EGL INC
Form 10-Q
November 09, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[x]

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

or

[

]

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

Commission File Number 0-27288

EGL, INC.

(Exact name of registrant as specified in its charter)

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

15350 Vickery Drive, Houston, Texas 77032

(281) 618-3100

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

N/A

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

nt (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 1
nd (2) has been subject to such filing requirements for the past 90 days.

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

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

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

EGL, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

See notes to unaudited condensed consolidated financial statements.

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

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

See notes to unaudited condensed consolidated financial statements.

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

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

See notes to unaudited condensed consolidated financial statements.

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

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

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

See notes to unaudited condensed consolidated financial statements.

EGL, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(unaudited)
(in thousands)

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

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

See notes to unaudited condensed consolidated financial statements.

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Basis of presentation and principles of consolidation

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

Restatement of previously issued financial statements

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Management considers many factors in selecting appropriate operational and financial accounting policies and controls, and in developing the assumptions that are used in the preparation of these financial statements. Management must apply significant judgment in this process. Factors that may be considered by management making these assumptions and estimates include, but are not limited to: the range of accounting policies permitted by accounting principles generally accepted in the United States of America; management s understanding of the Company s business both historical results and expected future results; the extent to which operational controls exist that provide high degrees of assurance that all desired information to assist in the estimation is available and reliable; expectations of the future performance of

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EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Stock-based compensation

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

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

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Comprehensive income (loss)

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

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

Accumulated other comprehensive loss consists of the following:

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

(22,437)	(12,625)

New accounting pronouncements

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

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

On July 14, 2005, the FASB issued an exposure draft of a proposed Interpretation, Accounting for Uncertain Tax Positions an Interpretation of FASB Statement No. 109. The proposed interpretation would require companies to recognize the best estimate of an uncertain tax position only if it is probable of being sustained on audit by the

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 - Earnings per share

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

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

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

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

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

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

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

Note 3 Future lease obligations

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Note 4 Restructuring

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

incurred in the second quarter of 2005 were approximately $1.1 million, $392,000 and $97,000, respectively. Of this amount, approximately $537,000 was paid in the second quarter of 2005 and the remainder was paid in the third quarter of 2005.

Note 5 Financing receivables

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

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Note 7 Debt

Debt consists of the following amounts:

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

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

Amended and Restated Credit Agreement

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

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

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

-

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

-

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

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EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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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;

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

-

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

-

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

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

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

Note Repurchase Agreement

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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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

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

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

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

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

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

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

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

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

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

International credit facilities and other debt

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

Note 8 Share repurchase program

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

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

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

approximately 17.1% of EGL s outstanding shares as of September 30, 2005.

Note 9 Earnout payments

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

Note 10 Guarantees

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

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EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Note 11 Contingencies

EEOC legal settlement

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

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

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

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

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

Other legal matters

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

Fire damage

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Federal income tax audit

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

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

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

Note 12 Employee benefit plans

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

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Note 13 Related party transactions

Aircraft usage payments

In conjunction with the Company s business activities prior to January 2005, the Company periodically utilized aircraft owned by entities controlled by James R. Crane, the Company s Chief Executive Officer. The Company was charged for actual usage of the plane on an hourly basis and billed on a periodic basis. During the three and nine months

ended September 30, 2004, the Company reimbursed the entities controlled by Mr. Crane approximately $52,000 and $863,000, respectively, for hourly usage of the plane. In January 2005, the Company purchased from an unrelated third party an aircraft that was previously leased by an entity controlled by Mr. Crane for $12.5 million. The Company now uses its own airplane for business travel, eliminating the use of Mr. Crane s aircraft and reimbursement thereof.

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

Shared employees

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Business Segment Information

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

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

- certain costs related to general corporate functions and

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

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

EGL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

Restatement of Previously Issued Financial Statements

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

Overview

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 over which we have some control and focus on internally are our ability to: (1) link transportation services with our logistics services, (2) cross-sell our services to existing and prospective customers and (3) collaborate with our customers to provide flexible, cost-effective and profitable supply chain solutions.

We achieved gross revenues of $780 million for the quarter ended September 30, 2005, an 8.5% increase over gross revenues of $719 million in the third quarter of 2004. Our financial position was strengthened by higher gross and net revenues in the third quarter of 2005. Despite growth in business, we remain committed to leveraging our infrastructure by containing our operating expenses and improving our yield management in 2005.

Our results of operations, cash flows and financial position for the third quarter of 2005 reflect, among other things, the following:

-

increase in net revenue margins with ocean freight forwarding and logistics products;

-

higher effective tax rate due to tax operating losses in certain foreign countries; and

-

improved working capital management to increase cash flows from operating activities.

Increase in net revenue margins. Net revenue margins increased to 31.7% in the third quarter of 2005 compared to 31.4% in the third quarter of 2004, reflecting increases in margins in the ocean freight forwarding and logistics products. Air freight forwarding margin deterioration is due to under-recovered fuel costs and compressed yields between Asia and the U.S. Ocean forwarding margins increased due to improved margins on ocean exports out of North America due to higher capacity introduced by carriers. Logistics margins have improved due to lower warehouse costs primarily in Europe.

Income tax. The effective tax rate for the third quarter of 2005 was 42.5%, due to tax operating losses in certain foreign countries with out any tax loss carryforward benefit recorded for those countries.

EGL, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Cash flows from operations. Cash flows from operations during the three months ended September 30, 2005 was $77.3 million, reflecting improved management of our working capital, particularly through continued focus on our collection of trade receivables.

Our organization continues to focus on improving yields through strong management of purchased transportation costs and fuel surcharges and improving the results in our European operations.

Results of Operations

	Nine Months Ended September 30,			
	2005		2004 (Restated)	
	Amount	% of Total Revenues	Amount	% of Total Revenues
	(in thousands, except percentages)			
Revenues:				
	$		$	
Air freight forwarding	1,469,947	65.0	1,264,323	65.1
Ocean freight forwarding	329,076	14.6	279,784	14.5
Customs brokerage and other	462,404	20.4	397,178	20.4
	$		$	
Revenues	2,261,427	100.0	1,941,285	100.0
	Amount	% of Revenues	Amount	% of Revenues
Net revenues:				
	$		$	
Air freight forwarding	407,462	27.7	374,284	29.6
Ocean freight forwarding	67,516	20.5	57,129	20.4
Customs brokerage and other	221,910	48.0	204,324	51.4
Net revenues	$	30.8	$	32.7

	696,888		635,737	
		% of Net Revenues		% of Net Revenues
Operating expenses:				
Personnel costs	390,473	56.0	356,336	56.0
Other selling, general and administrative expenses	244,620	35.1	226,368	35.6
EEOC legal settlement	(5,975)	(0.8)	-	-
Operating income	67,770	9.7	53,033	8.4
Nonoperating income, net	2,242	0.3	8,942	1.4
Income before provision for income taxes	70,012	10.0	61,975	9.8
Provision for income taxes	30,913	4.4	23,987	3.8
Net income	$ 39,099	5.6	$ 37,988	6.0

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004

Revenues increased $320.1 million, or 16.5%, to $2,261.4 million in the nine months ended September 30, 2005 compared to $1,941.3 million in the nine months ended September 30, 2004 due to increases in all product lines. Net revenues, which represent revenues less freight transportation costs, increased $61.2 million, or 9.6%, to $696.9 million in the nine months ended September 30, 2005 compared to $635.7 million in the nine months ended September 30, 2004 due to significant increases in all product lines across all geographic areas. Net revenue margins of 30.8% for the nine

EGL, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

months ended September 30, 2005 declined from 32.7 for the nine months ended September 30, 2004 reflecting the rising fuel costs and higher rate of growth in the lower margin (but higher net revenue per shipment) international air and ocean products.

Air freight forwarding revenues. Air freight forwarding revenues increased $205.6 million, or 16.3%, to $1,469.9 million in the nine months ended September 30, 2005 compared to $1,264.3 million in the nine months ended September 30, 2004 primarily due to volume increases in Asia Pacific, where we continue to see large increases in both volumes and weights shipped, and volume increases in North America.

Air freight forwarding net revenues increased $33.2 million, or 8.9%, to $407.5 million in the nine months ended September 30, 2005 compared to $374.3 million in the nine months ended September 30, 2004. Air freight forwarding margins decreased to 27.7% for the nine months ended September 30, 2005 compared to 29.6% for the nine months ended September 30, 2004, primarily due to declines in North America and Asia Pacific due to higher fuel costs not absorbed by our customers.

Ocean freight forwarding revenues. Ocean freight forwarding revenues increased $49.3 million, or 17.6%, to $329.1 million in the nine months ended September 30, 2005 compared to $279.8 million in the nine months ended September 30, 2004. The increase in revenues was due principally to volume increases in all geographic divisions, especially in Asia Pacific and North America, as a result of our increased focus on the ocean market and our customers continued shift toward a lower cost deferred product.

Ocean freight forwarding net revenues increased $10.4 million, or 18.2%, to $67.5 million in the nine months ended September 30, 2005 compared to $57.1 million in the nine months ended September 30, 2004, primarily due to increases in Asia Pacific, North America and Europe/Middle East. Ocean freight forwarding margins increased slightly to 20.5% in the nine months ended September 30, 2005 compared to 20.4% in the nine months ended September 30, 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 due to improved margins on ocean exports out of North America due to higher capacity introduced by carriers.

Customs brokerage and other revenues. Customs brokerage and other revenues, which include warehousing, distribution and other logistics services, increased $65.2 million, or 16.4%, to $462.4 million in the nine months ended September 30, 2005 compared to $397.2 million in the nine months ended September 30, 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 by $17.6 million, or 8.6%, to $221.9 million in the nine months ended September 30, 2005 compared to $204.3 million in the nine months ended September 30, 2004. Customs brokerage and other margins, however, decreased to 48.0% for the nine months ended September 30, 2005 compared

to 51.4% for the nine months ended September 30, 2004 primarily due to lower margins in Europe/Middle East and North America resulting from termination or completion of several high margin projects.

Personnel costs. Personnel costs include all compensation expenses, including those relating to sales commissions and salaries and to headquarters employees and executive officers. Personnel costs increased $34.2 million, or 9.6%, to $390.5 million in the nine months ended September 30, 2005 compared to $356.3 million in the nine months ended September 30, 2004. The increase in personnel costs was due primarily to increased hiring as a result of the increase in business activity. In addition, during the nine months ended September 30, 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. For 2005, we introduced incentive bonus and profit sharing compensation plans that include a combination of target achievements related to total company financial performance, business unit financial performance and individual goals and objectives. The changes in the plans have resulted in a lower level of incentive compensation expense in 2005. As a percentage of

EGL, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

net revenues, personnel costs were 56.0% in the nine months ended September 30, 2005 and September 30, 2004. Our average headcount during the nine months ended September 30, 2005, increased only 10.0% compared to a 16.5% increase in gross revenues during the same period.

Other selling, general and administrative expenses. Other selling, general and administrative expenses increased $18.2 million, or 8.0%, to $244.6 million in the nine months ended September 30, 2005 compared to $226.4 million in the nine months ended September 30, 2004. As a percentage of net revenues, other selling, general and administrative expenses decreased to 35.1% for the nine months ended September 30, 2005 compared to 35.6% for the same period in 2004. The increase is due primarily to 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, offset by a decrease in facility expense. The decrease in facility expense in the nine months ended September 30, 2005 is primarily due to the absence of a $5.8 million charge for idle facilities, including the subleasing of an excess facility in Miami, that was recorded in the nine months ended September 30, 2004.

EEOC legal settlement. During the nine months ended September 30, 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. For the nine months ended September 30, 2005, nonoperating income, net was $2.2 million compared to nonoperating income, net of $8.9 million for the nine months ended September 30, 2004. The $6.7 million change is due primarily to $12.1 million in gains on the sale of our investments in Miami Air and TDS Logistics, Inc. (TDS) in the second and third quarters of 2004 and a $1.8 million decrease in income from affiliates, offset by a $2.0 million increase in foreign exchange gains due to a strengthening of the U.S. dollar, a $4.4 million decrease in interest expense and a $613,000 increase in interest income.

Effective tax rate. The effective income tax rate for the nine months ended September 30, 2005 was 44.2% compared to 38.7% for the nine months ended September 30, 2004. The higher tax rate was due primarily to deferred tax benefits that will not be recognized for certain European jurisdictions that are in loss positions for 2005.

EGL, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Results of Operations

	Three Months Ended September 30,			
	2005		2004 (Restated)	
	Amount	**% of Total Revenues**	**Amount**	**% of Total Revenues**
	(in thousands, except percentages)			
Revenues:				
	$		$	
Air freight forwarding	516,236	66.2	468,629	65.1
Ocean freight forwarding	108,868	14.0	110,753	15.4
Customs brokerage and other	154,403	19.8	140,035	19.5
	$		$	
Revenues	779,507	100.0	719,417	100.0
		% of Revenues		**% of Revenues**
Net revenues:				
	$		$	
Air freight forwarding	145,397	28.2	135,513	28.9
Ocean freight forwarding	23,224	21.3	21,508	19.4
Customs brokerage and other	78,339	50.7	68,904	49.2
	$			
Net revenues	246,960	31.7	225,925	31.4
		% of Net Revenues		**% of Net Revenues**
Operating expenses:				
Personnel costs	129,349	52.4	126,555	56.0
Other selling, general and	84,567	34.2	75,545	33.5

administrative expenses				
Operating income	33,044	13.4	23,825	10.5
Nonoperating income, net	380	0.1	3,121	1.4
Income before provision for income taxes	33,424	13.5	26,946	11.9
Provision for income taxes	14,192	5.7	10,371	4.6
Net income	$ 19,232	7.8	$ 16,575	7.3

Three Months Ended September 30, 2005 Compared To Three Months Ended September 30, 2004

Revenues increased $60.1 million, or 8.4%, to $779.5 million in the three months ended September 30, 2005 compared to $719.4 million in the three months ended September 30, 2004 due to increases in air freight forwarding and customs brokerage and other revenues. Net revenues, which represent revenues less freight transportation costs, increased $21.1 million, or 9.3%, to $247.0 million in the three months ended September 30, 2005 compared to $225.9 million in the three months ended September 30, 2004 primarily due to increases in both airfreight forwarding and customs brokerage and other net revenues followed by modest increases in ocean freight forwarding net revenues. Net revenue margins of 31.7% for the three months ended September 30, 2005 increased from 31.4% in the third quarter of 2004 on improvements in ocean freight forwarding margins and logistics margins.

Air freight forwarding revenues. Air freight forwarding revenues increased $47.6 million, or 10.2%, to $516.2 million in the three months ended September 30, 2005 compared to $468.6 million in the three months ended September 30, 2004 primarily due to volume increases in Asia Pacific, where we continue to see increases in both volumes and weights shipped, and volume increases in North America.

EGL, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Air freight forwarding net revenues increased $9.9 million, or 7.3%, to $145.4 million in the three months ended September 30, 2005 compared to $135.5 million in the three months ended September 30, 2004. Air freight forwarding margins decreased to 28.2% for the three months ended September 30, 2005 compared to 28.9% for the three months ended September 30, 2004, primarily due to increased fuel costs not absorbed by our customers.

Ocean freight forwarding revenues. Ocean freight forwarding revenues decreased $1.9 million, or 1.7%, to $108.9 million in the three months ended September 30, 2005 compared to $110.8 million in the three months ended September 30, 2004. The decrease in revenues was due principally to volume decreases in Europe/Middle East and South America partially offset by increases in Asia Pacific and in North America.

Ocean freight forwarding net revenues increased $1.7 million, or 7.9%, to $23.2 million in the three months ended September 30, 2005 compared to $21.5 million in the three months ended September 30, 2004 primarily due to increases in Asia Pacific and North America. Ocean forwarding margins increased to 21.3% in the three months ended September 30, 2005 compared to 19.4% in the three months ended September 30, 2004 due primarily to improved margins on ocean exports out of North America due to higher capacity introduced by carriers.

Customs brokerage and other revenues. Customs brokerage and other revenues, which include warehousing, distribution and other logistics services, increased $14.4 million, or 10.3%, to $154.4 million in the three months ended September 30, 2005 compared to $140.0 million in the three months ended September 30, 2004. Customs brokerage revenues increased primarily due to growth in North America trade activity. Warehousing and logistics revenues increased due to growth in Europe/Middle East and Asia Pacific.

Customs brokerage and other net revenues increased by $9.4 million, or 13.6%, to $78.3 million in the three months ended September 30, 2005 compared to $68.9 million in the three months ended September 30, 2004. Customs brokerage and other margins increased to 50.7% for the three months ended September 30, 2005 compared to 49.2% for the three months ended September 30, 2004, primarily due to decreased warehousing costs in Asia Pacific and Europe.

