EGL INC
Form 10-K
March 01, 2007

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, 2006

Commission File 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:

Common Stock, $.001 par value

Rights to Purchase Series A Preferred Stock

(title of class)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]

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

Indicate by check mark 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of June 30, 2006, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $1,674.7 million, based on the last reported sale price of the common stock on the NASDAQ Global Select Market.

As of February 16, 2007, the number of outstanding shares of the registrant s Common Stock was 46,467,443 (net of 5,718,606 treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the Registrant s 2007 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

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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.

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 tool that speeds the two-way flow of shipment data and related logistics information between origins and destinations around the world.

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

Offer to Purchase the Company

On January 2, 2007, our Board of Directors received a nonbinding proposal letter from James R. Crane, our largest shareholder, Chief Executive Officer and Chairman of the Board, and General Atlantic LLC, stating that he and General Atlantic LLC (General Atlantic) proposed to acquire all of the outstanding equity interests of EGL for $36.00 per share in cash (the Proposal). Mr. Crane presently beneficially owns approximately 17.6% of EGL s outstanding shares. Our Board of Directors formed a Special Committee of independent directors to review and evaluate the proposal. The Committee engaged independent legal counsel and an independent financial advisor to assist it with its work. The Special Committee s role has also encompassed reviewing and evaluating strategic alternatives in addition to the proposal by Mr. Crane. In that regard, the Special Committee has authorized its financial advisor, Deutsche Bank Securities, to solicit interest from third parties for the sale of EGL.

On February 7, 2007, the Special Committee announced that it had been notified by General Atlantic that General Atlantic had withdrawn as an equity sponsor for the Proposal. General Atlantic indicated that its participation in the Proposal was withdrawn due to an expected shortfall in EGL's fourth quarter 2006 results, as compared to amounts previously anticipated by analysts and by General Atlantic. Mr. Crane informed the Special Committee that he intended to pursue one or more alternative equity sources to replace General Atlantic and that he intended to present a revised offer to the Board of Directors reflecting any such new equity commitments. On February 12, 2007, EGL announced that although the Special Committee had not reached any conclusion as to whether a sale or any other alternative should be pursued, the Special Committee expected to continue its process of investigating strategic alternatives regardless of whether Mr. Crane revised or terminated his prior offer.

On February 28, 2007, Mr. Crane, together with investment firms Centerbridge Partners, L.P. and The Woodbridge Company Limited, as well as members of senior management, submitted a nonbinding proposal to acquire all of the outstanding common stock of EGL at a price of $36.00 per share in cash (the Renewed Proposal), the same consideration offered in Mr. Crane's January 2nd proposal. The Special

Committee will evaluate the Renewed Proposal and continue to evaluate strategic alternatives. A copy of the Renewed Proposal letter is included as Exhibit 99.1 to this report.

There can be no assurance that any additional offers will be made by any third party, what the terms of any such offer will be, that the terms of any offer received (including Mr. Crane s) will be acceptable to the Special Committee, that any agreement will be executed or that any transaction will be approved or consummated.

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 with the SEC at the SEC s public reference room at 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, 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. We also make available on our website our Corporate Governance Guidelines and information about our Board of Directors, including committee charters. The information on our website is not incorporated by reference into and is not a part of this report.

Industry Overview

As business requirements for efficient and cost-effective distribution services have increased, so have the importance and complexity of effective supply chain management. Businesses increasingly strive to minimize inventory levels with just-in-time processes, perform manufacturing and assembly operations in multiple locations and distribute products to numerous destinations. As a result, companies frequently want expedited or time-definite deferred shipment services. Time-definite deferred 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 freight forwarding 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. Several integrated carriers, like United Parcel Service and

Deutsche Post AG, operating under the brand name and referred to herein as DHL , 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 there are several factors that are increasing demand for global logistics solutions. These factors include:

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outsourcing of logistics functions;

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globalization of demand and supply chains; and

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increased complexity of supply chains.

Our Competitive Advantages

As a global transportation, supply chain management and information services company, we believe that we are well-positioned to provide cost-effective and efficient solutions to address the demand in the marketplace for transportation and logistics services. 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. We believe our primary competitive advantages are: (i) our low cost non-asset based business model; (ii) our global infrastructure; (iii) our information technology resources and (iv) our diverse customer base.

Non-asset based business model. With relatively no dedicated or fixed transportation costs, we are able to leverage our network and offer competitive pricing and flexible solutions to our customers. Moreover, our balanced product offering provides us with revenue streams from multiple sources and enables us to retain customers even as they shift from priority to deferred shipments of their products. We believe our model allows us to provide low-cost solutions to our customers while also generating revenues from multiple modes of transportation and logistics services.

Global presence with North American infrastructure. Our global infrastructure enables us to provide a closed-loop logistics chain to our customers worldwide. Within North America, our infrastructure consists of our pick up and delivery network, air and ground networks, and logistics and warehousing capabilities. Our ground and pick up and delivery networks enable us to service the growing time-definite deferred forwarding market while providing the domestic service for international shipments once they reach North America. In addition, we believe our heavyweight air network provides for the lowest available costs on shipments, as we have no dedicated charters or leases and can capitalize on available capacity in the market to move our customers   goods. Lastly, we have adequate warehouse and dock space available to leverage our North America infrastructure for future growth and/or to provide such space to our customers for their logistics needs.

Information technology resources. A primary component of our business strategy is the continued development of advanced information systems to continually provide accurate and timely shipment information to our management and customers. Our customer delivery tools enable connectivity with our customers and trading partners systems, which leads to more accurate and up-to-date information on the status of shipments.

Diverse customer base. While computers and other high-technology equipment manufacturers and retailers continue to comprise a significant portion of our customer base, our customer base has increasingly diversified into a variety of sectors including the retail, pharmaceutical and the oil and gas industries. As such, we continue to focus on expanding lines of business with current customers and adding new accounts in similar and new categories of shippers.

As a global transportation, supply chain management and information services company, our revenues are generated from a number of services, including air freight forwarding, ocean freight forwarding, customs brokerage, logistics and other services.

Air Freight Forwarding and Consolidation Services

Our air freight forwarding operations include international and domestic air freight forwarding. Our total air freight forwarding revenues in 2006 were $2.1 billion, of which 24% were derived from domestic air freight forwarding within the United States and 76% were derived from international air freight forwarding. Our air freight forwarding and related logistics services include the following:

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domestic freight forwarding;

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international freight forwarding;

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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);

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cargo assembly;

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export packing and vendor shipment consolidation;

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receiving and breaking down consolidated air freight shipments and arranging for distribution of the individual shipments;

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charter arrangement and handling;

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electronic transmittal of logistics documentation;

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electronic purchase order/shipment tracking;

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expedited document delivery to overseas destinations for customs clearance; and

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procurement of cargo insurance.

We neither own nor operate any aircraft and, consequently, are not limited to specific delivery schedules or shipment sizes. We arrange for transportation of our customers shipments via commercial airlines, air cargo carriers, third-party truck brokers, trucking companies and independent owner-operators of trucks and trailers. We select the carrier for a shipment based on route, service capability, available cargo capacity and cost. We charter cargo aircraft from time to time depending upon seasonality, freight volumes and other factors.

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 if they went directly to 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 revenues. 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 shipments. 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.

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 2006, approximately 55% of our net revenues were attributable to air freight forwarding.

We have an ongoing relationship with DHL in which DHL provides us capacity in their North American air system. This provides broad coverage into key markets.

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 customers 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, 2006, we offered local delivery services in 78 of the 88 cities in the United States and Canada in which our terminals were located. In all other cities, we have arrangements with agents to handle pick up and delivery services. 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 Austin, Texas, Nashville, Tennessee and Atlanta, Georgia 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 $374.5 million during 2006 and $334.8 million during 2005. Approximately $203.0 million of these revenues during 2006 and $188.3 million of these revenues during 2005 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 2006 and 2005 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, Europe and China to provide logistical support to our forwarding operations and, to a lesser extent, to provide truckload service to selected customers. In the United States, our truck brokerage operations operate under the Select Carrier Group (SCG) name. 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 deferred 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 ground capacity 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 2006, approximately 3% of our net revenues were 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 going directly to the carrier. In 2006, ocean freight consolidation and associated ancillary services contributed approximately 8% of our net revenues.

As a third party logistics provider (3PL), we assist our customers in the management and fulfillment of their purchase orders down to the part or stock keeping unit (sku) level. We work closely with our customer s suppliers to coordinate and arrange for the movement of the goods from the manufacturing line to the ports and ultimately to the destination distribution center or directly to their customers.

Customs Brokerage

We function as a customs broker at approximately 50 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 appropriate 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 utilize the Automated Broker Interface information system, providing an online link with the Bureau of U.S. Customs and Border Protection (CBP). In several global trading centers, in addition to the United States, our offices are connected electronically to customs agencies for expedited pre-clearance 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:

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electronic document preparation;

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cargo routing from overseas origins to ports and airports of entry;

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foreign trade zone utilization;

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bonded warehousing;

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distribution of the cleared cargo to inland locations; and

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trade compliance consulting.

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 Foreign Trade Zone management and trade compliance consulting services to provide customers with additional tools to maintain cost-effective compliant import programs.

As a customs broker operating in the United States, we are licensed by the U.S. Department of Homeland Security and regulated by the CBP. 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 2006, approximately 16% of our net revenues were attributable to customs brokerage services.

We are committed to helping our customers secure their global supply chains from the global threat of terror. As such, we have actively engaged in all U.S. government initiatives in the post September 2001 market. We are a validated participant in the Customs - Trade Partnership Against Terrorism (CTPAT) and a member of the Business Anti-Smuggling Coalition (BASC). We meet the requirements of the Trade Act of 2002 and, pursuant to regulations established by the U.S. CBP, transmit advanced shipment information for all U.S. import and transit shipments regardless of mode of transport. Further, we continually review and update our processes and procedures to seek to ensure compliance with all new government agency requirements, such as the record keeping requirements related to the U.S. Food and Drug Administration s implementation of the Bio Terrorism Act. We are also preparing for similar supply chain security initiatives in other jurisdictions outside of the U.S. that we believe will be the outgrowth of the World Customs Organization s Framework of Standards. As a result, we believe our customs brokerage strengths include the following:

- over 100 years of experience in importing goods into the United States;
- ISO certified desk level processes for consistency and compliance;
- infrastructure of licensed professionals;
- C-TPAT, partner engaged in supply chain security; and
- formal on-going training programs to ensure our expertise in import laws and regulations.

Logistics and Other Services

Customers increasingly demand more than the movement of freight from their transportation suppliers. To meet these needs, we seek to extend our services offered by, among other things, providing information on the status of materials, components and finished goods throughout the logistics supply chain and service performance reports on and proof of delivery for each shipment. Customers also look for the physical distribution expertise associated with the physical distribution and warehouse management of their valuable merchandise. We provide a range of logistics services, distribution and materials management services, international insurance services, global project management services and trade facilitation services. In 2006, approximately 18% 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 our customers supply chains by providing solutions tailored to their specific needs. We provide logistics services to our clients that are transactional or commodity based, have pricing models that are contractual (fixed or variable) where we focus mainly on reducing our customers cost structure and providing specialized services (e.g., order processing, product configuration). 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. We also provide other ancillary services, including electronic data interchange, customized shipping reports, computerized tracking of shipments, air and ocean charters, cargo assembly and protective packing and crating.

