harm, and other consequences. We have direct or indirect interactions with officials and employees of government agencies or government-affiliated hospitals, universities, and other organizations. We also expect our non-U.S. activities to increase in time. We engage third parties for clinical trials and/or to obtain necessary permits, licenses, patent registrations, and other regulatory approvals. We can be held liable for the corrupt or other illegal activities of our personnel, agents, or partners, even if we do not explicitly authorize or have prior knowledge of such activities.

Unfavorable global economic conditions could adversely affect our business, financial condition or results of operations.

Our ability to invest in and expand our business and meet our financial obligations, to attract and retain third-party contractors and collaboration partners and to raise additional capital depends on our operating and financial performance, which, in turn, is subject to numerous factors, including the prevailing economic and political conditions and financial, business and other factors beyond our control, such as the rate of unemployment, the number of uninsured persons in the United States, the results of presidential elections, other political influences and inflationary pressures. For example, an overall decrease in or loss of insurance coverage among individuals in the United States as a result of unemployment, underemployment or the potential repeal of certain provisions of the ACA, may decrease the demand for healthcare services and pharmaceuticals. If fewer patients are seeking medical care because they do not have insurance coverage, we may experience difficulties in any eventual commercialization of our product candidates and our business, results of operations, financial condition and cash flows could be adversely affected.

In addition, certain events have caused, and may cause or contribute to global financial crises, which have triggered and may in the future lead to extreme volatility and disruptions in the capital and credit markets. For example, in June 2016, the United Kingdom, or the U.K., held a referendum in which voters supported the exit of the U. K. from the EU (commonly referred to as Brexit), which could cause disruptions to and create uncertainty surrounding our business, including affecting our existing relationships with third parties that conduct some of our nonclinical studies and clinical trials and our ability to enter into new relationships with vendors and other third-party contractors, which could have an adverse effect on our business, financial results and operations. The referendum is non-binding, but if passed into law, negotiations would commence to determine the future terms of the U.K. s relationship with the EU, including the terms of trade between the U.K. and the EU. Brexit has already and could continue to adversely affect European and/or worldwide economic and market conditions and could continue to contribute to instability in the global financial markets. The measures could also adversely affect our ability to raise additional capital, potentially disrupt the markets in which we currently conduct and plan to conduct operations and the tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which EU laws to replace or replicate, which may present difficulties for our clinical and regulatory strategy.

A severe or prolonged economic downturn could result in a variety of risks to our business, including reduced ability to raise additional capital when needed on acceptable terms, if at all. A weak or declining economy could also strain our relationships with our contractors and potential collaboration partners. Any of the foregoing could harm our business and we cannot anticipate all of the ways in which the current economic climate and financial market conditions could adversely impact our business.

We or the third parties upon whom we depend may be adversely affected by earthquakes or other natural disasters and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.

Earthquakes or other natural disasters could severely disrupt our operations, and have a material adverse effect on our business, results of operations, financial condition and prospects. If a natural disaster, power outage or other event occurred that prevented us from using all or a significant portion of our headquarters, that damaged critical infrastructure, such as the manufacturing facilities of our third-party contract manufacturers, or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible for us to continue our business for a substantial period of time. The disaster recovery and business continuity plans we have in place currently are limited and are unlikely to prove adequate in the event of a serious disaster or similar event. We may incur substantial expenses as a result of the limited nature of our disaster recovery and business continuity plans, which, particularly when taken together with our lack of earthquake insurance, could have a material adverse effect on our business.

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Our internal computer systems, or those of our third party vendors, may fail or suffer security breaches, which could result in a material disruption of our drug development programs.

Despite the implementation of security measures, our internal computer systems and those of our third party vendors are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our drug development programs. For example, the loss of data from completed or ongoing clinical trials or nonclinical studies for any of our product candidates could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach were to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development of our product candidates could be delayed.