Personnel costs. Personnel costs include all compensation expenses, including those relating to sales commissions and salaries and to headquarters employees and executive officers. Personnel costs increased $2.7 million, or 2.1%, to $129.3 million in the three months ended September 30, 2005 compared to $126.6 million in the three months ended September 30, 2004. The increase in personnel costs was primarily due to increased hiring as a result of increased business activity, offset by a decrease in incentive compensation expense. We have historically maintained incentive bonus, profit sharing and sales commission compensation plans to reward attainment of targets. For 2005, we introduced incentive bonus and profit sharing compensation plans which include a combination of target achievements related to total company financial performance, business unit financial performance and individual goals and objectives. The change in the plans resulted in a lower level of incentive compensation expense in the third quarter of 2005. As a percentage of net revenues, personnel costs were 52.4% in the three months ended September 30, 2005 compared to 56.0% in the three months ended September 30, 2004.

Other selling, general and administrative expenses. Other selling, general and administrative expenses increased $9.1 million, or 12.1%, to $84.6 million in the three months ended September 30, 2005 compared to $75.5 million in the three months ended September 30, 2004. As a percentage of net revenues, other selling, general and administrative expenses were 34.2% in the three months ended September 30, 2005 compared to 33.5% in the three months ended September 30, 2004. The increase is due primarily to 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 communications costs.

Nonoperating income (expense), net. For the three months ended September 30, 2005, nonoperating income, net, was $380,000 compared to nonoperating income, net of $3.1 million for the three months ended September 30, 2004. The $2.7 million change was due primarily to a $5.4 million gain on the sale of our investment in TDS in the third quarter of 2004, offset by a $603,000 increase in foreign exchange gains due to a strengthening of the U.S. dollar, a $1.4 million decrease in interest expense and a $190,000 increase in interest income, and a $387,000 increase in income from

affiliates for the three months ended September 30, 2005 as compared to the three months ended September 30, 2004. Loss from affiliates was $22,000 in the third quarter of 2005 compared to $409,000 in the third quarter of 2004.

Effective tax rate. The effective tax rate for the three months ended September 30, 2005 was 42.5% compared to 38.5% in the third quarter of 2004. The higher tax rate was due primarily to deferred tax benefits that will not be recognized for certain European jurisdictions that are in expected loss positions for 2005.

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 collection cycles and the timing of our payments to vendors. Historically, we have generated higher cash flow from operations in the first half of the year than 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 expense on our statement of operations; rather, they are reflected in our trade receivables and trade payables. Growth in the level of this activity or lengthening of the period of time between incurring these costs and being reimbursed by our customers for these costs may negatively affect our liquidity.

As primarily a non-asset based freight forwarder, we do not have the significant capital expenditures that would be required of an asset based forwarder. We believe our capital expenditures for 2005 will be in the range of $38 to $42 million, with a range of $15 to $20 million expected on information systems expenditures. Our capital expenditures for the nine months ended September 30, 2005, were $32.6 million, including $12.5 million for the purchase of a corporate plane. In addition, on April 4, 2005 our Board of Directors authorized the repurchase of up to $60 million, depending on market conditions and other factors, of our outstanding common stock in connection with a stock repurchase program. On May 31, 2005, the Board of Directors extended the stock repurchase program to September 28, 2005 and authorized the repurchase of an additional $60 million of our common stock (resulting in a total of $120 million). As of September 28, 2005, we had repurchased 5.0 million shares of our outstanding common stock at an average price of $18.98 per share or $94.3 million in total.

On August 29, 2005, our Board of Directors authorized a modified Dutch Auction self-tender offer to purchase up to 9,615,000 shares (up to $250 million) of our common stock. 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. As a result, we accepted for purchase and paid approximately $210.2 million for all 8,085,958 shares at a price of $26.00 per share. Any shares received in the tender offer that were not tendered properly were returned to the tendering shareholders. The shares purchased pursuant to the tender offer represented approximately 17.1% of our outstanding shares as of September 30, 2005.

Based on current plans, we believe that our existing capital resources, including $130.9 million of cash and cash equivalents and $278.5 million of available borrowing capacity on our credit facility, will be sufficient to meet working capital requirements through September 30, 2006. 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 stockholders. We cannot provide assurance that additional financing will be available to us on acceptable terms, or at all. 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.

Cash flows from operating activities. Net cash provided by operating activities was $170.0 million in the nine months ended September 30, 2005 compared to $41.7 million in the nine months ended September 30, 2004. The increase in the nine months ended September 30, 2005 was due primarily to a $93.0 million net increase in cash from changes in working capital for the nine months ended September 30, 2005 compared to a $15.2 million net decrease in cash from changes in working capital for the nine months ended September 30, 2004. The positive working capital cash flow in the third quarter of 2005 was due to a decrease in trade receivables resulting from continued focus on timely collection of our balances and an increase in trade payables from management of vendor payments. Additionally during the nine months ended September 30, 2005, $5.0 million was transferred from restricted cash primarily as a result of the U.S. District Court order granting the recapture of $6.0 million of the Settlement Fund.

Cash flows from investing activities. Net cash used in investing activities in the nine months ended September 30, 2005 was $33.2 million compared to net cash provided of $2.6 million in the nine months ended September 30, 2004. We incurred capital expenditures of $32.6 million during the nine months ended September 30, 2005, as compared to $31.4 million during the nine months ended September 30, 2004. $12.5 million of the capital expenditures in 2005 relate to the purchase of a corporate plane. 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 $4.2 million and $3.3 million in the nine months ended September 30, 2005 and 2004, respectively. Additionally, in 2004, we sold our investment in Miami Air International to an unrelated party for approximately $6.7 million in cash and our investment in TDS for approximately $45.3 million in cash. We also acquired a 49% interest in our subsidiaries in France, Spain and Portugal for a purchase price of approximately $16.2 million in cash.

Cash flows from financing activities. Net cash used in financing activities in the nine months ended September 30, 2005 was $96.7 million compared to $40.2 million in the nine months ended September 30, 2004. During the nine months ended September 30, 2005, we repurchased approximately 5.0 million shares or our commons stock for $94.3 million in cash compared to 3.4 million shares of our common stock for $59.1 million in cash that was repurchased and retired in the nine months ended September 30, 2004. Net repayment of debt was $4.8 million for the nine months ended September 30, 2005 compared to net issuance of debt of $2.2 million in the nine months ended September 30, 2004. We received $6.2 million in proceeds from the exercise of approximately 337,000 stock options in the nine months ended September 30, 2005 compared to $22.9 million in proceeds from the exercise of approximately 1.2 million stock options in the nine months ended September 30, 2004. Repayment of capital leases

and software maintenance was $3.8 million for the nine months ended September 30, 2005 compared to repayment of capital leases, software maintenance and financed insurance premiums of $5.4 million in the nine months ended September 30, 2004.

Amended and Restated Credit Agreement

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

EGL, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

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:

-

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);

-

all of our and each of our 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 will bear 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 0.30% on the undrawn amounts under the Amended and Restated Credit Agreement. Interest rates and commitment fees under the Amended and Restated Credit Agreement are subject to increase or decrease as a function of the ratio of 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:

-

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. The occurrence of certain specified internal control events 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 principle amounts immediately due and payable.

The Amended and Restated Credit Agreement contains a $75 million sub-facility for letters of credit. We had $21.5 million in letters of credit outstanding and unused borrowing capacity of $278.5 million under the Amended and Restated Credit Agreement as of September 30, 2005. On October 4, 2005, we borrowed approximately $95.8 million

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EGL, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

under the Amended and Restated Credit Agreement to partially fund the purchase of shares of our common stock in connection with the tender offer (see note 8 of the notes to our condensed consolidated financial statements).

Note Repurchase 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:

-

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);

-

all of our and each of our 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 our obligations under its 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:

-

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;

-

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;

-

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;

-

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 its Consolidated Net Worth (as defined in the Note Purchase Agreement) as of the most recently ended fiscal quarter; and

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EGL, INC.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

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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.

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.

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

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 the $8.5 million previously held in an established fund to resolve potential claims in connection with a 2001 consent decree (see note 11 of the notes to our consolidated financial statements). The joint motion and subsequent order resulted primarily from a significantly lower number of qualified claimants than originally projected. The aggregate amount expected to be paid for all claims is less than $1.0 million. Release of these funds resulted in $6.0 million in income in the first quarter of 2005.

Other guarantees. Several of our foreign operations guarantee amounts associated with our international freight forwarding services. These include IATA (International Air Transportation Association) guarantees, customs bonds and other working capital credit facilities issued in the normal course of business. As of September 30, 2005, guarantees and credit facilities totaled $71.5 million, and we had $51.1 million of guarantees, customs bonds and borrowings against facilities outstanding, including guarantees of our trade payables and accrued transportation costs and borrowings against our international credit facilities of $16.7 million which were recorded as liabilities on our condensed consolidated balance sheet.

Capital expenditures. We are in the process of developing and implementing computer system solutions for operational, human resources and financial systems. Once placed into service, depreciation related to the systems is charged on a straight-line basis over the expected useful life of the software. As of September 30, 2005, $38.6 million of this software was under development and was not being depreciated. We expect capital expenditures for the year

ending December 31, 2005 to be approximately $38 to $42 million, including approximately $15 to $20 million for information technology development and upgrades.

Litigation. In addition to the EEOC matter (see note 11 of the notes to our condensed consolidated financial statements), we are party to routine litigation incidental to our business, which primarily involves other 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.

Federal income tax audit. As discussed in note 11 of the notes to our condensed consolidated financial statements, EGL s U.S. federal income tax returns from fiscal years 2000 to 2001 are currently subject to examination by the IRS. The IRS is proposing, among other items, to disallow various merger transaction costs and various software research and development expenditures taken as tax deductions. If the proposed adjustments are upheld, we would be required to pay a total of approximately $14 million in cash taxes, of which approximately $6.5 million would impact the consolidated statement of operations, plus accrued interest of approximately $4.7 million through September 30, 2005. We are protesting the proposed adjustments to the Appeals office of the IRS. We believe our U.S. federal income tax

returns were completed in accordance with applicable laws and regulations and do not believe material adjustments to our tax returns are probable. However, there is 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 flows.

Commissioner s Charge

As discussed in Part II, Item 1. Legal Proceedings , effective October 3, 2002 we reached a Consent Decree settlement with the EEOC which resolved the EEOC s allegations contained in the Commissioner s Charge.

Related Party Transactions

Aircraft usage payments

In conjunction with our business activities, prior to January 2005, we periodically utilized aircraft owned by entities controlled by Mr. Crane. We were charged for actual usage of the plane on an hourly basis and billed on a periodic basis. During the three and nine months ended September 30, 2004, we reimbursed the entities controlled by Mr. Crane approximately $52,000 and $863,000, respectively, for hourly usage of the plane. In January 2005, we purchased from an unrelated third party an aircraft that was previously leased by an entity controlled by Mr. Crane for $12.5 million. This aircraft is used for business travel, eliminating the use of Mr. Crane s aircraft and reimbursement therefore.

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. We intend to include in Mr. Crane s taxable income each year the amount required by then-current U.S. federal income tax regulations. On August 5, 2005, the Board of Directors of the 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 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 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.

Shared employees

Certain of our employees also perform services for unaffiliated companies owned by Mr. Crane. We are reimbursed for these services based upon an allocation percentage of total salaries agreed to by EGL and Mr. Crane. During the nine months ended September 30, 2005 and 2004, we received reimbursements of $230,000 and $95,000, respectively. We received reimbursements of $62,000 for the quarter ended September 30, 2005. We received no

reimbursements for the quarter ended September 30, 2004. The amount billed but not received as of September 30, 2005 was $4,000 and is included in other receivables on the consolidated balance sheets.

New Accounting Pronouncements and Critical Accounting Policies

See note 1 of the notes to the consolidated financial statements for the year ended December 31, 2004 in our Annual Report on Form 10-K and see note 1 of the notes to the condensed consolidated financial statements included in Item I.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in exposure to market risk from that discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 as of the end of the period covered by this report. In the course of this evaluation, management considered the material weaknesses in our internal control over financial reporting discussed below and our remediation efforts during the nine months ended September 30, 2005. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as a result of the material weaknesses discussed below, our disclosure controls and procedures were not effective, as of September 30, 2005, with respect to the recording, processing, summarizing and reporting, within the time periods specified in the SEC s rules and forms, of information required to be disclosed by us in the reports that we file or submit under the Exchange Act. In light of the material weaknesses, we performed additional analyses and other post-closing procedures in an effort to ensure our consolidated financial statements included in this quarterly report have been prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the financial statements included in this report fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.

As described in our Annual Report on Form 10-K as of December 31, 2004 we concluded that the following control deficiencies constituted material weaknesses:

1.

Lack of effective controls over the determination of income tax account balances. The Company did not maintain effective controls over the determination of income tax account balances. Specifically, the Company did not maintain effective controls over: (i) the calculation of the income tax provision, (ii) the proper recording of deferred tax assets and related valuation allowances, (iii) the monitoring of its current and deferred income tax accounts on a worldwide basis, and (iv) reconciliation of the differences between the tax basis and book basis of each component of the Company s balance sheet with the deferred tax asset and liability accounts.

In an effort to remediate this material weakness, we have hired additional qualified personnel, we have utilized third party professionals for the Income Tax Accounting Manager position while pursuing a permanent replacement, have utilized third party accounting firms to assist in review and reconciliation of the above calculations and balances, and have implemented global training programs for foreign jurisdictions for current and deferred income taxes under U.S. generally accepted accounting principles.

2.

Lack of effective controls over certain general ledger account reconciliations and the monitoring and review of general ledger accounts. The Company did not maintain effective controls over certain general ledger account reconciliations and the monitoring and review of general ledger accounts. Specifically, general ledger account reconciliations involving cash, receivables, income taxes, property and equipment, other current and noncurrent assets, payables, accrued expenses, notes payable and other noncurrent liabilities in the United States, Mexico and United Kingdom were not properly performed on a timely basis and reconciling items were not timely resolved and adjusted as well as a lack of monitoring and review of these general ledger accounts.

In an effort to remediate this material weakness, we have added additional staffing and monitoring to ensure adequacy and timeliness of reconciliations.

Other than discussed above, there has been no change in our internal controls over financial reporting that occurred during the three months ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

EGL, INC.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

In May through July 2000, eight individuals filed suit against us 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 our current and former employees and applicants.

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

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

The Claims administration process under the Consent Decree was completed by EGL and the EEOC in early 2005. Of the 2,073 claims received, only 203 were deemed to be eligible for a monetary distribution from the Settlement Fund. The total distribution amount for these 203 claims is approximately $903,000. EGL and the EEOC submitted a proposed agreement to the Court in February 2005 regarding disbursements of the excess funds in the Settlement Fund. On February 10, 2005 the Court entered an Order directing that EGL recapture $6.0 million plus accrued interest from the Settlement Fund. Release of these funds resulted in $6.0 million in income in the first quarter of 2005. The Court also approved the parties agreement to transfer $1.4 million to the LDP. From that amount, EGL 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.

Notices were sent to all ineligible and eligible claimants who had forty-five days to accept a monetary distribution or opt out of the Consent Decree settlement. Through October 27, 2005, 174 eligible Claimants have been sent settlement checks totaling approximately $808,000. Only three Claimants have rejected awards and opted out of the settlement. Eligible claimants also had the option of objecting to an award, but to do so they must have notified the

Claims Administrator within thirty days of the date of their eligibility notice. To date, all objections have been resolved by agreement between the EEOC and counsel for EGL. If any funds remain in the Settlement Fund after payment of all claims, the remainder shall be deposited in the LDP.

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

In addition, we are party to routine litigation incidental to our business, which primarily involves other 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about repurchases by the Company during the three months ended September 30, 2005 of equity securities that are registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of a publicly announced plans or programs (2)	Maximum approximate dollar value of shares that may yet be purchased under the plans or programs (1) (3)
		(in thousands, except price per share)		
July 1 to 31, 2005	35	$ 20.02	35	$ 25,706
August 1 to 31, 2005	-	$ -	-	$ 25,706
September 1 to 30, 2005	-	$ -	-	$ -
Total	35	$ 20.02	35	$ -

(1)

On April 4, 2005, the Company s Board of Directors (the Board) publicly announced its approval of a stock repurchase program for up to $60 million of the Company s common stock over the 122 days which followed. On May 31, 2005, the Board approved an increase in the maximum amount of shares to be repurchased from $60 million to $120 million and extended the stock repurchase program for an additional 55 days. The stock repurchase program expired on September 28, 2005.

(2)

All shares were repurchased in open market transactions. The Board s approval allowed the Company to repurchase shares in the open market or through private transactions.

