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

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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:

- electronic document preparation;
- cargo routing from overseas origins to ports and airports of entry;
- 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;

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governmental and military equipment;

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retail goods;

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fashion/apparel;

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trade show exhibit materials;

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telecommunications equipment;

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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

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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:

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

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authorizations and bonds by the U.S. Treasury;

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

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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:

- economic and political conditions in the United States and abroad;
- major work stoppages;
- difficulties in managing overseeing foreign operations;
- exchange controls and currency fluctuations;
- wars, civil unrest, acts of terrorism and other conflicts; and
- United States and foreign laws relating to tariffs, trade restrictions, foreign investment and taxation.

Trade-related events beyond our control, such as a failure of various nations to reach or adopt international trade agreements or an increase in bilateral or multilateral trade restrictions, could have a material adverse effect on our international operations.

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.

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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.

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:

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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;

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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.

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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.

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;

-

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;

-

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

-

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.

		Less than	1 3	4 5	After 5
Contractual Obligations	**Total**	**1 Year**	**Years**	**Years**	**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.

We performed our annual 2006 goodwill and indefinite-lived intangible asset impairment analysis in the fourth quarter of 2006. Based on the present value of our estimated future cash flows, we concluded that the carrying value of the net assets assigned to our South America reporting unit exceeded the fair value of the reporting unit. As such, we performed the second step of the impairment analysis and concluded that all of the recorded goodwill of $3.8 million was impaired and needed to be expensed as a component of operating income. This impairment charge is recorded as a component of general and administrative expense in the accompanying consolidated statements of income. We may incur charges for impairment of goodwill and indefinite-lived intangible assets in the future if the net book value of our operating reporting units exceeds estimated fair value. If we incur additional impairment, it could have an adverse impact on our future earnings.

Impairment of assets

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

Merger and restructuring

We have engaged in merger and restructuring actions that require our management to utilize significant estimates related to future lease obligations for duplicate facilities, expenses for severance and other employee separation costs and costs for termination of joint venture/agency agreements. Management makes significant estimates, including the amount of sublease income we will recover for future lease obligations on duplicate facilities. Should the actual amounts differ from our estimates, the amount of the restructuring charges could be materially impacted. See note 18 of the notes to the consolidated financial statements.

Taxes on earnings

A company s income tax expense (benefit) for financial reporting purposes is equal to the current tax expense (i.e. amounts due per the income tax return) plus the deferred tax expense. Deferred tax expense (benefit) is the change during the year in the company s deferred tax liabilities and assets. We use the balance sheet approach as prescribed by Financial Accounting Standard 109 (FAS 109) to measure the cumulative temporary differences and carryforward amounts at the applicable tax rate thereby determining the deferred tax asset and liability balances. The deferred tax assets are then analyzed for potential valuation allowances where future tax benefits may not be realized.

We identify and measure all temporary differences, net operating loss carryforward amounts and tax credit carryforward balances to determine the total deferred tax asset and liability amounts at the applicable rate. We consider all positive and negative factors when evaluating the need for valuation allowances such as historical performance, future earnings forecasts and net operating and credit carryforward utilization by jurisdiction before expiration. Where such factors do not indicate full realization of the deferred tax asset a valuation allowance is recorded to reduce the expected deferred tax benefit. The charge to earnings is recorded in the period such determination is made. When future positive events occur, the valuation allowance will be revised or eliminated.

Our effective tax rate includes the impact of certain undistributed foreign earnings for which no U.S. income taxes have been provided because such earnings are expected to be reinvested indefinitely outside the U.S. Material changes in our estimates of cash flow, working capital and long-term

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investment requirements could impact our effective rate should the repatriation of such offshore earnings become necessary.

As discussed in note 11 of the notes to our consolidated financial statements, the Company s U.S. federal income tax returns from fiscal years 2000 to 2001 are currently under examination by the Internal Revenue Service (IRS). Specifically, the income tax returns filed by EGL, Inc. for fiscal years ended September 30, 2001 and December 31, 2001, and the final income tax return filed by Circle International Group, Inc., a subsidiary of EGL, Inc., for the fiscal year ended October 2, 2000 when it was a separate company prior to the merger with EGL, Inc. are currently under audit. The case has been with the Appeals division of the IRS since June 2005. In December 2006, the Company reached a settlement agreement with the IRS Appeals team in this case. As a result of the settlement the Company will capitalize a portion of software research and development expenditures for fiscal year September 30, 2001. The Company also will capitalize a portion of merger transaction costs for the short period Circle International Group, Inc. return ended October 2, 2000.

Under the settlement terms the Company estimates it will pay approximately $2.4 million in additional taxes when the case is closed. Additionally, the Company will recognize an estimated deferred tax benefit of $2.9 million related to temporary items that will be recovered in future periods.

The case must be reviewed by the Joint Committee of Congress which the Company expects to occur by the end of second quarter 2007. While the outcome of review cannot be predicted with certainty, the Company does not believe any additional material adjustments to its tax returns are probable at this time. There can be no assurance that the final outcome will not result in material adjustments which would have a material adverse impact on our results of operations and cash flow. The case can be formally closed once Joint Committee review is complete.

New accounting pronouncements

We discuss new accounting pronouncements in note 1 of the notes to our consolidated financial statements.

ITEM 7A.

Quantitative and Qualitative Disclosures about Market Risk

Our cash flows and net income are subject to fluctuations due to changes in exchange rates. We attempt to limit our exposure to changing foreign exchange rates through operational actions. We provide services to customers in locations throughout the world and, as a result, operate with many functional currencies including the key currencies of North America, Latin America, Asia, the South Pacific and Europe. This diverse base of local currency costs serves to partially counterbalance the effect of potential changes in the value of our local currency denominated revenues and expenses. Short-term exposures to changing foreign currency exchange rates are related primarily to intercompany transactions. The duration of these exposures is minimized through the use of an intercompany netting and settlement system that settles the majority of intercompany obligations two times per month. We use short-term foreign exchange forward contracts on a limited basis to minimize exposures to exchange rates on recorded receivables and payables. The value of foreign exchange forward contracts was not significant at December 31, 2006 or 2005.

In October 2005, we issued $100 million of floating rate, senior secured notes due in October 2012. The notes have a variable LIBOR-based interest rate. See note 8 of the notes to our consolidated financial statements. As of December 31, 2006, we had approximately $37.0 million outstanding under our line of credit. Our lease payments on certain financed facilities are tied to market interest rates. At December 31, 2006, a 10% rise in the base rate for these financing arrangements would not have a material impact on operating income in 2007.

We have not purchased any material futures contracts nor have we purchased or held any material derivative financial instruments for trading purposes during 2006. In November 2005, we entered into a three-year interest rate swap agreement, which was designated as a cash flow hedge, to reduce our exposure to fluctuations in interest rates on our $300 million LIBOR-based revolving credit facility or any substitutive debt agreements we enter into. The fair value of the interest rate swap at December 31, 2006 was a gain of $188,000. The fair value of the interest rate swap at December 31, 2005 was a loss of $301,000, of which $94,000 has been recognized as interest expense. The interest rate swap expires in January 2009.

ITEM 8.

Financial Statements and Supplementary Data

The financial statements and supplementary information specified by this Item are presented following Item 15 of this report.

ITEM 9.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A.

Controls and Procedures

Disclosure Controls and Procedures

Management, with the participation and supervision of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures were effective.

Management s Report on Internal Control Over Financial Reporting

The management of EGL, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined by Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, under the supervision of and with participation from the Chief Executive Officer and the Chief Financial Officer, has conducted an evaluation of the effectiveness of the design and operation of its internal control over financial reporting based on criteria established in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that that the Company maintained effective internal control over financial reporting as of December 31, 2006.

The Company s independent registered public accounting firm has audited management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2006 as stated in their report on page F-2.

Changes in Internal Control Over Financial Reporting

During the last fiscal quarter (the fourth fiscal quarter in case of an annual report), there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B.

Other Information

None

PART III

ITEM 10.

Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to information under the caption Proposal 1 Election of Directors and to the information under the caption Section 16(a) Reporting Delinquencies and Corporate Governance in our definitive Proxy Statement (the 2007 Proxy Statement) for our 2007 annual meeting of shareholders.

Code of Ethics

We have adopted a code of business conduct and ethics for directors, officers (including our Chief Executive Officer and Chief Financial Officer) and employees, known as the Code of Conduct. Anyone may, without charge, upon request, receive a copy of the Code of Conduct from:

EGL, Inc.

Attention: Investor Relations

15350 Vickery Drive

Houston, TX 77032

(281) 618-3100

In the event that we make changes in, or provide waivers from, the provisions of our code of business conduct and ethics that the SEC or the NASDAQ Stock Market require us to disclose, we intend to disclose these events on our website.

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

ITEM 11.

Executive Compensation

The information required by this item is incorporated herein by reference to the 2007 Proxy Statement.

ITEM 12.

Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this item is incorporated herein by reference to the 2007 Proxy Statement.

ITEM 13.

Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the 2007 Proxy Statement.

ITEM 14.

Principal Accounting Fees and Services

The information required by this item is incorporated by reference to the 2007 Proxy Statement.

PART IV

ITEM 15.

Exhibits and Financial Statement Schedules

(a)

1) Financial Statements

2) Financial Statement Schedules

Schedule II Valuation and Qualifying Accounts for the Years Ended

December 31, 2006, 2005 and 2004

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Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the consolidated financial statements or notes thereto.

(b)

Exhibits

Exhibit Number	Description
*3.1	Second Amended and Restated Articles of Incorporation of EGL, as amended (filed as Exhibit 3(i) to EGL s Form 8-A/A filed with the Securities and Exchange Commission on September 29, 2000 and incorporated herein by reference).
*3.2	Statement of Resolutions Establishing the Series A Junior Participating Preferred Stock of EGL (filed as Exhibit 3(ii) to EGL s Form 10-Q for the fiscal quarter ended June 30, 2001 and incorporated herein by reference).
*3.3	Amended and Restated Bylaws of EGL, as amended (filed as Exhibit 3(ii) to EGL s Form 10-Q for the fiscal quarter ended June 30, 2000 and incorporated herein by reference).
*4.1	Rights Agreement dated as of May 23, 2001 between EGL, Inc. and Computershare Investor Services, L.L.C., as Rights Agent, which includes as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights to Purchase Common Stock (filed as Exhibit 4.1 to the EGL s Form 10-Q for the fiscal quarter ended September 30, 2001 and incorporated herein by reference).
*10.1	Non Employee Director Compensation Summary (filed as Exhibit 10.1 to EGL s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 and incorporated herein by reference).
*10.2	Form of 2006 Incentive Bonus Plan for Executive Management employees (filed as Exhibit 99.1 to EGL s Form 8-K filed with the Securities and Exchange Commission on April 12, 2006 and incorporated herein by reference).
*10.3	Amended and Restated Non Employee Director Stock Plan (filed as Exhibit 99.1 to EGL s Form 8-K filed with the Securities and Exchange Commission on May 22, 2006 and incorporated herein by reference).

*10.4	Form of EGL, Inc. Indemnification Agreement (filed as Exhibit 99.2 to EGL s Form 8-K filed with the Securities and Exchange Commission on May 22, 2006 and incorporated herein by reference).
*10.5	Administrative Compliance Agreement dated March 24, 2006 by and between the United States Army and EGL, Inc. (filed as Exhibit 99.1 to EGL s Form 8-K filed with the Securities and Exchange Commission on March 27, 2006 and incorporated herein by reference).
*10.6	Form of Restricted Share Award Agreement pursuant to EGL s Amended and Restated Non Employee Director Stock Plan (filed as Exhibit 10.2 to EGL s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and incorporated herein by reference).
10.8	Non-Exclusive Aircraft Lease Agreement, dated November 13, 2006, between EGL Eagle Global Logistics, L.P. and JRC Citation, LLC (filed as Exhibit 99.1 to EGL s Form 8-K filed with the Securities and Exchange Commission on November 15, 2006 and incorporated herein by reference).
*10.9	Aircraft Purchase Agreement, dated as of December 14, 2006, between Wayneworks Aviation, LLC and Global Logistics Aircraft, LLC (filed as Exhibit 99.1 to EGL s Form 8-K filed with the Securities and Exchange Commission on December 21, 2006 and incorporated herein by reference).
*10.10	EGL Amended 2007 Incentive Bonus Plan for Global Corporate Management and Staff (filed herewith).
10.11	Offer Letter dated October 18, 2006 between EGL and Bruno Sidler (filed herewith).
10.12	Long-Term Incentive Plan, as amended and restated effective November 21, 2006 (filed herewith).
10.13	Form of Restricted Stock Agreement (3-year Time Vesting) pursuant to Long-Term Incentive Plan (filed as Exhibit 10.3 to EGL s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and incorporate herein by reference).
10.14	Form of Restricted Stock Agreement (5-year Time Vesting) pursuant to Long-Term Incentive Plan (filed as Exhibit 10.4 to EGL s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and incorporate herein by reference).
10.15	Form of Nonqualified Stock Option Agreement (3-year Time Vesting) pursuant to Long-Term Incentive Plan (filed as Exhibit 10.5 to EGL s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and incorporate herein by reference).
10.16	Form of Nonqualified Stock Option Agreement (Time and Performance Award) pursuant to Long-Term Incentive Plan (filed as Exhibit 10.6 to EGL s Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and incorporate herein by reference).
*10.17	401(k) Profit Sharing Plan (filed as Exhibit 10.3 to EGL s Registration Statement on Form S-1, Registration No. 33-97606 and incorporated herein by reference).
*10.18	Circle International Group, Inc. 1994 Omnibus Equity Incentive Plan (filed as Exhibit 10.11 to Annual Report on Form 10-K of Circle (SEC File No. 0-8664) for the fiscal year ended December 31, 1993 and incorporated herein by reference).
*10.19	Amendment No. 1 to Circle International Group, Inc. 1994 Omnibus Equity Incentive Plan (filed as Exhibit 10.11.1 to Annual Report on Form 10-K of Circle (SEC File No. 9-8664) for the fiscal year ended December 31, 1995 and incorporated herein by reference).