Risks Related to Our Equity Securities

If we fail to maintain proper and effective systems of disclosure controls and internal controls over financial reporting to the extent required under applicable regulations, the accuracy and timeliness of our financial reporting may be adversely affected, and we could be subject to sanctions or other penalties that would harm our business.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, Section 404, or Section 404, of the Sarbanes-Oxley Act of 2002, or Sarbanes Oxley, and the rules and regulations of The NASDAQ Stock Market. Section 404 generally requires our management and independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting. Company responsibilities required by Sarbanes Oxley include establishing and maintaining corporate oversight and adequate internal control over financial reporting and disclosure controls and procedures. Effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent financial fraud.

Beginning with the annual report on Form 10-K for the fiscal year ending December 31, 2016, Section 404 requires an annual management assessment of the effectiveness of our internal control over financial reporting. Once we are no longer an emerging growth company under the Jumpstart Our Business Startups Act of 2012, as amended, or the JOBS Act or, if prior to such date, we opt to no longer take advantage of the applicable exemption, we will be required to include an opinion from our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. We expect to incur additional professional fees and internal costs to expand our accounting and finance functions and to expend significant management efforts in order to comply with these requirements. Previously we have never been required to test our internal controls within a specified period and, as a result, we may experience difficulty in meeting these reporting requirements in a timely manner.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our internal control over financial reporting for the purpose of providing the reports required by Section 404. Based on our assessment and using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) criteria, our management, Chief Executive Officer and Chief Financial Officer, have concluded that, as of December 31, 2016, our internal control over financial reporting was effective. However, our independent registered public accounting firm has not yet tested the design or operating effectiveness of our controls over financial reporting or been required to provide an attestation report with respect to our internal control over financial reporting, but will do so at a future date. During the course of our or their subsequent review and testing, material weaknesses or significant deficiencies may be identified that we may be unable to remediate them before we must provide the required reports. If material weaknesses or significant

deficiencies in our internal control over financial reporting are identified in the future, we may not detect or remediate errors on a timely basis and our consolidated financial statements may be materially misstated. We or our independent registered public accounting firm may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting, which could harm our operating results, cause investors to lose confidence in our reported financial information and cause the trading price of our stock to fall. In addition, as a public company we are required to file accurate and timely quarterly and annual reports with the SEC under the Exchange Act. Any failure to report our financial results on an accurate and timely basis could result in sanctions, lawsuits, delisting of our shares from The NASDAQ Global Select Market or other adverse consequences that would materially harm our business.

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We are an emerging growth company, and will be able to avail ourselves of reduced disclosure requirements applicable to emerging growth companies, which could make our common stock less attractive to investors.

We are an emerging growth company as defined in the JOBS Act, and we have elected to take advantage of some of the exemptions from reporting requirements that are applicable to other public companies that are not emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We will remain an emerging growth company until the earliest of (1) December 31, 2020, (2) the last day of the fiscal year in which we have total annual gross revenue of at least $1.07 billion, (3) the last day of the fiscal year in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30th or (4) the date on which we have issued more than $1.07 billion in non-convertible debt during the prior three-year period. We cannot predict if investors will find our common stock less attractive because we may rely on certain reporting exemptions available to emerging growth companies. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Based on our non-affiliate public float as of June 30, 2017, on December 31, 2017, we will lose our status as an emerging growth company , our auditors will be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 and we will no longer be able to take advantage of exemptions from reporting requirements available to emerging growth companies .

The market price of our common stock has been and may continue to be highly volatile.

The market price of our common stock has experienced volatility since our initial public offering in August 2015 and is likely to continue to be volatile. Our stock price could be subject to wide fluctuations in response to a variety of factors, including the following:

- adverse results or delays in our nonclinical studies or clinical trials;
- reports of adverse events in other treatments for SCD, IPF or other indications that we may pursue, or clinical trials of such products;
- any delay in filing an IND or NDA for any of our product candidates that we may develop and any adverse development or perceived adverse development with respect to the FDA s review of that IND or NDA;
- failure to develop successfully and commercialize our lead product candidate GBT440 or any other product candidates that we may develop;
- adverse regulatory decisions affecting our product candidates or development programs;

inability to obtain additional funding;

our failure to prosecute, maintain or enforce our intellectual property rights;

changes in laws or regulations applicable to future products;

inability to obtain adequate product supply for our product candidates or the inability to do so at acceptable prices;

introduction of new products, services or technologies by our competitors;

failure to enter into strategic collaborations;

failure to meet or exceed any financial projections that we or the investment community may provide;

the perception of the pharmaceutical industry by the public, legislatures, regulators and the investment community;

announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;

disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;

additions or departures of key scientific or management personnel;

significant lawsuits, including patent or stockholder litigation;

changes in the market valuations of similar companies;

sales of our common stock by us or our stockholders in the future;

trading volume of our common stock; and

the other risks described in this Risk Factors section.