(3)

The Company has in the past and may in the future use a Rule 10b5-1 trading plan to allow for repurchases by the Company during periods when it would not normally be active in the trading market due to internal trading restrictions. Under a Rule 10b5-1 trading plan, the Company is unable to repurchase shares above a pre-determined price per share.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NONE

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

NONE

ITEM 5. OTHER INFORMATION

FORWARD-LOOKING STATEMENTS

The statements contained in all parts of this document that are not historical facts are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements include, but are not limited to, those relating to the following: the Company s plans to reduce costs (including the scope, timing, impact and effects thereof); pending or expected financing transactions; the Company s ability to leverage its infrastructure by containing operating expenses; the Company s ability to improve yield management; the Company s ability to pass-through fuel surcharges; the Company s ability to reduce its tax rate for the remainder of 2005; anticipated future recoveries from actual or expected sublease agreements; the sensitivity of demand for the Company s services to domestic and global economic conditions; cost management efforts; expected growth; the results, timing, outcome or effect of litigation or tax audits and our intentions or expectations of prevailing with respect thereto; future operating expenses; future margins; use of credit

facility proceeds; the timing and amount of repurchases of our outstanding common stock; the effectiveness of the Company s disclosure controls and procedures (including remediation efforts with respect to material weaknesses); the expected impact of changes in accounting policies on the Company s results of operations, financial condition or cash flows; fluctuations in currency valuations; fluctuations in interest rates; the impact of the war in Iraq and other tensions in the Middle East; ability to continue growth and implement growth and business strategy; ability to improve results in our European operations; the development, implementation, upgrade and integration of our financial and operational information systems; the amount and timing of capital expenditures; the ability of expected sources of liquidity to support working capital and capital expenditure requirements; the tax benefit of any stock option exercises; future expectations and outlook and any other statements regarding future growth, cash needs, terminals, operations, business plans and financial results and any other statements which are not historical facts. When used in this document, the words anticipate, estimate, expect, may, plans, project, and similar expressions are inter among the statements that identify forward-looking statements.

The Company s results may differ significantly from the results discussed in the forward-looking statements. Such statements involve risks and uncertainties, including, but not limited to, those relating to costs, delays and difficulties related to acquisitions or mergers, including the integration of systems, operations and other businesses; deployment of global financial and operational information systems; the Company s dependence on its ability to attract and retain skilled managers and other personnel; the intense competition within the freight industry; the uncertainty of the Company s ability to manage and continue its growth and implement its business strategy; the Company s dependence on the availability of cargo space to serve its customers; the potential for liabilities if certain independent owner/operators that serve the Company are determined to be employees; effects of regulation; the results of litigation; the Company s vulnerability to general economic conditions and dependence on its principal customers; the Company s vulnerability to risks inherent in operating in international markets, including without limitation, general political and economic instability in international markets as a result of, among other things, the war in Iraq and other tensions in the Middle East, concerns of possible terrorism directed against the United States and its interests, or other military or trade or travel disruptions; the timing, success and effects of the Company s restructuring; whether the Company enters into arrangements with third parties relating to leased aircraft and the terms of such arrangements; responses of customers to the Company s actions by the Company s principal shareholder; the effect of any tax audits of our domestic and/or foreign tax filings; the effects of changes in forecasts of the Company s effective income tax rates; the timing and amount of repurchases of our outstanding common stock; the lack of effectiveness of the Company s disclosure controls and procedures; the likelihood and/or result of any audit or review of the Company s Department of Transportation grant application; accuracy of accounting and other estimates; the Company s potential exposure to claims involving its local pick up and delivery operations; the Company s future financial and operating results, cash needs and demand for its services; the impact of heightened security measures on our ability to do business; changes in accounting policies; and the Company s ability to maintain and comply with permits and licenses; as well as other factors detailed in the Company s filings with the Securities and Exchange Commission including those detailed in the subsection entitled Factors That May Affect Future Results and Financial Condition in the Company s Form 10-K for the year ended December 31, 2004. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. The Company undertakes no responsibility to update for changes related to these or any other factors that may occur subsequent to this filing.

EGL, INC.

ITEM 6. 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).
*10.1	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 with the Securities and Exchange Commission on October 5, 2005 and incorporated herein by reference).
*10.2	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 with the Securities and Exchange Commission on October 5, 2005 and incorporated herein by reference).
*10.3	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 with the Securities and Exchange Commission on October 13, 2005 and incorporated herein by reference).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (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).

* Incorporated by reference as indicated.

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EGL, INC.

SIGNATURES

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

EGL, INC.

____

(Registrant)

Date: November 9, 2005

By:

/s/ James R. Crane

____

James R. Crane

Chairman and

Chief Executive Officer

Date: November 9, 2005

By:

/s/ Elijio V. Serrano

____

Elijio V. Serrano

Chief Financial Officer

EGL, INC.

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* Incorporated by reference as indicated.

ffiliates, and while employed and indefinitely thereafter will not disclose or otherwise use our confidential information or the confidential information of our subsidiaries or affiliates. The agreements also state that the executives work product will be assigned to us or eLong Information.

Settlement and Termination Agreements. In addition, we have entered into settlement and termination agreements with our former senior executive officers, Messrs. SooHoo, Tang, and Palaschuk. The terms of these agreements are described in elsewhere in this annual report. We have also entered into settlement agreements with Messrs. Frank Zheng and Richard Chen, the terms of which settlement agreements are described in the section *Employment and Termination Arrangements with Messrs. Chen and Zheng* above.

Resignation and Settlement Agreement with Derek Palaschuk. In July 2006, Derek Palaschuk resigned from his position as our CFO. We entered into a resignation and settlement agreement with Mr. Palaschuk pursuant to which he will receive, subject to certain conditions, base pay of US$105,000 per year through July 23, 2007, together with healthcare benefits through such date. We have also extended the period after Mr. Palaschuk s resignation during which he and Capital Dragon Agents Limited, a company beneficially owned by Mr. Palaschuk, may exercise any options which were vested as of July 28, 2006. Such extension is for a reasonable period of time after the resolution of certain issues relating to any potential option exercises. Under the settlement agreement, Mr. Palaschuk remains subject to confidentiality, non-compete, non-disparagement, and other obligations.

Termination and Settlement Agreement with Tom Soohoo. In May 2007, we entered into a termination and settlement agreement with Mr. SooHoo in connection with Mr. SooHoo s resignation, effective as of April 16, 2007. Under such agreement, Mr. SooHoo provided us with a general release of any claims related to his employment with us. In addition, Mr. SooHoo agreed to remain our non-executive employee until July 12, 2007 (the Termination Date), and we agreed that Mr. SooHoo would continue to be paid his then-current annual base salary of US$120,000 per annum, pro rated, through the Termination Date and that he would receive, through the Termination Date, other employee benefits set forth in Section 4 of his December 19, 2005 Employment Agreement with us. As of the Termination Date, Mr. SooHoo had vested stock options to purchase 30,488 of our ordinary shares and 32,928 vested performance units which were to be settled in our ordinary shares pursuant to the terms of the termination and settlement agreement. As of April 30, 2008, all of the 30,488 stock options had expired without being exercised by Mr. SooHoo.

Consulting Arrangements. We appointed Tony Shen to act as our Interim Chief Financial Officer, pursuant to a consulting contract with a start date of July 25, 2006 and with an initial term of four months. Pursuant to the contract, Mr. Shen was paid a gross monthly consulting fee of US$15,000, a housing allowance of US$1,000 per month, a home leave allowance of US$2,000 for each six week period, and reimbursement of expenses incurred in discharge of his duties. The contract was extended from November 26, 2006 to January 31, 2007, and then for an additional term from February 1, 2007 to July 31, 2007, with an increase to US$ 16,500 per month as the base consulting fee. Under the agreement, either party had the right to terminate the contract upon written notice. We and Mr. Shen agreed on February 23, 2007 to terminate the Interim CFO consulting arrangement, effective February 26, 2007, and pursuant to the terms of a settlement agreement with Mr. Shen, Mr. Shen remained available to provide transition services for a two month period from February 26 and received the US$16,500 base consulting fee during such period.

Services Agreement for Interim CEO. We have agreed on an arrangement with Expedia for the services of Henrik Kjellberg in his role as our Interim CEO. Additional detail is provided under Related Party Transactions Certain Other Business Arrangements with Expedia Arrangement between Expedia and eLong with respect to Services provided by our Interim CEO. Mr. Kjellberg resigned as our Interim CEO effective on October 8, 2007 and Mr. Guangfu Cui became our CEO on the same day.

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Share Ownership

Please refer to Item 7: Major Shareholders and Related Party Transactions and to Stock-Based Compensation Plans and Options Grants below for a description of the share ownership of our executive officers and directors.

Stock-Based Compensation Plans and Option Grants

Our board of directors has adopted two stock option plans the eLong, Inc. Stock Option Plan adopted in April 2001, or the 2001 Plan, and the eLong, Inc. Stock and Annual Incentive Plan, or the 2004 Plan. The terms of the 2001 Plan and the 2004 Plan are substantially similar.

2001 Plan

We have granted options to purchase our ordinary shares under the 2001 Plan to our employees, of which 3,033,225 options are granted, outstanding, and have not been exercised as of April 30, 2008. We will not issue any additional options under the 2001 Plan to our employees. The following table summarizes, as of April 30, 2008, the outstanding options granted under our 2001 Plan to Justin Tang, our former President and Chief Executive Officer, who currently is a member of our board of directors, and to our other employees as a group since our board of directors adopted the 2001 Plan. As of April 30, 2008, options representing 2,136,065 ordinary shares granted under the 2001 Plan have been exercised.

Option Grantee	Ordinary shares underlying outstanding options granted and outstanding	Exercise price US$	Date of grant	Date of expiration
Granted in 2001[1]				
Justin Tang	2,750,000(2)	0.50	April 18, 2001	April 17, 2011
Granted in 2003[1]				
Justin Tang	156,250(2)	1.53	September 1, 2003	August 31, 2013
Other employees	126,975(3)	1.53	January 1, 2004	December 31, 2013
Total	**3,033,225**			

(1) All options granted in 2001 and 2003 are currently fully vested and exercisable.

(2) Such options were originally granted to Justin Tang. In April 2004, Mr. Tang transferred such options to Purple Mountain Holding Ltd., a corporation over which Mr. Tang holds ultimate investment power.

(3) Includes employees who were granted options to purchase a total of 82,995 ordinary shares, which are currently fully vested and exercisable, and employees who were granted options to purchase a total of 43,230 ordinary shares, which shares vest over a four year period from the date of grant or 12.5% after every six months from the date of grant.

2004 Plan

We have reserved an aggregate of 4,000,000 of our ordinary shares for issuance under the 2004 Plan. We have granted stock options and performance units to our officers, key employees, directors and non-employee consultants under the 2004 Plan. It is anticipated that performance units will be our primary form of stock-based awards for the near future.

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Stock Options Granted under the 2004 Plan

As of April 30, 2008, 869,936, stock options were granted and outstanding under the 2004 Plan. The following table summarizes, as of April 30, 2008, the outstanding options granted under our 2004 Plan to Guangfu Cui, our Chief Executive Officer, certain of our current and former key employees and directors, and to our other employees as a group since our board of directors adopted the 2004 Plan. As of April 30, 2008, 123,250 options granted under our 2004 Plan have been exercised.

Option Holder	Ordinary shares underlying options granted[(1)]	Exercise Price US$	Date of grant	Date of expiration
Justin Tang	306,250(2)	5.25	July 23, 2004	July 22, 2014
Derek Palaschuk	12,500	5.25	July 23, 2004	(3)
Other employees	80,874	5.25	July 23, 2004	July 22, 2014
Thomas Gurnee	30,000(4)	6.75	November 2, 2004	November 1, 2014
Other employees	29,200	6.75	November 2, 2004	November 1, 2014
Chris Chan	50,000(5)	4.95	April 30, 2007	April 29, 2017
James Li	20,000(5)	4.95	April 30, 2007	April 29, 2017
Other Employees	120,000(5)	4.95	April 30, 2007	April 29, 2017
Kenneth Liao	50,000(5)	4.50	December 6, 2007	December 5, 2017
Guangfu Cui	111,112(5)	4.50	September 4, 2007	September 3, 2017
Leo Austin	30,000(4)	3.935	January 9, 2008	January 8, 2018
Michael Scown	30,000(4)	3.935	January 9, 2008	January 8, 2018
Total	**869,936**			

(1) Unless otherwise noted, all options vest with respect to one-quarter (1/4) of the shares covered thereby on the first anniversary of the grant date and as to an additional one-sixteenth (1/16) of the shares covered thereby every three months thereafter until the fourth anniversary of the grant date. In addition, pursuant to the terms of the 2004 Plan, unless otherwise determined by our board of directors, if, during the one-year period following a change in control, such option holder incurs a termination of employment by us other than by reason of death, disability or cause or the option holder resigns for good reason, the option holder shall be entitled as of the termination of employment to an additional 12 months of vesting of the stock option to the extent unvested as of the termination of employment.

(2) This option is currently fully vested and exercisable.

(3) See discussion of Mr. Palaschuk s options under the heading Resignation and Settlement Agreement with Derek Palaschuk.

(4) Vests over a period of three years from the grant date, at the rate of 5,000 ordinary shares every six months. In the event that Expedia effects a going private transaction, as such transaction is described in Rule 13e-3(a)(3) under the Securities Exchange Act of 1934 of us, the portion of the stock option which is unvested prior to such transaction shall become vested as of the effective date of such going private transaction.

(5) Vests over a five year period with 20% of the option vesting on each of the first, second, third, forth and fifth anniversary of the grant date.

Performance Units Granted under the 2004 Plan

Performance units are awards in the form of units that are denominated in a hypothetical equivalent number of our ordinary shares, which number of units are determined based on the fair market value of our ordinary shares on the date immediately preceding the grant date or the employment start date of a particular grantee and which, when vested, are settled, in our sole discretion, in either ordinary shares or cash. At the time of grant, our board of directors or the compensation committee determines if we will settle the performance units in cash, stock or both. Settlement terms of performance units, once established, may only be changed by approval of our board of directors or the compensation committee. Except with respect to the performance units granted to our independent directors which are to be settled in cash (and are not reflected in the table below) and except as

otherwise described in the footnotes to the table below, performance units granted to our employees and consultants are to be settled in ordinary shares. Those performance units granted during 2007 to our independent directors are to be settled upon vesting in cash in an amount equal to the number of the vested performance units multiplied by the fair market value of our ordinary shares on the applicable vesting date. The fair value of the performance unit is based upon the market value of our ordinary shares when the performance units vest. Our performance units are generally subject to service-based vesting where a specific period of continued employment must pass before an award vests. Typically, a portion of the performance units granted vest periodically over the term of the grant. In addition, pursuant to the terms of the 2004 Plan, unless otherwise determined by our board of directors, if, during the one-year period following a change in control, such Performance Unit holder incurs a termination of employment by us other than by reason of death, disability or cause or the Performance Unit holder resigns for good reason, such holder shall be entitled as of the termination of employment to an additional 12 months of vesting of the Performance Unit to the extent unvested as of the termination of employment. The following table summarizes, as of April 30, 2008, the outstanding performance units granted to Guangfu Cui, our Chief Executive Officer, certain of our current key employees and consultant and to our other employees as a group since our board of directors adopted the 2004 Plan. As of April 30, 2008, 19,406 performance units have been settled in ordinary shares.

Performance Unit Holder	**Ordinary Shares underlying Performance Units** [1]	**Date of grant**
Other Employees	2,250	November 14, 2005
Hal Fiske	4,072	October 2, 2006
Other Employees	29,786	October 2, 2006
Justin Tang	6,667(2)	March 6, 2007
Barney Harford	6,668(3)	March 6, 2007
Chris Chan	41,886	April 30, 2007
James Li	2,682	April 30, 2007
Other Employees	111,590	April 30, 2007
Kenneth Liao	55,556	December 6, 2007
Certain Consultant	44,298(4)	December 6, 2007
Guangfu Cui	111,112	September 4, 2007
Chris Chan	25,414(5)	January 9, 2008
Kenneth Liao	5,084(5)	January 9, 2008
James Li	50,826(5)	January 9, 2008
Other Employees	308,776(5)	January 9, 2008
Jack Wang	53,334	January 9, 2008
Jason Xie	72,464	January 9, 2008
Qi Chen	74,626	January 9, 2008
Yu Zheng	73,440	January 9, 2008
Other Employees	201,560	January 9, 2008
Total	**1,282,091**	

(1) Such performance units are payable upon vesting by our delivering to the holder that number of our ordinary shares that is equal to the number of performance units then vested. Unless otherwise noted below, 20% of the performance units vest on the first year anniversary of the date the recipient began employment with the us and an additional 20% vest on each of the second, third, fourth and fifth year anniversaries of such date.

(2) Mr. Tang, one of the members of our board of directors, had been granted 10,000 performance units under the 2004 Plan. One third of the performance units vest on January 1 of each of 2008, 2009 and 2010 and are payable upon vesting either in cash payment equal to the then fair market value of the underlying ordinary shares so vested or in the number of our ordinary shares that is equal to the number of performance units then vested. 3,333 performance units vested on January 1, 2008 and Mr. Tang received a cash payment upon vesting of such 3,333 performance units.

(3) Mr. Harford, one of the members of our board of directors, had been granted 10,000 performance units under the 2004 Plan. One third of the performance units vest on January 1 of each of 2008, 2009 and 2010 and are payable upon vesting either in cash payment equal to the then fair market value of the underlying ordinary shares so vested or in the number of our ordinary shares that is equal to the number of performance units then vested. 3,332 performance units vested on January 1, 2008 and Mr. Harford received 3,332 ordinary shares.

(4) We entered into a services agreement with Expedia with respect to the secondment of an Expedia employee to eLong to provide advice on improvements in eLong s operations and service. Under this agreement, the Expedia employee was granted 44,298 performance units under our 2004 Plan, 50 percent (50%) of which will vest on each of the first and second anniversaries of the start date of the Expedia employee s consulting services.