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*10.20	Circle International Group, Inc. Employee Stock Purchase Plan (filed as Exhibit 99.1 to the Registration Statement on Form S-8 of Circle (SEC Registration No. 333-78747) filed on May 19, 1999 and incorporated herein by reference).
*10.21	Circle International Group, Inc. 1999 Stock Option Plan (filed as Exhibit 99.1 to the Form S-8 Registration Statement of Circle (SEC Registration No. 333-85807) filed on August 24, 1999 and incorporated herein by reference).
*10.22	Form of Nonqualified Stock Option Agreement for Circle International Group, Inc. 2000 Stock Option Plan (filed as Exhibit 4.8 to Post-Effective Amendment No. 1 on Form S-8 to Registration Statement on Form S-4 (SEC Registration No. 333-42310) filed on October 2, 2000 and incorporated herein by reference).
*10.23	Employment Agreement dated as of October 1, 1996 between EGL and James R. Crane (filed as Exhibit 10.7 to EGL s Annual Report on Form 10-K for the fiscal year ended September 30, 1996 and incorporated herein by reference).
*10.24	Employment Agreement dated as of May 19, 1998 between EGL and Ronald E. Talley (filed as Exhibit 10.10 to EGL s Annual Report on Form 10-K for the fiscal year ended September 30, 1998 and incorporated herein by reference).
*10.25	Employee Stock Purchase Plan, as amended and restated effective July 26, 2000 (filed as Exhibit 10(iii) to EGL s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference).
*10.26	Executive Deferred Compensation Plan (filed as Exhibit 10.2 to EGL s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference).
*10.27	Form of Retention Agreement between EGL and certain executive officers (filed as Exhibit 10.29 to EGL s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and incorporated herein by reference).
*10.28	Letter of Assignment, effective as of July 30, 2001, as amended, by and between EGL and Vittorio M. Favati (filed as Exhibit 10.29 to EGL s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and incorporated herein by reference).
*10.29	Shareholders Agreement dated as of October 1, 1994 among EGL and Messrs. Crane, Swannie, Seckel and Roberts (filed as Exhibit 10.4 to EGL s Registration Statement on Form S-1, Registration No. 33-97606 and incorporated herein by reference).
*10.30	First Amended and Restated Credit Agreement dated as of September 30, 2005, among EGL, Inc., as Borrower; Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer; Wachovia Bank, National Association, as Syndication Agent; JPMorgan Chase Bank, N.A. and Harris N.A., as Co-Documentation Agents; Banc of America Securities LLC, as Sole Lead Arranger and Sole Book Manager; and Other Lenders party thereto (filed as Exhibit 10.1 to EGL s Form 8-K filed on October 5, 2005 and incorporated herein by reference).
*10.31	Bridge Term Loan Credit Agreement dated as of September 30, 2005, among EGL, Inc., as Borrower; Bank of America Mezzanine Capital, LLC as Administrative Agent and lender; and Other Lenders party thereto (filed as Exhibit 10.2 to EGL s Form 8-K filed on October 5, 2005 and incorporated herein by reference).
*10.32	Note Purchase Agreement dated as of October 12, 2005, among EGL, Inc., and the purchasers named therein (filed as Exhibit 10.1 to EGL s Form 8-K filed on October 13, 2005 and incorporated herein by reference).

*10.33	Lease Agreement dated as of December 31, 2001 between iStar Eagle LP, as landlord, and EGL Eagle Global Logistics, LP, as tenant (filed as Exhibit 10.17A to EGL s Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference).
*10.34	Guaranty dated as of December 31, 2001 among iStar Eagle LP, EGL Eagle Global Logistics, LP and EGL, Inc. (filed as Exhibit 10.17B to EGL s Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and incorporated herein by reference).
21	Subsidiaries of EGL (filed herewith).
23.1	Consent of PricewaterhouseCoopers LLP (filed herewith).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15(d)-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
99.1	Proposal letter to EGL dated February 28, 2007 from James R. Crane, The Woodbridge Company Limited and Centerbridge Partners, L.P. (filed herewith).

*

Incorporated by reference as indicated.

Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EGL, INC.

By: /s/ James R. Crane

James R. Crane

Chairman and

Chief Executive Officer

Date:

March 1, 2007

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

Name	Capacity	Date
/s/ James R. Crane	Chairman and Chief Executive Officer	March 1, 2007
James R. Crane	(Principal Executive Officer)	
/s/ Charles H. Leonard	Chief Financial Officer	March 1, 2007
Charles H. Leonard	(Principal Financial and Accounting Officer)	
/s/ Michael Jhin	Director	March 1, 2007
Michael Jhin		
/s/ Frank J. Hevrdejs	Director	March 1, 2007
Frank J. Hevrdejs		
/s/ Neil E. Kelley	Director	March 1, 2007
Neil E. Kelley		
/s/ Paul William Hobby	Director	March 1, 2007
Paul William Hobby		
/s/ James C. Flagg	Director	March 1, 2007
James C. Flagg		
/s/ Milton Carroll	Director	March 1, 2007
Milton Carroll		
/s/ Sherman Wolff	Director	March 1, 2007
Sherman Wolff		

EGL, Inc.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

of EGL, Inc.:

We have completed integrated audits of EGL Inc. and its subsidiaries (the "Company") consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of EGL, Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation and pensions and other post-retirement benefits in 2006.

Internal control over financial reporting

Also, in our opinion, management s assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

Houston, Texas

February 28, 2007

EGL, INC.

Consolidated Balance Sheets

December 31, 2006 and 2005

	2006	**2005**
ASSETS	(in thousands, except par values)	
Current assets:		
Cash and cash equivalents	$ 131,915	$ 111,507
Restricted cash	9,464	11,702
Trade receivables, net of allowance of $13,349 and $12,566	623,558	560,954
Other receivables	30,676	30,237
Income tax receivable	3,341	4,367
Deferred income taxes	7,227	10,626
Other current assets	29,369	25,045
Total current assets	835,550	754,438
Property and equipment, net	188,498	185,906
Goodwill	112,498	113,048
Deferred income taxes	2,200	-
Other assets, net	41,692	35,849
Total assets	$ 1,180,438	$ 1,089,241
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Trade payables and accrued transportation costs	$ 373,970	$ 342,351
Accrued salaries and related costs	43,877	51,541

Current portion of long-term debt	12,739	15,967
Income taxes payable	7,936	5,215
Accrued selling, general and administrative expenses and other liabilities	109,528	93,410
Total current liabilities	548,050	508,484
Deferred income taxes	23,873	22,736
Long-term debt	157,157	214,555
Other noncurrent liabilities	31,544	20,122
Total liabilities	760,624	765,897
Minority interests	1,761	1,616
Commitments and contingencies (Notes 10, 11, 17 and 18)		
Shareholders equity:		
Preferred stock, $0.001 par value, 10,000 shares authorized, no shares issued	-	-
Common stock, $0.001 par value, 200,000 shares authorized; 46,441 and 45,771 shares issued; 40,722 and 39,966 shares outstanding	46	46
Additional paid-in capital	83,439	56,405
Retained earnings	454,366	398,036
Accumulated other comprehensive loss	(12,879)	(23,902)
Unearned compensation	-	(376)
Treasury stock, 5,719 and 5,805 shares held	(106,919)	(108,481)
Total shareholders equity	418,053	321,728
Total liabilities and shareholders equity	$ 1,180,438	$ 1,089,241

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

EGL, INC.

Consolidated Statements of Income

Years Ended December 31, 2006, 2005 and 2004

	2006	**2005**	**2004**
		(in thousands, except per share amounts)	
	$	$	$
Revenues	3,217,636	3,096,516	2,741,392
Cost of transportation	2,206,863	2,148,042	1,876,026
Net revenues	1,010,773	948,474	865,366
Operating expenses:			
Personnel costs	558,227	522,015	481,320
Facility costs	105,917	93,105	93,728
Depreciation and amortization	32,722	35,932	35,109
Selling and promotion	23,700	22,893	22,478
EEOC legal settlement	-	(5,975)	-
General and administrative	193,725	185,094	151,407
Total operating expenses	914,291	853,064	784,042
Operating income	96,482	95,410	81,324
Interest expense	10,836	4,497	7,250
Interest income	(3,557)	(1,781)	(1,042)
Gain on sale of unconsolidated affiliates	(1,005)	(4,041)	(12,648)
Other (income) expense	2,551	(3,822)	(819)
Total nonoperating (income) expense, net	8,825	(5,147)	(7,259)
Income before provision for income taxes	87,657	100,557	88,583
Provision for income taxes	31,327	42,397	37,705
	$	$	$
Net income	56,330	58,160	50,878

Earnings per share:			
	$	$	$
Basic	1.39	1.23	1.11
Diluted	1.38	1.22	1.05
Weighted-average common shares outstanding:			
Basic	40,465	47,442	45,813
Diluted	40,818	47,832	51,914

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

EGL, INC.

Consolidated Statements of Cash Flows

Years Ended December 31, 2006, 2005 and 2004

	2006	**2005**	**2004**
		(in thousands)	
Cash flows from operating activities:			
	$	$	$
Net income	56,330	58,160	50,878
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	32,722	35,932	35,109
Bad debt expense	6,888	8,630	6,672
Stock-based compensation expense	8,396	-	-
Amortization of unearned compensation	-	298	479
Deferred income tax expense	3,901	1,162	5,945
Amortization of debt issuance costs	963	452	2,106
Impairment of assets	1,211	-	-
Impairment of goodwill	3,837	-	-
Tax benefits from employee stock plans	-	5,090	7,765
(Gain) loss on sales of assets	(4,920)	467	(570)
Gain on sale of unconsolidated affiliates	(1,005)	(4,041)	(12,648)
Equity in (earnings) losses of unconsolidated affiliates	152	85	(1,676)
Minority interests	699	2	600
Other	-	483	(1,079)
Changes in assets and liabilities, excluding business combinations:			
(Increase) decrease in trade receivables	(48,088)	20,183	(147,637)
Decrease (increase) in other receivables	4,911	(1,448)	(14)
(Increase) decrease in other assets and liabilities	(4,714)	1,123	6,377

Increase in payables and other accrued liabilities	14,128	29,516	79,826
Net cash provided by operating activities	75,411	156,094	32,133
Cash flows from investing activities:			
Capital expenditures	(47,534)	(41,160)	(38,163)
Purchase of short-term investments	-	-	(44)
Decrease (increase) in restricted cash	2,332	5,322	(3,426)
Proceeds from sales/maturities of marketable securities	3	542	-
Proceeds from sales of property and equipment	23,607	4,327	1,106
Proceeds from property insurance	517	673	-
Acquisitions of businesses, net of cash acquired	(1,476)	(56)	(16,216)
Earnout payments	-	(4,404)	(3,291)
Collection of notes receivables	2,106	2,606	906
Cash received from sales of unconsolidated affiliates	1,254	2,787	52,123
Net cash used in investing activities	(19,191)	(29,363)	(7,005)

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

EGL, INC.

Consolidated Statements of Cash Flows

Years Ended December 31, 2006, 2005 and 2004

(continued)

	2006	**2005**	**2004**
		(in thousands)	
Cash flows from financing activities:			
	$	$	$
Proceeds from issuance of debt	481,824	495,597	211,029
Repayment of debt	(547,153)	(309,297)	(218,778)
Issuance (repayment) of short-term debt with maturities of less than three months, net	2,825	(2,744)	12,078
Payment of financing fees	(110)	(3,454)	(1,097)
Payments of financed insurance and software maintenance agreements	(4,363)	(3,364)	(6,417)
Payments on capital lease obligations	(1,873)	(2,245)	(937)
Issuance of common stock for employee stock purchase plan	1,237	1,135	791
Proceeds from exercise of stock options	15,013	21,176	39,899
Excess tax benefits of employee stock plans	5,389	-	-
Repurchases of common stock	-	(305,318)	(59,079)
Other	(115)	802	(120)
Net cash used in financing activities	(47,326)	(107,712)	(22,631)
Effect of exchange rate changes on cash	11,514	(430)	(3,678)
Increase (decrease) in cash and cash equivalents	20,408	18,589	(1,181)
Cash and cash equivalents, beginning of the year	111,507	92,918	94,099
	$	$	$

Cash and cash equivalents, end of the year	131,915	111,507	92,918
Supplemental cash flow information:			
	$	$	$
Cash paid for interest	13,405	6,528	6,008
Cash paid for income taxes	24,080	42,040	15,387
Cash received from income tax refund	2,778	5,540	1,577
Noncash financing and investing transactions:			
Issuance of notes payable for equipment	8,730	11,012	9,511
Issuance of shares from conversion of debt, net of tax benefit	-	-	99,220
Financing of insurance premiums	2,668	2,117	453
Capital equipment leases initiated as lessee	-	2,765	1,143
Capital equipment leases initiated as lessor	5,897	8,630	9,552

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

EGL, INC.