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In addition, companies trading in the stock market in general, and The NASDAQ Global Select Market in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance. For example, negative publicity regarding drug pricing and price increases by pharmaceutical companies has negatively impacted, and may continue to negatively impact, the markets for biotechnology and pharmaceutical stocks. In the past, following periods of volatility in the market, securities class-action litigation has often been instituted against companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management s attention and resources, which could materially and adversely affect our business, financial condition, results of operations and growth prospects.

Our operating results may fluctuate significantly, which makes our future operating results difficult to predict and could cause our operating results to fall below expectations or our guidance.

Our quarterly and annual operating results may fluctuate significantly in the future, which makes it difficult for us to predict our future operating results. Our operating results may fluctuate due to a variety of factors, many of which are outside of our control and may be difficult to predict, including the following:

- the timing and cost of, and level of investment in, research and development activities relating to our product candidates, which may change from time to time;
- the timing and success or failure of clinical trials for our product candidates or competing product candidates, or any other change in the competitive landscape of our industry, including consolidation among our competitors or partners;
- our ability to obtain regulatory approval for our product candidates, and the timing and scope of any such approvals we may receive;
- the cost of manufacturing our product candidates, which may vary depending on the quantity of production and the terms of our agreements with manufacturers;
- our ability to attract, hire and retain qualified personnel;
- expenditures that we will or may incur to acquire or develop additional product candidates and technologies;
- the level of demand for our product candidates, should they receive approval, which may vary significantly;
- future accounting pronouncements or changes in our accounting policies;

the risk/benefit profile, cost and reimbursement policies with respect to our products candidates, if approved, and existing and potential future drugs that compete with our product candidates; and

the changing and volatile U.S., European and global economic environments.

The cumulative effects of these factors could result in large fluctuations and unpredictability in our quarterly and annual operating results. As a result, comparing our operating results on a period-to-period basis may not be meaningful. This variability and unpredictability could also result in our failing to meet the expectations of industry or financial analysts or investors for any period. If our operating results fall below the expectations of analysts or investors or below any forecasts we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our common stock could decline substantially. Such a stock price decline could occur even when we have met any previously publicly stated financial guidance we may provide.

Future sales and issuances of our common stock or rights to purchase common stock, including pursuant to our equity incentive plans, would result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to fall.

We will need additional capital in the future to continue our planned operations. To the extent we raise additional capital by issuing equity securities, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities in more than one transaction, investors may be materially diluted by subsequent sales. These sales may also result in material dilution to our existing stockholders, and new investors could gain rights superior to our existing stockholders.

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Pursuant to our 2015 Stock Option and Incentive Plan, or the 2015 Plan, we are authorized to grant stock options and other equity-based awards to our employees, directors and consultants. The number of shares available for future grant under the 2015 Plan will automatically increase each year by up to 4% of all shares of our capital stock outstanding as of December 31 of the prior calendar year, subject to the ability of our board of directors or compensation committee to take action to reduce the size of the increase in any given year. In addition, in January 2017 our board of directors approved our 2017 Inducement Equity Plan, or 2017 Inducement Plan, to enable us and our subsidiaries to grant non-qualified stock options and other equity-based awards to induce highly-qualified prospective officers and employees who are not currently employed by us or our subsidiaries to accept employment with us or our subsidiaries. The number of shares initially reserved for grant under the 2017 Inducement Plan is 300,000 shares, subject to adjustment for reorganization, recapitalization, stock dividend, stock split, or similar changes in our capital stock. In addition, we have reserved shares of common stock for issuance pursuant to our 2015 Employee Stock Purchase Plan, or 2015 ESPP, which number of shares will automatically increase each year on January 1, from January 1, 2016 to January 1, 2025, by the lesser of (i) 3,000,000 shares of common stock, (ii) 1% of all shares of our capital stock outstanding as of December 31 of the prior calendar year, or (iii) such lesser number of shares as determined by the administrator of our 2015 ESPP. Currently, we plan to register the increased number of shares available for issuance under the 2015 Plan and the 2015 ESPP each year. If our board of directors elects to increase the number of shares available for future grant under the 2015 Plan, the 2017 Inducement Plan or the 2015 ESPP, our stockholders may experience additional dilution, and our stock price may fall.