Distribution and materials management services

We offer a wide range of customized inbound logistics and distribution management services for our customers inventory. We often provide these materials management services in conjunction 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 2006, we continued our program of improving existing facilities to meet customer needs. Our distribution and materials management services include inventory control, vendor managed inventory (VMI) services, 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 our other transportation services, including the information systems tools that enable the integrated logistics solutions we offer to customers.

Trade facilitation services

We provide procurement, financial and distribution management services to certain multinational customers. We purchase both raw materials for manufacturing and finished goods for distribution, then coordinate their global deployment, as directed by the customer. We deliver services through custom-designed Vendor and Distribution Hub programs. We are able to 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.

Insurance

We arrange international insurance for our customers 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. We report insurance revenues in air freight forwarding, ocean freight forwarding or customs brokerage and other revenues based on the nature of the insured shipment.

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 revenues 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 continue to invest in our information systems technology in order to provide a flexible, scalable information system environment that provides a seamless flow of data across the globe, improves our ability to manage customer expectations, and increases operational efficiencies throughout our organization.

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

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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.

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

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Material Management Systems, for our logistics, warehouse management and distribution operations.

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Financial Management Systems, for our global accounting, intercompany settlement, receivables and payable management, consolidation, and internal and external financial reporting.

Some of 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:

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continuing to focus on operating efficiencies and the integration of our service applications to further expand and enhance the value of our supply chain management programs, eliminating duplicate data entry on multiple systems;

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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;

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continuing to use the Internet to provide easy access to this information using web-based tools;

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

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continuing to expand our business connectivity with our customers systems. This includes, but is not limited to, receiving shipment requests, advance shipment notices, commercial invoices and other data electronically from our customers and providing status information electronically back to our customers.

Sales and Marketing

We market services and supply chain solutions through a global sales organization of nearly 550 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 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 divisional and regional managers are responsible for the financial performance of the assigned stations within their division or region. Our employees are available 24 hours a day, seven days a week to respond to our customers.

Customer retention and strengthening current relationships to participate in new business opportunities is important to us, and we emphasize this throughout our organization. Our logistics or non-transportation revenues continues to be a critical part of our revenue base and we will continue to market, design and execute supply chain solutions aimed at reducing our customer s delivery costs and strengthening our customer alliances. We continue to emphasize the development of national and global accounts 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 information technology requirements. Our global network allows us to provide one-stop shopping 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 in many different industries 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 2006, no customer accounted for more than 5% of our revenues. Despite this healthy diversification of customers, adverse conditions in some of our larger business sectors could have an impact on our business 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 field and global sales teams.

In 2006, our principal customers included shippers of:

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computers and other electronic and high-technology equipment;

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automotive and aerospace components;

-

governmental and military equipment;

-

retail goods;

-

fashion/apparel;

-

trade show exhibit materials;

-

telecommunications equipment;

-

pharmaceuticals;

-

printed and publishing materials;

-

oil and gas equipment; and

-

construction and heavy equipment.

Regulation

Failure to comply with the applicable regulations or to maintain required permits or licenses could result in substantial fines or revocation of our 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 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. We are also regulated by the Transportation Security Administration and the Department of Homeland Security. 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 of the U.S. Department of Transportation. 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. Department of Homeland Security and are regulated by the U.S. Customs and Border Protection (CBP). We have received our customs brokerage license from the CBP and additional related government approvals to conduct customs business in the U.S. Our foreign customs brokerage operations are licensed in and subject to the regulations of their respective countries.

Security

As security measures have increased around the globe and the United States focuses more heavily on import security, we have adopted certain measures to be well-positioned for the new U.S. government focus on security. The U.S. Department of Homeland Security and the CBP have certified us as a member of the C-TPAT. Further we were one of the first 100 members of C-TPAT to have our security procedures, standards and technology validated by CBP in 2003. As part of our layered approach to supply chain security, we have also been certified as a member of the Business Anti Smuggling Coalition (BASC). In December 2003, we began the Prior Notice reporting of human and animal food shipments as required by the U.S. Food and Drug Administration BioTerrorism Act. Further all of our facilities have been registered with the U.S. Food and Drug Administration as required by the BioTerrorism Act to ensure that we can meet the global transportation needs of our customers. We are also anticipating and preparing for similar security initiatives outside the U.S.

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.

Employees

We had over 11,500 employees at December 31, 2006, including approximately 550 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. Our owned or leased vehicles were driven by approximately 115 of our employees as of December 31, 2006.

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 revenues of shipments sold. Operations personnel and management are paid bonuses based on the profitability of their locations as well as on our overall profitability.

Independent contractors

We also had contracts with approximately 1,900 independent owner/operators of local delivery services as of December 31, 2006. 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.

Executive Officers of the Registrant

The following table sets forth certain information concerning our executive officers as of February 20, 2007:

Name	Age	Position
James R. Crane	53	Chairman of the Board of Directors and Chief Executive Officer
E. Joseph Bento	44	Chief Marketing Officer and President of North America
Charles H. Leonard	58	Chief Financial Officer
Ronald E. Talley	55	President, The Select Carrier Group
Vittorio Favati	48	President, Asia Pacific Region
Bruno Sidler	49	President, Europe, Middle East and Africa Regions
Dana A. Carabin	39	General Counsel, Secretary, and Chief Compliance Officer

James R. Crane. Mr. Crane has served as our Chief Executive Officer and Chairman of the Board of Directors since he founded EGL in March 1984, and has 25 years experience in the transportation industry. Mr. Crane is a Director of the Houston Museum of Natural Science and also serves as a Director of HCC Insurance Holdings, Inc.

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 May 1995, he served as station manager in Los Angeles, and from May 1995 to September 1997, he served as Regional Sales Manager (West Coast). 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.

Charles H. Leonard. Mr. Leonard joined EGL as Chief Financial Officer in March 2006. Prior to joining EGL, Mr. Leonard was Chief Financial Officer of Transport Industries Holdings, Inc., a privately held transportation and logistics company, from September 2005 to December 2005. Prior to that, Mr. Leonard was Senior Vice President and Chief Financial Officer of the General Partner of TEPPCO Partners, LP, a New York Stock Exchange-listed petroleum storage, transportation and marketing company, from 1990 to his retirement in July 2005. In May 2006, Mr. Leonard was elected to the Board of Directors of Delek US Holdings, Inc., a New York Stock Exchange-listed diversified energy business focused on petroleum refining and supply and on retail marketing, where he serves as an independent board member and member of that board s audit committee.

Ronald E. Talley

. Mr. Talley has served as President of Select Carrier Group, a wholly owned subsidiary of EGL since July 2002. Mr. Talley also served as Chief Operating Officer from March 2005 to May 2006. 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.

Vittorio Favati. Mr. Favati has been the President Asia Pacific Region since 2006 and the Executive Vice President of Asia Pacific since 2001. Mr. Favati has been with us since 1993, serving in various roles throughout the organization.

Bruno Sidler. Mr. Sidler joined EGL as President - Europe, Middle East and Africa Regions in February 2007. Mr. Sidler has more than 25 years experience in the logistics industry, including serving from 1998 to 2006 as the President and Chief Executive Officer of the Panalpina Group based in Switzerland.

Dana A. Carabin. Ms. Carabin has served as our General Counsel and Secretary since October 2005. She has also served as our Chief Compliance Officer since March 2006. Prior to joining EGL, she served as General Counsel and Secretary of Quanta Services, Inc., a publicly traded utility services company, since 2001. Ms. Carabin holds a J.D. degree.

Forward-Looking Statements

The statements contained in this document (including the portion, if any, appended to this Form 10-K or incorporated by reference) 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 Exchange Act. Such forward-looking statements include, but are not limited to, those relating to (i) projections of revenues, income or loss, earnings or loss per share, capital expenditures, dividends, capital structure or other financial items; (ii) plans and objectives of management for future operations, including plans or objectives relating to EGL s service offerings; (iii) future economic performance; (iv) the consummation of any merger or similar transaction involving EGL; (v) assumptions underlying or relating to any of the matters in clauses (i) through (iv); and (vi) other statements that include expectations, intentions, projections, developments, future events, expected performance, underlying assumptions, and other statements which are other than statements of historical facts.

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

-	-
anticipate,	intend,
-	-
believe,	may,
-	-
budget,	might,
-	-
could,	plan,
-	-

- estimate,
- expect,
- forecast,
- 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, as well as elsewhere in this document and in our other filings with the Securities and Exchange Commission. If one or more of these risks or uncertainties materialize (or the consequences of such a development worsen), or should underlying assumptions prove incorrect, actual outcomes may vary materially from those forecasted or expected. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by reference to these risks and uncertainties. You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and we disclaim any responsibility to update publicly or revise such statements, whether as a result of new information, future events or otherwise.

ITEM 1A.

Risk Factors

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 and, to a lesser extent, on acquisitions. Our ability to grow will depend on a number of factors, including:

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existing and emerging competition;

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ability to open new terminals;

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ability to operate profitably in the face of competitive pressures;

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the recruitment, training and retention of operating and management employees;

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the strength of demand for our services;

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the ability to continue to develop advanced information systems;

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the availability of capital to support our growth; and

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the ability to identify, negotiate and fund acquisitions when appropriate.

Acquisitions involve risks, including those relating to:

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the integration of acquired businesses, including different information systems;

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the retention of prior levels of business;

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the retention of employees;

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the diversion of management attention;

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the amortization of acquired intangible assets; and

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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, India, Africa, South America and South Pacific. Economic conditions, including those resulting from wars, civil unrest, acts of terrorism and other conflicts may adversely affect the global economy, our customers and their ability to pay for our services. There are numerous risks inherent in conducting our business internationally, including:

- general political and economic instability in international markets, including heightened security measures, which could impede our ability to deliver our services to customers and adversely affect our results of operations;
- changes in regulatory requirements, which could restrict our ability to deliver services to our international customers;
- export restrictions, tariffs, licenses and other trade barriers, which could prevent us from adequately equipping our facilities worldwide;
- differing technology standards across countries, which may impede our ability to integrate our services across international borders;
- increased expenses associated with marketing services in foreign countries, which could affect our ability to compete;
- difficulties in staffing and managing foreign operations;
- the imposition of additional taxes in foreign jurisdictions;
- complex foreign laws and treaties, which could adversely affect our ability to operate our business profitably; and
- difficulties in collecting accounts receivable.

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, is influenced by many factors, including:

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economic and political conditions in the United States and abroad;

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major work stoppages;

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difficulties in managing overseeing foreign operations;

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exchange controls and currency fluctuations;

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wars, civil unrest, acts of terrorism and other conflicts; and

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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.

As a U.S. government contractor, we are subject to a number of procurement and other rules and regulations.

To do business with government agencies, either directly as a contractor or indirectly as a subcontractor, we must comply with and are affected by many laws and regulations, including those relating to the formation, administration and performance of U.S. government contracts. These laws and regulations, among other things:

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require, in some cases, certification and disclosure of all cost and pricing data in connection with contract negotiations;

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contain provisions that define allowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. government contracts; and

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restrict the use and dissemination of information classified for national security purposes and the exportation of certain products and technical data.

These laws and regulations affect how we do business with our customers and, in some instances, impose added costs on our business. A violation of these laws and regulations could result in the imposition of fines and penalties or the termination of our contracts. In addition, the violation of certain other generally applicable laws and regulations could result in our suspension or debarment as a government contractor. In March 2006, we received notification from the U.S. Army s Office of Suspension and Debarment that we were temporarily suspended from doing business with the government as a direct contractor or subcontractor effective February 27, 2006. See Item 3, Legal Proceedings.