Consolidated Statements of Shareholders Equity

Years Ended December 31, 2006, 2005 and 2004

	Common stock					
	Shares	**Amount**	**Additional paid-in capital**	**Retained earnings**	**Comprehensive income**	**Accumulated other comprehensive loss**
				(in thousands)		
Balance at December 31, 2003	48,415	$ 48	$ 153,051	$ 288,998		$ (19,652)
Comprehensive income:						
Net income	-	-	-	50,878	$ 50,878	-
Change in value of marketable securities, net of tax of $16	-	-	-	-	30	30
Minimum pension liability adjustment, net of tax of $596	-	-	-	-	1,392	1,392
Foreign currency translation adjustments	-	-	-	-	5,605	5,605
Comprehensive income					$ 57,905	
Issuance of shares from conversion of debt	5,736	6	99,214	-		-
Issuance of shares under employee	-	-	88	-		-

stock purchase plan						
Exercise of stock options and issuance of restricted stock awards with related tax benefit	2,092	2	47,708	-		-
Repurchase and retirement of common stock	(3,402)	(3)	(59,076)	-		-
Amortization of unearned compensation	-	-	132	-		-
Balance at December 31, 2004	52,841	53	241,117	339,876		(12,625)
Comprehensive income:						
Net income	-	-	-	58,160	$ 58,160	-
Change in fair value of cash flow hedge, net of tax of $(73)	-	-	-	-	(134)	(134)
Change in value of marketable securities, net of tax of $4	-	-	-	-	7	7
Minimum pension liability adjustment, net of tax of $179	-	-	-	-	864	864
Foreign currency translation adjustments	-	-	-	-	(12,014)	(12,014)
Comprehensive income					$ 46,883	
Issuance of shares under employee stock purchase plan	-	-	(38)	-		-
Exercise of stock options and issuance of	1,016	1	26,343	-		-

restricted stock awards with related tax benefit						
Purchase of treasury stock	-	-	-	-		-
Repurchase and retirement of common stock	(8,086)	(8)	(211,017)	-		-
Amortization of unearned compensation	-	-	-	-		-
Balance at December 31, 2005	45,771	46	56,405	398,036		(23,902)
Comprehensive income:						
Net income	-	-	-	56,330	$ 56,330	-
Change in fair value of cash flow hedge, net of tax of $138	-	-	-	-	257	257
Change in value of marketable securities, net of tax of $(1)	-	-	-	-	(2)	(2)
Minimum pension liability adjustment, net of tax of $(727)	-	-	-	-	(2,332)	(2,332)
Foreign currency translation adjustments	-	-	-	-	21,463	21,463
Comprehensive income					$ 75,716	
Pension adjustment upon adoption of SFAS 158, net of tax of $(270)	-	-	-	-		(8,363)
Issuance of shares under employee stock purchase plan	-	-	394	-		-
	670	-	18,620	-		-

Exercise of stock options and issuance of restricted stock awards with related tax benefit					
Stock-based compensation expense	-	-	8,396	-	-
Reclassification of unearned compensation upon adoption of SFAS 123R	-	-	(376)	-	-
Balance at December 31, 2006	46,441	$ 46	$ 83,439	$ 454,366	$ (12,879)

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

EGL, INC.

Consolidated Statements of Shareholders Equity

Years Ended December 31, 2006, 2005 and 2004

	Unearned compensation	**Treasury stock Shares**	**Treasury stock Amount**	**Total**
		(in thousands)		
	$		$	$
Balance at December 31, 2003	(156)	(983)	(16,837)	405,452
Comprehensive income:				
Net income	-	-	-	50,878
Change in value of marketable securities, net of tax of $16	-	-	-	30
Minimum pension liability adjustment, net of tax of $596	-	-	-	1,392
Foreign currency translation adjustments	-	-	-	5,605
Comprehensive income				
Issuance of shares from conversion of debt	-	-	-	99,220
Issuance of shares under employee stock purchase plan	-	43	726	814
Exercise of stock options and issuance of restricted stock awards with related tax benefit	(315)	14	246	47,641
Repurchase and retirement of common stock	-	-	-	(59,079)
Amortization of unearned compensation	347	-	-	479

Balance at December 31, 2004	(124)	(926)	(15,865)	552,432
Comprehensive income:				
Net income	-	-	-	58,160
Change in fair value of cash flow hedge, net of tax of $(73)	-	-	-	(134)
Change in value of marketable securities, net of tax of $4	-	-	-	7
Minimum pension liability adjustment, net of tax of $179	-	-	-	864
Foreign currency translation adjustments	-	-	-	(12,014)
Comprehensive income				
Issuance of shares under employee stock purchase plan	-	66	1,229	1,191
Exercise of stock options and issuance of restricted stock awards with related tax benefit	(550)	24	448	26,242
Purchase of treasury stock	-	(4,969)	(94,293)	(94,293)
Repurchase and retirement of common stock	-	-	-	(211,025)
Amortization of unearned compensation	298	-	-	298
Balance at December 31, 2005	(376)	(5,805)	(108,481)	321,728
Comprehensive income:				
Net income	-	-	-	56,330
Change in fair value of cash flow hedge, net of tax of $138	-	-	-	257
Change in value of marketable securities, net of tax of $(1)	-	-	-	(2)
Minimum pension liability adjustment, net of tax of $(727)	-	-	-	(2,332)
Foreign currency translation adjustments	-	-	-	21,463
Comprehensive income				
Pension adjustment upon adoption of SFAS 158, net	-	-	-	(8,363)

of tax of $(270)				
Issuance of shares under employee stock purchase plan	-	44	843	1,237
Exercise of stock options and issuance of restricted stock awards with related tax benefit	-	42	719	19,339
Stock-based compensation expense	-	-	-	8,396
Reclassification of unearned compensation upon adoption of SFAS 123R	376	-	-	-
Balance at December 31, 2006	$ -	(5,719)	$ (106,919)	$ 418,053

The accompanying notes are an integral part of these financial statements

EGL, INC.

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

Note 1 Organization, basis of presentation and summary of significant accounting policies

EGL, Inc. (EGL or the Company) is a leading global transportation, supply chain management and information services company dedicated to providing flexible logistics solutions on a price competitive basis. The Company s services include air and ocean freight forwarding, customs brokerage, local pick up and delivery service, materials management, warehousing, trade facilitation and procurement and integrated logistics and supply chain management services. The Company provides services through offices around the world as well as through its worldwide network of exclusive and nonexclusive agents. The principal markets for all lines of business are North America, Europe and Asia with significant operations in the Middle East, South America and South Pacific (see Note 21).

Basis of presentation and principles of consolidation

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Management considers many factors in selecting appropriate operational and financial accounting policies and controls, and in developing the assumptions that are used in the preparation of these financial statements. Management must apply significant judgment in this process. Among the factors, but not fully inclusive of all factors that may be considered by management in these processes are: the range of accounting policies permitted by accounting principles generally accepted in the United States of America; management s understanding of the Company s business both historical results and expected future results; expectations of the future performance of the economy, both domestically and globally, within various sectors that serve the Company s principal customers and suppliers of goods and services; expected rates of change, sensitivity and volatility associated with the assumptions used in developing estimates; and whether historical trends are expected to be representative of future trends. The estimation process often times may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that lies within that range of reasonable estimates 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. This estimation process may result in the selection of estimates that could be viewed as conservative or aggressive by others. 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.

Changes in accounting principles

Stock-based compensation

At December 31, 2006, the Company has five stock-based employee compensation plans under which stock-based awards have been granted. Stock-based compensation is accounted for in accordance with SFAS No. 123 (Revised) Share-Based Payment (SFAS 123R). The Company adopted SFAS

EGL, INC.

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004

123R as of January 1, 2006. The Company establishes fair values for its equity awards to determine its cost and recognizes the related expense over the appropriate vesting period. The Company recognizes expense for stock options, restricted stock and shares issued under the Company s employee stock purchase plan. Before the adoption of SFAS 123R, the Company applied Accounting Principles Board No. 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations. See Note 14 for additional information related to stock-based compensation expense.

Defined benefit pension plans

On September 29, 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132-R (SFAS 158). SFAS 158 requires an entity to recognize in its statement of financial condition the funded status of its defined benefit postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS 158 also requires an entity to recognize changes in the funded status of a defined benefit postretirement plan within accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. The requirement to recognize the funded status of a benefit plan and the disclosure requirements of SFAS 158 are effective as of the end of the fiscal year ending after December 15, 2006. As such, the Company adopted this portion of SFAS 158 as of December 31, 2006. The requirement to measure the plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company currently measures its plan assets and benefit obligation as of December 31. The following table summarizes the incremental effects of the initial adoption of SFAS 158 on the Company s Consolidated Balance Sheet at December 31, 2006:

	Before adoption of SFAS 158	**SFAS 158 adjustments**	**After adoption of SFAS 158**
		(in thousands)	
	$	$	$
Other current assets	29,395	(26)	29,369
Total current assets	835,576	(26)	835,550
Other assets, net	41,996	(304)	41,692
Total assets	1,180,768	(330)	1,180,438
Accrued salaries and related costs	43,790	87	43,877
Total current liabilities	547,963	87	548,050
Deferred income taxes	24,143	(270)	23,873

Other noncurrent liabilities	23,328	8,216	31,544
Total liabilities	752,591	8,033	760,624
Accumulated other comprehensive loss	(4,516)	(8,363)	(12,879)
Total shareholders equity	426,416	(8,363)	418,053
Total liabilities and shareholders equity	1,180,768	(330)	1,180,438

Cash and cash equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates market value. Cash overdrafts were $13.9 million and $7.3 million at December 31, 2006 and 2005, respectively, and were classified as trade payables on the Company s consolidated balance sheet and as a part of short-term debt in the Company s consolidated statement of cash flows.

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Restricted cash

The Company has certain requirements related to security deposits for IATA guarantees and customs bonds that are restricted from withdrawal for a specified timeframe and therefore are classified as restricted cash (see Note 10).

Trade receivables

Management establishes an allowance for doubtful accounts on trade receivables based on the expected ultimate recovery of these receivables. Management considers many factors, including historical customer collection experience, general and specific economic trends and known specific issues related to individual customers, sectors and transactions that might impact collectibility. Trade receivables include disbursements made by EGL on behalf of its customers for transportation costs and customs duties. As the billings to customers for these disbursements may be several times the amount of revenues and fees derived from these transactions and are not recorded as revenues and expenses on the Company s statement of income, the inability to collect such amounts could result in losses greater than the revenues recognized when such amounts were believed to be collectible. The Company does not charge interest on its trade receivables. Trade receivables are written off after all collection efforts have been exhausted.

Property and equipment

Property and equipment are stated at cost. The cost of property held under capital leases is equal to the lower of the net present value of the minimum lease payments or the fair value of the leased property at the inception of the lease. Depreciation is computed principally by the straight-line method at rates based on the estimated useful lives of the various classes of property. Estimates of useful lives are based upon a variety of factors including durability of the asset, the amount of usage that is expected from the asset, the rate of technological change and the Company s business plans for the asset. Should the Company change its plans with respect to the use and productivity of property and equipment, it may require a change in the useful life of the asset or the Company may incur a charge to reflect the difference between the carrying value of the asset and the proceeds expected to be realized upon the asset s sale or abandonment. Expenditures for maintenance and repairs are expensed as incurred and significant major improvements are capitalized. Upon retirement or sale of assets, the cost of such assets and accumulated depreciation are removed from the accounts and the gain or loss, if any, is credited or charged to income.

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.

The Company has incurred substantial costs during 2006, 2005 and 2004 related to a number of information systems projects that were being developed during those time periods. Inherent in the capitalization of those projects are the assumptions that after considering the technological and business

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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.

Interest capitalization

The Company is in the process of developing several information systems for future use. Interest associated with these assets is capitalized and included in the cost of the asset. The amount capitalized is calculated based upon the Company s current incremental borrowing rate and was $2.4 million, $692,000 and $1.1 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Financing receivables

The Company, through one of its subsidiaries, leases trucks obtained from third party manufacturers to its owner operators and other third parties. The financing receivables represent sales-type or direct-financing leases with terms from three to five years generally collateralized by a security interest in the underlying asset. Income produced by sales-type and direct-financing leases is recognized on the accrual basis under the effective interest method.

Real estate leases

The Company leases facilities and office space under operating leases. Certain lease agreements contain rent holiday, rent escalation and/or lease restoration clauses. For scheduled rent escalation clauses and rent holidays during the lease terms, the Company records minimum rental expenses on a straight-line basis over the terms of the leases. For lease restorations, the Company records expense and accrues a liability over the life of the lease, on a straight-line basis.

Debt issuance costs

The Company capitalizes direct costs incurred to issue debt or modify debt agreements. These costs are deferred and amortized to interest expense over the term of the related debt or credit facility agreement.

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. Effective January 1, 2002, the Company tests goodwill and indefinite lived intangible assets for impairment at least annually or whenever circumstances indicate a possible impairment. Finite-lived intangible assets are amortized over the period of expected benefit.

The Company tests goodwill for impairment using a two-step approach; annually and when certain circumstances occur. The first step is used to identify potential impairment by calculating a fair value of the reporting unit. The Company s reporting units for this purpose are its geographic operating segments which are: North America, Europe and Middle East, South America and Asia and South Pacific. The calculated fair value amount in step one is then compared to the carrying amount of the reporting unit including goodwill. If the fair value of the reporting unit is greater than its carrying amount, goodwill is not considered impaired and the second step is not required. If the estimated fair

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value is less than the carrying value of the assets, a prescribed step two calculation is required to determine the amount of impairment to be recorded in the Company s statement of income. The estimated fair value calculated and referred to above is an estimate based upon a number of assumptions. The actual fair value of each reporting unit may vary significantly from its estimated fair value.

Impairment of assets

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

Foreign currency translation

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

Revenue recognition

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 revenue 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. The Company reports the costs of certain reimbursed incidental activities on a gross basis in revenues and cost of transportation.

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The Company derives its 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, the Company does not own transportation assets. Instead, the Company generates the majority of its air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers as an indirect carrier. Additionally, the Company generates air freight and ocean freight forwarding revenues to a lesser extent as an authorized cargo sales agent.

As an indirect carrier, the Company obtains shipments from its customers, consolidates shipments bound for a particular destination, determines the routing, selects the direct carrier and tenders each consolidated lot as a single shipment to the direct carrier for transportation to a distribution point. The Company issues 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, the Company receives a contract of carriage known as a Master Airway Bill for air freight shipments and a Master Ocean Bill of Lading for ocean shipments. The Company is the direct point of contact for service fulfillment and resolving any service failures or claims for lost or damaged freight resulting from either the Company s or the direct carriers actions. In addition, if the Company does not collect from its customers, it is still responsible for paying the direct carrier.

Due to the high volume of freight the Company manages, it generally obtains lower rates from the direct carriers than the rates the Company charges its customers for individual shipments. This rate differential is the primary source of the Company s air and ocean freight net revenues. The Company has complete discretion in selecting the means, route and procedures to be followed in the handling, transportation and delivery of freight. The Company selects the direct carrier that will provide the most economical routing in an effort to maximize net revenues.

Revenues related to shipments where the Company acts as an indirect carrier are reported based on the gross amount billed to the customer and include the charges to the Company 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, the Company also arranges for transportation of individual shipments and receives a commission from the airline or ocean shipping line for arranging the shipments. When acting in this capacity, the Company does 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 destination, 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. The Company also offers 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.