A significant portion of our total outstanding shares may be sold into the market in the near future, which could cause the market price of our common stock to drop significantly.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. A significant portion of our outstanding shares of common stock are held by a small number of stockholders, including our directors, officers and affiliates. Sales by our stockholders of a substantial number of shares, or the expectation that such sales may occur, could significantly reduce the market price of our common stock.

We have also registered all shares of our common stock subject to options or other equity awards issued or reserved for future issuance under our equity incentive plans. As a result, these shares will be available for sale in the public market subject to vesting arrangements and exercise of options, and restrictions under applicable securities laws. In addition, our directors, executive officers and certain affiliates have established or may in the future establish programmed selling plans under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, for the purpose of effecting sales of our common stock. If any of these events cause a large number of our shares to be sold in the public market, the sales could reduce the trading price of our common stock and impede our ability to raise future capital.

Additionally, certain holders of our common stock, or their transferees, have rights to require us to file one or more registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. If we were to register the resale of these shares, they could be freely sold in the public market. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock could decline.

Our principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

Our executive officers, directors, five percent stockholders and their affiliates beneficially owned approximately 37.4% of our outstanding common stock as of July 31, 2017, based on the latest publicly available information.

These stockholders have the ability to influence us through their ownership positions. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders, acting together, may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may believe are in your best interest as one of our stockholders.

We have broad discretion in the use of our capital resources consisting of cash and cash equivalents and short and long-term marketable securities, and may invest or spend our capital resources in ways with which you do not agree or in ways that ultimately may not increase the value of your investment.

We have broad discretion over the use of our capital resources consisting of cash and cash equivalents and short and long-term marketable securities. You may not agree with our decisions, and our use of our capital resources may not yield any returns to our stockholders. We expect to use our existing capital resources to continue the clinical development of GBT440 for the treatment of SCD, including our Phase 3 HOPE study and our ongoing Phase 2a clinical trial in SCD and planned clinical pharmacology studies, our Phase 1 and Phase 2a clinical trials of GBT440 for the treatment of IPF and other hypoxemic pulmonary disorders, our other research and development activities, and for working capital and general corporate purposes. Our failure to apply our capital resources effectively could compromise our ability to pursue our growth strategy and we might not be able to yield a significant return, if any, on our investment of these resources. Our stockholders will not have the opportunity to influence our decisions on how to use our capital resources.

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Provisions in our restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders or remove our current management.

Our restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that may have the effect of delaying or preventing a change in control of us or changes in our management. Our restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize blank check preferred stock, which could be issued by our board of directors without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- create a classified board of directors whose members serve staggered three-year terms;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairperson of our board of directors, our chief executive officer or our president;
- prohibit stockholder action by written consent;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors;
- expressly authorize our board of directors to modify, alter or repeal our amended and restated bylaws; and
- require supermajority votes of the holders of our common stock to amend specified provisions of our amended and restated certificate of incorporation and amended and restated bylaws.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us.

Any provision of our restated certificate of incorporation or amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

Our future ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited.