(5) Such performance units are payable upon vesting by our delivering to the holder that number of our ordinary shares that is equal to the number of performance units then vested. Unless otherwise noted below, 40%, 30% and 30% of the performance units will vest on each of the 3rd, 4th and 5th anniversaries of the grant date, respectively.

Options Granted to Expedia Asia Pacific

On August 4, 2004, we granted to Expedia Asia Pacific an option to purchase 711,429 ordinary shares at an exercise price of US$5.25 per share. The option mirrors the terms and conditions of the 1.66 million options granted to certain of our employees and officers on July 23, 2004 under our 2004 Plan. The option becomes exercisable by Expedia Asia Pacific each time any such officer or employee exercises any of such 1.66 million options. In connection with each exercise by an employee or officer, Expedia Asia Pacific is entitled to exercise a portion of its option such that Expedia Asia Pacific would receive (if Expedia Asia Pacific exercises to the fullest extent in connection with such employee or officer exercise) 30% of the aggregate ordinary shares issued to such employee or officer and Expedia Asia Pacific in connection with such employee or officer exercise. To the extent that any such officer s or employee s options terminate or expire without being exercised, an amount of Expedia Asia Pacific s option equal to 30% of (i) such officer s or employee s terminated or expired options divided by (ii) 0.70, will likewise terminate or expire.

In addition, on October 1, 2004, we entered into a stock option agreement with Expedia Asia Pacific, pursuant to which, in exchange for Expedia Asia Pacific s giving its consent to the issuance of 250,000 options to Messrs. Chen or Zheng, we granted to Expedia Asia Pacific an option to purchase up to 260,204 of our ordinary shares at a purchase price of US$5.25 per ordinary share. The option mirrors the terms and conditions of the 250,000 options granted to Messrs. Chen or Zheng on October 1, 2004. The option becomes exercisable by Expedia Asia Pacific each time either of Messrs. Chen or Zheng exercises any of the 250,000 options. In connection with each exercise by either of Messrs. Chen or Zheng, Expedia Asia Pacific is entitled to exercise a portion of its option such that Expedia Asia Pacific would receive (if Expedia Asia Pacific exercises to the fullest extent in connection with such officer exercise) 51% of the aggregate ordinary shares issued to either Messrs. Chen or Zheng and Expedia Asia Pacific in connection with such officer exercise. To the extent that either of Messrs. Chen s or Zheng s options terminate or expire without being exercised, an amount of Expedia Asia Pacific s option equal to 51% of (i) Messrs. Chen s or Zheng s terminated or expired options divided by (ii) 0.49, will likewise terminate or expire.

As of April 30, 2008, 487,339 options granted to Expedia Asia Pacific on August 4, 2004 had forfeited as a result of the expiration of certain employees options and 260,204 options granted to Expedia Asia Pacific on October 1, 2004 had expired as a result of the expiration of Messrs. Chen s or Zheng s options. As of April 30, 2008, Expedia Asia Pacific held an option to purchase 224,090 ordinary shares.

Employees

As of December 31, 2007, we employed approximately 1,777 full-time and part-time employees. We believe we have good relationships with our employees, including relationships with employees represented by works councils or other similar organizations.

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The following table sets forth the number of our employees categorized by function as of the dates indicated.

	As of December 31,		
	2005	**2006**	**2007**
General and administrative	199	206	203
Cost of services	706	870	957
Sales and marketing	718	459	365[(1)]
Services development	433	318	252
Total	2,056	1,853	1,777[(2)]

(1) This number includes our 224, 201 and 130 third-party sales agents in 2005, 2006 and 2007. The agents are individuals who signed commission agreements, not employment agreements, with us. The agents are independent contractors who control their work schedules and do not enjoy the employee benefits mentioned above.

(2) This number includes 188, three and six part-time workers and 131, 50 and 115 interns in 2005, 2006 and 2007. In 2005, 170 of the part-time workers and 131 of the interns were contracted or hired by Raytime. The part-time workers are those who work less than four hours per working day. The interns consist of students and trainees who are hired under an intern or training contract. Once they complete the internship, they are eligible to be hired as our full-time employees. Both the part-time workers and the interns are independent contractors who control their work schedules and do not enjoy the employee benefits mentioned above.

The decrease in our number of employees from 2005 to 2006 was primarily due to the sale of the Raytime and online dating division businesses. The decrease in staff from 2006 to 2007 was primarily due to suspending the vacation package service business in July 2007 and exiting some traditional sales channels at the end of 2007.

On January 1, 2008, we decided to transfer certain third-party sales agents into employment relationship. At the same day, we converted 89 such agents into our employees and signed the employment agreements with them.

Item 7. Major Shareholders and Related Party Transactions

Expedia, through its affiliates, holds 28,550,704 (or 100%) of our high-vote ordinary shares, each of which is entitled to 15 votes. Each of our ordinary shares is entitled to one vote. Our high-vote ordinary shares and our ordinary shares vote together as a single class on all matters submitted to a shareholder vote, including the election of the members of our board of directors. As a result, Expedia controls approximately 95% of the voting power of all shares of our voting stock. In addition, certain other shareholders are parties to an investors agreement with Expedia Asia Pacific under which they have agreed to vote their ordinary shares in the election of directors designated by Expedia. Accordingly, Expedia generally is able to exercise control over all matters requiring approval by our board of directors or our shareholders.

As of April 30, 2008, 22,040,232 of our ordinary shares were outstanding and 28,550,704 of our high-vote ordinary shares were outstanding, excluding shares issuable upon exercise of outstanding options and shares issuable upon the settlement of vested performance units. On that date, a total of 9,373,464 of our ADSs (equivalent to 18,746,928 ordinary shares) were outstanding. As of April 30, 2008, of our ordinary shares, 99.7% are held of record by holders who are United States persons and all of our high-vote ordinary shares are held of record by one holder who is a United States person. As of April 30, 2008, there were 7 holders of record of our ordinary shares in the United States. We are not aware of any arrangement that may, at a subsequent date, result in a change in control of our company.

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The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the U.S. Securities Exchange Act of 1934, of our ordinary shares as of April 30, 2008 by:

each person known to us to own beneficially more than 5% of our ordinary shares; and

each of our directors and senior executive officers.

	Shares beneficially owned[1]	
	Amount	%
Principal Shareholders		
Expedia, Inc.[2]*	52,821	0.24%
The Eureka Interactive Fund Limited[3]	1,502,400	6.82%
Purple Mountain Holding, Ltd.[4]*	4,344,998	19.71%
Lawrence Auriana[5]*	3,911,111	17.74%
Executive Officers and Directors		
Guangfu Cui		
Chris Chan		
Justin Tang[6]*	4,651,248	18.42%
James Li		
Kenneth Liao		
Jack Wang		
Jason Xie		
Qi Chen		
Yu Zheng		
Barney Harford	* *	* *
Henrik Vilhelm Kjellberg[7]	* *	* *
Thomas Gurnee	* *	* *
Michael Doyle	* *	* *
Arthur Hoffman		
Johan Svanstrom		
Leo Austin		
Michael Scown		

(1) Beneficial ownership is determined and calculated in accordance with the rules of the Securities and Exchange Commission, or the SEC, and includes voting or investment power with respect to securities.

(2) Represents ordinary shares issuable upon exercise of an option held by Expedia Asia Pacific, a subsidiary of Expedia, that have vested. Expedia Asia Pacific is the record holder of an option to purchase 224,090 ordinary shares of eLong, Inc. of which options to purchase 52,821 ordinary shares are currently exercisable. Expedia Asia Pacific also holds 28,550,704 of our high-vote ordinary shares, which represents 100% of the outstanding shares of that class. The high-vote ordinary shares beneficially owned by Expedia represent 95.11% of the total voting power of all of our shares. Expedia beneficially owns approximately 56.48% of our outstanding shares on a fully-diluted basis. Expedia Asia Pacific is an indirect subsidiary of Expedia. Barry Diller is the Chairman and Senior Executive of Expedia and, by virtue of a stockholders agreement with Liberty Media Corporation that grants him an irrevocable proxy to vote shares of Expedia stock beneficially owned by Liberty Media and as well as shares he owns directly, Mr. Diller also generally has the ability to control the outcome of all matters submitted to a vote of Expedia s stockholders (except with regard to certain specified matters). The address for Expedia is 3150 139th Avenue S.E., Bellevue, WA 98005.

(3) The Eureka Interactive Fund Limited, is an exempted company incorporated with limited liability in the Cayman Islands which operates as an open-ended investment fund that directly beneficially owns the ordinary shares. Marshall Wace LLP, incorporated in England, serves as investment manager or adviser to the fund operated by Eureka Interactive Fund Limited. Marshall Wace Asset Management Limited, a company incorporated with limited liability in England and Wales, serves as the managing member of the

investment manager. Mr. Paul Marshall and Mr. Ian Wace are co-founders and equity owners of the investment manager and serve on the investment committee that is responsible for the investment decisions of the investment manager and therefore indirectly beneficially owns the ordinary shares by virtue of such position. Mr. Marshall is the chairman of this committee. Mr. Mark Hawtin and Mr. Duncan Ford are equity owners of the investment manager and also serve on the investment committee that is responsible for the investment decisions of the Investment Manager. The address for the Eureka Interactive Fund Limited is The Adelphi, 13th Floor, 1/11 John Adam Street London WC2N 6HT.

(4) Represents (i) 1,438,748 ordinary shares of which 1,438,746 ordinary shares are represented by 719,373 our American Depositary Shares, and (ii) 2,906,250 ordinary shares issuable upon the exercise of options held by Purple Mountain Holding Ltd that are fully vested as of April 30, 2008. Purple Mountain Holding, Ltd. holds no additional options. Investment power over the securities held by Purple Mountain Holding Ltd. rests with Mr. Tang. The address for Purple Mountain Holding Ltd. is #3701, Fortune Plaza, 7 Dong San Huan Middle Road, Chao Yang District, Beijing 100020, People s Republic of China.

(5) Represents 3,911,111 ordinary shares held for the benefit of Mr. Auriana. Mr. Auriana has placed his shares in a discretionary trust account with Sandgrain Securities Inc., with Angelo Frank Perrone being authorized to direct the disposition of such shares. As a result, Sandgrain Securities Inc. and Mr. Perrone may be deemed to beneficially own the shares. The address for Mr. Auriana is 140 E. 45th Street, 43Fl, New York, NY 10017.

(6) Includes 1,438,748 ordinary shares and 2,906,250 ordinary shares issuable upon the exercise of options held by Purple Mountain Holding, Ltd. that are fully vested as of April 30, 2008. Mr. Tang holds ultimate investment power over the securities held by Purple Mountain Holding, Ltd. In addition, this number includes 306,250 ordinary shares issuable upon the exercise of options held by Mr. Tang that are fully vested as of April 30, 2008. Neither Mr. Tang nor Purple Mountain Holding, Ltd. holds any additional options whether vested or unvested. The address for Mr. Tang is #3701, Fortune Plaza, 7 Dong San Huan Middle Road, Chao Yang District, Beijing 100020, People s Republic of China.

(7) The ordinary shares held represent less than 1% and are represented by our American Depositary Shares purchased in the open market.

* These shareholders (either directly or through entities over which they control) are parties to an investors agreement, dated July 23, 2004, among us and the other parties named therein, including Expedia Asia Pacific, Billable Development, Ltd., Lawrence Auriana, Peter Lerner, Ira S. Nordlicht and Helen S. Scott, JTWROS, Purple Mountain Holding, Ltd., Time Intelligent Finance Limited, Mind Trade Assets Limited, Gold Partner Consultants Limited, Top River Assets Limited, Wang Gui Ying, Sun Li Ming, Wang Yi Jie and Pan Dai. These shareholders in the aggregate, beneficially own 7,090,626 ordinary shares of our company and 2,959,071 ordinary shares issuable upon the exercise of options held by such shareholders that have vested or that will vest within 60 days from April 30, 2008. Pursuant to the investors agreement, these shareholders have agreed to vote any shares of our capital stock held by each such shareholder for the election of directors and other matters in the manner provided in the agreement, including for the election of directors designated by Expedia. By virtue of the investors agreement, Expedia may be deemed to beneficially own all of the shares held by these shareholders that are parties to the investors agreement. See Item 6: Directors, Senior Management and Employees Directors, Executive Officers and Senior Management for a more detailed description of the election of our directors under the investors agreement.

** Less than 1%.

Related Party Transactions

Our Transactions with Expedia Asia Pacific

Transaction Agreement and Non-Compete Covenant. On August 4, 2004, we entered into a transaction agreement with Expedia Asia Pacific, an affiliate of Expedia, in connection with the initial investment by Expedia Asia Pacific in eLong, which eventually gave Expedia Asia Pacific and its ultimate parent company, Expedia, beneficial ownership of approximately 52% of our outstanding shares on a fully-diluted basis and approximately 95% of the voting power in us. The Transaction Agreement also provides that, as long as Expedia Asia Pacific holds more than a 15% economic interest in us (unless it transfers the voting rights with respect to

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that interest to us), Expedia Asia Pacific and its affiliates will be prohibited from, directly or indirectly, owning, managing, operating or otherwise controlling any entity or business which operates a travel service in China or which markets travel services specifically to Chinese residents without our consent. The non-compete restriction is subject to exceptions for certain pre-existing businesses, such as Expedia s private label arrangements with third-party websites that are operated within China that promote Expedia s travel services to Chinese residents (including travel services provided in China) on their websites. In addition, Expedia Asia Pacific and it affiliates are not restricted from acquiring entities or participating in joint ventures or strategic relationships with entities that engage in a competitive business, so long as the assets and revenues attributable to the competitive business do not exceed 10% of the assets or revenues of the acquired entity, the joint venture or our company.

Certain other Business Arrangements with Expedia

We have entered into the following agreements or arrangements with Expedia, an affiliate of Expedia Asia Pacific, with respect to the business aspects described below. At this time, none of the agreements or arrangements is material to our business. The agreements are known to and approved by our audit committee.

Inventory Procurement Agreement. In August 2006, the Company entered into a contract with Travelscape LLC, which is ultimately controlled by Expedia, Inc. The Company provides Chinese hotel inventory procuring, rating and availability negotiating service to Travelscape LLC. RMB 2,944,925 (US$403,713) of revenue was recognized in 2007 under this agreement. At the end of 2007, the balance due from Travelscape LLC was RMB 1,258,875 (US$172,576). The contract was terminated as of March 2008.

Global hotel inventory sourcing. We entered into an agreement with Expedia whereby we access Expedia s global hotel inventory in order to allow us to sell Expedia hotel products and for which we will pay to Expedia an agreed percentage of the revenues received under the agreement. In 2007, RMB 6,570,281 (US$900,705) was charged by Expedia. As at the end of 2007, the balance due to Expedia was RMB 682,762 (US$93,598).

Private Label Technology Use. We entered into an arrangement with TravelScape whereby we and or one of our subsidiaries are able to use Expedia s private label technology in order to offer Expedia hotel, vacation package, car rental and destination services inventory for sale to our customers and for which we will share in the gross profits relating to such inventory. We recorded revenue of RMB 110,383 (US$15,132) in 2007 pursuant to the agreement.

Virtual Tours. We have agreed with Expedia to enter into an arrangement whereby we charge Expedia for each virtual tour we produce on behalf of Expedia. The agreement has not yet been finalized and no revenues have been recognized for the project.

Master Software Licensing Agreement. We have agreed to enter a cooperation with Expedia in the form of a software licensing agreement with Expedia in order to allow Expedia to share code and schema with us. No revenue or expenses were recorded in 2007 pursuant to this arrangement, as the agreement has not yet been documented in a written contract.

Splash Page. We agreed to enter into an arrangement with Expedia whereby Expedia maintains a splash page in China which invites visitors to use our website instead of Expedia s, and for which Expedia will share in the revenue from the resulting transactions. The contract has not yet been signed and no revenues have been recognized for the project.

Guarantee. We signed a guarantee letter in January 2006 to use our commission from Beijing Gui Bin Lou Hotel to guarantee Expedia s US dollar payments for its customers reservations with this hotel. In 2006, there were no fees paid by Expedia or us under this arrangement. In June 2007 we rescinded the guarantee letter due to lack of underlying transactions.

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eLong-Expedia Sublease. We entered into a 24-month sublease agreement with Expedia in November 2006. Pursuant to such agreement, eLong Information subleased to Expedia s wholly foreign owned enterprise, or Expedia WFOE, Expedia Business Service (Beijing) Co., Ltd., certain office space, located in Xingke Plaza, 10 Middle Jiuxianqiao Road, Chaoyang District, Beijing, PRC. Under the sublease agreement, the Expedia WFOE shall pay RMB 809 per month of rent and utility fees to eLong Information. Such arrangement has been approved by our lessor and is consistent with market rates.