Provision for income taxes

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

Fair value of financial instruments

The fair values presented throughout these financial statements have been estimated using appropriate valuation methodologies and market information available at December 31, 2006 and 2005. . The use of different market assumptions or estimation methodologies could have a material effect on the estimated fair values. Additionally, the fair values presented throughout these financial statements have not been estimated since December 31, 2006. Current estimates of fair value may differ significantly from the amounts presented. The following method and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

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

Debt. The Company s debt approximates fair value as most of the Company s notes payable have variable interest rates or are repaid over a very short maturity schedule.

Interest rate swap. The fair value of the interest rate swap is the estimated amount that the Company would expect to pay to terminate the swap agreement at the reporting date, taking into account current interest rates.

Foreign currency forward contracts. The fair value is estimated based on the U.S. dollar equivalent at the contract exchange rate. Any gain or loss is largely offset by a change in the value of the underlying transaction, and is recorded as an unrealized foreign exchange gain or loss until the contract maturity date. The fair value of foreign currency forward contracts as of December 31, 2006 and 2005 is insignificant.

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The carrying amounts and estimated fair values of financial instruments (assets and liabilities) are as follows:

	Carrying Amount as of December 31,		Estimated Fair Value as of December 31,	
	2006	2005	2006	2005
	(in thousands)			
	$	$	$	$
Cash and cash equivalents	131,915	111,507	131,915	111,507
Restricted cash	9,464	11,702	9,464	11,702
Short-term investments and marketable securities	43	45	43	45
Interest rate swap asset (liability)	188	(207)	188	(207)
Debt	169,896	230,522	169,896	230,522

Risks and uncertainties

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

Concentration of credit risk

The Company s customers include retailing, wholesaling, manufacturing, electronics and telecommunications companies, as well as international agents throughout the world. Management believes that concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company s customer base and their dispersion across many different industries and geographic regions. The Company performs ongoing credit evaluations of its customers to minimize credit risk and generally does not obtain collateral for trade receivables. The Company s investment policies restrict investments to low-risk, highly liquid securities and the Company performs periodic evaluations of the relative credit standing of the financial institutions with which it deals.

Derivative instruments

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

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values. For

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

The Company uses derivative financial instruments primarily to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates on variable rate long-term debt. The Company formally designates and documents the financial instrument as a hedge of a specific underlying exposure when it is entered into, as well as the risk, management objectives and strategies for undertaking the hedge transaction. Derivatives are recorded in the balance sheet at fair value in either other assets or other liabilities. The earnings impact resulting from the derivative instruments is recorded in the same line item within the statement of income as the underlying exposure being hedged. The Company also formally assesses, both at inception and at least quarterly thereafter, whether the derivative instruments that are used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposures. The ineffective portion of a derivative instrument s change in fair value is recognized in earnings.

New accounting pronouncements

On January 1, 2006, the Company adopted SFAS No. 154, Accounting Changes and Error Corrections (SFAS 154). SFAS 154 replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. The adoption of SFAS 154 did not have a material impact on the Company s results of operations or its financial condition.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, was published July 18, 2006 clarifying FAS 109, Accounting for Income Taxes (FIN 48). FIN 48 sets the threshold for recognizing tax positions as more likely than not that the position will be sustained upon examination by the relevant taxing authorities. A position that meets the threshold shall be measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. Subsequent de-recognition occurs during any period when the threshold is no longer met. Interest and penalties otherwise applicable to the difference between the tax position recognized and the tax position taken on the return will be accrued and consistently reported in the financial statements. Additional disclosure will be required in tabular format showing changes to the tax benefits recognized during the period and the reason for such changes. The effective date is for fiscal years beginning after December 15, 2006. The Company is in the process of finalizing its analysis of tax positions worldwide for fiscal years where the statute of limitations remains open for tax authorities to audit the Company s tax returns. Potential uncertain tax positions have been identified and analyzed under the guidelines of FIN 48. Upon implementation as of January 1, 2007, the Company currently estimates the impact to its consolidated financial statements to be a reduction to retained earnings in the range of $1.5 million to $2.5 million inclusive of potential penalties and interest related to the tax benefit at risk.

On September 15, 2006, the Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a framework for measuring fair value in

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generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is required to adopt the provision of SFAS 157, as applicable, as of January 1, 2008. The Company is currently evaluating this standard but has not yet determined the impact, if any, this adoption will have on its financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB 108), effective for fiscal years ending after November 15, 2006. SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement for the purpose of a materiality assessment. The adoption did not have an effect on the Company s financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statements No. 115 (SFAS 159). SFAS 159 permits the Company to choose, at specified election dates, to measure eligible items at fair value (the fair value option). The Company would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. This accounting standard is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Company is evaluating the effect of adoption of this new standard on its financial position, results of operations and cash flows.

Note 2 Business combinations

In 2006 and 2004, the Company purchased certain operations to expand business or enter new markets and bought out minority interests to obtain full control of its subsidiaries. The Company had no acquisitions in 2005.

2006 acquisitions

In January 2006, the Company acquired from its former agent certain freight forwarding and customs brokerage operations in Colombia for approximately $1.4 million, net of cash acquired. The Company recognized $926,000 in goodwill, $513,000 for customer relationships and $150,000 for non-compete agreements in connection with these acquisitions. The purchase agreements for the acquisitions provided for additional contingent three-year earnout payments of up to $1.1 million in the aggregate if certain post-acquisition performance criteria are achieved. The Company recorded the acquisitions above using the purchase method of accounting; with the related results of operations being included in the Company s consolidated financial statements from the date of acquisition forward. The pro forma effect on revenues and net income of the Company assuming these acquisitions were consummated at January 1, 2005 was immaterial.

2004 acquisitions

The Company acquired the outside ownership of one of its affiliates in France effective January 1, 2004. Prior to the acquisition, the Company owned 50.7% of this entity and consolidated it for financial reporting purposes. The purchase consideration for the interest the Company did not previously own consisted of approximately $10.2 million in cash, which included approximately $3.2 million to settle the minority interest liability and approximately $480,000 for a trademark license agreement, $951,000 for a non-compete agreement and $830,000 for an exclusive agency agreement, effective through April 2007.

In June 2004, the Company acquired the outside ownership of its affiliates in Spain and Portugal from a former director who also had been the former Chief Executive Officer of Circle International

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Group, Inc. (Circle). Prior to the acquisition, the Company owned 51% of these entities and consolidated them for financial reporting purposes. The purchase consideration for the interest the Company did not previously own consisted of approximately $6.0 million in cash, which included approximately $1.9 million to settle the minority interest liability and $705,000 for a non-compete agreement.

The Company recognized $8.1 million in goodwill and $3.0 million in intangible assets in connection with these acquisitions.

The Company recorded each of the acquisitions above using the purchase method of accounting, with the related results of operations being included in the Company s consolidated financial statements from the date of acquisition forward. The pro forma effect on revenues and net income of the Company assuming these acquisitions were consummated at January 1, 2003 was immaterial.

Earnout payments

During the years ended December 31, 2005 and 2004, the Company made earnout payments totaling $4.4 million and $3.3 million, respectively, for acquisitions completed in prior years. There were no earnout payments made in 2006. Contingent payments for acquisitions are accounted for as adjustments to goodwill and are recorded at the time that the amounts of the payments are determinable by the Company.

Note 3 Property and equipment

Property and equipment consist of the following:

	Estimated useful lives	As of December 31, 2006	2005
		(in thousands)	
		$	$
Land		11,397	12,985
Information systems	1 to 8 years	141,787	118,338
Buildings and improvements	5 to 39 years	93,325	94,026
	3 to 7 years	152,118	147,736

Equipment and furniture	398,627	373,085
Less accumulated depreciation	210,129	187,179
	$ 188,498	$ 185,906

Depreciation expense for 2006, 2005 and 2004 was $30.1 million, $32.8 million and $32.0 million, respectively, including $4.6 million, $4.2 million and $3.7 million, respectively, of depreciation expense related to information systems.

The Company is in the process of developing and implementing replacement computer system solutions for its operational, human resources and financial systems. As of December 31, 2006 and 2005, the information systems balances above include approximately $45.0 million and $39.5 million, respectively, of capitalized costs for software under development for which depreciation has not begun. During the year ended December 31, 2006, the Company capitalized $11.0 million of internally-developed software and placed $5.5 million of internally-developed software in service. Software development costs are not depreciated until the software is ready for its intended use. Accumulated depreciation for information systems as of December 31, 2006 and 2005 was $52.6 million and $42.9 million, respectively.

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Note 4 Financing receivables

The Company is currently one of four partners in Ashton Leasing Company (Ashton), which is a limited liability company. Ashton allows the Company to facilitate the procurement of truck leases for third party owner/operators, who could not readily obtain a lease on their own. In addition to owner/operators referred by the Company, Ashton also deals with owner/operators that work with third party trucking companies. The Company consolidates Ashton s financial results under the provisions of FASB Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R). FIN 46R provides that if an entity is the primary beneficiary of a Variable Interest Entity (VIE), the assets, liabilities, and results of operations of the VIE should be consolidated in the entity s financial statements.

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

	As of December 31,	
	2006	**2005**
	(in thousands)	
	$	$
Minimum lease payments receivable	25,292	22,078
Unearned income	(6,257)	(8,173)
Reserve for estimated driver defaults	(1,316)	(299)
Financing receivables, net	17,719	13,606
Less current portion	(4,272)	(3,285)
Amounts due after one year	$ 13,447	$ 10,321

Scheduled maturities of Ashton s minimum lease payments receivable are as follows at December 31, 2006:

Years Ending December 31,	**Minimum lease payments receivable**
	(in thousands)
2007	$ 6,826
2008	6,807
2009	6,288
2010	4,163
2011	1,208
Total	$ 25,292

Equipment leased to customers under operating leases are offset by comparable operating leases with third party manufacturers. Minimum future rentals on non-cancelable operating leases related to leased equipment are as follows at December 31, 2006:

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Years Ending December 31,	Minimum future rentals on non-cancelable operating leases
	(in thousands)
	$
2007	1,137
2008	970
2009	769
2010	584
2011	213
	$
Total	3,673

Note 5 Goodwill and other intangible assets

The carrying amounts of goodwill by geographic division as of December 31, 2006 and 2005 and changes in goodwill during the years ended December 31, 2006 and 2005 are as follows:

	North America	South America	Europe & Middle East	Asia & South Pacific	Consolidated
			(in thousands)		
	$	$	$	$	$
Balance at December 31, 2004	65,261	2,586	20,311	20,312	108,470

Goodwill acquired during the year	4,000	119	1,753	404	6,276
Effect of exchange rate changes on goodwill	18	208	(1,737)	(187)	(1,698)
	$	$	$	$	$
Balance at December 31, 2005	69,279	2,913	20,327	20,529	113,048
Goodwill acquired during the year	-	993	(493)	228	728
Goodwill impairment	-	(3,836)	-	-	(3,836)
Effect of exchange rate changes on goodwill	(1)	(70)	1,696	933	2,558
	$	$	$	$	$
Balance at December 31, 2006	69,278	-	21,530	21,690	112,498

At December 31, 2006 and 2005, the carrying amount of accumulated amortization of goodwill was $17.7 million and $17.0 million, respectively. The change in the balance in accumulated amortization from 2005 to 2006 is due to exchange rate changes, except for the reversal of previously amortized goodwill related to the goodwill impairment in South America described below.

The Company performed its annual 2006 goodwill and indefinite-lived intangible asset impairment analysis in the fourth quarter of 2006. Based on the present value of the estimated future cash flows, the Company concluded that the carrying value of the net assets assigned to its South America reporting unit exceeded the fair value of the reporting unit primarily due to a decline in forecasted cash flows as well as a rise in the discount rate. As such, the Company performed the second step of the impairment analysis and concluded that all of the recorded goodwill of $3.8 million, which is net of $124,000 of previously amortized goodwill (amortization recorded prior to January 2002 under its previous accounting policy), was impaired and needed to be expensed as a component of operating income.

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Intangible assets are included in other assets, net on the consolidated balance sheets. Intangible assets are as follows:

		As of December 31, 2006		As of December 31, 2005	
	Estimated useful lives	**Gross carrying amount**	**Accumulated amortization**	**Gross carrying amount**	**Accumulated amortization**
		(in thousands)			
Intangible assets subject to amortization:					
Customer lists	7 years	$ 8,690	$ (4,732)	$ 8,035	$ (3,398)
Noncompetition agreements	4 years	5,473	(4,974)	5,144	(4,140)
Exclusive agency agreement	3 years	819	(737)	734	(441)
Trademark license	3 years	528	(470)	474	(264)
Proprietary software	2 years	69	(69)	69	(69)
Agent network	5 years	1,400	(1,050)	1,400	(770)
Total		16,979	(12,032)	15,856	(9,082)
Intangible asset not subject to amortization:					
Trade name		3,300	-	3,300	-
Road transport license		141	-	-	-
Total		$ 20,420	$ (12,032)	$ 19,156	$ (9,082)

Aggregate amortization expense for 2006, 2005 and 2004 was $2.6 million, $3.1 million and $3.1 million, respectively. The following table shows the estimated future amortization expense for the next five years:

Years Ending December 31,	Estimated Future Expense
(in thousands)	
	$
2007	2,065
2008	1,332
2009	1,221
2010	328
2011	-
Thereafter	-
	$ 4,946

Note 6 Investments in unconsolidated affiliates

TDS

In August 2004, the Company sold its noncontrolling equity investment in TDS Logistics, Inc. (TDS) to an unrelated party for approximately $51.4 million in cash. The Company 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 is held in escrow subject to the resolution of certain contingencies. The sale resulted in a gain of approximately $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 the Company s consolidated statements of income.

Miami Air

In May 2004, the Company sold its noncontrolling equity investment in Miami Air to an unrelated party for approximately $6.7 million in cash. The sale resulted in a gain of $6.7 million, which is included in nonoperating income in the consolidated statements of income. As a result of the sale, the Company was released as guarantor of Miami Air s letter of credit and terminated a $3.0 million standby letter of credit for Miami Air. The Company no longer has a relationship with Miami Air.