Fuel shortages and price volatility could adversely affect our business and operations.

Our suppliers generally pass on increases in the price of fuel to us and we generally pass these price increases on to our customers through the imposition of a surcharge. We sometimes bear a portion of price increases over the short-term. There can be no assurance that we will be able to continue to impose such surcharges in the future. In addition, if fuel costs increase significantly, our customers may reduce the volume and frequency of cargo shipments or find other less costly alternatives for cargo delivery.

The price of fuel is directly influenced by the price of crude oil and to a lesser extent by refining capacity relative to demand, which are influenced by a wide variety of macroeconomic and geopolitical events which are completely beyond our control. Additionally, hostilities in the Middle East and terrorist attacks in the U.S. and abroad could cause significant disruptions in the supply of crude oil and have had a significant impact on the price and availability of fuel.

Our business is subject to seasonal trends.

Historically, our operating results have been subject to seasonal trends, when measured on a quarterly basis. Typically, our first fiscal quarter is weaker when compared to our other fiscal quarters of the corresponding year. The seasonality of our business is a result of a variety of factors, including holiday seasons, consumer demand, economic conditions and other factors beyond our control. As we cannot predict or influence these factors, we cannot be certain that the seasonal trends will continue in future periods as they have in our historical operating patterns.

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

We denominate some of 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.

Currency fluctuations in the foreign markets in which we operate could result in currency translation exchange gains or losses or could increase or decrease the book value of our net assets.

Appreciation or depreciation in the value of local currencies relative to the U.S. dollar in the markets in which we operate will result in currency translation exchange gains or losses, which, if the appreciation or depreciation is significant, could be material. Additionally, the revenues, expenses, assets and liabilities of our international operations are denominated in each country s local currency. As such, when the value of those revenues, expenses, assets and liabilities are translated into U.S. dollars, foreign currency exchange rates may adversely affect our results of operations and the book value of our net assets.

Our effective income tax rate will impact our results of operations, our cash flows and our profitability.

As a global company, we generate taxable income in different countries throughout the world, with different effective income tax rates. Our future effective income tax rate will be impacted by a number of factors, including the geographical composition of our worldwide taxable income. If the United States or foreign tax authorities were to change applicable tax laws or successfully challenge the manner in which our income taxes are currently recognized, our effective income tax rate could increase, which would adversely impact our cash flow and profitability.

If we fail to develop, deploy and integrate financial and operational information technology systems or if we fail to upgrade or replace our information technology systems to handle increased volumes and levels of complexity, meet the demands of our customers and protect against disruptions of our operations, our business may be seriously harmed.

We are undertaking various initiatives to upgrade the information technology systems supporting our services in order to improve operational efficiencies and increase connectivity with our customers and trading partners systems in a timely and cost-effective manner. The failure of the hardware or software that supports our information technology systems, the loss of data contained in the systems, or the inability to access or interact with our customers electronically through our web site could significantly disrupt our operations, prevent customers from placing orders or cause us to lose customers. If our information technology systems are unable to manage additional volume for our operations as our business grows, our service levels and operating efficiency could decline. If we fail to hire and retain qualified personnel to implement, maintain and protect our information technology systems, or if we fail to upgrade our systems to meet demands of our customers, our business could be seriously harmed.

If we fail to protect our confidential information, including our intellectual property rights, we may lose market share and our financial condition may be materially adversely affected.

We rely on a combination of copyright, trademark and trade secret laws and confidentiality procedures to protect our intellectual property rights and other confidential information. These protections may not be sufficient, and they do not prevent independent third parties from developing competitive products and services. A failure to protect our confidential information from unauthorized use or disclosure could diminish the value of our confidential information and our financial condition may be materially adversely affected.

Heightened security measures as a result of 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.

The national and global responses to terrorist threats, including heightened security measures, may materially and adversely affect us 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 increase our costs or 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 affected by heightened security measures and threats of additional terrorist 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 during holidays (with increased consumer spending) and in especially heavy transportation lanes (such as in Asia). 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 changes in policies such as increases in rates and the cost of fuel, taxes and labor charged by passenger airlines or ocean carriers for cargo space.

We are subject to market pricing by our suppliers (airlines, ocean carriers, and trucking companies). If we are not able to pass these costs on to our customers, our profitability will be impacted.

Sell rates to our major customers are normally agreed upon for the term of the contract, with provisions allowing for fuel, war and security surcharges. The prices we pay for cargo space with our major suppliers is dependent on our volumes and relationships with our suppliers. If our relationships deteriorate or there are changes in management with our suppliers or with us that negatively impact such relationships, we may be unable to negotiate similar rates with our suppliers for such 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 and smaller freight-forwarders. Internationally, we compete primarily with the major European based freight forwarders, Expeditors International, DHL, BAX, UPS 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 realize declines in the volume of our shipments.

Our industry is consolidating and if we are unable to gain sufficient market presence in our industry, we may not be able to compete successfully against larger companies in our industry.

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There has been an increasing trend in our industry toward consolidation of the niche players and larger companies, which are attempting to increase their global operations through the acquisition of freight forwarders and contract logistics providers. If we are unable to gain sufficient market share in our industry through internal growth, we may not be able to compete successfully against larger companies in our industry.

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

Our founder, James R. Crane, continues to serve as 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.

If we are unable to limit our exposure to customers claims through contract terms and insurance coverage, we could be required to pay large amounts as compensation for their claims and our results of operations could be materially adversely affected.

Typically, we limit our liability in contracts with our customers for loss or damage to their goods. However, as a freight forwarder, the airline or ocean carriers that we use generally assume the same responsibility to us as we assume to our customers. When we act in the capacity of an authorized agent for an air or ocean carrier, the carrier, rather than us, assumes liability for the safe delivery of the customer s cargo to its ultimate destination. We have, from time to time, made payments to customers for claims related to our services. Should we experience an increase in the number of such claims or an increase in liability pursuant to claims or unfavorable resolution of claims, our results could be adversely affected. There can be no assurance that our insurance coverage will provide us with adequate coverage for such claims or that the maximum amount for which we are liable in connection with our services will not change in the future. In addition, significant increases in insurance costs as a result of claims arising from our services could reduce our profitability.

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, and have tailored our program specifically to avoid this categorization, 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. Current and former pickup and delivery drivers have brought a

purported class action lawsuit claiming that they are employees and not independent contractors as described under Item 3. Legal Proceedings.

The failure of our policies and procedures which are designed to prevent the unlawful transportation or storage of hazardous, explosive or illegal materials could subject us to large fines, penalties or lawsuits.

We are subject to a broad range of foreign and domestic (including state and local) environmental, health and safety and criminal laws and regulations, including those governing discharges into the air and water, the storage, handling and disposal of solid and hazardous waste and the shipment of explosive or illegal substances. In the course of our operations, we may be asked to arrange for the storage or transportation of substances defined as hazardous under applicable laws. As is the case with any such operation, if a release of hazardous substances occurs on or from our facilities or from the transporter, we may be required to participate in the remedy of, or otherwise bear liability for, such release or be subject to claims from third parties whose property or person is injured by the release. In addition, if our employees arrange for the storage or transportation of hazardous, explosive or illegal materials in violation of applicable laws or regulations, we may face civil or criminal fines or penalties, including bans on making future shipments in particular geographic areas. In the event we are found to not be in compliance with applicable environmental, health and safety laws and regulations or there is a future finding that our policies and procedures fail to satisfy requisite minimum safeguards or otherwise do not comply with applicable laws or regulations, we could be subject to large fines, penalties or lawsuits.

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. Moreover, costs for security as a result of governmental regulations that have been and will be adopted in response to terrorist activities and potential terrorist activities, 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. We may not be able to pass these increased costs on to our customers in the form of rate increases or surcharges. We cannot predict what impact future regulations may have on our business. 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.

Our chairman beneficially owns approximately 17.6% of our outstanding common stock and has the greatest influence of any of our shareholders.

James R. Crane beneficially owns approximately 17.6% of our outstanding common stock. Based on the ownership positions of our current shareholders, his ability to influence matters submitted to a vote of shareholders is greater than any other shareholder.

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

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;

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provide that any shareholder who wishes to propose any business or to nominate a person or persons for the election as director at any meeting of shareholders may do so only if advance notice is given to our corporate secretary;

-

restrict the ability of shareholders to take action by written consent; and

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restrict our ability to engage in transactions with some 20% shareholders.

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 shareholders to benefit from transactions that are opposed by an incumbent board of directors.

ITEM 1B.

Unresolved Staff Comments

None

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 300 and 509,000 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 2027. From time to time, we may expand or relocate terminals to accommodate growth.

The following table sets forth certain information as of December 31, 2006 concerning the number of our domestic and foreign facilities and freight handling terminals:

	Owned	**Leased**	**Total**
North America	2	148	150
South America	6	38	44
Europe and Middle East	6	107	113
Asia and South Pacific	17	123	140
Total	31	416	447

As of December 31, 2006, our corporate office, which occupies approximately 149,000 square feet of space, is a leased facility located in Houston, Texas.

For further information regarding our lease commitments, see note 18 of the notes to our consolidated financial statements.

ITEM 3.

Legal Proceedings

During 2003 and 2004, EGL acted as a logistics subcontractor in the Middle East to Kellogg Brown & Root, Inc. (KBR), which as general contractor provided various services to the U.S. Department of Defense (DOD) and other U.S. government agencies. In 2004, we received an administrative subpoena from the Office of Inspector General of the DOD requesting documents relating to the billing of war risk surcharges by EGL on certain shipments of KBR freight in the period from late 2003 to mid-2004. EGL cooperated fully with the government s request and its investigation. In the course of our internal investigation of the matter, we reviewed documents related to the imposition of war risk surcharges on EGL by transportation providers. EGL uncovered evidence suggesting that certain documents related to the imposition of war risk surcharges on EGL, that were then charged to KBR, were false and the charges were not warranted. Following this discovery, and with approval from the government, we engaged auditors to conduct a forensic analysis of war risk surcharges charged by EGL. This analysis concluded that approximately $1.1 million of war risk surcharges charged by EGL were not actually imposed on EGL by transportation providers. We provided the results of this investigation to the government and promptly terminated two employees for violation of EGL s Code of Conduct.

As a result of discussions with the government, we received a letter from the United States Attorney s Office of the Eastern District of Texas on December 12, 2005 offering to settle the war risk surcharge issue for the sum of $4.0 million. Of the $4.0 million, $1.1 million reimburses the government for war risk surcharges (the full amount of which had been previously reserved in EGL s financial statements), and the remaining $2.9 million represents penalties for improper billings. EGL entered into a settlement agreement with the government in accordance with the letter on June 5, 2006 and paid the $4.0 million on June 21, 2006. Recognizing EGL s cooperation in and assistance with the government s review, as part of the settlement, the United States Attorney s Office and the Defense Criminal Investigative Service waived all investigatory expenses and made no recommendation to the DOD for debarment of EGL from future DOD contracts. In addition, the United States Attorney s Office of the Eastern District of Texas is not expected to recommend to the DOD or the Department of Justice any criminal indictment of EGL related to the war risk surcharges. In December 2005, EGL recorded a charge of $2.9 million (approximately $0.06 per share) for this penalty.