Master Agreement for Consulting Services between Expedia and eLong. We entered into a master agreement for consulting services with Expedia on July 1, 2005. Pursuant to this agreement, an Expedia employee was seconded to eLong to provide certain consulting services during the period between April 2, 2007 and October 1, 2007. Pursuant to the agreement, we were required to pay to Expedia a monthly consulting fee and cover a one-time resettlement allowance and certain of the Expedia employee s housing and travel allowances during his secondment. During the year ended December 31, 2007, we recorded a total expense of RMB 644,063 under this agreement.

Services Agreement. We entered into a services agreement with Expedia with respect to the secondment of an Expedia employee to eLong to provide advice on improvements in eLong s operations and service. Under this agreement, we are required to pay Expedia a fixed annual consulting fee and cover a one-time resettlement allowance and certain of the Expedia employee s housing and travel allowances. Pursuant to this agreement, the Expedia employee was granted 44,298 performance units under our 2004 Plan, 50 percent (50%) of which will vest on each of the first and second anniversaries of the start date of the Expedia employee s consulting services. During the year ended December 31, 2007, we recorded a total expense of RMB 634,485 under this agreement. The Expedia employee also entered into our standard non-competition, non-solicitation, confidential information and work product assignment agreements.

Agreement between Expedia and eLong with respect to Services provided by our Interim CEO. We entered into a services agreement with Expedia that became effective as of April 16, 2007, with respect to the services of our former Interim CEO, Henrik Kjellberg, who is an Expedia employee. Pursuant to the service agreement, we were required to pay to Expedia a monthly service fee equivalent to one half of Mr. Kjellberg s base salary during the period that Mr. Kjellberg served as our Interim CEO. Under the terms of the agreement, Mr. Kjellberg s housing, transportation and education allowances in Hong Kong were borne by Expedia and Mr. Kjellberg s expenses related to traveling to and from China, including accommodations in China, in order to perform his duties as our Interim CEO were borne by us. Mr. Kjellberg resigned as our Interim CEO effective as of October 8, 2007, the date Mr. Guangfu Cui became our CEO. During the year ended December 31, 2007, we recorded a total expense of RMB 494,373 under this agreement.

Mr. Kjellberg has also entered into our standard form Confidentiality and Non-Compete Agreement which includes terms protecting us against competition and disclosure of confidential information. In the agreement the parties acknowledged that Mr. Kjellberg simultaneously acted as President of Expedia Asia Pacific during the term of his services as our Interim CEO and that his proper performance of this role would not be deemed to be in violation of his Non-Compete Agreement with eLong, provided that Mr. Kjellberg or our management duly disclosed any potential conflicts of interest to our audit committee.

Strategic Agreement with Expedia Corporate Travel, LLC. On November 12, 2007, we entered into a strategic agreement with Expedia Corporate Travel, LLC (ECT), an affiliate of Expedia Asia Pacific, pursuant to which ECT, through one or more of its affiliates (ECT China), is allowed to partner with us to offer travel consulting services in China. Subject to ECT s and ECT China s on-going performance of their obligations under this strategic agreement, we have agreed to waive the non-compete restrictions under the transaction agreement between Expedia Asia Pacific and us which prohibit Expedia Asia Pacific and its affiliates (including ECT and ECT China) from, directly or indirectly, operating a travel service in China or marketing travel services specifically to Chinese residents. In consideration of our waiver, ECT China will pay us a waiver fee based on the revenues received by ECT China that are attributable to supplier revenue arising out of an ECT China client s

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purchase of (i) China domestic air tickets and/or China outbound air tickets (the air revenues) and/or (ii) lodging in China (the hotel revenues). Under this agreement, during the first 1.5 years, ECT China will pay us 33% of its air revenues and 20% of its hotel revenues; from 1.5 to 4.5 years, ECT China will pay us 20% of its air revenues and 10% of its hotel revenues; and from 4.5 to 10 years (or such later time as is provided in the agreement), ECT China will pay us 10% of its air revenues and 5% of its hotel revenues. This revenue-sharing fee constitutes a minimum fee in exchange for our waiver and will be paid to us even if we do not provide any travel fulfillment services to ECT China, provided that, after the first 1.5 years, if we enter into a separate fulfillment services contract with ECT China based on industry-standard terms, we may receive a higher revenue-sharing fee. During the year ended December 31, 2007, no waiver fees or other revenues have been paid by ECT or ECT China to us.

Sublease Agreement. On January 1, 2008, our subsidiary eLongNet Information Technology (Beijing) Co., Ltd., or eLong Information, entered into a one-year sublease agreement with Expedia Business Service (Beijing) Co., Ltd. (or Expedia Business Services), an affiliate of Expedia Corporate Travel, LLC (ECT). Pursuant to such agreement eLong Information subleased to Expedia Business Services certain office space located at 2nd Floor, 10# 777, Guangzhou West Road, Zhabei District, Shanghai, PRC. Under the sublease agreement, Expedia Business Services will pay RMB110.33 per square meter per month of rent and utility fees to eLong Information. Such arrangement has been approved by our lessor and is consistent with market rates.

Arrangements with our Affiliated Chinese Entities

Our subsidiary eLongNet Information Technology (Beijing) Co., Ltd., or eLong Information conducts operations in China through a series of contractual arrangements with our affiliated Chinese entities, which hold the licenses and permits required to conduct our business. These affiliated Chinese entities include:

- Beijing Information, which holds a license for Internet content provision services (which includes the right to issue online advertisements), a license for call center services, and a license for short messaging services.
- Beijing Media, which holds a license to provide advertising services.
- Beijing Air, which holds the domestic and international air ticketing licenses.
- Beijing Travel, which holds a license for domestic PRC travel and international (inbound/outbound) travel services.
- Hangzhou Air, which holds a domestic and international air ticketing licenses.
- Beijing XICI Interactive Information Technology Co. Ltd. or XICI ICP, which plans to apply for an ICP license and a special Bulletin Board System (BBS) permit.

As of April 30, 2008, Justin Tang, one of the members of our board of directors, Raymond Huang, our Investor Relations Manager, and Veronica Chen, our former Director of Finance, own 75%, 12.5% and 12.5%, respectively, of Beijing Information as our nominees; Mr. Tang and Guangfu Cui, our Chief Executive Officer, own 75% and 25% respectively, of Beijing Media as our nominees; Beijing Information and Beijing Media own 80% and 20%, respectively, of Beijing Air; Beijing Information and Beijing Air own 70% and 30%, respectively, of Beijing Travel; and Beijing Air own 100% of Hangzhou Air. We are in the process of replacing certain nominee shareholders for Beijing Information (Veronica Chen and Raymond Huang) with certain employees approved by our Board and management.

Beijing Information

Technical services agreement. Beijing Information and eLong Information have entered into an amended and restated technical services agreement. Under the agreement, eLong Information has the exclusive right to provide Beijing Information with technical services relating to its website operations. eLong Information has also

granted Beijing Information a non-exclusive license to use certain software owned by eLong Information. The term of the agreement is identical to the term of incorporation of eLong Information including any extensions thereto, and may be terminated by eLong Information at any time. Beijing Information has agreed to make quarterly payments to eLong Information for the technical services and the software license, and such payments are based on market prices as mutually agreed by the parties. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Equity interests pledge agreements. Justin Tang, Raymond Huang and Veronica Chen have entered into separate agreements with eLong Information. Under the agreements, Mr. Tang, Mr. Huang, and Ms. Chen have pledged their entire respective ownership interests in Beijing Information to eLong Information to secure the payment obligations of Beijing Information under the technical services agreement described above and the obligations of Beijing Information under the trade mark license agreement, the domain name license agreement, the cooperative agreement and the business operation agreement. Upon the occurrence of certain events of default specified in the agreements, including the failure of Beijing Information to make required payments of the technical service fees and the software license fees to eLong Information under the technical services agreement described above or to perform any of its obligations under the cooperative agreement, the business operation agreement, the trade mark license agreement and the domain name license agreement, eLong Information may enforce the equity interests pledge by complying with certain procedures required by law. The term of each agreement is identical to the term of the technical services agreement described above. These agreements are governed by the laws of the PRC and disputes arising under the agreements will be resolved by binding arbitration in China.

Trademark license agreement. Beijing Information and eLong Information have entered into an amended and restated trademark license agreement. Under this agreement, eLong Information has granted Beijing Information a non-exclusive license to use certain trademarks, provided that such license cannot be sublicensed. The agreement has a term identical to the term of incorporation of eLong Information including any extensions thereto and may be terminated by eLong Information with 30-day notice. Beijing Information agrees to pay eLong Information license fees based on market rates. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Domain name license agreement. Beijing Information and eLong Information have entered into an amended and restated domain name license agreement. Under this agreement, eLong Information has granted Beijing Information the right to use certain domain names including *www.eLong.com* and *www.eLong.net*. The agreement has a term identical to the term of incorporation of eLong Information including any extensions thereto, and may be terminated by eLong Information with a 30-day notice. Beijing Information has agreed to pay eLong Information a license fee based on market rates. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Cooperative agreement. Beijing Information and eLong Information have entered into an amended and restated cooperative agreement. Under the agreement, eLong Information has agreed to:

- develop the hotel-booking market by negotiating with hotels on behalf of Beijing Information;
- provide relevant market and hotel information to Beijing Information;
- send booking orders to hotels and accept confirmation responses from hotels for Beijing Information; and
- accept commissions and services fees from hotels on behalf of Beijing Information.

Under this agreement, Beijing Information has also agreed to publish prices, market information and other relevant information on its website and process customer orders and other relevant matters through the Internet

and our call center. eLong Information is obligated to pay Beijing Information quarterly an information and service fee based on market prices. The term of this agreement is identical to the term of incorporation of eLong Information including any extension thereto. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Business operation agreement. Beijing Information, Justin Tang, Raymond Huang and Veronica Chen, and eLong Information have entered into a business operation agreement. Under this agreement, eLong Information has agreed to provide guarantees for performance by Beijing Information of contracts, agreements or transactions with third parties in connection with its business operations. In return, Beijing Information has agreed to pledge its accounts receivable and mortgage or pledge all its assets to eLong Information. eLong Information may, at its sole discretion, provide Beijing Information any performance guarantee and working capital loan guarantee in connection with Beijing Information s business operations. In addition, Beijing Information, Mr. Tang, Mr. Huang, and Ms. Chen have each agreed not to enter into any transaction that would substantially affect the assets, rights, obligations or operations of Beijing Information without prior written consent from eLong Information. Furthermore, Mr. Tang, Mr. Huang and Ms. Chen have agreed that upon instruction from eLong Information, they will appoint or remove Beijing Information s directors and executive officers and accept eLong Information s guidance regarding the day-to-day operations and financial and personnel management of Beijing Information. The term of this agreement is identical to the term of incorporation of eLong Information including any extensions thereto and may be terminated by eLong Information with a 30-day notice. Under this business operation agreement, if any of the agreements between eLong Information and Beijing Information terminates or expires, eLong Information has the right but without obligation to terminate any other agreements between eLong Information and Beijing Information, including without limitation this business operation agreement. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Loan agreement. eLong Information lent RMB 12,000,000, RMB 2,000,000, and RMB 2,000,000 to Justin Tang, Raymond Huang and Veronica Chen, respectively, for making contributions to the registered capital of Beijing Information. The full principal amount of such loans is still outstanding as of April 30, 2008. During the fiscal year 2007, the largest amount outstanding under these loans was RMB 12,000,000, RMB 2,000,000, and RMB 2,000,000, respectively. The loans are interest free and have a repayment term of ten years and may be extended by the parties upon mutual agreement. In addition, in the event that we exercise our option to purchase the 100% equity interest in Beijing Information pursuant to an option agreement described below, the loan will accelerate and be repaid by the proceeds from the exercise of our option. Under this circumstance, the loans will be discharged. In addition, under certain conditions such as the incapacity of Mr. Huang, Ms. Chen or Mr. Tang, or the termination of employment with us of Mr. Tang, Mr. Huang or Ms. Chen the repayments under the loan agreement might accelerate. This agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China. On consolidation, the loans to the officers and employees as discussed above are eliminated.

Agreement relating to exclusive purchase right of equity interest. Justin Tang, Raymond Huang and Veronica Chen have each entered into separate agreements relating to exclusive purchase right of equity interest with eLong, Inc., Beijing Information and eLong Information. Under these agreements, we and any third party designated by us have the right, at any time, when applicable Chinese laws and regulations change to permit foreign invested companies to operate an Internet content provision business, to purchase from Mr. Tang, Mr. Huang and Ms. Chen their respective equity interests in Beijing Information. The exercise price of the option is at an aggregate price equal to the actual paid-in registered capital of Beijing Information (or pro rata portion thereof, as appropriate) unless otherwise specified under PRC laws. The proceeds from the exercise will be applied to repay the loans extended to Mr. Tang, Mr. Huang and Ms. Chen, unless otherwise agreed by the parties in accordance with the requirement of prevailing applicable laws. The term of each of these agreements is twenty years. The agreements are governed by the laws of the PRC and disputes arising under the agreements will be resolved by binding arbitration in China.

Beijing Media

Advertising technical consulting and services agreement. Beijing Media and eLong Information have entered into an amended and restated advertising technical consulting and services agreement. Under this agreement, eLong Information has the exclusive right to provide Beijing Media with technical services relating to the latter s advertising operations conducted through www.elong.com. eLong Information has also granted Beijing Media a non-exclusive license to use certain software owned by eLong Information. The term of this agreement is identical to the term of incorporation of eLong Information including any extensions thereto, and may be terminated by eLong Information at any time. Beijing Media is required to pay eLong technical consulting and service fees and software license fees based on market prices as agreed by the parties. This agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Equity interests pledge agreements. Justin Tang and Guangfu Cui have entered into separate equity pledge agreements with eLong Information. Under the agreements, Mr. Tang and Mr. Cui have pledged their entire respective ownership interests in Beijing Media to eLong Information to secure the payment obligations of Beijing Media under the advertising technical consulting and services agreement described above and the obligations of Beijing Media under the business operation agreement and the trademark license agreement. Upon the occurrence of certain events of default specified in the agreements, including the failure of Beijing Media to pay service fees and the software license fees to eLong Information under the advertising technical consulting and services agreement or to perform any of its obligations under the business operation agreement and the trademark license agreement, eLong Information may enforce the equity interest pledge by complying with certain provisions required by law. The term of each agreement is identical to the term of the advertising consulting and services agreement described above. This agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Cooperative agreement. Beijing Media and Beijing Information have entered into a cooperative agreement. Under this agreement, eLong Information has agreed to provide website hosting and information services to Beijing Media. Beijing Media is obligated to pay Beijing Information for such website hosting and information services based on market prices. The term of this agreement is identical to the term of incorporation of Beijing Media including any extension thereto. This agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Business operation agreement. Beijing Media, Justin Tang, Guangfu Cui, and eLong Information have entered into a fourth amended and restated business operation agreement. Under this agreement, eLong Information has agreed to provide guarantees for performance by Beijing Media of contracts, agreements or transactions with third parties in connection with its business operations. In return, Beijing Media has agreed to pledge its accounts receivable and mortgage or pledge all its assets to eLong Information. eLong Information may, at its sole discretion, provide Beijing Media any working capital loan guarantee in connection with its business operations. In addition, Beijing Media, Mr. Tang and Mr. Cui have each agreed not to enter into any transaction that would substantially affect the assets, rights, obligations, or operations of Beijing Media without prior written consent from eLong Information. Furthermore, Mr. Tang and Mr. Cui have agreed that upon instruction from eLong Information, they will appoint or remove Beijing Media s directors and executive officers and accept eLong Information s guidance regarding the day-to-day operations and financial and personnel management of Beijing Media. The term of this agreement is identical to the term of incorporation of eLong Information including any extensions thereto, and may be terminated by eLong Information with a 30-day notice. Under this business operation agreement, if any of the agreements between eLong Information and Beijing Media terminates or expires, eLong Information has the right but without obligation to terminate any other agreements between eLong Information and Beijing Media, including without limitation this business operation agreement. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Loan agreement. eLong, Inc. Justin Tang, Guangfu Cui have entered into a fourth amended and restated loan agreement, pursuant to which eLong, Inc. lent RMB375,000 and RMB125,000 to Justin Tang and Guangfu Cui, respectively, for making contributions to the registered capital of Beijing Media. The full principal amount of such loans is still outstanding as of April 30, 2008. During the fiscal year 2007, the largest amount outstanding under these loans was RMB 375,000 (US$48,052) and RMB 125,000, (US$16,017) respectively. The loans are interest free and have a repayment term of ten years and may be extended by the parties upon mutual agreement. In addition, in the event that we exercise our option to purchase the 100% equity interest in Beijing Media pursuant to an option agreement, described below, the loan will be repaid by the proceeds from the exercise of our option. Under this circumstance, the loans will accelerate and be discharged. In addition, under certain conditions such as the incapacity of Mr. Cui or Mr. Tang, or the termination of employment with us of Mr. Tang or Mr. Cui, the repayments under the loan agreement may accelerate. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China. On consolidation, the loans to the officers and employees as discussed above are eliminated.