Note 7 Accrued selling, general and administrative expenses and other liabilities

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

	As of December 31,	
	2006	**2005**
	(in thousands)	
General and administrative expense accruals	$ 36,555	$ 30,321
Insurance payable	22,277	18,609
Other current liabilities	22,240	16,134
Accrued professional fees	16,699	16,623
Other accrued taxes	7,957	7,205
Accrued interest	2,047	2,251
Vacant facilities accruals	1,753	2,267
Total	$ 109,528	$ 93,410

Note 8 Debt

Debt consists of the following amounts:

	As of December 31, 2006	2005
	(in thousands)	
	$	$
Senior floating rate secured notes	100,000	100,000
Borrowings on revolving line of credit	37,000	93,800
Financed vehicles	22,438	18,012
Borrowings on international credit facilities	4,032	7,347
Mortgage payable	3,213	2,040
Financed insurance premiums	1,759	1,740
Financed software licenses and maintenance	409	1,859
Notes payable to sellers	200	400
Other debt	845	5,324
Total debt	169,896	230,522
Current portion of debt	12,739	15,967
Long-term debt	$ 157,157	$ 214,555

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

	$
2007	12,739
2008	6,463
2009	6,178
2010	41,612
2011	2,235
2012 and thereafter	100,669
	$
Total	169,896

Amended and Restated Credit Agreement

The Company 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 the Company s 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.

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

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

-

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

-

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

-

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

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

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

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-

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

-

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

-

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

-

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

The Amended and Restated Credit Agreement contains events of default customary for an agreement of this type, 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 the Company also constitutes an event of default under the Amended and Restated Credit Agreement. If a default occurs and is continuing, the administrative agent may, among other things, declare all outstanding 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, the Company borrowed approximately $95.8 million under the Amended and Restated Credit Agreement to partially fund the purchase of shares of our common stock in connection with the tender offer (see note 12). At December 31, 2006, the Company 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, the Company entered into a note purchase agreement (the Note Purchase Agreement) providing for the issuance and sale of $100 million aggregate principal amount of floating rate, senior secured notes due October 12, 2012 (the Notes) to the purchasers named therein. Banc of America Securities LLC acted as placement agent for this offering. The issuance and sale of the Notes by the Company, and the resale of the Notes by Banc of America Securities LLC was made pursuant to one or more exemptions from the registration requirements of the Securities Act of 1933.

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

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

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-

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

-

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

-

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

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

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

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

-

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

-

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

-

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

-

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

-

limitations on, among other things, liens asset sales, dividends and stock redemptions, investments and acquisitions, transactions with affiliates and consolidations and mergers 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 the Company failed to pay principal, interest or other amounts due and payable on the Notes, then any Note holder may declare all of the Notes held by it to be immediately due and payable.

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International credit facilities and other debt

As of December 31, 2006, the Company had $28.9 million capacity on international credit facilities and $4.0 million outstanding against those facilities. Borrowings under international bank lines of credit are generally renewed upon expiration. The notes payable to seller is composed of a note payable to the former owners of the Company s operations in Thailand, which is payable in annual installments of $200,000 through 2008. As of December 31, 2006, the Company has $2.0 million outstanding under financed insurance premiums payable in monthly installments of approximately $222,000 from February 2007 through October 2007. Financed software licenses and maintenance are payable in quarterly installments of approximately $175,000 in March 2007. Loans for financed vehicles are payable in monthly payments totaling approximately $389,000 through December 2011 and have implied interest rates averaging 7.3%.

Note 9 Interest rate swap

In November 2005, the Company entered into an interest rate swap transaction with a financial institution to hedge its exposure to changes in the fair value of the Company s $100 million floating rate, senior secured notes, which has been designated as a fair value hedge under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS 149. In accordance with the swap agreement, the notional amount stepped down to $75 million in April 2006 and to $50 million in January 2007. The Company pays a fixed rate of 4.87% and the financial institution pays a floating three-month LIBOR rate.

The fair value of the Company s interest rate swap agreement recorded as a derivative asset and included in other assets, net on the Company s consolidated balance sheet totaled approximately $188,000 as of December 31, 2006, and recorded as a derivative liability and included in other noncurrent liabilities in the Company s consolidated balance sheet totaled approximately $207,000 as of December 31, 2005. The change in the mark-to-market valuation is a component of other comprehensive income. The interest rate swap expires in January 2009.

Note 10 Guarantees

The Company guarantees certain financial liabilities, the majority of which relate to the Company s freight forwarding operations. The Company, in the normal course of business, is required to guarantee certain amounts related to customs bonds and services received from airlines. These types of guarantees are usual and customary in the freight forwarding industry. The Company operates as a customs broker and prepares and files all formal documentation required for clearance through customs agencies, obtains customs bonds, facilitates the payment of import duties on behalf of the importer and arranges for payment of collect freight charges. The Company also assists the importer in obtaining the most advantageous commodity classifications, qualifying for duty drawback refunds and arranges for surety bonds for importers.

The Company secures guarantees primarily by three methods: a $75 million standby letter of credit subfacility discussed in Note 8, surety bonds and security time deposits. Security time deposits are restricted as to withdrawal for a specified timeframe and are classified on the Company s balance sheet as restricted cash.

The Company issues IATA (International Air Transportation Association) related guarantees, customs bonds and other working capital credit line 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-

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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 represented guarantees of the Company s trade payables and accrued transportation costs and borrowings against its international credit facilities, which were recorded as liabilities on the Company s consolidated balance sheet.

Note 11 Income taxes

Sources of pretax income are summarized as follows:

	Twelve Months Ended December 31,		
	2006	**2005**	**2004**
		(in thousands)	
Domestic	$ 36,105	$ 54,597	$ 54,368
Foreign	51,552	45,960	34,215
Total	$ 87,657	$ 100,557	$ 88,583

Provision (benefit) for income taxes includes the following:

	Twelve Months Ended December 31,		
	2006	**2005**	**2004**
		(in thousands)	
Current income tax expense (benefit):			
U.S. federal	$ 7,116	$ 21,954	$ 15,148
U.S. state	1,141	447	1,963
Foreign	19,010	17,424	11,058

	27,267	39,825	28,169
Deferred income tax expense (benefit):			
U.S. federal	5,445	1,895	9,021
U.S. state	592	698	(1,218)
Foreign	(1,977)	(21)	1,733
	4,060	2,572	9,536
	$	$	$
Total provision	31,327	42,397	37,705

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

	Twelve Months Ended December 31,		
	2006	2005	2004
		(in thousands)	
	$	$	$
Tax computed at statutory rate	30,680	35,195	31,004
Increases (decreases) resulting from:			
Foreign taxes	(2,425)	(1,901)	1,879
Valuation allowance	1,194	2,385	197
Other nondeductible items	2,038	2,650	769
State taxes on income, net of federal income tax effect	1,281	2,199	2,192
Other	(1,441)	1,869	1,664
	$	$	$
Total provision	31,327	42,397	37,705

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Significant components of the Company s deferred tax assets (liabilities) are as follows:

	As of December 31, 2006		As of December 31, 2005	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	(in thousands)			
	$	$	$	$
Undistributed earnings of foreign subsidiaries and equity affiliates	-	(5,966)	-	(5,966)
Depreciation and amortization	-	(24,157)	-	(20,812)
Foreign tax credits and other federal credits	768	-	899	-
Foreign net operating losses	17,588	-	11,784	-
State net operating losses	3,046	-	3,104	-
Bad debts	1,199	-	1,457	-
Accrued liabilities	8,741	-	10,539	-
Other	3,522	-	392	-
Gross deferred tax assets (liabilities)	34,864	(30,123)	28,175	(26,778)
Less: valuation allowance	(19,187)	-	(13,507)	-
Net deferred tax assets (liabilities)	15,677	(30,123)	14,668	(26,778)
Reclassification, principally netting by tax jurisdiction	(6,250)	6,250	(4,042)	4,042
Net total deferred tax assets (liabilities)	9,427	(23,873)	10,626	(22,736)
Net current deferred tax assets	7,227	-	10,626	-
	$	$	$	$
Net noncurrent deferred tax assets (liabilities)	2,200	(23,873)	-	(22,736)

Taxes on income include deferred income taxes on undistributed earnings (not considered permanently reinvested) of consolidated foreign subsidiaries, net of applicable foreign tax credits. The Company does not provide for United States income taxes on certain specific foreign subsidiaries undistributed earnings intended to be permanently reinvested in foreign operations. If the Company were to substantially increase its domestic borrowing or make strategic decisions to exit certain of the foreign operations where it has currently determined it currently intends to indefinitely reinvest undistributed earnings, such events could result in an increase in U.S. and foreign taxes. At

December 31, 2006, cumulative earnings of consolidated foreign subsidiaries designated as permanently reinvested were approximately $113.9 million for which the related federal tax impact would approximate $7.5 million.

The Company also has generated excess foreign tax credits of approximately $722,000 that expire in 2011 and 2012. There was no valuation allowance established at December 31, 2006 for foreign tax credits, as management believes the foreign tax credits are more likely than not to be fully realized in the future based on current year utilization of foreign tax credits and management s outlook for future utilization.

The Company has generated state and foreign net operating losses resulting in a deferred tax asset of approximately $20.6 million and $14.9 million as of December 31, 2006 and December 31, 2005, respectively. These losses relate to various state and foreign jurisdictions and expire over a period of 1 to 16 years for state jurisdictions and an indefinite period for foreign jurisdictions. The Company recorded tax valuation allowances for deferred tax assets related to state and foreign net operating loss carryforwards in the amount of $19.2 million and $13.5 million in 2006 and 2005, respectively. The Company generated additional foreign net operating losses of approximately $9.0 million of which the tax effect is approximately $2.2 million. The Company considered its historical performance, forecasted taxable income and other factors in determining the sufficiency of its valuation allowance. Objective factors, such as current year and previous year net operating loss utilization, were given substantially more weight than management s outlook for future utilization. For net operating losses without valuation allowances, management believes the Company should generate sufficient taxable income to utilize a substantial portion of its net operating loss carryforwards before their expiration.

As a result of stock option exercises for the years ended December 31, 2006, 2005 and 2004 of non-qualified stock options to purchase an aggregate of 635,000, 920,000 and 2.1 million shares of common stock, respectively, the Company is entitled to a federal and state income tax deduction of approximately $14.1 million, $10.6 million and $19.2 million, respectively, with a related reduction in its federal and state tax obligations of approximately $5.4 million, $4.4 million and $7.8 million, respectively. The tax deduction of $10.6 million per the December 31, 2005 U.S. Tax Return was lower than the $12.1 million estimated at the time of the December 31, 2005 provision to adjust for stock options exercised by employees located outside the U.S. The tax deduction for the year ended December 31, 2006 has also been adjusted to exclude amounts exercised by employees located outside of the U.S. In addition, any exercises of non-qualified stock options in the future at exercise prices below the then fair market value of the common stock may also result in tax deductions equal to the difference between such amounts, although there can be no assurance as to whether or not such exercises will occur, the amount of any deductions or the Company s ability to fully utilize such tax deductions.

The Company s U.S. federal income tax returns from fiscal years 2000 to 2001 are currently subject to examination by the Internal Revenue Service (IRS). Specifically, the income tax returns filed by EGL, Inc. for fiscal years ended September 30, 2001 and December 31, 2001, and the final income tax return filed by Circle International Group, Inc., a subsidiary of EGL, Inc., for the fiscal year ended October 2, 2000, when it was a separate company prior to the merger with EGL, Inc. are currently under audit.

The case has been with the Appeals division of the IRS since June 2005. In December 2006, the Company reached a settlement agreement with the IRS Appeals team in this case. As a result of the settlement the Company will capitalize a portion of software research and development expenditures for fiscal year September 30, 2001. The Company will also capitalize a portion of merger transaction costs for the short period Circle International Group, Inc. return ended October 2, 2000.

Under the settlement terms the Company estimates it will pay approximately $2.4 million in cash taxes when the case is closed. Additionally, the Company will recognize an estimated future cash tax benefit of $2.8 million related to temporary items that will be recovered in future periods.

The case must be reviewed by the Joint Committee of Congress which the Company expects to occur by the end of second quarter 2007. While the outcome of review cannot be predicted with certainty, the Company does not believe any additional material adjustments to its tax returns are probable at this time. The case can be formally closed once Joint Committee review is complete.

The Company is also subject to tax audits in certain of its foreign and domestic jurisdictions and management believes such returns have been filed in accordance with tax laws in effect at the time. However, there is no assurance that such audits will not result in future adjustments.

Note 12 Shareholders equity

Share repurchase program

On February 25, 2004, the Company s Board of Directors authorized the repurchase and retirement of up to $15 million of its outstanding common stock over the 120 days following adoption of the repurchase program (the Program). On March 5, 2004, the Board of Directors approved an increase in the maximum value of shares to be repurchased from $15 million to up to $65 million and extended the Program to July 3, 2004. The Company repurchased and retired 3.4 million shares at an average price of $17.37 per share for approximately $59.1 million under this authorization.

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

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

On October 4, 2005, the Company announced the final results of the tender offer. An aggregate of 8,085,958 shares were properly tendered and not withdrawn at or below a price of $26.00. Because shareholders tendered less than 9,615,000 shares, there was no proration of tendered shares. The Company financed the tender offer with the use of cash on hand and borrowings of $196.0 million under both the new $300 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). As a result, EGL 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.

Treasury stock

During 2006, 2005 and 2004, 86,000, 90,000 and 57,000 shares, respectively, were reissued to satisfy obligations to issue common shares relating to the Company s Employee Stock Purchase Plan (Note 14) and restricted stock awards. As of December 31, 2006 and 2005, 5.7 million and 5.8 million shares, respectively, were held in treasury. The Company accounts for treasury stock using the cost method.