We have incurred substantial losses during our history and do not expect to become profitable in the near future and we may never achieve profitability. To the extent that we continue to generate taxable losses, unused losses will carry forward to offset future taxable income, if any, until such unused losses expire. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an ownership change, generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period, the corporation s ability to use its pre-change net operating loss carryforwards, or NOLs, and other pre-change tax attributes (such as research tax credits) to offset its post-change income or taxes may be limited. We experienced an ownership change as a result of our IPO, however we do not believe that this ownership change will significantly limit our ability to use these pre-change NOL carryforwards. We may experience subsequent shifts in our stock ownership, including as a result of our follow-on offering, some of which are outside of our control. As a result, if we earn net taxable income, our ability to use our pre-change NOL carryforwards to offset U.S. federal taxable income may become subject to limitations, which could potentially result in increased future tax liability to us. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed.

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We do not currently intend to pay dividends on our common stock, and, consequently, our stockholders ability to achieve a return on their investment will depend on appreciation in the price of our common stock.

We do not currently intend to pay any cash dividends on our common stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future. Since we do not intend to pay dividends, your ability to receive a return on your investment will depend on any future appreciation in the market value of our common stock. There is no guarantee that our common stock will appreciate or even maintain the price at which our holders have purchased it.

We will continue to incur significant costs as a result of operating as a new public company, and our management will devote substantial time to compliance initiatives.

As a public company, we incur significant legal, accounting, and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and The NASDAQ Global Select Market has imposed various requirements on public companies. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act that require the SEC to adopt additional rules and regulations in these areas such as say on pay and pay parity. Recent legislation permits smaller emerging growth companies to implement many of these requirements over a longer period and up to five years from the pricing of our IPO. We have elected to take advantage of this legislation but cannot guarantee that we will not be required to implement these requirements sooner than budgeted or planned and thereby incur unexpected expenses. Stockholder activism, the current political environment, and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations, which may lead to additional compliance costs and impact the manner in which we operate our business in ways we cannot currently anticipate. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time consuming and costly. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to incur substantial costs to maintain our current levels of such coverage.

New laws and regulations as well as changes to existing laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act and rules adopted by the SEC and by NASDAQ, would likely result in increased costs to us as we respond to their requirements.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, our stock price and trading volume could decline.

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. Securities and industry analysts may not publish an adequate amount of research on our company, which may negatively impact the trading price for our stock. In addition, if one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline or increase in volatility. Further, if our operating results fail to meet the forecasts of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

We may be subject to adverse legislative or regulatory tax changes that could negatively impact our financial condition.

The rules dealing with U.S. federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders or us. In recent years, many such changes have been made and changes are likely to continue to occur in the future. We cannot predict whether, when, in what form, or with what effective dates, tax laws, regulations and rulings may be enacted, promulgated or decided, which could result in an increase in our, or our stockholders , tax liability or require changes in the manner in which we operate in order to minimize increases in our tax liability.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

a) *Sales of Unregistered Securities*
None.

b) *Use of Proceeds from our Initial Public Offering of Common Stock*
No change.

c) *Repurchases of Shares or of Company Equity Securities*
None.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures
Not applicable.

Item 5. Other Information
None.

Item 6. Exhibits
See the Exhibit Index on the page immediately following the signature page to this Quarterly Report on Form 10-Q for a list of the exhibits filed as part of this Quarterly Report, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

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

Global Blood Therapeutics, Inc.

Date: August 7, 2017

By: /s/ Ted W. Love, M.D.
Ted W. Love, M.D.
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 7, 2017

By: /s/ Jeffrey Farrow
Jeffrey Farrow
Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT INDEX

Exhibit		Incorporated by Reference			Filed
Number	**Exhibit Description**	**Form**	**Date**	**Number**	**Herewith**
3.1	Restated Certificate of Incorporation.	S-1/A	7/31/2015	3.2	
3.2	Amended and Restated Bylaws.	S-1/A	7/31/2015	3.4	
4.1	Specimen Common Stock Certificate	S-1/A	7/31/2015	4.1	
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	XBRL Instance Document				X
101.SCH	XBRL Taxonomy Extension Schema Document				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.				X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.				X

* The certification attached as Exhibit 32.1 that accompanies this Quarterly Report on Form 10-Q is not deemed filed with the SEC and is not to be incorporated by reference into any filing of Global Blood Therapeutics, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-Q, irrespective of any general incorporation language contained in such filing.