Agreements relating to exclusive purchase right of equity interest. Justin Tang and Guangfu Cui have each entered into separate agreements relating to the exclusive purchase right of equity interest with eLong, Inc., Beijing Media and eLong Information. Under these agreements, we and any third party designated by us have the right, at any time, when applicable Chinese laws and regulations change, to permit foreign invested companies to operate an advertising business, and to purchase from Mr. Tang and Mr. Cui their respective equity interests in Beijing Media. The exercise price of the options is at an aggregate price equal to the actual paid-in registered capital of Beijing Media, (or pro rata portion thereof, as appropriate) unless otherwise specified under the PRC laws. Upon the exercise of the options, the proceeds from the exercise will be applied to repay the loans extended to Mr. Tang and Mr. Cui, unless otherwise agreed by the parties in accordance with the requirement of prevailing applicable laws. The term of each of these agreements is twenty years. The agreements are governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Trademark license agreement. Beijing Media and eLong Information have entered into a trademark license agreement. Under this agreement, eLong Information has granted Beijing Media a non-exclusive license to use certain trademarks, provided that such license cannot be sublicensed. The agreement has a term identical to the term of incorporation of eLong Information including any extensions thereto, and may be terminated by eLong Information with 30-day notice. Beijing Media agrees to pay eLong Information license fees based on market rates. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Beijing Air

Technical consulting and services agreement. Beijing Air and eLong Information have entered into an amended and restated technical consulting and services agreement. Under this agreement, eLong Information has the exclusive right to provide Beijing Air technical services relating to its air ticketing business conducted by Beijing Air through www.elong.com. eLong Information has also granted Beijing Air a non-exclusive license to use certain software owned by eLong Information. The term of the agreement is identical to the term of incorporation of eLong Information including any extensions thereto, and may be terminated by eLong Information at any time. Beijing Air has agreed to pay eLong Information service fees and software license fees based on market prices as agreed by the parties. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Equity interest pledge agreement. Beijing Information, eLong Information and Beijing Media have entered into an amended and restated equity interest pledge agreement with eLong Information. Under the agreements Beijing Information and Beijing Media have pledged their entire respective ownership interests in Beijing Air to eLong Information to secure the payment obligation of Beijing Air under the technical consulting and services agreement described above and the performance of the obligations under the business operation agreement and the trademark license agreement. Upon the occurrence of certain events of default specified in the agreement, including the failure of Beijing Air to make required payments of the technical services fees and the software

license fees to eLong Information under the technical consulting and services agreements described above or to perform any of its obligations under the business operation agreement and the trademark license agreement, eLong Information may enforce the equity interest pledge by complying with certain procedures required by law. The agreement has a term identical to the term of the technical consulting and services agreement described above. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Business operation agreement. Beijing Air, Beijing Information, Beijing Media and eLong Information have entered into an amended and restated business operation agreement. Under this agreement, eLong Information has agreed to provide guarantees for the performance by Beijing Air of contracts, agreements or transactions with third parties in connection with its business operations. In return, Beijing Air has agreed to pledge its accounts receivable and mortgage or pledge all its assets to eLong Information. eLong Information may, at its sole discretion, provide Beijing Air any working capital guarantee in connection with its business operations. In addition, Beijing Air, Beijing Information and Beijing Media have each agreed that they will not enter into any transaction that would substantially affect the assets, rights, obligations or business operations of Beijing Air without prior written consent from eLong Information. Furthermore, Beijing Information and Beijing Media have each agreed that upon instruction from eLong Information, they will appoint or terminate Beijing Air s directors and executive officers and accept eLong Information s guidance regarding the day-to-day operations and financial and personnel management of Beijing Air. The term of this agreement is identical to the term of incorporation of eLong Information including any extensions thereto and may be terminated by eLong Information with a 30-day notice. Under this business operation agreement, if any of the agreements between eLong Information and Beijing Airs terminates or expires, eLong Information has the right but without obligation to terminate any other agreements between eLong Information and Beijing Airs, including without limitation this business operation agreement. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Cooperative agreement. Beijing Air and Beijing Information have entered into an amended and restated cooperative agreement. Under this agreement, Beijing Information has agreed to provide website hosting services and call center services to Beijing Air. Beijing Air has agreed to pay quarterly information service fees to Beijing Information based on market prices. The term of this agreement is identical to the term of incorporation of Beijing Air including any extensions thereto. This agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Trademark license agreement. Beijing Air and eLong Information have entered into a trademark license agreement. Under this agreement, eLong Information has granted Beijing Air a non-exclusive license to use certain trademarks, provided that such license cannot be sublicensed. The agreement has a term identical to the term of incorporation of eLong Information including any extensions thereto and may be terminated by eLong Information with 30-day notice. Beijing Air agrees to pay eLong Information license fees based on market rates. The agreement is governed by the laws of the PRC and disputes arising under the agreement will be resolved by binding arbitration in China.

Other Related Party Transactions

In January 2006, we entered into a termination and settlement agreement with Justin Tang, our former President and Chief Executive Officer, in connection with the termination of Mr. Tang s employment with us, which was effective as of February 17, 2006. Under the terms of the agreement, Mr. Tang provided us with a general release of any claims related to his employment with the Company. We acknowledged that (i) under the terms of the 2001 Plan and the terms of his employment agreement, Purple Mountain Holding Ltd. s (an entity over which Mr. Tang has ultimate investment power and to whom Mr. Tang had previously transferred a portion of his options) option to purchase 2,875,000 ordinary shares had vested and (ii) under the terms of the 2004 Plan and the terms of his employment agreement, Mr. Tang s option to purchase 262,500 ordinary shares had vested. We also agreed that in consideration for the benefits provided by Mr. Tang under the termination and settlement

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agreement, Purple Mountain Holding Ltd. s option would also vest with respect to an additional 31,250 ordinary shares and Purple Mountain Holding Ltd. would have until 60 days after Mr. Tang ceases to be our director for any reason to exercise the outstanding vested options. In addition, we agreed that Mr. Tang s option would vest with respect to an additional 43,750 ordinary shares, and that Mr. Tang would have until 60 days after he ceases to be our director for any reason to exercise the outstanding vested options. The accelerated options resulted in compensation expenses of RMB 410,800 being recognized in 2006. The remaining unvested option to purchase 393,750 ordinary shares was forfeited on February 17, 2006. Finally, we agreed to relax the sale restrictions placed on Mr. Tang and Purple Mountain Holding Ltd. to allow for the sale or transfer of enough ordinary shares to cover a cashless option exercise of such portion, as more fully described in the termination and settlement agreement, of the options held by Mr. Tang and Purple Mountain Holding Ltd. in the event Mr. Tang ceases to be our director as a result of being removed by our board of directors or our shareholders and not as a result of his resignation.

See the descriptions of (i) the termination and settlement agreement with Thomas SooHoo, our former Chief Executive Officer and director and (ii) the resignation and settlement agreement with Derek Palaschuk, our former CFO, under the heading Employment Agreements with Executive Officers in Item 6 in this annual report.

See also the description of our employment agreements with our executive officers under the heading Employment Agreements with Executive Officers in Item 6 of this annual report.

In 2007, we paid RMB 750,000 (US$102,800) in rent for accommodations to related parties of our senior management. These payments included rental payments for the residence of our former CEO Thomas SooHoo, which residence is owned by his spouse. The payments were made pursuant to employment agreements with the relevant senior managers, and were at market rates.

Lease Agreement for CEO s Residence. In June 2006, pursuant to Mr. SooHoo s employment agreement, we entered into a 2-year lease agreement with Mr. SooHoo s spouse whereby we paid RMB 70,000 (US$9,596) per month to lease Mr. SooHoo s residence. The rental rate includes the cost of management fees and utilities and is at a market rate. The lease agreement has been terminated, effective June 15, 2007, in connection with Mr. SooHoo s resignation from our company, with the final rent payment to be made through July 12, 2007.

eLong-Match.com eDodo Sale. In September 2006, we (along with our subsidiary and affiliated Chinese Entity) entered into an asset purchase agreement and a cooperation agreement with Match.com (and two Match subsidiaries) for the disposition of our online dating division business operated under the name eDodo. The total purchase price for the disposition was US$ 14,625,000. The disposition was effective in October 2006 at which time the purchased assets and employees were transferred to the purchasers, and 90% of the purchase price was paid to us by Match.com. The remaining 10% of the purchase price was placed in escrow and will be released 18 months from the closing subject to satisfaction of agreed upon conditions. The agreements contain confidentiality and non-compete provisions. The cooperation agreement provides for general support services, including technology, human resources, finance, payroll, and legal, to be provided by us to the Match parties at market rates, based on time records to be provided by us. During 2007 the various service fees charged by us under the cooperation agreement were RMB 627,921 ($US 86,080) (2006: RMB 206,228). In addition, during the 18 month term of the cooperation agreement, we are obligated to provide, at no additional charge, to the Match parties billing support services.

Match.com is a wholly owned subsidiary of InterActiveCorp (IAC). Barry Diller is the Chairman and chief executive officer of IAC. Through his own holdings and the stockholders agreement between Mr. Diller and Liberty Media Corporation, Mr. Diller generally has the ability to control the outcome of all matters submitted to a vote of IAC s stockholders (except with regard to certain specified matters). Expedia, through Expedia Asia Pacific, is the indirect owner of approximately 52% of our outstanding shares on a fully-diluted basis and holds approximately 95% of our voting power. Mr. Diller is Expedia s Chairman and Senior Executive

and holds more than a 50% voting interest in Expedia through his holdings and a stockholders agreement between Mr. Diller and Liberty Media Corporation. The buyer (Match) and seller (eLong) in the project therefore are entities under common control, under US GAAP. The eDodo asset transfer to Match.com and subsidiaries is thus accounted for as transfer of assets to a company under common control. Accordingly, no gain is recognized as a result of the transfer and the excess of net sale proceeds over the carrying value of the net assets sold (RMB 94.17 million) are recorded as an increase to additional paid-in capital.

eLong-Match.com China Sublease. We entered into a 24-month sublease agreement with Match.com (Match) in June, 2006, in which eLong Information subleased to Match s wholly foreign owned enterprise, or the Match WFOE, Five Star Marketing Information Technology (Beijing) Co., Ltd., certain office space, located in Xingke Plaza, 10 Middle Jiuxianqiao Road, Chaoyang District, Beijing, PRC. Under the sublease agreement, the Match WFOE shall pay RMB 33,396 per month of rent and utility fees to eLong Information. Such arrangement has been approved by our lessor and is consistent with market rates.

eLong-Interval International Sublease. In June 2006, we entered into a 12 month extension of a June 2005 sublease agreement with Interval International Singapore (Pte) Ltd. (Interval International), an affiliate of IAC. Under this agreement, eLong Information subleased to Interval International certain minor office space, located in Xingke Plaza, 10 Middle Jiuxianqiao Road, Chaoyang District, Beijing. Under the sublease agreement, Interval International shall pay rent of US$500 per month (including utilities fees) to eLong Information. This arrangement has been approved by our lessor and is consistent with market rates. In June 2007, the sublease was renewed for an additional one year term.

Item 8: Financial Information

Consolidated Financial Statements

See Item 18. Financial Statements and pages F-1 through F-33 of this annual report.

Other Financial Information

Legal Proceedings

We are not a party to any material litigation or administrative proceedings, nor are we currently aware of any pending or threatened litigation or arbitration proceedings that could have a material adverse effect upon our business, results of operations or financial condition.

We may become subject to other legal proceedings and claims, either asserted or unasserted, in the future. Any litigation involves potential risk and potentially significant litigation costs, and therefore there can be no assurance that any litigation which may arise in the future would not have such a material adverse effect on our business, financial position, results of operations or cash flows.

Dividend Policy

Since our establishment, we have not declared or paid any dividends on our ordinary shares. We did not and do not intend to pay any dividends in 2007 and 2008, respectively. The timing, amount and form of future dividends, if any, will also depend, among other things, on our future results of operations and cash flow, our growth prospects, our capital requirements, the amount of distributions, if any, received by us from our subsidiaries in China and other factors deemed relevant by our board of directors. Any future cash dividends on the outstanding shares would be declared by and subject to the discretion of our board of directors and must be approved at our company s annual general meeting of shareholders.

Holders of ADSs would be entitled to receive dividends, if any, subject to the terms of the deposit agreement, to the same extent as holders of ordinary shares, less the fees and expenses payable under the deposit agreement, and after deduction of any applicable taxes.

Significant Changes since December 31, 2007

No significant change has occurred since December 31, 2007, the date of the audited consolidated financial statements included in this annual report.

Item 9: The Offer and Listing

Nature of Trading Market

General

Our ADSs trade on the Nasdaq National Market under the symbol LONG. The depositary for our ADSs is JPMorgan Chase Bank. As of April 30, 2008, there were a total of 9,373,464 ADSs outstanding.

Trading on the Nasdaq National Market

Public trading of our ADSs commenced on October 28, 2004. Each ADS represents two of our ordinary shares.

For 2004 (October 28, 2004 through December 31, 2004), the trading price of our ADSs on Nasdaq ranged from a high of US$25.99 to a low of US$13.51 per ADS. For the year ended December 31, 2005, the trading price of our ADSs ranged from a high of US$19.15 to a low of US$7.50 per ADS. For the year ended December 31, 2006, the trading price of our ADSs ranged from a high of US$16.39 to a low of US$10.03 per ADS. For the year ended December 31, 2007, the trading price of our ADSs ranged from a high of US$13.99 to a low of US$7.10 per ADS.

The table below sets forth, for the periods indicated, the high and low prices for the ADSs on the Nasdaq National Market.

	eLong ADSs Nasdaq National Market	
	High US$	Low US$
Most Recent Fiscal Quarters		
January 3, 2006 through March 31, 2006	13.30	10.14
April 3, 2006 through June 30, 2006	15.55	12.07
July 3, 2006 through September 29, 2006	15.17	13.39
October 2, 2006 through December 29, 2006	14.96	13.01
January 3, 2007 through March 31, 2007	13.99	9.51
April 2, 2007 through June 30, 2006	10.41	9.20
July 2, 2007 through September 28, 2007	10.42	8.59
October 1, 2007 through December 31, 2007	12.28	7.10
January 2, 2008 through March 31, 2008	8.77	7.38

	High US$	Low US$
Most Recent Six Months		
November 2007	10.27	7.10
December 2007	8.29	7.53
January 2008	8.34	7.38
February 2008	8.67	7.69
March 2008	8.77	7.97
April 2008	9.37	8.62

On April 30, 2008, the last sale price per ADS on the Nasdaq National Market was US$9.37.

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Item 10: Additional Information

Memorandum and Articles of Association

The information called for by Item 10B (Memorandum and Articles of Association) is incorporated by reference to the information under the heading Description of Share Capital in eLong s Registration Statement on Form F-1 (Registration Number 333-119606), as filed with the SEC on October 27, 2004.

Material Contracts

We have not entered into any material contracts other than in the ordinary course of business within the past two fiscal years, other than those described elsewhere in this annual report or listed in Item 19: Exhibits.

We have terminated the following material contract in 2006:

Sina

eLongNet Information Technology and Beijing Sina Internet Information entered into a three year cooperation agreement (the Sina Contract) effective June 2005 under which we would pay approximately US$1 million per year to Sina for our advertising on Sina s website. Due to certain performance issues, on July 10, 2006 we terminated the Sina Contract pursuant to a termination and settlement agreement under which we agreed to enter into a contract with a third party advertising agency, appointed by Sina (the AdCo Contract). Under the AdCo Contract we are entitled to place advertisements on Sina s website following our payment to the advertising company. The AdCo Contract requires payments by us of RMB2 million (US$0.25 million) per year.

Exchange Controls

The principal regulation governing foreign currency exchange in China is the Foreign Currency Administration Rules (1996), as amended. Under these rules, the Renminbi is freely convertible for trade and service-related foreign exchange transactions, but not for direct investment, loans or investments in securities outside China without the prior approval of the State Administration of Foreign Exchange of the People s Republic of China, or SAFE. In addition, the aggregate of (i) the balance of an FIE s short-term loans from outside China, (ii) the cumulative medium / long-term loans from outside China, and (iii) the balance of the loans guaranteed by any entity or individual outside China, shall not exceed the difference of the FIE s total investment and registered capital.

Pursuant to the Foreign Currency Administration Rules, foreign-invested enterprises in China may purchase foreign exchange without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing these transactions. They may also retain foreign exchange, subject to a cap approved by SAFE, to satisfy foreign exchange liabilities or to pay dividends. However, the relevant Chinese government authorities may limit or eliminate the ability of foreign-invested enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions for direct investment, loan and investment in securities outside China are still subject to limitations and require approvals from SAFE.

Taxation

The following discussion summarizes certain Cayman Islands tax and United States federal income tax consequences of the acquisition, ownership and disposition of our ADSs or ordinary shares based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. Although the following discussion does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser of our ADSs or shares, this discussion summarizes certain Cayman Islands tax

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consequences to a holder of ADSs or shares that is not resident (in the case of an individual) or domiciled (in the case of a legal entity) in the Cayman Islands (in either case, referred to herein as not resident or as a non-resident) and does not have a permanent establishment or fixed base located in the Cayman Islands through which such ADSs or shares are held, and certain material United States federal income tax consequences to a U.S. Holder (as that term is defined below) of ADSs or shares that is not resident (in the case of an individual) or domiciled (in the case of a legal entity) in the Cayman Islands (in either case, referred to herein as not resident or as a non-resident) and does not have a permanent establishment or fixed base located in the Cayman Islands through which such ADSs or shares are held.