Preferred stock rights

On May 23, 2001, the Company s Board of Directors declared a dividend of one right to purchase preferred stock (Right) for each outstanding share of the Company s common stock to shareholders of record at the close of business on June 4, 2001. Each Right initially entitles the registered holder to purchase from the Company a fractional share consisting of one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $0.001 per share, at a purchase price of $120 per fractional share, subject to adjustment. The Rights generally will not become exercisable until ten days after a public announcement that a person or group has acquired 15% or more of the Company s common stock (thereby becoming an Acquiring Person) or the commencement of a tender or exchange offer that would result in an Acquiring Person (the earlier of such dates being called the Distribution Date). James R. Crane, Chairman of the Board and Chief Executive Officer of EGL, will not become an Acquiring Person unless and until he and his affiliates become the beneficial owner of 49% or more of the common stock. Rights will be issued with all shares of the Company s common stock issued from the record date to the Distribution Date. Until the Distribution Date, the Rights will be evidenced by the certificates representing the Company s common stock and will be transferable only with the common stock. Generally, if any person or group becomes an Acquiring Person, each Right, other than Rights beneficially owned by the Acquiring Person (which will thereupon become void), will thereafter entitle its holder to purchase, at the Rights then current exercise price, shares of the Company s common stock having a market value of two times the exercise price of the Right. If, after there is an Acquiring Person, and the Company or a majority of its assets is acquired in certain transactions, each Right not owned by an Acquiring Person will entitle its holder to purchase, at a discount, shares of common stock of the acquiring entity (or its parent) in the transaction. At any time until ten days after a public announcement that the rights have been triggered, the Company will generally be entitled to redeem the Rights for $0.01 and to amend the rights in any manner other than to change the redemption price. Certain subsequent amendments are also permitted. The Rights expire on June 4, 2011.

Note 13 Employee benefit plans

Defined contribution plan

The Company maintains the EGL, Inc. 401(k) Plan (the EGL Plan) pursuant to which the Company provides up to dollar for dollar discretionary matching of employee tax-deferred savings up to a maximum of 5% of eligible compensation for employees in the United States. Each participant vests in the Company s contribution over the course of five years at a vesting rate of 20% per year. During the years ended December 31, 2006, 2005 and 2004, the Company recorded charges of $735,000, $2.0 million and $800,000, respectively, related to discretionary contributions to this plan.

Additionally, certain of the Company s international subsidiaries have governmental or discretionary defined contribution plans with contribution rates ranging from 5.00% to 7.00% of eligible compensation. For the years ended December 31, 2006, 2005 and 2004, the Company recorded charges of $994,000, $2.2 million and $1.8 million, respectively, related to discretionary and mandatory contributions to these plans.

Defined benefit plans

Certain of the Company s international subsidiaries sponsor defined benefit pension plans covering certain full-time employees. Effective December 31, 2006, the Company adopted the provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. Benefits are based on the employee s years of service and compensation. The Company s plans are funded in conformity with the funding requirements of applicable government regulations of the country in which the plans are located. These foreign plans are not subject to the United States Employee Retirement Income Security Act of 1974. In 2006, for the Company s plan in the United Kingdom, adopted a new mortality table which resulted in an increase of approximately 20% in the projected benefit obligation. Information for the Company s defined benefit plans is provided below.

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Benefit costs related to these plans consisted of the following:

	Year Ended December 31,		
	2006	**2005**	**2004**
		(in thousands)	
	$	$	$
Service cost	2,048	1,891	2,074
Interest cost	2,277	2,069	1,918
Expected return on plan assets	(2,491)	(1,999)	(1,750)
Net pension enhancement and curtailment/settlement expense	-	-	77
Amortization of unrecognized transition obligation/(asset)	(18)	(17)	(17)
Amortization of actuarial loss and prior service cost	358	383	456
	$	$	$
Net benefit cost	2,174	2,327	2,758

Changes in the projected benefit obligations were as follows:

	Year Ended December 31,		
	2006	**2005**	**2004**
		(in thousands)	
	$	$	$
Benefit obligation, beginning of period	45,337	42,385	35,091
Service cost	2,048	1,891	2,074
Interest cost	2,277	2,069	1,918
Actuarial loss	3,395	3,939	631
Payments to participants	(917)	(670)	(749)

Plan amendments	-	-	77
Foreign exchange rate changes	6,252	(4,722)	2,765
Other	324	(301)	578
	$	$	$
Benefit obligation, end of period	58,716	44,591	42,385

The accumulated benefit obligations were $43.1 million and $38.1 million, respectively, at December 31, 2006 and 2005.

Changes in the fair value of benefit plan assets were as follows:

	Year Ended December 31,		
	2006	**2005**	**2004**
		(in thousands)	
	$	$	$
Fair value, beginning of period	34,950	31,242	24,277
Actual return on plan assets	2,811	5,522	2,776
Contributions by employer	1,841	1,923	2,346
Payments to participants	(917)	(670)	(749)
Foreign exchange rate changes	4,862	(3,512)	2,015
Other	324	445	577
	$	$	$
Fair value, end of period	43,871	34,950	31,242

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Reconciliation of funded status is as follows:

	Year Ended December 31,		
	2006	**2005**	**2004**
		(in thousands)	
Fair value of plan assets	$ 43,871	$ 34,950	$ 31,242
Benefit obligation	58,716	44,591	42,385
Funded status (plan assets less benefit obligation)	$ (14,845)	(9,641)	(11,143)
Transition asset	N/A	(206)	(244)
Net actuarial loss	N/A	8,846	9,818
Net obligation recognized in statement of financial position	N/A	$ (1,001)	$ (1,569)

Amounts recognized in statement of financial position:

	As of December 31,	
	2006	**2005**
	(in thousands)	
For years prior to adoption of the funded status provisions of SFAS 158:		
Prepaid benefit cost	$ N/A	$ 877
Accrued benefit liability	N/A	(2,984)
Accumulated other comprehensive income	N/A	1,106
For years after the adoption of the funded status provisions of SFAS 158:		

Noncurrent assets	799	N/A
Current liabilities	(252)	N/A
Noncurrent liabilities	(15,392)	N/A
	$	$
Net obligation recognized in statement of financial position	(14,845)	(1,001)

Amounts recognized in accumulated other comprehensive income (loss) consists of:

	As of December 31,	
	2006	**2005**
	(in thousands)	
	$	$
Initial net asset	210	N/A
Net loss	(12,874)	N/A
	$	$
Accumulated other comprehensive loss	(12,664)	N/A

Estimated amounts expected to be recognized as components of net periodic benefit cost accumulated other comprehensive loss (before tax) in 2007: (in thousands):

	$
Initial net asset	19
Net loss	(559)
	(540)

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Weighted average assumptions used included the following:

	Year Ended December 31,		
	2006	**2005**	**2004**
		(in thousands)	
Discount rate	4.7%	4.8%	5.2%
Long-term rate of compensation increase	4.6%	4.7%	4.7%
Long-term rate of return on funded plan assets	6.5%	6.3%	6.6%

The discount rate is based upon bond yield indexes related to the applicable geographic jurisdictions, primarily the iBoxx Euro Corporates AA adjusted for the duration of the liability. The expected return on assets is based on the estimated long-term rate of return on plan assets associated with the asset mix for each respective plan.

Asset allocations by category were as follows:

	As of December 31,	
	2006	**2005**
	(in thousands)	
Equity securities	71.9%	68.9%
Debt securities	2.1%	14.9%
Other	26.0%	16.2%
Total	100.0%	100.0%

The Company s policy is to invest its pension assets in debt and equity securities. The plans assets are managed by outside investment advisors. The allocation of plan assets is determined based on plan liabilities and funded status.

The Company plans to contribute $1.9 million to the international defined benefit plans in 2007. As of December 31, 2006, the Company expects that benefits to be paid in each of the next five fiscal years after 2006 and for the next five fiscal years thereafter will be as follows (in thousands):

2007	$

	793
2008	1,234
2009	943
2010	1,135
2011	1,142
2012 - 2016	8,737

Note 14 Stock-based compensation

Stock-based awards are granted under the provisions of the following plans:

Long-Term Incentive Plan

The Long-Term Incentive Plan permits the award of both incentive and non-qualified stock options. The exercise price for all incentive stock options will be equal to the fair market value of the common stock on the date of grant, as defined in the plan. A maximum of 12.2 million shares is authorized for issuance under the plan. Options awarded under the plan generally vest ratably over a three-year or five-year period from date of grant (or 100% upon death). Vested options granted to date generally terminate seven years from date of grant. Additional awards may be granted under the Long-Term Incentive Plan in the form of cash, stock, or stock appreciation rights. The stock appreciation rights awards may consist of the right to receive payment in cash or common stock. Any such award may be subject to certain conditions, including continuous service with the Company or achievement of certain business objectives. As of December 31, 2006, 4.2 million shares are authorized and available for issuance under the Long-Term Incentive Plan.

EGL Director Plan

The Director Plan provides for an award to each non-employee director at the time they join the Board of either an option to purchase 10,000 shares of common stock or a number of shares of restricted stock, as determined at the discretion of the Board or a committee of the Board. In addition, each non-employee director serving on the day after the annual shareholders meeting will receive an award of an option to purchase 2,500 shares of common stock or a number of shares of restricted stock, as determined at the discretion of the Board or a committee of the Board. These awards vest on the earlier of the first anniversary of the date of award or the day preceding the annual meeting of shareholders following the award. The Board or a committee of the Board may also make additional awards under the Director Plan, including awards of restricted stock to nonemployee directors in lieu of cash payments of annual retainers or annual committee chair or lead director fees. A maximum of 400,000 shares are authorized to be issued under the plan. As of December 31, 2006, 153,000 shares are authorized and available for issuance under the Director Plan.

Stock purchase plan

In 1999, the Company initiated an employee stock purchase plan (ESPP) to provide eligible employees of the Company and its participating subsidiaries, including subsidiaries based outside of the United States, with the opportunity to purchase the Company s common stock through payroll deductions. Employees may purchase common stock under this plan during a six-month offering period based on a formula provided in the plan document, which generally allows the Company s employees to purchase common stock at 85% of quoted fair market value. Under this plan, 550,000 shares are authorized for purchase. During 2006, 2005 and 2004, 44,000, 66,000 and 42,000 shares of common stock were purchased under this plan at an average price of $27.44, $17.25 and $18.66 per share, respectively. As of December 31, 2006, 159,000 shares are authorized and available for purchase under the ESPP.

In December 2004, the FASB issued SFAS 123R. SFAS 123R is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, (SFAS 123) and supersedes APB 25. SFAS 123R eliminates the alternative of using the intrinsic value method of accounting that was provided in SFAS 123, which generally resulted in no compensation expense recorded in the financial statements related to the issuance of stock options or shares issued under the Company s ESPP. SFAS 123R requires that the cost resulting from all stock-based awards be recognized in the financial statements. SFAS 123R establishes fair value as the measurement objective in accounting for stock-based awards and requires all companies to apply a fair-value-based measurement method in accounting for all stock-based awards with employees.

The Company adopted SFAS 123R as of January 1, 2006 using the modified-prospective transition method. Under this transition method, compensation expense includes: a) compensation expense for all stock-based awards granted through January 1, 2006, but for which the requisite service period had not been completed as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and b) compensation expense for all stock-based

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awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Results from prior periods have not been restated. In November 2005, the FASB issued Staff Position No. FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards (FSP 123R-3). The Company elected to adopt the alternative transition method provided in FSP 123R-3 for calculating the tax effects of stock-based compensation under SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in-capital pool (APIC pool) related to the tax effects of stock-based compensation, and for determining the subsequent impact on the APIC pool and consolidated statements of cash flows of the tax effects of stock-based compensation awards that are outstanding upon adoption of SFAS 123R.

As a result of adopting SFAS 123R, the Company recognized stock-based compensation expense for stock options, restricted stock and shares issued under the ESPP of $6.7 million or $4.3 million after tax in the twelve month period ended December 31, 2006. The impact of stock-based compensation expense on basic and diluted earnings per share was $0.11 for the twelve months ended December 31, 2006.

Prior to January 1, 2006, the Company accounted for stock-based awards to employees and non-employee directors using the intrinsic value method prescribed in APB 25 and related interpretations. The intrinsic value method used by the Company generally resulted in no compensation expense being recorded related to stock option grants made by the Company because those grants were typically made with option exercise prices equal to fair market value at the date of option grant. Under APB 25, the Company recorded stock-based compensation expense for restricted stock and was not required to recognize compensation expense for the cost of shares issued under the Company s ESPP. The following table illustrates the pro forma effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based awards for the twelve months ended December 31, 2005 and 2004, respectively (in thousands, except per share amounts):

	Twelve Months Ended December 31,	
	2005	**2004**
	(in thousands)	
	$	$
Net income as reported	58,160	50,878
	191	275

Add: Total stock-based compensation expense included in net income		
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(2,084)	(2,980)
	$	$
Pro forma net income	56,267	48,173
Earnings per share:		
	$	$
Basic as reported	1.23	1.11
Basic pro forma	1.19	1.05
Diluted as reported	1.22	1.05
Diluted pro forma	1.19	1.00

Stock Options

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.

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The examination has been completed and the Company has 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. The Company concluded that the impact of these adjustments to the years 2001, 2002, 2003, 2004 and 2005 is not material to the Company's consolidated financial statements and the cumulative impact of the adjustments was recorded as a charge in personnel costs in the third quarter of 2006.

As a result of the above review, certain stock option shares that vested after December 31, 2004 were subject to an additional 20% tax under Internal Revenue Code Section 409A upon exercise as the option shares were issued at a discount from the fair value of the stock on the grant date. In order to mitigate the potential tax consequences under Section 409A, the Company increased the exercise price for approximately 277,000 shares of outstanding stock options in December 2006 and provided the employees with cash payments totaling $272,000 in January 2007 to compensate them for the increase in exercise price. The modification of the awards was accounted for in accordance with SFAS 123R with both the change in the exercise price and the cash payment included in the assessment of $91,000 of incremental fair value provided to the employees.

In December 2005 and the first six months of 2006, the Company granted options to purchase 1.4 million shares to certain of its employees and executive officers with the number of options to be exercisable contingent upon satisfying performance vesting and time vesting criteria. The performance vesting of the option shares was determined based upon the Company s earnings per share (EPS) for the year ended December 31, 2006. As a result of diluted EPS of $1.38 per share for the year ended December 31, 2006, 698,000 of the option shares satisfied the performance vesting criteria. The remaining shares subject to the performance criteria will terminate in March 2007 and are no longer exercisable. The options that satisfied the performance criteria will vest in three equal installments with one third vesting in March 2007 and the remaining shares vesting in two equal installments in December 2007 and 2008. The Company did not record compensation expense in 2005 for these stock-based awards.