In March 2006, we were notified by the U.S. Army s Office of Suspension and Debarment that we were temporarily suspended from doing business with the government as a direct contractor or sub-contractor effective February 27, 2006. The basis of the suspension was the guilty plea entered by one of the two employees EGL terminated related to the war risk surcharge investigation. This action was taken despite the settlement offer by the United States Attorney s Office of the Eastern District of Texas in which it offered not to recommend that EGL be debarred from future DOD contracts. The suspension was appealed to the Army s Suspension and Debarment Officer and, on March 24, 2006, EGL entered into an Administrative Compliance Agreement (Agreement) with the Army pursuant to which the suspension was rescinded. In the Agreement, EGL agreed, among other things, to establish and maintain a written Government Contracting Policies and Procedures Manual to regulate the performance of its Government contracts, provide ethics and government contracting training to its employees, appoint a managerial employee as Ethics Program Director (EPD) who will be the first point of contact for all questions regarding the terms and conditions of the Agreement and the Company s implementation of the Agreement, and report to the Army concerning our compliance with the Agreement. Additionally, we appointed an Ombudsman to assist the EPD and company management in implementing the Agreement, serve as a point of contact for all questions regarding the terms and conditions of the Agreement, investigate complaints concerning our compliance with the Agreement and report to the Army concerning our compliance with the Agreement. The Ombudsman submits written reports to the Army, on a quarterly basis, concerning our compliance with the Agreement, complaints made against EGL regarding its performance under government contracts and the actions taken by us regarding these complaints.

At the request of the government, EGL limited its internal investigation and its public statements on these matters so as not to interfere with the government s broader investigation.

One former and two current independent contractor pickup and delivery (P&D) drivers filed a complaint in California state court on September 12, 2005, on behalf of themselves and similarly situated drivers in California alleging various causes of action based on their theory that the drivers are employees and not independent contractors. The complaint requests (i) the matter be designated as a class action on behalf of all independent contractor P&D drivers working for EGL in California; (ii) a declaratory judgment that EGL has violated the law; (iii) an equitable accounting and an unspecified amount of damages; and (iv) restitution in the form of business expenses, unpaid overtime, meal period compensation, unlawful deductions from wages, statutory penalties, interest, attorneys fees and costs. We removed the case to federal district court for the Northern District of California, and the parties have agreed to focus only on the individual claims of the three named defendants in the first phase of the proceedings. In the event one or more of the plaintiffs claims survive the summary judgment phase, the next phase would focus on whether the action is maintainable as a class action. We intend to vigorously defend this lawsuit and believe that plaintiffs are properly classified as independent contractors.

EGL is aware of four lawsuits that challenge the Proposal made by Mr. Crane and others to acquire all of the equity interests in EGL. They are as follows:

Vivian Golombuski v. EGL, Inc. et al., Cause No. 2007-00139, in the 125th Judicial District Court of Harris County, Texas. Plaintiff filed this suit against EGL, all of its directors other than Mr. Wolff, and General Atlantic LLC as a class action on behalf of all EGL shareholders except those affiliated with any of the defendants. Plaintiff alleges that the Proposal is unfair and grossly inadequate and that the director defendants breached their fiduciary duties to the shareholders. Plaintiff alleges that General Atlantic aided and abetted the director defendants breaches of fiduciary duty. Plaintiff seeks to enjoin the defendants from effectuating the Proposal.

Platinum PVA Fund v. Milton Carroll, et al., Cause No. 2007-00554, in the 151st Judicial District Court of Harris County, Texas. Plaintiff filed this suit against EGL and all of its directors other than Mr. Wolff on behalf of a class of all EGL shareholders except those affiliated with any of the defendants. Plaintiff alleges that the Proposal offers grossly unfair compensation to EGL s shareholders and that the director defendants must take other measures to maximize value to shareholders. Plaintiff seeks to enjoin the Proposal and to recover damages, costs, and attorneys fees.

Raymond Somers v. James R. Crane, et al., Cause No. 2007-00678, in the 280th Judicial Court of Harris County, Texas. Plaintiff brings this action derivatively on behalf of EGL against all of its directors other than Mr. Wolff and General Atlantic LLC. Plaintiff alleges that the Proposal is for a grossly inadequate and unfair price; that the Board and the Special Committee of the Board are dominated and controlled by Mr. Crane; and that the individual defendants have engaged in self-dealing. Plaintiff seeks to recover damages on behalf of EGL against the individual defendants for breach of fiduciary duty, abuse of control, gross mismanagement, and waste of corporate assets, and against General Atlantic for aiding and abetting the director defendants in their alleged breaches of duty. Plaintiff seeks an injunction against the Proposal, a constructive trust, and costs including attorneys fees.

Jim Roberts v. EGL, Inc., et al., Cause No. 2007-05941, in the 281st Judicial District Court of Harris County, Texas. Plaintiff filed this suit against EGL, all of its directors other than Mr. Wolff, and General Atlantic LLC on behalf of a class of all EGL shareholders except those affiliated with any of the defendants. Plaintiff alleges that the Proposal is unfair and grossly inadequate, and that the individual defendants have breached their fiduciary duties by not taking measures to ensure that the interests of EGL s public shareholders are properly protected. Plaintiff seeks to enjoin the Proposal.

EGL and the other defendants have filed a motion seeking to consolidate these lawsuits.

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

ITEM 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, 2006.

PART II

ITEM 5.

Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on the NASDAQ Global Select Market tier of The NASDAQ Stock Market under the symbol EAGL. The following table sets forth the quarterly high and low sales prices for each indicated quarter of 2005 and 2006.

Quarter Ended	**High**	**Low**
	$	$
March 31, 2005	32.98	22.30
June 30, 2005	23.29	16.20
September 30, 2005	27.70	19.06
December 31, 2005	39.19	24.97
	$	$
March 31, 2006	46.56	34.12
June 30, 2006	53.80	40.80
September 30, 2006	51.98	28.80
December 31, 2006	40.76	28.57

There were approximately 302 shareholders of record (excluding brokerage firms and other nominees) of our common stock as of February 13, 2007.

The following graph compares the cumulative 5-year total return to shareholders on EGL, Inc.'s common stock relative to the cumulative total returns of the S & P 500 index and the Dow Jones US Delivery Services index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in the company's common stock and in each of the indexes on December 31, 2001 and its relative performance is tracked through December 31, 2006.

Stock repurchases

On March 16, 2006, October 31, 2006 and December 20, 2006, 7,500, 3,334 and 7,000 shares of restricted stock that had been issued pursuant to our Long Term Incentive Plan (the Plan) vested. Pursuant to the terms of the Plan and applicable Restricted Stock Award Agreements, employees may elect to satisfy their tax withholding obligations upon vesting by having us make such tax payment and withhold a number of vested shares having a value on the date of vesting equal to their tax withholding obligation. As a result of such employee elections, we withheld shares as follows during the first and fourth quarters of 2006, and accounted for such shares as treasury stock:

Period	**(a) Total Number of Shares Purchased**	**(b) Average Price Per Share**	**(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**(d) Maximum Number (or approximate dollar value) of Shares That May Yet be Purchased Under the Plans or Programs**
March 1 March 31, 2006	1,263	$43.21	None	N/A
October 1 October 31, 2006	882	$34.77	None	N/A
December 1 December 31, 2006	929	$29.53	None	N/A
Total	3,074	$36.65	None	N/A

Dividends

Since our initial public offering in November 1995, EGL has not paid cash dividends on our common stock. It is the current intention of our management to retain earnings to finance the growth of our business in lieu of paying dividends. Our credit facility and senior secured notes contain covenants that restrict our ability to pay dividends unless we maintain certain leverage ratios. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for a discussion of our credit facility.

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,				
	2006	**2005**	**2004**	**2003**	**2002**
	(in thousands, except per share amounts)				
Statement of Income Data:					
Revenues	$ 3,217,636	$ 3,096,516	$ 2,741,392	$ 2,143,419	$ 1,842,897
Net revenues (1)	1,010,773	948,474	865,366	735,252	672,132
Operating income (2) (3) (4) (5) (6) (9) (10)	96,482	95,410	81,324	44,765	29,672
Net income (7) (8)	56,330	58,160	50,878	23,945	9,434
Basic earnings per share	$ 1.39	$ 1.23	$ 1.11	$ 0.51	$ 0.20
Basic weighted average shares outstanding	40,465	47,442	45,813	47,204	47,610
Diluted earnings per share	$ 1.38	$ 1.22	$ 1.05	$ 0.50	$ 0.20
Diluted weighted average shares outstanding	40,818	47,832	51,914	47,481	47,811

Balance Sheet Data (at

year end):

	$	$	$	$	$
Working capital	287,500	245,954	287,467	226,715	204,082
Total assets	1,180,438	1,089,241	1,094,863	941,557	842,074
Long-term indebtedness and capital leases, net of current portion	157,439	215,616	14,802	115,859	107,330
Shareholders equity	418,053	321,728	552,432	405,453	367,448

(1)

2003 includes a charge of $2.3 million or $1.4 million net of tax ($0.03 per diluted share) for settlement of the claim by Kitty Hawk.

(2)

2002 includes 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).

(3)

2003 includes a credit of $1.4 million or $870,000 net of tax ($0.02 per diluted share) for reversal of a portion of the EEOC legal settlement accrual recorded in 2001. 2005 includes a credit of $6.0 million or $3.5 million net of tax ($0.07 per diluted share) as a result of the final settlement of the EEOC matter. See note 17 of the notes to our consolidated financial statements.

(4)

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.

(5)

2005 includes a $2.9 million ($0.06 per diluted share) nondeductible penalty for improper government billings. See note 18 of the notes to our consolidated financial statements.

(6)

2006 includes a $3.9 million or $2.5 million net of tax ($0.06 per diluted share) gain for the sale of a facility in the United Kingdom.

(7)

2002 includes a charge of $7.4 million or $4.5 million net of tax ($0.10 per diluted share) for impairment of our investment in Miami Air and accrual for our exposure on a standby letter of credit related to our investments. 2003 includes a credit of $1.3 million or $800,000 net of tax ($0.02 per diluted share) for reversal of the accrual for our exposure on the standby letter of credit related to our investment in Miami Air. See note 6 of the notes to our consolidated financial statements.

(8)

2004 includes $12.6 million or $7.3 million net of tax ($0.14 per diluted share) in gains on the sale of our investments in TDS Logistics, Inc. and Miami Air. 2005 includes $4.0 million or $2.4 million net of tax ($0.05 per diluted share) in gains on the sale of our investment in TDS Logistics, Inc. 2006 includes $1.0 million or $643,000 net of tax ($0.02 per diluted share) in gains on the sale of our investment TDS Logistics, Inc. (See note 6 of the notes to our consolidated financial statements.

(9)

2006 includes $3.8 million ($0.09 per diluted share) for a goodwill impairment charge.

(10)

2006 includes $8.7 million or $5.6 million net of tax ($0.14 per diluted share) of stock-based compensation.

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 and Estimates beginning on page 43.

Overview

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

We achieved revenues of $3.22 billion for the year ended December 31, 2006, a 3.9% increase over revenues of $3.10 billion in 2005. Net revenues increased by $62.3 million, or 6.6%, to $1.01 billion compared to $948.5 million in 2005. Operating income increased by 1.1% as compared to 2005 due to a $62.3 million increase in net revenues while our operating expenses increased $61.2 million. We remain committed to leveraging our infrastructure by seeking to contain our operating expenses and improving our yield management in 2007.