Cayman Islands Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties that may be applicable on instruments executed in, or after execution brought within the jurisdiction of, the Cayman Islands. The Cayman Islands are not party to any double taxation treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

United States Federal Income Taxation

The following discussion is a summary of the material United States federal income tax considerations that may be relevant to the purchase, ownership or sale of our ADSs or ordinary shares.

This discussion is general in nature and does not discuss all aspects of U.S. federal income taxation which may be important to particular investors in light of their individual circumstances, including investors subject to special U.S. taxation rules, such as:

- banks;
- dealers in securities or currencies;
- financial institutions;
- insurance companies;
- tax-exempt organizations;
- persons holding ADSs or ordinary shares as part of hedging, conversion, constructive sale, straddle or other integrated transactions;
- traders in securities that have elected the mark-to-market method of accounting;
- persons who own 5% or more of our shares;
- U.S. persons whose functional currency is not the U.S. dollar; or

Non-U.S. Holders (as defined below).

This discussion is based in part on representations by the depositary and assumes that each obligation under the deposit agreement and any related agreement will be performed in accordance with its terms. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and U.S. Treasury regulations (including temporary and proposed regulations), rulings and judicial decisions thereunder as of the date hereof. Such authorities are subject to change, possibly on a retroactive basis, which may result in U.S. federal income tax consequences different from those discussed below.

A U.S. Holder considering an investment in our ADSs or ordinary shares is urged to consult its own tax advisor concerning the U.S. federal, state, local and non-U.S. income and other tax consequences.

A U.S. Holder for purposes of this discussion is a beneficial owner of ADSs or ordinary shares that is a U.S. person. A U.S. person is:

- a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation, regardless of its source; or
- a trust if it is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

A beneficial owner of ADSs or ordinary shares that is not a U.S. Holder is referred to herein as a Non-U.S. Holder.

If a partnership holds ADSs or ordinary shares, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner of a partnership holding ADSs or ordinary shares is urged to consult its own tax advisor regarding an investment in our ADSs or ordinary shares.

ADSs. In general, for U.S. federal income tax purposes, a U.S. Holder of ADSs will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Deposits and withdrawals of ordinary shares in exchange for ADSs will not be subject to U.S. federal income taxation.

Distributions on ADSs or ordinary shares. Subject to the application of the passive foreign investment company rules, as discussed below, the gross amount of any distributions in respect of the ADSs or ordinary shares will be subject to tax as dividend income to the extent of our current and accumulated earnings and profits, as determined under U.S. federal income tax principles. Subject to certain limitations, dividends paid to non-corporate U.S. Holders, including individuals, may be eligible for a reduced rate of taxation if we are deemed to be or will be treated as a qualified foreign corporation for U.S. federal income tax purposes and provided that such holder satisfies certain holding period requirements with respect to the ownership of our ADS, or ordinary shares. Subject to the exceptions discussed below, dividends paid by a foreign corporation will be treated as being paid by a qualified foreign corporation if the corporation is:

- a corporation incorporated in a possession of the United States;
- a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an exchange of information program; or
- a foreign corporation whose stock with respect to which a dividend is paid or whose ADSs backed by such stock are readily tradable on an established securities market within the United States.

A foreign corporation (even if it is a corporation described above) does not constitute a qualified foreign corporation if the foreign corporation is a passive foreign investment company. Although we believe that dividends paid by us will be treated as being paid by a qualified foreign corporation, no assurance can be given in this regard. In addition, our status as a qualified foreign corporation may change. A U.S. Holder that exchanges its ADSs for ordinary shares may not be eligible for the reduced rate of taxation on dividends if the ordinary shares are not deemed to be readily tradable on an established securities market within the United States.

Dividends will be includable in a U.S. Holder s gross income on the date actually or constructively received by the depositary, in the case of ADSs or, in the case of ordinary shares, by such U.S. Holder. These dividends will not be eligible for the dividends-received deduction generally

allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the ADSs or ordinary shares, and the balance in excess of adjusted basis will be taxed as capital gain.

Sale, exchange or other disposition of ADSs or ordinary shares. Subject to the application of the passive foreign investment company rules, as discussed below, upon the sale, exchange or other disposition of ADSs or ordinary shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition and the adjusted tax basis of the U.S. Holder in the ADSs or ordinary shares. The capital gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or other disposition, the U.S. Holder has held the ADS or ordinary share for more than one year. Net long-term capital gains of non-corporate U.S. Holders, including individuals, are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss that a U.S. Holder recognizes generally will be treated as gain or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

Passive foreign investment company rules. In general, we will be classified as a passive foreign investment company for any taxable year in which either (a) at least 75% of our gross income is passive income or (b) at least 50% of the value (determined on the basis of a quarterly average) of our assets is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties, rents (other than rents and royalties derived in the active conduct of a trade or business and not derived from a related person), annuities and gains from assets that produce passive income. If we own at least 25% by value of the equity shares of another corporation, we will be treated for purposes of the passive foreign investment company tests as owning a proportionate share of the assets of the other corporation, and as receiving directly a proportionate share of the other corporation s income.

We believe, based on the projected composition of our income and valuation of our assets, that we should not be classified as a passive foreign investment company for U.S. federal income tax purposes, although no assurance can be given in this regard. Whether we are a passive foreign investment company for any particular taxable year is determined on an annual basis and will depend on the composition of our income and assets, including goodwill. The calculation of goodwill will be based, in part, on the then market value of our capital stock, which is subject to fluctuation. In addition, the composition of our income and assets will be affected by how we spend the cash we raised in our initial public offering. Accordingly, there can be no assurance that we will not be classified as a passive foreign investment company in the current or any future taxable year.

If we are a passive foreign investment company for any taxable year during which a U.S. Holder has an equity interest in us, unless the U.S. Holder makes a mark-to-market election as discussed below, such U.S. Holder will be subject to special tax rules in any future taxable year, regardless of whether we are classified as a passive foreign investment company in such future years with respect to (a) excess distributions and (b) gain from the disposition of stock. Excess distributions are defined generally as the excess of the amount received with respect to the equity interests in the taxable year over 125% of the average annual distributions received in the shorter of either the three previous years or a U.S. Holder s holding period before the taxable year and must be allocated ratably to each day of the U.S. Holder s holding period.

Taxation of Holders of ADSs or Shares in Other Countries

Holders or potential holders of our ADSs who are resident or otherwise taxable in countries other than the United States are urged to consult their own tax advisors concerning the overall tax consequences of the acquisition, ownership and disposition of our ADSs.

Documents on Display

We have previously filed with the SEC our registration statement on Form F-1, as amended, and prospectus under Securities Act with respect to our ADSs.

We are subject to the periodic reporting and other informational requirements of the U.S. Securities Exchange Act of 1934, or the Exchange Act. Under the Exchange Act, we are required to file reports and other

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information with the SEC. Specifically, we are required to file annually a Form 20-F no later than six months after the close of each fiscal year, which is December 31. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and our officers, directors, and principal shareholders are exempt from the reporting and short-swing profit recovery provisions of Section 16 of the Exchange Act.

Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at Room 100 F Street, NE, Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains an Internet site at http://*www.sec.gov* that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system.

Our financial statements have been prepared in accordance with U.S. GAAP.

Unless otherwise required by Nasdaq s Marketplace Rules or the rules and regulations of the Exchange Act, we will make available our annual reports on Form 20-F (which will include annual audited consolidated financial statements) to our shareholders by posting the annual reports on our website, provided that a hard copy of our annual reports will be provided to shareholders upon request, free of charge.

Subsidiary Information

For a listing of our subsidiaries, see Item 4 of this annual report, Information on the Company Organizational Structure.

Item 11: Quantitative and Qualitative Disclosure About Market Risk

Please refer to Item 5. Operating and Financial Review and Prospects Quantitative and Qualitative Disclosures About Market Risk.

Item 12: Description of Securities Other Than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Use of Proceeds

The following discussion relates to the initial public offering our ADSs by us and certain selling shareholders, pursuant to a registration statement on Form F-1 (File No. 333-119606), which was completed on November 2, 2004. The registration statement was declared effective by the SEC on October 27, 2004.

We received net proceeds (after deducting underwriting discounts and commissions and other expenses related to the offering) of approximately US$42 million from the offering 4,602,547 ADSs, representing 9,205,094 ordinary shares. None of the transaction expenses included payments to our directors, executive officers, persons owning 10% or more of our equity securities or our affiliates. Deutsche Bank Securities, WR Hambrecht + Co, and Allen & Company LLC were the underwriters for the offering.

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We did not receive any proceeds from the sale of our ADSs by the selling shareholders.

From November 2, 2004 through April 30, 2008, we have used a minor portion of the net proceeds from our initial public offering to fund the acquisitions of the Raytime and Fortunetrip enterprises, and also to fund a minor percentage of our operations. The majority of our operations are funded through our operating revenues.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

As required by Rule 13a-15(b) under the Exchange Act, our management, including our Chief Executive Officer, or CEO, Guangfu Cui and our CFO, Chris Chan, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) under the Exchange Act, as of December 31, 2007. Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in this annual report on Form 20-F and filed with the SEC is recorded, processed, summarized and reported in a timely manner. Based on this evaluation, our management, including our CEO and CFO, concluded that, as of the end of the period covered by this annual report, our disclosure controls and procedures were effective.

Management s Report on Internal Control over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2007. Our management has reviewed its assessment with our audit committee.

Our independent registered public accounting firm, KPMG, has issued an attestation report on our internal control over financial reporting. The report on the audit of internal control over financial reporting appears in this Form 20-F.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

eLong, Inc.:

We have audited eLong, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). eLong, Inc. 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, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit 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. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

In our opinion, eLong, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of eLong, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated June 24, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/

KPMG

Hong Kong, China

June 24, 2008

Limitations on Controls.

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all misstatements, including the possibility of human error and the circumvention or overriding of the sound control procedures. Any control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within eLong have been detected.

Changes in Internal Control over Financial Reporting.

As required by Rule 13(a)-15(d), under the Exchange Act, our management, including our CEO and CFO, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, it has been determined that there has been no such change during the period covered by this annual report.

Item 16A. Audit Committee Financial Expert.

The audit committee of our board of directors currently consists of Leo Austin, Michael Scown, and Thomas Gurnee, who also serves as the chairman of the audit committee. Our board of directors has determined

that all of our audit committee members are independent under Nasdaq s Marketplace Rules and Section 10A(m) of the U.S. Securities Exchange Act of 1934. In addition, our board of directors has determined that Mr. Gurnee is an audit committee financial expert as defined in Item 16A of the Instructions to Form 20-F and that Messrs. Austin and Scown each has the requisite financial knowledge and experience to be qualified to serve as a member of our audit committee.

Item 16B. Code of Business Conduct and Ethics.

Our board of directors has adopted a code of business conduct and ethics applicable to every employee of our company, including our CEO and CFO, principal accounting officer or controller, or persons performing similar functions, consistent with the requirements of the Nasdaq National Market. During 2007 we made certain minor revisions or amendments to our code of ethics, which are applicable to every employee of our company, to clarify our existing rules relating to data security, appropriate payment levels, and contract approval procedures. Our code of ethics is posted on our website at: *www.eLong.com*, under the Investor Relations page.

Item 16C. Principal Accountant Fees and Services.

KPMG have acted as the independent public accountants of our company and its subsidiaries for 2006 and 2007. The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by KPMG for the periods indicated.

	2006 RMB (in 000)	2007 RMB (in 000)
Audit Fees[(1)]	3,446	4,515
All Other Fees	200	
Total	3,646	4,515

(1) Audit Fees are the aggregate fees billed by KPMG for the audit of our consolidated annual financial statements and procedures related to our quarterly financial statements. We were billed by KPMG approximately RMB3.4million for 2006, and RMB4.5million (US$0.6 million) for 2007 in Audit Fees. We have not yet been fully billed by KPMG for audit fees in relation to the year ended December 31, 2007.

Our audit committee is responsible for the retention of our independent registered public accounting firm, which currently is KPMG. Our audit committee has adopted its own rules of procedure, in the form of an audit committee charter. The audit committee s rules of procedure provide for a process with respect to the prior approval of all non-audit services to be performed by our independent auditors. Our audit committee reports to our board of directors regarding the scope and results of our annual audits, compliance with our accounting and financial policies and management s procedures and policies related to the adequacy of our internal accounting controls.

Our audit committee was formed during 2004. In 2007 our audit committee pre-approved all of the audit services provided by KPMG.

Item 16D: Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In December 2004, Expedia Asia Pacific exercised its warrant and on January 7, 2005, purchased 17,362,134 of our high-vote ordinary shares for an aggregate cash purchase price of US$107.8 million, or US$6.21 per share (the equivalent of $12.42 per ADS). We used approximately one-half of the proceeds from

Expedia Asia Pacific s warrant exercise, or US$53,909,426.07, or US$6.21 per share, to purchase 8,681,067 ordinary shares from certain of our existing shareholders. The repurchase from existing shareholders were made pursuant to the agreements entered into with these shareholders in July 2004 in connection with Expedia Asia Pacific s initial investment in us and the issuance of the warrant to Expedia Asia Pacific. In April 2006, a post-closing adjustment was made such that the warrant exercise price and share repurchase price was adjusted to $6.20434 per share (the equivalent of $12.40868 per ADS). The warrant exercise price and share repurchase price are no longer subject to any adjustments. Notwithstanding the adjustment in the warrant exercise price, we did not repurchase any of our equity securities during the year ended December 31, 2006 or the year ended December 31, 2007.

On February 27, 2008, we announced the approval by our board of directors of a share buy back of up to US$20 million.

PART III

Item 17: Financial Statements

We have elected to provide financial statements pursuant to Item 18.

Item 18: Financial Statements

Our consolidated financial statements are included in this annual report at pages F-1 through F-33.

Item 19: Exhibits

1.1	Second Amended and Restated Memorandum of Association of Registrant (incorporated by reference to Exhibit 3.1 from Amendment No. 1 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 12, 2004).
1.2	Second Amended and Restated Articles of Association of Registrant (incorporated by reference to Exhibit 3.2 from Amendment No. 1 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 12, 2004).
2.1	Warrant Agreement by and among Registrant and IACT Asia Pacific Limited (an entity currently known as Expedia Asia Pacific) dated July 23, 2004 (incorporated by reference to Exhibit 4.9 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).
2.2	Deposit Agreement between Registrant and JPMorgan Chase Bank (incorporated by reference to Exhibit 99(a) to the company s Registration Statement on Form F-6 (file no. 333-119617) filed with the Securities and Exchange Commission on October 8, 2004).
2.3	Amendment No. 1 to Deposit Agreement (incorporated by reference to Exhibit 99(a)(2) to the company s Post-Effective Registration Statement on Form F-6 (file no. 333-119606) filed with the Securities and Exchange Commission on April 11, 2005).
3.1	Investors Agreement by and among the Registrant, IACT Asia Pacific Limited (an entity currently known as Expedia Asia Pacific) and the other persons who are parties thereto dated as of July 23, 3004 (incorporated by reference to Exhibit 4.6 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004.
4.1	Stock Option Agreement by and between Registrant and IACT Asia Pacific Limited (an entity currently known as Expedia Asia Pacific) dated July 23, 2004 (incorporated by reference to Exhibit 4.10 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

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4.2 Stock Option Agreement by and between Registrant and IACT Asia Pacific Limited (an entity currently known as Expedia Asia Pacific) dated October 1, 2004 (incorporated by reference to Exhibit 4.11 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.3 Letter Agreement by and between Registrant and IACT Asia Pacific Limited (an entity currently known as Expedia Asia Pacific) dated October 1, 2004 (incorporated by reference to Exhibit 4.12 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.4 Employment Agreement by and between eLong, Inc., InterActiveCorp, and Justin Tang dated July 23, 2004 (incorporated by reference to Exhibit 10.1 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.5 Employment Agreement by and between eLong, Inc., InterActiveCorp, and Derek Palaschuk dated July 23, 2004 (incorporated by reference to Exhibit 10.2 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.6 Employment Agreement by and between eLong, Inc., InterActiveCorp, and Richard Chen dated July 23, 2004 (incorporated by reference to Exhibit 10.3 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.7 Employment Agreement by and between eLong, Inc., InterActiveCorp, and Frank Zheng dated July 23, 2004 (incorporated by reference to Exhibit 10.5 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.8 Employment Agreement by and between eLong, Inc. and Thomas SooHoo dated December 19, 2005 (incorporated by reference to Exhibit 4.8 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2006).