The weighted-average fair values of options granted during 2006, 2005 and 2004 were $19.26, $15.97 and $17.69, respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes model. Expected volatility is based on historical volatility of the Company s stock over a preceding period commensurate with the expected term of the option adjusted for future projected volatility. The expected term was determined using the simplified method described in SEC Staff Accounting Bulletin No. 107. The risk-free rate for the expected term of the option is based on the U.S. Treasury rate with a maturity commensurate with the expected term of the option in effect at the time of the grant. Expected dividend yield was not considered in the option pricing formula as the Company does not pay dividends and has no plans to do so in the future. The weighted average assumptions used for grants in the twelve months ended December 31, 2006 are as follows:

	Twelve Months Ended December 31,		
	2006	**2005**	**2004**
Expected volatility	45.00%	45.00%	29.97%
Risk-free interest rate	4.72%	4.35%	3.43%
Expected life of option (years)	4.50	4.50	5.68

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Transaction Summary

A summary of stock option transactions for each of the three years ended December 31, 2006 is as follows:

	Options (in thousands)	**Weighted average exercise price**	**Average remaining life in years**	**Aggregate intrinsic value** (in thousands)
		$		
Outstanding at December 31, 2003	5,307	19.67	3.25	
Granted	116	28.55		
Exercised	(2,092)	19.07		
Cancelled or forfeited	(467)	19.84		
Outstanding at December 31, 2004	2,864	20.42	3.28	
Granted	1,463	37.29		
Exercised	(1,016)	20.84		
Cancelled or forfeited	(221)	19.89		
Outstanding at December 31, 2005	3,090	28.27	4.95	
Granted	211	36.70		
Exercised	(670)	22.42		
Cancelled or forfeited	(330)	31.62		
		$		$
Outstanding at December 31, 2006	2,301	30.37	5.30	10,159
		$		$
Exercisable at December 31, 2006	661	19.06	3.30	7,298

Options to purchase 211,000 shares of stock were issued during the twelve months ended December 31, 2006. The weighted-average fair values of options granted during the twelve months ended December 31, 2006 was $19.26. The total intrinsic value of options exercised during the twelve months ended December 31, 2006, 2005 and 2004 was

$13.8 million, $12.3 million and $19.5 million, respectively. Option exercises are settled with newly issued shares of the Company s common stock.

As of December 31, 2006, there was $10.3 million of total unrecognized compensation cost related to unvested stock options granted under the Company s plans. That cost is expected to be recognized over a weighted-average period of 2.00 years. The total fair value of shares vested during the twelve months ended December 31, 2006, 2005 and 2004 was $2.7 million, $3.4 million and $5.2 million, respectively.

The following table summarizes information about stock options outstanding at December 31, 2006:

	Outstanding			Exercisable	
Range of exercise prices	**Options**	**Average remaining life in years**	**Weighted average price**	**Options**	**Weighted average price**
	(in thousands, except option price and average remaining life)				
$ 8.88 - $10.79	121	2.10	$ 9.21	111	$ 9.16
$ 12.08 - $17.94	342	3.81	15.12	220	15.18
$ 18.24 - $26.63	306	2.41	21.39	237	22.27
$ 28.55 - $48.62	1,532	5.84	37.24	93	31.80
$ 8.88	2,301	5.30	30.37	661	19.06

-

$48.62

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Restricted Stock

The Company issues restricted stock to certain executive officers and other key employees under the Long-Term Incentive Plan. The Company issued 37,500 shares of restricted common stock to its executive officers and other key employees on March 16, 2006. One-fifth of the restricted shares vested in March 2006 and one-fifth vested in December 2006. The remaining restricted shares will vest in three equal installments in December of the years 2007 through 2009. The Company also issued 10,000 shares of restricted stock to an employee as of October 31, 2005. Upon vesting, the shares of common stock of the Company awarded as set forth above shall have no further restrictions. In addition, restricted stock is issued to the Company s Board of Directors under the EGL Director Plan generally with a twelve-month vesting period. In 2006, 2005 and 2004, the Company issued 9,000, 14,000 and 14,000 shares, respectively, of restricted common stock under the Director Plan.

The fair value of restricted stock is the excess of the average market price or closing price of the Company s common stock at the date of grant over the exercise price, which is zero. Under the provisions of SFAS 123R, the recognition of unearned compensation at the date restricted stock is granted is no longer required. Therefore, the amount that had been in unearned compensation expense as of January 1, 2006 was reclassified into additional paid-in capital.

A summary of restricted stock transactions for the twelve months ended December 31, 2006 is as follows:

	Restricted stock (in thousands)	**Weighted average grant price**	**Average remaining life in years**	**Aggregate intrinsic value** (in thousands)
Outstanding at December 31, 2005	25	$ 22.59		
Granted	46	43.26		
Vested	(32)	40.96		
Cancelled or forfeited	(2)	43.21		
Outstanding at December 31, 2006	37	$ 43.27	2.15	$ 1,600

The weighted-average fair values of restricted stock granted during the twelve months ended December 31, 2006, 2005 and 2004 was $43.26, $22.59 and $21.90, respectively. The total intrinsic value of restricted stock released during the twelve months ended December 31, 2006 was $1.3 million. As of December 31, 2006, there was $1.2 million of total unrecognized compensation cost related to restricted stock. That cost is expected to be recognized over a weighted-average period of 2.15 years. The Company generally issues shares for restricted stock and shares under the ESPP from treasury shares.

Note 15 Accumulated other comprehensive income (loss)

In addition to net income, comprehensive income (loss), includes, as applicable, foreign currency translation adjustments, minimum pension liability adjustments, unrealized gains and losses on certain investments in debt and equity securities, the effects of qualifying hedging activities and changes in shareholders equity that are not the result of transactions with shareholders.

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Accumulated other comprehensive loss consists of the following:

	As of December 31, 2006	As of December 31, 2005
	(in thousands)	
Cumulative foreign currency translation adjustment	$ (1,236)	$ (22,699)
Minimum pension liability adjustment, net of tax	(3,438)	(1,106)
Pension funded status adjustment due to adoption of SFAS 158	(8,363)	-
Fair value of cash flow hedge, net of tax	123	(134)
Unrealized gain on marketable securities, net of tax	35	37
	$ (12,879)	$ (23,902)

Note 16 Earnings per share

Basic earnings per common share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of shares outstanding for the period. Diluted earnings per common share includes potential dilution that could occur if stock options were exercised or convertible debt was exchanged for common stock. The convertible notes were converted into 5,736,074 shares of the Company s common stock as of December 17, 2004. These shares have been included in basic earnings per share upon conversion and when dilutive, in diluted earnings per share prior to conversion.

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

	Year Ended December 31,		
	2006	2005	2004
	(in thousands)		
Net income used in basic earnings per common share	$ 56,330	$ 58,160	$ 50,878
Interest expense and deferred financing fee amortization on convertible notes, net of tax	-	-	3,537
Net income used in diluted earnings per common share	$ 56,330	$ 58,160	$ 54,415
Weighted average common shares outstanding used in basic earnings per common share	40,465	47,442	45,813
Net dilutive potential common shares issuable on exercise of options	353	390	617
Net dilutive potential common shares issuable on conversion of convertible notes	-	-	5,484
Weighted average common shares and dilutive potential common shares used in diluted earnings per common share	40,818	47,832	51,914

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

	Year Ended December 31,		
	2006	**2005**	**2004**
		(in thousands)	
Net dilutive potential common shares issuable:			
On exercise of options exercise price greater than average market value during period or shares anti-dilutive due to net loss	832	486	1,397

Note 17 EEOC legal settlement

In December 1997, the U.S. Equal Employment Opportunity Commission (EEOC) issued a Commissioner s Charge alleging violations under Title VII, the Age Discrimination in Employment Act, and the Equal Pay Act. In May through July 2000, eight individuals filed suit against the Company in the United States District Court for the Eastern District of Pennsylvania in Philadelphia, alleging gender, race and national origin discrimination, as well as sexual harassment. The individual plaintiffs sought to certify a class of approximately 1,000 of the Company s current and former employees and applicants. The case was eventually transferred to the United States District Court for the Southern District of Texas Houston Division.

On October 2, 2001, the Company and the EEOC announced the filing of a Consent Decree settlement, under which the Company agreed to pay $8.5 million into a fund to compensate individuals who claim to have experienced discrimination (Settlement Fund). In addition, the Company agreed to contribute $500,000 to establish a Leadership Development Program (LDP). The Consent Decree expired on October 3, 2005, with the Claims administration process under the Consent Decree completed by the Company and the EEOC in early 2005. Of the 2,073 claims received, only 203 were deemed to be eligible for a monetary distribution totaling $903,000. On February 10, 2005, upon motion by the Company and the EEOC, the Court entered an Order directing that the Company recapture $6.0 million plus Company accrued interest from the Settlement Fund. Reversal of the related accrued liability resulted in $6.0 million in income in the first quarter of 2005. The Court also approved the parties agreement to transfer $1.4 million to the LDP. From that amount, the Company has reimbursed itself $582,000 for corporate funds previously expended on LDP expenses. The Court further approved the parties agreement to retain $1.1 million in the Settlement Fund for the payment of eligible claims.

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

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Note 18 Commitments and contingencies

Leases

The Company has 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 the Company s lease agreements contain renewal options and rent escalation clauses. The following is a summary of future minimum payment obligations under non-cancelable leases with remaining lease terms in excess of one year as of December 31, 2006:

	Capital Leases	Operating Leases
	(in thousands)	
	$	$
2007	905	87,882
2008	210	72,991
2009	40	62,387
2010	13	52,569
2011	5	35,596
2012 and thereafter	14	122,329
		$
Total future minimum lease payments	1,187	433,754
Less amounts representing interest	78	
Present value of net minimum lease payments	1,109	
Less current obligations	828	
	$	
Noncurrent obligations	281	

Included in the above summary of minimum future lease payment obligations are leases on freight operations facilities and office space. The obligations related to certain of these facilities has been accrued in the Company s vacant facilities accrual as of December 31, 2006.

Future lease obligation accruals

The Company maintains facility accruals for its remaining lease obligations under noncancelable operating leases at domestic and international locations that the Company has vacated and consolidated due to excess capacity resulting from the Company having multiple facilities in certain locations after the merger with Circle in 2000 and changing business needs. All lease costs for facilities being consolidated were charged to operations until the date that the Company vacated each facility. These facility accruals are included in other current and non-current liabilities on the consolidated balance sheets. The changes in these accruals during the years ended December 31, 2006, 2005 and 2004 and the remaining unpaid accrued charges as of December 31, 2006 and 2005 are as follows:

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	Future lease obligations, net of subleasing income
	(in thousands)
Accrued liability at December 31, 2003	$ 5,800
Additions	4,876
Revisions to estimates	(1,098)
Payments	(3,002)
Accrued liability at December 31, 2004	6,576
Revisions to estimates	1,309
Payments	(2,819)
Accrued liability at December 31, 2005	5,066
Additions	139
Revisions to estimates	1,717
Payments	(942)
Accrued liability at December 31, 2006	$ 5,980

Amounts recorded for future lease obligations are net of approximately $15.0 million in anticipated future recoveries from actual sublease agreements and $7.6 million from expected sublease agreements as of December 31, 2006. Sublease income has been anticipated in locations where sublease agreements have been executed as of December 31, 2006 or are deemed probable of execution and collection. The Company s lease agreements for these facilities expire from 2007 to 2025 and sublease agreements expire from 2007 to 2012. There is a risk that subleasing transactions will not occur within the same timing or pricing assumptions made by the Company, or at all, which could result in future revisions to these estimates.

Rent expense for operating leases was $89.6 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.

U.K. fire damage

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

During the first quarter of 2005, the Company recorded a loss and recognized an insurance recovery of $721,000 for property destroyed in the fire. In February 2005, the Company received an interim payment on its property claim of $673,000. The Company incurred $1.2 million of pre-tax operating losses in the first quarter of 2005 as a result of the fire. A preliminary business interruption claim related to the fire has been submitted to our insurance carriers with a $928,000 initial payment received in May 2005, of which $567,000, $163,000 and $198,000 are recorded in revenues, personnel costs and other selling, general and administrative expenses, respectively, in the accompanying consolidated statement of income. In addition, during the fourth quarter, we incurred a $1.6 million lease surrender charge. As of December 31, 2005, $4.4 million of cargo claims have been settled under the Company s insurance policy. An additional estimated $6.4 million of claims remained open of which $5.6 million was deemed probable of recovery under the Company s insurance policy. The Company recorded a liability of $823,000 for the estimated claims in excess of its insurance policy limits. At

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December 31, 2005, a $5.6 million insurance receivable and a $6.4 million insurance liability for these estimated cargo losses was included in the Company s consolidated balance sheet.

In March 2006, the Company received a payment of $517,000 on its property insurance claim which resulted in a gain of $324,000 in the accompanying condensed consolidated statement of income. On March 31, 2006, the Company resolved its outstanding business interruption claim with its insurance carrier. The total agreed amount was $3.1 million which includes the $928,000 interim payment received in May 2005. The outstanding payment of $2.2 million, of which $223,000, $1.5 million and $483,000 were recorded in revenues, personnel costs and other selling, general and administrative expenses, respectively, was received on May 4, 2006.

As of December 31, 2006, $5.0 million of cargo claims have been settled under the Company s insurance policy. An additional estimated $2.9 million of claims remain open of which are deemed probable of recovery under the Company s insurance policy. At December 31, 2006, a $2.9 million insurance receivable and a $2.9 million insurance liability for these estimated cargo losses were included in the Company s condensed consolidated balance sheet. However, existing claims could be settled in excess of the Company s insurance limits, which could have a material adverse impact on its financial position, cash flows and results of operations.

U.S. Government billing

During 2003 and 2004, the Company 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, the Company received an administrative subpoena from the Office of Inspector General of the DOD requesting documents relating to the billing of war risk surcharges by the Company on certain shipments of KBR freight in the period from late 2003 to mid-2004. The Company has cooperated fully with the government s request and its investigation. In the course of its internal investigation of the matter, the Company reviewed documents related to the imposition of war risk surcharges on it by transportation providers. The Company uncovered evidence suggesting that certain documents related to the imposition of war risk surcharges on the Company, that were then charged to KBR, were false and the charges were not warranted. Following this discovery, and with approval from the government, the Company engaged auditors to conduct a forensic analysis of war risk surcharges charged by the Company. This analysis concluded that approximately $1.1 million of war risk surcharges charged by the Company were not actually imposed on the Company by transportation providers. The Company provided the results of this investigation to the government and promptly terminated two employees for violation of the Company s Code of Conduct.