The Company has received a proposal to purchase all of its outstanding common stock, and is exploring strategic alternatives. See Item 1, Offer to Purchase the Company.

Our results of operations, cash flows and financial position in 2006 reflect, among other things, the following:

Leveraging our global network. In 2006, we continued to leverage our global network and our ability to cross-sell services in an effort to increase volumes through our service offerings in the geographic divisions we serve. In addition, our balanced product offering enabled us to provide flexible solutions to our customers both domestically and internationally.

Continued focus on net revenue margins. Gross revenues improved by 4% in 2006 as compared to 2005 as we continue to increase revenues with existing customers and win business from new customers. Net revenue margins improved to 31.4% in 2006 from 30.6% in 2005 due to an improvement in ocean freight forwarding margins and increased logistics revenues that have a high net revenue margin as compared to freight forwarding product lines.

Stock option expense associated with revised measurement dates. In response to recent publicity regarding stock option practices at other companies, management, under the direction and oversight of the Audit Committee, conducted an internal review of historical stock option grant practices and related accounting treatment. Based upon this review, management and the Audit Committee determined that for certain stock option grants, mainly between 2000 and 2002, the measurement dates for accounting purposes were different from the recorded grant dates of the awards. The examination has been completed and we have determined that the cumulative impact of the adjustments related to incorrect measurement dates resulted in an understatement of compensation expense of $2.1 million pre-tax. We concluded that the impact of these adjustments to the years 2001, 2002, 2003, 2004 and 2005 is not material to our consolidated financial statements and the cumulative impact of the adjustments has been recorded as a charge in personnel costs in the third quarter of 2006. Management and the Audit Committee found no indication of intentional misconduct in the dating of stock options.

Goodwill impairment charge. During the fourth quarter of 2006, we performed our annual impairment review for goodwill and indefinite-lived intangible assets and recorded a non-cash charge of $3.8 million to reduce the carrying value of goodwill in our South America segment, which is recorded as a component of general and administrative expenses in the accompanying consolidated statement of income. The impairment resulted primarily from a decline in forecasted cash flows as well as a rise in the discount rate.

Resolution of a business interruption claim for warehouse fire in our United Kingdom operations. On March 31, 2006, we resolved a business interruption claim and recorded a gain of $2.2 million. In addition, in March 2006, we received a payment on our outstanding property claim of $517,000 which resulted in a gain of $324,000.

Sale of facility in the United Kingdom. On November 3, 2006, we sold a facility in the United Kingdom for $8.5 million. As a result, we recognized a gain on the sale of this asset of approximately $3.9 million.

Global deployment of information technology systems. In 2006, we continued the global deployment of our EGL Vision Suite of Technologies Logistics Vision, Financial Vision, and People Vision. We also withdrew the Logistics Vision and Financial Vision from one country due to a consolidation of the finance function into a country on a different system. Logistics Vision is a freight forwarding system designed to allow a seamless flow of data across the globe and eliminate duplicate data entry on multiple systems. Financial Vision is an Oracle-based financial system designed to allow global visibility of financial results and streamlined financial reporting, and the ability to automate intercompany accounting and settlements. People Vision is an Oracle-based human resources application designed to allow global visibility to employee tracking, training and development. Management plans to continue development of Logistics Vision and Financial Vision to achieve the successful deployment of systems which remain a critical component of improving operational efficiencies and effectively growing the business.

We plan in 2007 to work towards continued revenue growth within our existing network and continued improvement of working capital management plus improving yields and operational efficiencies. We have begun implementation of a resource improvement plan through which we are seeking savings through reductions in third-party contracted services, corporate headcount reductions, incentive program restructuring and short-term reductions in salary expense through temporary salary reductions or unpaid time off.

Results of Operations

Our principal services are air freight forwarding, ocean freight forwarding, customs brokerage and other value-added logistics services. Revenues for air freight and ocean freight consolidations (indirect shipments) include reimbursements from customers for the cost of transporting such freight. Revenues for air freight and ocean freight agency or direct shipments, customs brokerage and other services, include only the fees or commissions for these services. We believe that a comparison of gross revenues by product best measures the relative importance of our principal services, while a comparison of net revenue margins (net revenues as a percent of gross revenues) best measures the performance of each product line. A comparison of operating expenses as a percent of net revenues considers the relationship between operating expenses and operating revenues. The following table provides certain statement of income data attributable to our principal services during the periods indicated.

	Year Ended December 31,					
	2006		2005		2004	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
	(in thousands, except percentages)					
Revenues:						
Air freight forwarding	$ 2,115,648	65.7	$ 2,035,020	65.7	$ 1,798,968	65.6
Ocean freight forwarding	461,616	14.4	443,769	14.3	391,554	14.3
Customs brokerage and other	640,372	19.9	617,727	20.0	550,870	20.1
Revenues	$ 3,217,636	100.0	$ 3,096,516	100.0	$ 2,741,392	100.0
	Amount	% of Gross Revenues	Amount	% of Gross Revenues	Amount	% of Gross Revenues
Net revenues:						
Air freight forwarding	$ 560,340	26.5	$ 558,142	27.4	$ 508,091	28.2
Ocean freight forwarding	106,353	23.0	89,939	20.3	76,249	19.5
Customs brokerage and other	344,080	53.7	300,393	48.6	281,026	51.0
Net revenues	$	31.4	$	30.6	$	31.6

	1,010,773		948,474		865,366	
		% of Net Revenues		**% of Net Revenues**		**% of Net Revenues**
Operating expenses:						
Personnel costs	558,227	55.2	522,015	55.0	481,320	55.6
Other selling, general and administrative expenses	356,064	35.2	337,024	35.5	302,722	35.0
EEOC legal settlement	-	-	(5,975)	(0.6)	-	-
Operating income	96,482	9.6	95,410	10.1	81,324	9.4
Nonoperating (income) expense, net	8,825	0.9	(5,147)	(0.5)	(7,259)	(0.8)
Income before provision for income taxes	87,657	8.7	100,557	10.6	88,583	10.2
Provision for income taxes	31,327	3.1	42,397	4.5	37,705	4.3
Net income	$ 56,330	5.6	$ 58,160	6.1	$ 50,878	5.9

2006 Compared to 2005

Revenues. Revenues increased $121.1 million, or 3.9%, to $3,217.6 million in 2006, compared to $3,096.5 million in 2005, due to an increase in air freight forwarding revenues of $80.6 million, an increase in ocean freight forwarding revenues of $17.8 million and an increase in customs brokerage and other revenues of $22.7 million. Net revenues, which represent revenues less freight transportation costs, increased $62.3 million, or 6.6%, to $1,010.8 million in 2006, compared to $948.5 million in 2005. Net revenue margins (net revenues as a percentage of revenues) improved by 80 basis points in 2006 to 31.4%, as compared to 30.6% in 2005 due to improvements in ocean freight forwarding and customs brokerage and other margins.

Air freight forwarding revenues. Air freight forwarding revenues increased $80.6 million, or 4.0%, to $2,115.6 million in 2006, compared to $2,035.0 million in 2005, primarily due to continuing volume and shipment increases in Asia/South Pacific and volume increases in North America offset by shipment declines in South America and Europe/Middle East.

Air freight forwarding net revenues increased $2.2 million, or 0.4%, to $560.3 million in 2006, compared to $558.1 million in 2005. Air freight forwarding net revenues increased primarily in North America. The air freight forwarding margin decreased to 26.5% for 2006, as compared to 27.4% for 2005, primarily due to declines in Asia/South Pacific resulting from the pass through of rising fuel costs to our customers which increased gross revenues without corresponding increases in net revenues.

Ocean freight forwarding revenues. Ocean freight forwarding revenues increased $17.8 million, or 4.0%, to $461.6 million in 2006, compared to $443.8 million in 2005 primarily due to volume increases in Asia/South Pacific and Europe/Middle East due to our increased focus on the ocean market and our customers continued shift toward a lower cost deferred product.

Ocean freight forwarding net revenues increased $16.5 million, or 18.4%, to $106.4 million in 2006, compared to $89.9 million in 2005, while the ocean freight forwarding margin increased to 23.0% for 2006, compared to 20.3% for 2005 from increases across all geographic divisions due to the introduction of more capacity by ocean carriers resulting in lower transportation costs.

Customs brokerage and other revenues. Customs brokerage and other revenues, which include imports, warehousing, distribution and other logistics services, increased $22.7 million, or 3.7%, to $640.4 million in 2006, compared to $617.7 million in 2005. Customs brokerage revenues decreased primarily due to a decline in Europe/Middle East and North America trade activity, offset by increases in South America and Asia/South Pacific. Warehousing and logistics revenues increased due to continued growth in Asia/South Pacific, North America and South America as a result of the addition of several new logistics projects, offset by a decline in Europe/Middle East.

Customs brokerage and other net revenues increased $43.7 million, or 14.5%, to $344.1 million in 2006, compared to $300.4 million in 2005. Customs brokerage and other margins increased to 53.7% for 2006, compared to 48.6% for 2005 primarily due to new projects with higher margins in North America, South America and Europe/Middle East and disposition of several lower margin projects.

Personnel costs. Personnel costs include all compensation expenses, including those relating to sales commissions, incentive programs, salaries and temporary and contract labor. Personnel costs increased $36.2 million, or 6.9%, to $558.2 million in 2006, compared to $522.0 million in 2005. The increase in personnel costs was due primarily to increased headcount to support the increase in business activity, stock-based compensation expense resulting from the implementation of FAS 123R and granting of restricted stock, an adjustment to correct our prior stock option grant practices, and increased temporary labor related to several new logistics projects in North America, offset by a decrease in incentive compensation. We implemented FAS 123R on January 1, 2006 and incurred $5.8 million of stock-based compensation expense during 2006 related to stock options and shares issued under our Employee Stock Purchase Plan. We also incurred $853,000 in stock-based compensation expense related to restricted stock grants. In addition, we recorded $2.1 million of stock-based compensation in 2006 related to our review of our option grant practices during the 1996 through 2005 fiscal years. Stock-based compensation for 2005 was $191,000. During the year ended December 31, 2005, we recorded charges of $1.6 million for workforce reductions, mainly in certain European and U.S. locations. We have historically maintained incentive bonus, profit sharing and sales commission compensation plans to reward attainment of targets. Our incentive bonus and profit sharing compensation plans include a combination of target achievements related to total company financial performance, business unit financial performance and individual goals and objectives. In 2006, more challenging financial performance targets were introduced which have resulted in a lower level of incentive compensation expense in 2006 as compared to 2005. As a percentage of net revenues, personnel costs increased to 55.2% in 2006, compared to 55.0% in 2005.

Other selling, general and administrative expenses. Other selling, general and administrative expenses increased $19.1 million, or 5.7%, to $356.1 million in 2006, compared to $337.0 million in 2005. As a percentage of net revenues, other selling, general and administrative expenses were 35.2% in 2006, compared to 35.5% in 2005. The increase is due primarily to a $12.8 million increase in facilities costs, an $11.0 million increase in professional fees and a $3.8 million goodwill impairment charge, offset by decreased depreciation and bad debt expense. In addition, in 2006, we recorded a $3.9 million gain from the sale of a facility in the United Kingdom.