As a result of discussions with the government, the Company received a letter from the United States Attorneys 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 the Company s financial statements), and the remaining $2.9 million represents penalties for improper billings. The Company 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 the Company s cooperation in and assistance with the government s review, as part of the settlement, the United States Attorneys Office and the Defense Criminal Investigative Service is expected to agree to waive all investigatory expenses and make no recommendation to the DOD for debarment of the Company from future DOD contracts. In addition, the United States Attorneys Office of the Eastern District of Texas is not expected to recommend to the DOD or the Department of Justice any criminal indictment of the

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Company related to the war risk surcharges. In December 2005, the Company recorded a charge of $2.9 million for this penalty.

In March 2006, the Company was notified by the U.S. Army s (Army) Office of Suspension and Debarment that the Company was 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 the Company terminated related to the war risk surcharge investigation. This action was taken despite the settlement offer by the United States Attorneys Office of the Eastern District of Texas in which it offered not to recommend that the Company be debarred from future DOD contracts. The suspension was appealed to the Army s Suspension and Debarment Officer. On March 24, 2006, the Company entered into an Administrative Compliance Agreement (Agreement) with the Army, pursuant to which the suspension was lifted. In the Agreement, the Company 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 and provide a copy of its Code of Business Ethics and Conduct to its employees, appoint a managerial employee as an 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 the Company s compliance with the Agreement. Additionally, the Company 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 the Company s compliance with the Agreement and report to the Army concerning the Company s compliance with the Agreement. The Ombudsman will submit written reports to the Army, on a quarterly basis, concerning the Company s compliance with the Agreement, complaints made against the Company regarding its performance under government contracts and the actions taken by the Company regarding these complaints.

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

Litigation

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) that the matter be designated as a class action on behalf of all independent contractor P&D drivers working for the Company in California; (ii) a declaratory judgment that the Company has violated the law; (iii) an equitable accounting; and (iv) an unspecified amount of damages and restitution in the form of business expenses, unpaid overtime, meal period compensation, unlawful deductions from wages, statutory penalties, interest, attorneys fees and costs. The Company 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. The Company intends to vigorously defend this lawsuit and believes that plaintiffs are properly classified as independent contractors.

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

Note 19 Restructuring

In June 2005, the Company announced that it was eliminating approximately 350 full-time, part-time and contractor positions in connection with a cost reduction plan. The reductions were primarily in the United States and Europe. The Company incurred a pre-tax charge of approximately $1.6 million in connection with the reductions in workforce in the second quarter of 2005. In Europe, the Middle East and Africa, North America and South America, the charges incurred in the second quarter of 2005 were approximately $1.1 million, $392,000 and $97,000, respectively. Of this amount, approximately $537,000 was paid in the second quarter of 2005 and the remainder was paid in the third quarter of 2005. There were no amounts outstanding under this plan as of December 31, 2005.

Note 20 Related party transactions

Shared employees

Certain of the Company s employees also perform services for unaffiliated companies owned by James R. Crane. The Company is reimbursed for these services based upon an allocation percentage of total salaries agreed to by the Company and Mr. Crane. The Company received reimbursements of $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.

Source One Spares

Mr. Crane is a director and significant shareholder of Source One Spares, Inc. (Source One), a company specializing in the just-in-time delivery of overhauled components to commercial aircraft operators. During all periods presented, transactions with Source One were immaterial.

Aircraft usage payments

During 2004, the Company periodically utilized aircraft owned or leased by entities that are controlled by Mr. Crane. The Company was charged for actual usage of the aircraft on an hourly basis at market rates and was billed on a periodic basis. The Company reimbursed Mr. Crane for $1.2 million in 2004 for actual hourly usage of the aircraft. In January 2005, the Company 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 the Company 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 the Company approved, in lieu of incremental cash compensation, an arrangement to provide Mr. Crane, or his designees, with up to an aggregate of 150 hours per year of personal use of the Company s aircraft without reimbursement by Mr. Crane. 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. Then, in November 2006, the Company entered into an aircraft lease agreement with respect to Mr. Crane s personal airplane pursuant to which it will pay $2,200 per

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flight hour related to Mr. Crane s business use of that airplane in 2006. The Company will also pay $4,300 per flight hour pursuant to a services agreement related to that business travel.

The Company included usage of 158.7 and 62.6 hours in Mr. Crane s 2005 and 2006 taxable income 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 the Company 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 the Company s aircraft, without reimbursement by the directors. Personal usage of the aircraft by the directors is subject to availability, with priority given to the Company s usage, and the cumulative number of hours allowed for all directors may not exceed 100 hours per year. The Company will record the number of hours utilized by each director and include in such director s yearly taxable income the amount required by then current U.S. federal income tax regulations. In 2006 and 2005, the directors did not utilize the company plane for personal use.

In the second quarter of 2006, the Company made a decision to sell the aircraft as it was not utilized to the extent anticipated when purchased. As of June 30, 2006, the Company had designated the aircraft as an asset held for sale. The Company 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. The Company recognized an impairment loss on the asset of $369,000, which is the difference between the carrying value of the asset and the net realizable value of the asset at June 30, 2006. In December 2006, the Company sold the aircraft to an unrelated third party for an aggregate cash purchase price of $11.5 million. The Company recognized a loss of $55,000, which is included in operating income on its condensed consolidated statement of income.

On November 13, 2006, the Company 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. The Company plans to use the aircraft for business travel by its 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. The Company s use of the aircraft is on an as needed basis and the Company is not committed to any minimum usage of the aircraft. The Company 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. The Company is 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 the Company s operation of the aircraft but only during the time that the Company leases the aircraft. JRC Citation, LLC is obligated to maintain bodily injury and property damage liability insurance on the aircraft. The Company 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 the Company s operation, maintenance, storage or other use of the aircraft.

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Note 21 Geographic and services information

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

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	North America	South America	Europe & Middle East	Asia & South Pacific	Eliminations	Consolidated
				(in thousands)		
Year ended December 31, 2006:						
Total revenues	$ 1,425,081	$ 101,395	$ 625,574	$ 1,134,362	$ (68,776)	$ 3,217,636
Interdivision revenues	(24,611)	(6,229)	(15,215)	(22,721)	68,776	-
Revenues from external customers	$ 1,400,470	$ 95,166	$ 610,359	$ 1,111,641	$ -	$ 3,217,636
Total net revenues	$ 609,492	$ 34,507	$ 205,663	$ 161,111	$ -	$ 1,010,773
Intercompany (income) expense	(581)	(3,575)	(2,899)	7,055	-	-
Net revenues	$ 608,911	$ 30,932	$ 202,764	$ 168,166	$ -	$ 1,010,773
Income before taxes	$ 87,397	$ (5,225)	$ 21,201	$ 29,104		$ 132,477
Capital expenditures	$ 39,313	$ 1,246	$ 3,680	$ 3,270		$ 47,509
Depreciation and amortization expense	$ 14,800	$ 1,228	$ 4,082	$ 4,099		$ 24,209

Identifiable assets	$ 647,705	$ 55,076	$ 239,585	$ 238,072		$ 1.180.438
Year ended December 31, 2005:						
Total revenues	$ 1,401,950	$ 104,338	$ 646,379	$ 1,013,079	$ (69,230)	$ 3,096,516
Interdivision revenues	(22,884)	(5,827)	(18,389)	(22,130)	69,230	-
Revenues from external customers	$ 1,379,066	$ 98,511	$ 627,990	$ 990,949	$ -	$ 3,096,516
Total net revenues	$ 574,522	$ 27,693	$ 199,646	$ 146,613	$ -	$ 948,474
Intercompany (income) expense	956	(3,177)	(5,018)	7,239	-	-
Net revenues	$ 575,478	$ 24,516	$ 194,628	$ 153,852	$ -	$ 948,474
Income before taxes	$ 58,948	$ 1,257	$ 11,709	$ 27,574		$ 99,488
Capital expenditures	$ 19,907	$ 905	$ 2,594	$ 4,108		$ 27,514
Depreciation and amortization expense	$ 20,760	$ 639	$ 3,777	$ 4,270		$ 29,446
Identifiable assets	$ 582,525	$ 42,861	$ 240,107	$ 223,748		$ 1,089,241
Year ended December 31, 2004:						
Total revenues	$ 1,312,260	$ 95,231	$ 587,251	$ 811,065	$ (64,415)	$ 2,741,392
Interdivision revenues	(20,208)	(5,799)	(18,278)	(20,130)	64,415	-
Revenues from external customers	$ 1,292,052	$ 89,432	$ 568,973	$ 790,935	$ -	$ 2,741,392

Total net revenues	$ 534,002	$ 20,407	$ 186,122	$ 124,835	$ -	$ 865,366
Intercompany (income) expense	7,481	(3,256)	(7,200)	2,975	-	-
Net revenues	$ 541,483	$ 17,151	$ 178,922	$ 127,810	$ -	$ 865,366
Income before taxes	$ 48,879	$ 1,930	$ 3,140	$ 23,886		$ 77,835
Capital expenditures	$ 29,268	$ 652	$ 4,042	$ 3,995		$ 37,957
Depreciation and amortization expense	$ 20,654	$ 467	$ 5,621	$ 4,146		$ 30,888
Identifiable assets	$ 611,476	$ 38,900	$ 243,549	$ 200,938		$ 1,094,863

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

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

-

certain costs related to general corporate functions and

-

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

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

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

	Year Ended December 31,		
	2006	**2005**	**2004**
		(in thousands)	
Income before taxes for reportable segments	$ 132,477	$ 99,488	$ 77,835
Interest, corporate administrative expenses and other miscellaneous nonoperating income (expense)	(44,820)	1,069	10,748
Income before taxes	$	$	$

	87,657	100,557	88,583
Capital expenditures for reportable segments	$ 47,509	$ 27,514	$ 37,957
Capital expenditures not allocated to segments	25	13,646	206
Capital expenditures	$ 47,534	$ 41,160	$ 38,163
Depreciation and amortization for reportable segments	$ 24,209	$ 29,446	$ 30,888
Depreciation and amortization not allocated to segments	8,513	6,486	4,221
Depreciation and amortization	$ 32,722	$ 35,932	$ 35,109

The Company is domiciled in the U.S. and had revenues from external customers in the U.S. of $1,279 million, $1,244 million and $1,164 million for the years ended December 31, 2006, 2005 and 2004, respectively. The U.S. had long lived assets of $203 million and $197 million as of December 31, 2006 and 2005, respectively.

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

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The following tables show revenues and net revenues attributable to the Company s principal services:

	Year Ended December 31,		
	2006	**2005**	**2004**
		(in thousands)	
Revenues:			
	$	$	$
Air freight forwarding	2,115,648	2,035,020	1,798,968
Ocean freight forwarding	461,616	443,769	391,554
Customs brokerage and other	640,372	617,727	550,870
	$	$	$
Total	3,217,636	3,096,516	2,741,392
Net revenues:			
	$	$	$
Air freight forwarding	560,340	558,142	508,091
Ocean freight forwarding	106,353	89,939	76,249
Customs brokerage and other	344,080	300,393	281,026
	$	$	$
Total	1,010,773	948,474	865,366

Note 22 Subsequent events

Offer to Purchase the Company

On January 2, 2007, the Company s Board of Directors received a nonbinding proposal letter from James R. Crane, the Company s 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. The 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, the Company 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.

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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.

The Company 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.

Note 23 Quarterly financial information (unaudited)

	Three Months Ended			
	March 31, 2006	**June 30, 2006**	**September 30, 2006**	**December 31, 2006**
	(in thousands, except per share amounts)			
	$	$	$	$
Revenues	752,363	771,293	832,720	861,260
Net revenues	237,201	249,673	265,475	258,424
	21,881		30,212	17,871
Operating income	(3)	26,518	(4)	(1) (2)
Income before provision for	18,399		28,160	17,198
income taxes	(3)	23,900	(4)	(1) (2)
	11,104		19,485	10,935
Net income	(3)	14,806	(4)	(1) (2)
Basic earnings per share	0.28	0.37	0.48	0.27
Diluted earnings per share	0.27	0.36	0.48	0.27

(1)

Includes $3.9 million gain from the sale a facility in the United Kingdom.

(2)

Includes $3.8 million for a goodwill impairment charge.

(3)

Includes $2.2 million business interruption proceeds.

(4)

Includes $2.1 million in stock-based compensation expense associated with revised measurement dates.

	Three Months Ended			
	March 31, 2005	**June 30, 2005**	**September 30, 2005**	**December 31, 2005**
	(in thousands, except per share amounts)			
	$	$	$	$
Revenues	700,666	781,254	779,507	835,089
Net revenues	213,432	236,496	246,960	251,586
	13,723			27,640
Operating income	(5)	21,003	33,044	(7)
Income before provision for	13,320			30,545
income taxes	(5)	23,268	33,424	(6) (7)
	7,165			19,061
Net income	(5)	12,702	19,232	(6) (7)
Basic earnings per share	0.14	0.25	0.41	0.43
Diluted earnings per share	0.14	0.25	0.40	0.43

(5)

Includes $6.0 million recapture of funds from EEOC settlement. See Note 17.

(6)

Includes $4.0 million gain on sale of TDS Logistics, Inc. See Note 6.

(7)

Includes $2.9 million penalty for improper government billings. See Note 18.

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SCHEDULE II

EGL, INC.

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004

		Additions			
Description	**Balance at beginning of year**	**Charged to costs and expenses**	**Other**	**Deductions write-offs**	**Balance at end of year**
			(in thousands)		
Allowance for doubtful accounts receivable					
2006	$	$	$	$	$
	12,566	6,888	-	6,105	13,349
2005	14,069	8,630	-	10,133	12,566
2004	12,342	6,672	-	4,945	14,069
Deferred tax valuation allowance					
2006	$	$	$	$	$

	13,507	1,023	4,657	-	19,187
2005	8,824	2,385	2,298	-	13,507
2004	8,627	2,824	-	2,627	8,824

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