EEOC legal settlement. During 2005, we recaptured $6.0 million of the $8.5 million previously held in a fund to resolve potential claims in connection with a 2001 consent decree with the EEOC, resulting primarily from a significantly lower number of qualified claimants than originally projected.

Nonoperating (income) expense, net. Nonoperating (income) expense, net includes interest expense, interest income, minority interest expense, equity in (earnings) losses from affiliates, foreign exchange (gains) losses and other nonoperating (income) expenses. Nonoperating expense was $8.8 million in 2006 as compared to nonoperating income of $5.1 million in 2005. In 2006, we had foreign exchange losses of $2.8 million, as compared to foreign exchange gains of $2.5 million in 2005. In 2006, we received a gain of $1.0 million on the sale of TDS from receipt of escrow payments as compared to $4.0 million in 2005. See note 6 of the notes to our consolidated financial statements. Additionally, we incurred net interest expense of $7.3 million in 2006, compared to $2.7 million in 2005.

Effective tax rate. Our effective tax rate for 2006 was 35.7% compared to 42.2% for 2005. Our effective tax rates fluctuate 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 including the U.S. The reduced effective tax rate includes the benefits of foreign deferred tax account adjustments and the utilization of valuation allowances against current period taxable earnings due to higher profitability in Europe.

2005 Compared to 2004

Revenues. Revenues increased $355.1 million, or 13.0%, to $3,096.5 million in 2005, compared to $2,741.4 million in 2004, due to an increase in air freight forwarding revenues of $236.0 million, an increase in ocean freight forwarding revenues of $52.2 million and an increase in customs brokerage and other revenues of $66.8 million. Net revenues, which represent revenues less freight transportation costs, increased $83.1 million, or 9.6%, to $948.5 million in 2005, compared to $865.4 million in 2004. Net revenue margins (net revenues as a percentage of revenues) declined by 100 basis points in 2005 to 30.6%, as compared to 31.6% in 2004. The decrease in margins reflects rising fuel costs and the continued acceleration of growth in international air and ocean products which carry a lower net revenue margin but higher net revenue per shipment. Our international revenues and costs also increased slightly over the prior year due to the effects of translating amounts to the U.S. dollar.

Air freight forwarding revenues. Air freight forwarding revenues increased $236.0 million, or 13.1%, to $2,035.0 million in 2005, compared to $1,799.0 million in 2004, primarily due to continuing volume and shipment increases in Asia Pacific and volume increases in North America.

Air freight forwarding net revenues increased $50.0 million, or 9.8%, to $558.1 million in 2005, compared to $508.1 million in 2004. Air freight forwarding net revenues increased primarily in North America followed by Asia Pacific and Europe/Middle East. The air freight forwarding margin (net revenues as a percentage of revenues) decreased to 27.4% for 2005, as compared to 28.2% for 2004, primarily due to declines in Asia Pacific resulting from the pass through of rising fuel costs to our customers which increased gross revenues without corresponding increases in net revenues.

Ocean freight forwarding revenues. Ocean freight forwarding revenues increased $52.2 million, or 13.3%, to $443.8 million in 2005, compared to $391.6 million in 2004 primarily due to volume increases in Asia Pacific, Europe/Middle East and North America due to our increased focus on the ocean market and our customers continued shift toward a lower cost deferred product.

Ocean freight forwarding net revenues increased $13.7 million, or 18.0%, to $89.9 million in 2005, compared to $76.2 million in 2004, while the ocean freight forwarding margin increased to 20.3% for 2005, compared to 19.5% for 2004. Ocean freight forwarding margins steadily declined throughout 2004 due to higher carrier rates and increased volumes of business in the competitive transpacific east-bound and Asia to Europe tradelanes. Margins have begun to increase in 2005 from improved margins on ocean exports out of North America due to more available capacity introduced by ocean carriers.

Customs brokerage and other revenues. Customs brokerage and other revenues, which include imports, warehousing, distribution and other logistics services, increased $66.8 million, or 12.1%, to $617.7 million in 2005, compared to $550.9 million in 2004. Customs brokerage revenues increased primarily due to growth in Europe/Middle East and North America trade activity. Warehousing and logistics revenues increased due to growth in all geographic divisions.

Customs brokerage and other net revenues increased $19.4 million, or 6.9%, to $300.4 million in 2005, compared to $281.0 million in 2004. Customs brokerage and other margins, however, decreased to 48.6% for 2005, compared to 51.0% for 2004 primarily due to lower margins in Europe/Middle East and North America resulting from termination or completion of several high margin logistics projects.

Personnel costs. Personnel costs include all compensation expenses, including those relating to sales commissions, incentive programs, salaries and temporary and contract labor. Personnel costs increased $40.7 million, or 8.5%, to $522.0 million in 2005, compared to $481.3 million in 2004. The increase in personnel costs was due primarily to increased hiring as a result of the increase in business activity and salary adjustments. In addition, during the year ended December 31, 2005, we recorded charges of $1.6 million for workforce reductions, mainly in certain European and U.S. locations. We have historically maintained incentive bonus, profit sharing and sales commission compensation plans to reward attainment of targets. Our incentive bonus and profit sharing compensation plans include a combination of target achievements related to total company financial performance, business unit financial performance and individual goals and objectives. For 2005, more challenging financial performance targets were introduced which have resulted in a lower level of incentive compensation expense in 2005. As a percentage of net revenues, personnel costs decreased to 55.0% in 2005, compared to 55.6% in 2004.

Other selling, general and administrative expenses. Other selling, general and administrative expenses increased $34.3 million, or 11.3%, to $337.0 million in 2005, compared to $302.7 million in 2004. As a percentage of net revenues, other selling, general and administrative expenses were 35.5% in 2005, compared to 35.0% in 2004. The increase is due primarily to the $2.9 million penalty for improper government billings, increased fees for the continued deployment of our Vision suite of technologies freight forwarding, accounting and human resources systems as well as increased accounting and tax fees and increased insurance costs due to higher claims activity in the U.S. and cargo claims accruals relating to the warehouse fire in the United Kingdom.

EEOC legal settlement. During 2005, we recaptured $6.0 million of the $8.5 million previously held in a fund to resolve potential claims in connection with a 2001 consent decree with the EEOC, resulting primarily from a significantly lower number of qualified claimants than originally projected.

Nonoperating income (expense), net. Nonoperating income (expense), net includes interest expense, interest income, minority interest expense, equity in earnings (losses) from affiliates, foreign exchange gains (losses) and other nonoperating income (expenses). Nonoperating income was $5.1 million in 2005 as compared to nonoperating income of $7.3 million in 2004. In 2005, we had foreign exchange gains of $2.5 million, as compared to foreign exchange losses of $1.4 million in 2004. In 2004, we sold our investment in Miami Air and realized a gain of approximately $6.7 million. We sold our investment in TDS in 2004 for approximately $51.4 million in cash. We received approximately $45.3 million of the sale proceeds in August 2004. In 2004, the TDS sale resulted in a gain of approximately $5.9 million, which excludes the proceeds held in escrow. In 2005, we recorded a gain of $4.0 million following the resolution of certain contingencies. See note 6 of the notes to our consolidated financial statements. Additionally, we incurred net interest expense of $2.7 million in 2005, compared to $6.2 million in 2004, and had equity losses of affiliates of $85,000 in 2005, compared to earnings of $1.7 million in 2004.

Effective tax rate. Our effective tax rate for 2005 was 42.2% compared to 42.6% for 2004. Our effective tax rates fluctuate 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 including the U.S. The penalty related to the KBR war surcharge is non-deductible for U.S. tax purposes.

Liquidity and Capital Resources

General

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

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

As primarily a non-asset based freight forwarder, we do not have the same level of capital expenditures that would be required of an asset based forwarder. We believe our anticipated capital expenditures for 2007 will be in the range of $30 to $35 million, including approximately $8 to $12 million expected on information systems expenditures. Based on current plans, we believe that our existing capital resources, including $131.9 million of cash and cash equivalents and $247.7 million of available borrowing capacity on our credit facility, will be sufficient to meet working capital requirements through December 31, 2007. However, future changes in our business could cause us to consume available resources before that time. Additionally, funds may not be available when needed and even if available, additional funds may be raised through financing arrangements and/or the issuance of preferred or common stock or convertible securities on terms and prices significantly more favorable than those of the currently outstanding common stock, which could have the effect of diluting or adversely affecting the holdings or rights of our existing shareholders. 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.

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2006 Compared to 2005

Net cash provided by operating activities. Net cash provided by operating activities was $75.4 million in 2006, compared to $156.1 million in 2005. The decrease in 2006 was primarily due to a $33.8 million net decrease in cash from changes in working capital for 2006, compared to a $49.4 million net increase for 2005. The decrease in cash from changes in working capital is due to a $48.1 million increase in trade receivables due to an 8% increase in days sales outstanding from 61 days at December 31, 2005 to 66 days at December 31, 2006. In addition to the increase in trade receivables, there was a $14.1 million increase in payables and other accrued liabilities, compared with a $29.5 million increase in 2005.

*Net cash used in investing activitie*s. Net cash used in investing activities in 2006 was $19.2 million, compared to $29.4 million in 2005. Capital expenditures were $47.5 million during 2006, compared to $41.2 million during 2005, a $6.3 million increase. The expenditures in 2005 were mainly due to the implementation of our operational and financial systems, other software expenditures and equipment purchases. $12.5 million of the capital expenditures in 2005 relate to the purchase of a corporate plane. Restricted cash decreased by $2.3 million in 2006 as compared to a decrease of $5.3 million in 2005. In 2005, in connection with our acquisition of Miami International Forwarders in 2003 and the buyout of a minority interest partner in Thailand in 2001, we made earnout payments totaling $4.4 million. In 2006 and 2005, we received proceeds of $23.6 million and $4.3 million, respectively, from sales of other property and equipment. The increase in 2006 is due, in part, to proceeds of $11.5 million from the sale of the company aircraft and $8.5 million from the sale of a facility in the United Kingdom.

Net cash used in financing activities. Net cash used in financing activities in 2006 was $47.3 million, compared to $107.7 million in 2005. The cash used in financing activities in 2006 consists of $547.2 million in repayments of debt (primarily related to our revolving line of credit), $4.4 million of repayment of financed insurance premiums, and $1.9 million in payments of capital lease obligations, offset by $481.8 million in proceeds from the issuance of debt (primarily related to our revolving line of credit), $15.0 million in proceeds from the exercise of 670,000 stock options, $5.4 million in excess tax benefits from employee stock options, $2.8 million from issuances of short-term debt, net of repayments and $1.2 million in proceeds from the issuance of 86,000 shares of common stock from our Employee Stock Purchase Plan (ESPP). The cash used in financing activities in 2005 consists of $309.3 million in repayments of debt (primarily related to our revolving line of credit), $211.0 million in cash payments for the repurchase of 8.1 million shares of our outstanding common stock from our tender offer, $94.3 million in cash payments for the repurchase of 5.0 million shares of our outstanding common stock, $3.5 million in payments of financing fees related to our new Amended and Restated Credit Facility, $3.4 million of repayment of financed insurance premiums, $2.7 million from the repayment of short-term debt, net of issuances and $2.2 million in payments of capital lease obligations, offset by $495.6 million in proceeds from the issuance of debt (primarily related to our revolving line of credit), $21.2 million in proceeds from the exercise of 1.0 million stock options and $1.1 million in proceeds from the issuance of 66,000 shares of common stock from our ESPP.

2005 Compared to 2004

Net cash provided by operating activities. Net cash provided by operating activities was $156.1 million in 2005, compared to $32.1 million in 2004. The increase in 2005 was primarily due to an increase in net income and a $49.4 million net increase in cash from changes in working capital for 2005, compared to $61.4 million net decrease for 2004. The increase in cash from changes in working capital is due to a $20.2 million decrease in trade receivables due to improved collection efforts as evidenced by a 13% decrease in days sales outstanding from 70 days at December 31, 2004 to 61 days at December 31, 2005. In addition to the decrease in trade receivables, there was a $29.5 million increase in payables and other accrued liabilities, compared with a $79.8 million increase in 2004.

Net cash used in investing activities. Net cash used in investing activities in 2005 was $29.4 million, compared to $7.0 million in 2004. Capital expenditures were $41.2 million during 2005, compared to $38.2 million during 2004, a $3.0 million increase. The expenditures in 2005 were mainly due to the implementation of our operational and financial systems, other software expenditures and equipment purchases. $12.5 million of the capital expenditures in 2005 relate to the purchase of a corporate plane. Restricted cash decreased by $5.3 million in 2005 as compared to an increase of $3.4 million in 2004. During 2005 and 2004, in connection with our acquisition of Miami International Forwarders in 2003 and the buyout of a minority interest partner in Thailand in 2001, we made earnout payments totaling $4.4 million and $3.3 million, respectively. During 2004, we received proceeds of $6.7 million for the sale of our interest in an unconsolidated affiliate, Miami Air, to an unrelated party and proceeds of $45.3 million for the sale of our interest in an unconsolidated affiliate, TDS, to an unrelated party. During the second quarter of 2004, we acquired the outside ownership of our consolidated affiliates in France, Spain and Portugal for aggregate consideration of $16.2 million in cash. In 2005 and 2004, we received proceeds of $4.3 million and $1.1 million, respectively, from sales of other property and equipment.

Net cash used in financing activities. Net cash used in financing activities in 2005 was $107.7 million, compared to $22.6 million in 2004. The cash used in financing activities in 2005 consists of $309.3 million in repayments of debt (primarily related to our revolving line of credit), $211.0 million in cash payments for the repurchase of 8.1 million shares of our outstanding common stock from our tender offer, $94.3 million in cash payments for the repurchase of 5.0 million shares of our outstanding common stock, $3.5 million in payments of financing fees related to our new Amended and Restated Credit Facility, $3.4 million of repayment of financed insurance premiums, $2.7 million from the repayment of short-term debt, net of issuances and $2.2 million in payments of capital lease obligations, offset by $495.6 million in proceeds from the issuance of debt (primarily related to our revolving line of credit), $21.2 million in proceeds from the exercise of 1.0 million stock options and $1.1 million in proceeds from the issuance of 66,000 shares of common stock from our Employee Stock Purchase Plan (ESPP). The cash used in financing activities in 2004 consists of $6.4 million of repayment of financed insurance premiums, $59.1 million in cash payments for the repurchase of 3.4 million shares of our outstanding common stock, $218.8 million in repayments of debt (primarily related to our revolving line of credit) and $1.1 million in payments of financing fees related to our new Credit Facility, offset by $39.9 million in proceeds from the exercise of 2.1 million stock options, $211.0 million proceeds from the issuance of debt (primarily related to our revolving line of credit) and $791,000 in proceeds from the issuance of 42,000 shares of common stock from our ESPP.

Other factors affecting our liquidity and capital resources

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

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

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

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

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all of our and each of our domestic subsidiaries present and future property and assets; and

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

Loans under the Amended and Restated Credit Agreement bore interest initially at a rate per annum equal to either, at our option, (1) LIBOR plus 1.25% or (2) the Base Rate (defined as the higher of Bank of America, N.A. s prime rate or 0.50% over the Federal Funds rate). In addition, we are required to pay a commitment fee of 0.20% on the undrawn amounts under the Amended and Restated Credit Agreement. Interest rates and commitment fees under the Amended and Restated Credit Agreement are subject to increase or decrease as a function of the ratio of our Consolidated Net Funded Indebtedness to Consolidated EBITDA (each as defined in the Amended and Restated Credit Agreement). We may select interest periods of one, two, three or six months for LIBOR loans, subject to availability. Interest will be payable at the end of the selected interest period, but no less frequently than quarterly.

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

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

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

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

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

The Amended and Restated Credit Agreement contains events of default customary for an agreement of this type, including without limitation, an event of default upon certain specified changes in control. The occurrence of certain specified internal control events that could reasonably be expected to have a material adverse effect on us also constitutes an event of default under the Amended and Restated Credit Agreement. If a default occurs and is continuing, the administrative agent may, among other things, declare all outstanding principal amounts immediately due and payable.

The Amended and Restated Credit Agreement contains a $75 million sub-facility for letters of credit. On October 4, 2005, we borrowed approximately $95.8 million under the Amended and Restated Credit Agreement to partially fund the purchase of shares of our common stock in connection with the tender offer (see note 12 of the notes to our consolidated financial statements). At December 31, 2006, we had borrowings of $37.0 million, $15.3 million in letters of credit outstanding and unused borrowing capacity of $247.7 million under the Amended and Restated Credit Agreement.

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

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

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

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

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all of our and each of our domestic subsidiaries present and future property and assets; and

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

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

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

Under the Note Purchase Agreement, we are subject to various covenants, including, among others, the following:

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

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

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

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

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limitations on, among other things, liens asset sales, dividends and stock redemptions, investments and acquisitions, transactions with affiliates and consolidations and mergers and a requirement that we offer to prepay the note in the event of specified changes in control.

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

Release of restricted cash. In February 2005, in response to a joint motion filed by EGL and the EEOC, a U.S. District Court ordered the return of $6.0 million to us of $8.5 million previously held in an established fund to resolve potential claims in connection with a 2001 consent decree (see note 17 of the notes to our consolidated financial statements). The joint motion and subsequent order resulted in $6.0 million in income in the first quarter of 2005.

Capital expenditures. We are in the process of developing and implementing computer system solutions for operational, human resources and financial systems. Our capital expenditures were approximately $11.0 million and $10.1 million related to the development of these systems during 2006 and 2005, respectively. Our expected capital expenditures for 2007 are approximately $30 to $35 million, including approximately $8 to $12 million for information technology development and upgrades.

TDS Logistics, Inc. In August 2004, we sold our investment in TDS Logistics, Inc. (TDS) to an unrelated party for approximately $51.4 million in cash. We received approximately $45.3 million of the sale proceeds in August 2004, with additional payments totaling $3.3 million in 2005 and $1.3 million in January 2006. The remaining $1.5 million of the sale proceeds are held in escrow subject to the resolution of certain contingencies and time periods. The sale resulted in an initial gain of $5.9 million in 2004 and an additional gain of $4.0 million in 2005 when certain funds were released out of escrow. These amounts are included in non-operating income in our consolidated statement of income.

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

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

On October 4, 2005, we announced the final results of the tender offer. An aggregate of 8,085,958 shares were properly tendered and not withdrawn at or below a price of $26.00. Because shareholders tendered less than 9,615,000 shares, there was no proration of tendered shares. We financed the tender offer with the use of cash on hand and borrowings of $196.0 million under both the new $300 million line of credit facility and the $100 million bridge loan that was refinanced by the issuance of $100 million of floating rate senior secured notes due in October 2012 (see note 8 of the notes to our consolidated financial statements). As a result, we accepted for purchase and paid approximately $211.0 million for all 8,085,958 shares at a price of $26.00 per share. Any shares received in the tender offer that were not tendered properly were returned to the tendering shareholders. The shares purchased pursuant to the tender offer represented approximately 17.1% of EGL s outstanding shares as of September 30, 2005.

In February and March 2004, our Board of Directors authorized the repurchase of up to $65 million in value of our outstanding common stock depending on market conditions and other factors. During the program, which expired in July 2004, we repurchased approximately 3.4 million shares of our common stock at an average price of $17.37 per share for approximately $59.1 million.

Stock options. As of December 31, 2006, we had outstanding non-qualified stock options to purchase an aggregate of 2.3 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 $8.88 to $48.62). 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 non-qualified stock option exercises in 2006 and 2005 to purchase an aggregate of 635,000 and 920,000 shares of common stock, we are entitled to a federal and state income tax deduction of approximately $14.0 million and $10.6 million, respectively. We have recognized a reduction of our federal and state income tax obligations of approximately $5.6 million and $4.4 million in 2006 and 2005, respectively. 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.

Off-Balance Sheet Arrangements

As is common in our industry, we have entered into certain off-balance sheet arrangements in the ordinary course of business that result in risks not directly reflected in our balance sheets. Our significant off-balance sheet arrangements include liabilities associated with guarantees secured by letters of credit, surety bonds and security time deposits and non-cancelable operating leases. We have not engaged in any off-balance sheet financing arrangements through special purpose entities.

Guarantees. We guarantee certain financial liabilities, the majority of which relate to our freight forwarding operations. In the normal course of our business, we are 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. We operate as a customs broker and prepare and file all formal documentation required for clearance through customs agencies, obtain customs bonds, facilitate the payment of import duties on behalf of the importer and arrange for payment of collect freight charges. We also assist the importer in obtaining the most advantageous commodity classifications, qualifying for duty drawback refunds and arranges for surety bonds for importers.

We secure these guarantees primarily by three methods: a $75 million standby letter of credit sub-facility included within our Amended and Restated Credit Agreement, surety bonds and security time deposits. Security time deposits are restricted as to withdrawal for a specified timeframe and are classified on our balance sheet as restricted cash. As of December 31, 2006, we had $15.3 million in letters of credit outstanding.

We also issue IATA (International Air Transportation Association) related guarantees, customs bonds and other working capital credit line guarantees in the normal course of business. IATA related guarantees and customs bonds are issued to facilitate the movement and clearance of freight. Working capital credit line guarantees include, but are not limited to, guarantees associated with insurance requirements and certain potential tax obligations. Generally, guarantees have one-year or two-year terms and are renewed upon expiration. As of December 31, 2006, total IATA related guarantees, customs bonds and other working capital credit line guarantees were approximately $100.4 million. Approximately $76.9 million of guarantees, customs bonds and borrowings against credit line guarantees were outstanding as of December 31, 2006. Of such amounts, $4.0 million represents guarantees of our trade payables and accrued transportation costs and borrowings against our international credit facilities, which were recorded as liabilities on our consolidated balance sheet.

Leases. We enter into operating lease agreements, principally for freight operation facilities and office space. These leases are non-cancelable and expire on various dates through 2027. Certain of our lease agreements contain renewal options and rent escalation clauses. These leases allow us to conserve cash by paying a monthly lease payment for use of facilities, rather than purchasing the facilities. Rent expense for operating leases was $88.2 million, $80.8 million and $86.9 million for the years ended December 31, 2006, 2005 and 2004, respectively, which is net of sublease income of $4.1 million, $3.7

million and $4.5 million, respectively. Please refer to Note 18 to our consolidated financial statements for more details regarding our outstanding leases.

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, 2006 are shown in the table below (in thousands). A more complete description of these obligations and commitments is included in the notes to our consolidated financial statements.

Contractual Obligations	Total	Less than 1 Year	1 3 Years	4 5 Years	After 5 Years
	$	$	$	$	$
Long-term debt including interest	225,867	23,938	33,444	60,785	107,700
Other liabilities (Note 7)	124,750	108,886	8,838	4,098	2,928
Benefit plan contributions (Note 13)	1,864	1,864	-	-	-
Capital lease obligations (Note 18)	1,187	905	250	18	14
Operating leases (Note 18)	433,754	87,882	135,378	88,165	122,329
	$	$	$	$	$
Total contractual obligations	787,422	223,475	177,910	153,066	232,971

In addition to the contractual obligations above, as of December 31, 2006 we have payments of up to $200,000 contingently payable during 2007 related to business acquisitions. See note 8 of the notes to the consolidated financial statements.

Certain Relationships and Related Party Transactions

Aircraft usage payments

James R. Crane, our Chairman of the Board and Chief Executive Officer, held 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. During the year ended December 31, 2004, we reimbursed Mr. Crane $1.2 million for actual hourly usage of the aircraft. In January 2005, we purchased for $12.5 million from an unrelated third party an aircraft that was previously leased by an entity controlled by Mr. Crane. This plane was initially expected to be utilized for business travel, eliminating the prior arrangement whereby EGL used Mr. Crane s aircraft and reimbursed Mr. Crane the cost thereof.

On July 18, 2005, the Compensation Committee of the Board of Directors of EGL approved, in lieu of incremental cash compensation, an arrangement to provide Mr. Crane, or his designees, with up to an aggregate of 150 hours per year of personal use of our aircraft without reimbursement by Mr. Crane. Mr. Crane actually used 158.7 hours in 2005. On March 15, 2006, the Compensation Committee of the Board of Directors approved the 8.7 hours of overage and reduced the amount allowed for personal usage in 2006 by 8.7 hours to 141.3 hours. In 2006, Mr. Crane s personal usage amounted to 62.6 hours.

We included usage of 158.7 and 62.6 hours in Mr. Crane s taxable income for 2005 and 2006, respectively, as required by current U.S. federal income tax regulations. The U.S. federal income tax regulations also restrict the amount of corporate tax deductions for operating costs and tax depreciation attributable to personal use of the company plane. The amount of non-deductible personal use expense is reduced by the imputed income recognized by the employee. On August 5, 2005, the Board of Directors of EGL approved, in lieu of additional director cash compensation that would make the existing compensation package more competitive, an arrangement to provide the independent members of the Board of Directors with limited personal usage of our aircraft, without reimbursement by the directors. Personal usage of the aircraft by the directors is subject to availability, with priority given to our usage, and the cumulative number of hours allowed for all directors may not exceed 100 hours per year. We will record the number of hours utilized by each director and include in such director s yearly taxable income the amount required by then current U.S. federal income tax regulations. In 2006 and 2005, the directors did not utilize the company plane for personal use.

In the second quarter of 2006, we made a decision to sell the aircraft as it was not utilized to the extent anticipated when purchased. As of June 30, 2006, we had designated the aircraft as an asset held for sale. We reclassified $11.4 million, which represents the net realizable value of the aircraft as of June 30, 2006, from property, plant and equipment to assets held for sale. We recognized an impairment loss on the asset of $369,000, which is the difference of the carrying value of the asset and the net realizable value of the asset at June 30, 2006. In December 2006, we sold the aircraft to an unrelated third party for an aggregate cash purchase price of $11.5 million. We recognized a loss of $55,000, which is included in other income on our condensed consolidated statement of income.

On November 13, 2006, we entered into a Non-Exclusive Aircraft Lease Agreement with JRC Citation, LLC for the lease of one 2006 Cessna Citation X aircraft. JRC Citation, LLC is controlled by James R. Crane. We plan to use the aircraft for business travel by our employees and directors.

The lease has a one-year term and each party has the right to terminate the lease without cause upon thirty days written notice. The lease is non-exclusive, and JRC Citation, LLC may also lease the aircraft to other parties during the term of the lease. Our use of the aircraft is on an as needed basis and we are not committed to any minimum usage of the aircraft. We will pay rent on the aircraft based on each flight hour of use of the aircraft at the rate of $2,200 per flight hour. We are also obligated to obtain or supply all services and supplies necessary to the operation, maintenance and storage of the aircraft, including paying for fuel, maintenance costs and storage fees and obtaining the services of pilots for our LP s operation of the aircraft when used by us. JRC Citation, LLC is obligated to maintain bodily injury and property damage liability insurance on the aircraft. We have agreed to defend and indemnify JRC Citation, LLC and its shareholders, members, directors, officers, managers and employees against any claims, damages or liabilities arising from our operation, maintenance, storage or other use of the aircraft.

Shared employees

Certain of our employees performed services for companies owned by Mr. Crane. We were reimbursed for these services based upon an allocation percentage of total salaries agreed to by us and Mr. Crane. We received reimbursements of $80,000, $136,000 and $135,000 for 2006, 2005 and 2004, respectively. There were no amounts billed but not received as of December 31, 2006.

Relatives of EGL Executive Officers and Directors

Robert Kelley is the brother of Neil Kelley, a member of our Board of Directors. Robert Kelley is a logistics manager for our company and received total compensation of $89,000 in 2006. Patrick Bento is the brother of E. Joseph Bento, President of North America and CMO. Patrick Bento is a global account director for our company and received total compensation of $374,000 in 2006. Dan Getty is the brother-in-law of E. Joseph Bento. Dan Getty is the managing director of one of our stations and received total compensation of $151,000 in 2006.

Seasonality

Historically, our operating results have been subject to a limited degree to seasonal trends when measured on a quarterly basis. Typically, our first fiscal quarter is weaker when compared to our other fiscal quarters of the corresponding year. The seasonality of our business is a result of a variety of factors, including holiday seasons, consumer demand, economic conditions and other factors beyond our control. 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 and Estimates

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:

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the range of accounting policies permitted by accounting principles generally accepted in the United States of America;

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management s understanding of the company s business both historical results and expected future results;

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expectations of the future performance of the economy domestically, globally and within various sectors that serve our principal customers and suppliers of goods and services;

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expected rates of change, sensitivity and volatility associated with the assumptions used in developing estimates; and

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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 that may 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

Domestic revenues and most domestic operating costs are recognized when shipments are picked up from the customer. International revenues and freight consolidation costs are recognized in the period when shipments are tendered to a carrier for transport to a foreign destination. This is one of the permissible methods under 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 revenues and gross profit earlier than methods that do not recognize revenues until a proof of delivery is received. This method of revenue and cost recognition does not result in a material difference than if revenues and costs were recognized upon delivery. Customs brokerage and other revenues are recognized upon completing the documents necessary for customs clearance or completing other fee-based services. Revenues recognized as an indirect air carrier or an ocean freight consolidator include the direct carrier s charges to EGL for carrying the shipment. Revenues recognized in other capacities include only the commissions and fees received. We report the costs of certain reimbursed incidental activities on a gross basis in revenues and cost of transportation.

We derive our revenues from three principal sources: air freight forwarding, ocean freight forwarding, and customs brokerage, import and logistics services.

Air and ocean freight forwarding. As primarily a non-asset based carrier, we do not own transportation assets. Instead, we generate the majority of our air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to our customers as an indirect carrier. Additionally, we generate air freight and ocean freight forwarding revenues to a lesser extent as an authorized cargo sales agent.

As an indirect carrier, we obtain shipments from our customers, consolidate shipments bound for a particular destination, determine the routing, select the direct carrier and tender each consolidated lot as a single shipment to the direct carrier for transportation to a distribution point. We issue a House Airway Bill (HAWB) or a House Ocean Bill of Lading (HOBL) to customers as the contract of carriage. In turn, when the freight is physically tendered to a direct carrier, we receive a contract of carriage known as a Master Airway Bill for air freight shipments and a Master Ocean Bill of Lading for ocean shipments. We are the direct point of contact for service fulfillment and resolving any service failures or claims for lost or damaged freight resulting from either our or the direct carriers actions. In addition, if we do not collect from our customers, we are still responsible for paying the direct carrier.

Due to the high volume of freight we manage, we generally obtain lower rates from the direct carriers than the rates we charge our customers for individual shipments. This rate differential is the primary source of our air and ocean freight net revenues. We have complete discretion in selecting the means, route and procedures to be followed in the handling, transportation and delivery of freight. We select the direct carrier that will provide the most economical routing in an effort to maximize net revenues.

Revenues related to shipments where we act as an indirect carrier are reported based on the gross amount billed to the customer and include the charges for carrying the shipments. Based upon the terms in the contract of carriage, revenues are recognized at the time the freight is tendered to the direct carrier at origin. Costs related to the shipments are also recognized at this time.

As an authorized cargo sales agent of most airlines and ocean shipping lines, we also arrange for transportation of individual shipments and receive a commission from the airline or ocean shipping line for arranging the shipments. When acting in this capacity, we do not consolidate shipments or have responsibility for shipments once they have been tendered to the carrier. Therefore, revenues include only the commissions and fees received. These revenues are recognized upon completion of the services.

Customs brokerage, import and logistics services. Customs brokerage and import services involve providing services at destinations, such as helping customers clear shipments through customs by preparing required documentation, calculating and providing for payment of duties and other taxes on behalf of the customers as well as arranging for any required inspections by governmental agencies and arranging for delivery. We also offer a range of logistics services, distribution and materials management services, international insurance services, global project management services and trade facilitation services. Revenues include the fees received for these services and are recognized upon completion of the services.

Allowance for doubtful accounts

Our allowance for doubtful accounts is determined using a combination of factors based on the expected ultimate recovery of trade receivables. We maintain a bad debt reserve for all customers based on a variety of factors, including the length of time receivables are past due, general and specific economic trends, significant one-time events and historical customer collection experience. Also, we record additional reserves for individual accounts when we become aware of a customer s inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer s operating results or financial position. Trade receivables include disbursements made by us on behalf of our customers for transportation costs and customs duties. As the billings to customers for these disbursements may be several times the amount of revenues and fees derived from these transactions, the inability to collect such amounts could result in losses greater than the revenues recognized when such billings were recorded. If circumstances related to customers change, our estimates of the allowance for doubtful accounts would be further adjusted.

Computer software

Certain costs related to the development or purchase of internal-use software during the application development stage are capitalized and amortized over the estimated useful life of the software. The following types of costs incurred during the application development stage are capitalized: (i) external direct costs of materials and services consumed in developing or obtaining internal-use software, (ii) payroll and payroll related costs for employees who are directly associated with and who devote time to the internal-use software project, (iii) interest costs incurred in developing software for internal use, and (iv) costs to develop or obtain software that allows for access or conversion of old data into new systems. 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, 2006 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. We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We use a two-step impairment test. In the first step, we compare the fair value of each reporting unit to its carrying value. We determine the fair value of our reporting units based on the present value of estimated future cash flows. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step in order to determine the implied fair value of the reporting unit s goodwill and compare it to the carrying value of the reporting unit s goodwill. If the carrying value of the reporting unit s goodwill exceeds its implied fair value, then we must record an impairment loss equal to the difference.

The income approach, which we use to estimate the fair value of our reporting units is dependent on a number of factors including estimates of future market growth and trends; forecasted revenue, costs, cash flows and capital expenditures, and the timing thereof; appropriate discount rates; tax rates and other variables. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. Actual future results may differ from those estimates. In addition, we make certain assumptions to allocate shared assets, liabilities and overhead costs to calculate the carrying values for each of our reporting units.