4.9 Amended and Restated Technical Services Agreement by and between eLongNet Information Technologies (Beijing) Co., Ltd. and Beijing eLong Information Technologies Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.6 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.10 Amended and Restated Equity Interests Pledge Agreement by and between eLong Net Information Technology (Beijing) Co., Ltd. and Justin Tang dated July 20, 2004 (incorporated by reference to Exhibit 10.8 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.11 Amended and Restated Trademark License Agreement between eLongNet Information Technology (Beijing) Co., Ltd. and Beijing eLong Information Technology Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit (incorporated by reference to Exhibit 10.10 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.12 Amended and Restated Domain Name License Agreement between eLongNet Information Technology (Beijing) Co., Ltd. and Beijing eLong Information Technology Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.11 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.13 Amended and Restated Cooperative Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd. and Beijing eLong Information Technology Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.12 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.14 Amended and Restated Exclusive Purchase Right Agreement by and between Registrant, Justin Tang, eLongNet Information Technology (Beijing) Co., Ltd., and Beijing eLong Information Technology

Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.15 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.15	Cooperative Agreement by and between Beijing Asia Media Interactive Advertising Co., Ltd. and Beijing eLong Information Technology Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.17 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).
4.16	Trademark License Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd. and Beijing Asia Media Interactive Advertising Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.18 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).
4.17	Amended and Restated Advertising Technical Consulting and Services Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd. and Beijing Asia Media Interactive Advertising Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.19 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).
4.18	Amended and Restated Equity Interests Pledge Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd. and Justin Tang dated as on July 20, 2004 (incorporated by reference to Exhibit 10.20 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).
4.19	Amended and Restated Exclusive Purchase Right Agreement by and between Registrant, Justin Tang, Beijing Asia Media Interactive Advertising Co., Ltd., and eLongNet Information Technology (Beijing) Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.23 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission of October 7, 2004).
4.20	Amended and Restated Technical Consulting Services Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd., Beijing Air Services Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.25 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).
4.21	Amended and Restated Equity Interests Pledge Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd., Beijing eLongNet Information Technology Co., Ltd. and Beijing Asia Media Interactive Advertising Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.26 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).
4.22	Amended and Restated Business Operation Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd., Beijing eLong Air Services Co., Ltd., eLongNet Information Technology (Beijing) Co., Ltd. and Beijing Asia Media Interactive Advertising Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.27 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).
4.23	Amended and Restated Cooperative Agreement by and between Beijing Air Services Co., Ltd. and Beijing eLong Information Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.28 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).
4.24	Trademark License Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd. and Beijing eLong Air Services Co., Ltd. dated July 20, 2004 (incorporated by reference to Exhibit 10.29 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.25 Transaction Agreement by and among IACT Asia Pacific Limited (an entity currently known as Expedia Asia Pacific), InterActiveCorp, eLongNet Information Technology (Beijing) Co., Ltd., eLongNet Hi-Tech (Beijing) Co. dated July 23, 2004 (incorporated by reference to Exhibit 10.35 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.26 Transfer and Escrow Contribution Agreement by and among IACT Asia Pacific Limited (an entity currently known as Expedia Asia Pacific), certain selling shareholders and Registrant dated July 23, 2004 (incorporated by reference to Exhibit 10.36 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 7, 2004).

4.27 eLong, Inc. Stock Option Plan (incorporated by reference to Exhibit 4.13 to Amendment No. 1 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 12, 2004).

4.28 eLong, Inc. Stock and Annual Incentive Plan (incorporated by reference to Exhibit 4.14 to Amendment No. 1 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 12, 2004).

4.29 Letter Agreement dated as of October 27, 2004 by and between eLong and IACT Asia Pacific Limited (an entity currently known as Expedia Asia Pacific) (incorporated by reference to Amendment No. 4 to the company s Registration Statement on Form F-1 (file no. 333-119606) filed with the Securities and Exchange Commission on October 27, 2004).

4.30 The Second Amended and Restated Equity Interests Pledge Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd. and Veronica Chen dated as of December 30, 2004 (incorporated by reference to Exhibit 4.44 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).

4.31 The Second Amended and Restated Business Operation Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd., Beijing eLong Information Technology Co., Ltd., Justin Tang, Veronica Chen and Raymond Huang dated December 30, 2004 (incorporated by reference to Exhibit 4.45 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).

4.32 The Second Amended and Restated Equity Interests Pledge Agreement between eLongNet Information Technology (Beijing) Co., Ltd. and Linda Dong dated December 30, 2004 (incorporated by reference to Exhibit 4.46 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).

4.33 The Second Amended and Restated Equity Interests Pledge Agreement between eLongNet Information Technology (Beijing) Co., Ltd., and Raymond Huang dated December 30, 2004 (incorporated by reference to Exhibit 4.47 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).

4.34 The Second Amended and Restated Business Operation Agreement among the eLongNet Information Technology (Beijing) Co., Ltd., Beijing Asia Media Interactive Advertising Co., Ltd., Justin Tang, and Linda Dong dated December 30, 2004 (incorporated by reference to Exhibit 4.48 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).

4.35 The Second Amended and Restated Exclusive Purchase Right Agreement by and among Registrant, Veronica Chen, Beijing eLong Information Technology Co., Ltd., and eLongNet Information Technology (Beijing) Co., Ltd. dated December 30, 2004. (incorporated by reference to Exhibit 4.49 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005)

4.36 The Second Amended and Restated Exclusive Purchase Right Agreement by and among Registrant, Raymond Huang, Beijing eLong Information Technology Co., Ltd., and eLongNet Information

	Technology (Beijing) Co., Ltd. dated December 30, 2004 (incorporated by reference to Exhibit 4.51 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).
4.37	The Second Amended and Restated Exclusive Purchase Right Agreement by and between Registrant, Linda Dong, Beijing Asia Media Interactive Advertising Co., Ltd., and eLongNet Information Technology (Beijing) Co., Ltd. dated December 30, 2004 (incorporated by reference to Exhibit 4.52 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).
4.38	The Equity Interests Pledge Agreement by and between eLongNet Information Technology (Beijing) Co., Ltd. and Tian Binbin dated as of March 22, 2005 (incorporated by reference to Exhibit 4.56 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).
4.39	The Exclusive Purchase Right Agreement by and between Beijing eLong Information Technology Co., Ltd and Tian Binbin dated as of March 22, 2005 (incorporated by reference to Exhibit 4.57 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).
4.40	The Second Amended and Restated Loan Agreement by and between Registrant, Justin Tang, Veronica Chen, and Raymond Huang dated December 30, 2004 (incorporated by reference to Exhibit 4.58 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).
4.41	The Second Amended and Restated Loan Agreement by and between Registrant, Justin Tang and Linda Dong dated December 30, 2004 (incorporated by reference to Exhibit 4.59 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).
4.42	The Loan Agreement by and between Beijing eLong Information Technology Co., Ltd. and Tian Binbin dated as of March 22, 2005 (incorporated by reference to Exhibit 4.60 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2005).
4.43	Termination Agreement by and between eLong, Inc. and SINA Corporation dated as of July 10, 2006. (incorporated by reference to Exhibit 4.43 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2007)
4.44	Termination Notice to Chan Chi Shan with respect to the termination of Lease Contract dated as of June 19, 2006. (incorporated by reference to Exhibit 4.44 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2007)
4.45	Form of Asset Purchase Agreement dated as of September 12, 2006, by and between Match.com Offshore Holdings, Ltd., Five Star Matchmaking Information Technology (Beijing) Co. Ltd., eLong, Inc. and eLongNet Information Technology (Beijing) Co., Ltd. (incorporated by reference to Exhibit 4.45 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2007)
4.46	Form of Content Cooperation Agreement dated as of October 2, 2006 by and between Five Star Matchmaking Information Technology (Beijing) Co. Ltd., Beijing eLong Information Technology Co., Ltd., and eLongNet Information Technology (Beijing) Co., Ltd. (incorporated by reference to Exhibit 4.46 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2007)
4.47	Termination and Settlement Agreement by and between eLong, Inc. and Richard Xue effective as of March 31, 2005 (incorporated by reference to Exhibit 4.61 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 30, 2005).
4.48	Termination and Settlement Agreement by and between eLong, Inc. and Justin Tang dated as of January 23, 2006 (incorporated by reference to Exhibit 4.44 from Registrant s Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 29, 2006).

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4.49	Employment Agreement by and between eLong, Inc. and Chris Chan effective as of February 26, 2007.
4.50	Termination and Settlement Agreement by and between eLong, Inc. and Thomas Soohoo, effective as of May 24, 2007.
4.51	The Third Amended and Restated Loan Agreement dated July 30, 2007 by and among Registrant, Justin Tang and Thomas Zheng.
4.52	The Third Amended and Restated Equity Interests Pledge Agreement dated July 30, 2007 by and between eLongNet Information Technology (Beijing) Co., Ltd. and Thomas Zheng.
4.53	The Third Amended and Restated Exclusive Purchase Right Agreement dated July 30, 2007 by and among Registrant, Thomas Zheng, Beijing Asia Media Interactive Advertising Co., Ltd., and eLongNet Information Technology (Beijing) Co., Ltd.
4.54	The Third Amended and Restated Business Operation Agreement dated July 30, 2007 by and among eLongNet Information Technology (Beijing) Co., Ltd., Beijing Asia Media Interactive Advertising Co., Ltd., Justin Tang, and Thomas Zheng.
4.55	Services Agreement by and between eLong, Inc. and Expedia Asia Pacific Limited on Henrik s service as eLong s Interim Chief Executive Officer, effective as of April 16, 2007.
4.56	Renewal of Employment Agreement by and between eLong, Inc. and Frank Zheng effective as of September 6, 2007.
4.57	Renewal of Employment Agreement by and between eLong, Inc. and Richard Chen effective as of September 13, 2007.
4.58	Employment Agreement by and between eLong, Inc. and Guangfu Cui, effective as of October 8, 2007.
4.59	Strategic Agreement for Cooperation in the PRC Corporate Travel Market between eLong, Inc and Expedia Corporate Travel, LLC (ECT), effective as of November 12, 2007.
4.60	Waiver Agreement by and between eLong Inc, eLongNet Information Technology (Beijing) Co., Ltd. and Expedia Inc. effective as of November 13, 2007.
4.61	The Fourth Amended and Restated Loan Agreement dated December 28, 2007 by and between Registrant, Justin Tang and Guangfu Cui.
4.62	The Fourth Amended and Restated Equity Interests Pledge Agreement dated December 28, 2007 between eLongNet Information Technology (Beijing) Co., Ltd. and Guangfu Cui.
4.63	The Fourth Amended and Restated Exclusive Purchase Right Agreement dated December 28, 2007 by and between Registrant, Guangfu Cui, Beijing Asia Media Interactive Advertising Co., Ltd., and eLongNet Information Technology (Beijing) Co., Ltd.
4.64	The Fourth Amended and Restated Business Operation Agreement dated December 28, 2007 by and among the eLongNet Information Technology (Beijing) Co., Ltd., Beijing Asia Media Interactive Advertising Co., Ltd., Justin Tang, and Guangfu Cui.
8.1	Subsidiaries of Registrant.
12.1	Certification of Chief Executive Officer Required by Rule 13a-14(a).
12.2	Certification of Chief Financial Officer Required by Rule 13a-14(a).
13.1	Certification of Chief Executive Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
13.2	Certification of Chief Financial Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
15.1	Consent of Independent Registered Public Accounting Firm.
15.2	Consent of TransAsia Lawyers.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing this annual report on Form 20-F and has duly caused this annual report to be signed on our behalf by the undersigned, thereunto duly authorized.

Date: June 28, 2008

eLong, Inc.

/s/ Guangfu Cui
Guangfu Cui

Chief Executive Officer

/s/ Chris Chan
Chris Chan

Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

eLong, Inc.:

We have audited the accompanying consolidated balance sheets of eLong, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, shareholders equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of eLong, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2(h) and 13 to the consolidated financial statements, effective January 1, 2006, the Company changed its method of accounting for employee share-based arrangements as required by Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-based Payment . Further, as discussed in Note 2(w) to the consolidated financial statements, effective January 1, 2007, the Company changed its presentation of business tax and surcharges as permitted by Emerging Issues Task Force Issue No.06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation) .

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), eLong, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 24, 2008 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

The accompanying consolidated financial statements as of and for the year ended December 31, 2007 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, such financial statements expressed in Renminbi have been translated into United States dollars on the basis set forth in Note 2(d) to the consolidated financial statements.

/s/

KPMG

Hong Kong, China

June 24, 2008

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eLong, Inc.

Consolidated Balance Sheets

	December 31,		
	2006 RMB (Note 3)	2007 RMB	2007 US$
ASSETS			
Current assets:			
Cash and cash equivalents	1,199,322,679	1,138,446,505	156,067,023
Restricted assets		11,274,166	1,545,550
Short-term investment		19,120,000	2,621,117
Accounts receivable, net	28,237,397	41,138,242	5,639,547
Due from related parties	2,098,705	924,024	126,672
Prepaid expenses and other current assets	10,682,685	15,644,755	2,144,704
Total current assets	**1,240,341,466**	**1,226,547,692**	**168,144,613**
Property and equipment, net	37,809,238	43,961,584	6,026,593
Goodwill	30,000,019	30,000,019	4,112,634
Intangible assets, net	3,745,944	2,192,265	300,533
Other non-current assets	23,011,591	28,966,622	3,970,967
Total assets	**1,334,908,258**	**1,331,668,182**	**182,555,340**
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	32,753,234	57,957,209	7,945,221
Income taxes payable	14,707,758	1,238,452	169,777
Due to related parties	3,373,739	4,528,560	620,810
Accrued expenses and other current liabilities	83,161,985	83,233,309	11,410,264
Total current liabilities	**133,996,716**	**146,957,530**	**20,146,072**
Other liabilities	1,112,247	100,000	13,709
Total liabilities	**135,108,963**	**147,057,530**	**20,159,781**
Commitments and contingencies			
Shareholders equity			
Series A preferred shares: US$0.01 par value; Authorized shares: 8,205,620 Issued and outstanding shares: Nil			
Series B preferred shares: US$ 0.01 par value Authorized shares: 50,000,000 Issued and outstanding shares: Nil			
Ordinary shares: US$0.01 par value Authorized shares: 150,000,000 Issued shares: 23,023,671 and 23,073,671 Outstanding shares: 22,108,629 and 22,318,501	1,828,837	1,844,849	252,906
High vote ordinary shares: US$0.01 par value; Authorized shares: 50,000,000 Issued and outstanding shares: 28,550,704	2,362,999	2,362,999	323,938
Additional paid-in capital	1,297,692,517	1,308,046,907	179,317,153
Accumulated other comprehensive loss	(28,566)		
Accumulated deficit	(102,056,492)	(127,644,103)	(17,498,438)

Total shareholders equity	**1,199,799,295**	**1,184,610,652**	**162,395,559**
Total liabilities and shareholders equity	**1,334,908,258**	**1,331,668,182**	**182,555,340**

See accompanying notes to consolidated financial statements.

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eLong, Inc.

Consolidated Statements of Operations

	Year ended December 31,			
	2005	**2006**	**2007**	**2007**
	RMB	**RMB**	**RMB**	**US$**
	(Note 3)	**(Note 3)**		
Revenues:				
Travel	178,459,309	255,960,988	303,846,548	41,653,627
Other	11,869,843	8,582,692	11,550,123	1,583,380
Total revenues	**190,329,152**	**264,543,680**	**315,396,671**	**43,237,007**
Business tax and surcharges	10,487,647	14,702,612	17,810,292	2,441,572
Net revenues	**179,841,505**	**249,841,068**	**297,586,379**	**40,795,435**
Cost of services	40,446,988	62,245,355	82,497,585	11,309,405
Gross profit	**139,394,517**	**187,595,713**	**215,088,794**	**29,486,030**
Operating expenses:				
Service development	36,297,589	41,921,653	48,602,279	6,662,775
Sales and marketing	93,184,664	99,091,184	126,971,094	17,406,176
General and administrative	55,506,942	61,534,710	52,005,466	7,129,310
Amortization of intangibles	634,055	1,060,000	1,060,000	145,313
Impairment of property and equipment and intangible assets			1,038,896	142,420
Loss from operations	**(46,228,733)**	**(16,011,834)**	**(14,588,941)**	**(1,999,964)**
Other income (expense):				
Interest income	30,940,838	51,429,793	55,470,781	7,604,361
Foreign currency exchange loss, net	(25,862,167)	(33,016,052)	(65,819,578)	(9,023,055)
Other income (expense), net	(531,318)	(10,775)	131,630	18,045
Total other income (expenses), net	**4,547,353**	**18,402,966**	**(10,217,167)**	**(1,400,649)**
Earnings (loss) from continuing operations before income taxes	(41,681,380)	2,391,132	(24,806,108)	(3,400,613)
Income tax expense	1,603,154	2,835,259	885,343	121,369
Loss from continuing operations	**(43,284,534)**	**(444,127)**	**(25,691,451)**	**(3,521,982)**
Earnings (loss) from discontinued operations before income taxes (including gain on disposal of RMB 2,649,682 in 2006)	(16,934,889)	1,226,768	112,260	15,389
Income tax expense of discontinued operations	298,236	24,302	8,420	1,154
Total earnings (loss) from discontinued operations, net of income taxes	**(17,233,125)**	**1,202,466**	**103,840**	**14,235**
Net earnings (loss) before cumulative effect of change in accounting principle	(60,517,659)	758,339	(25,587,611)	(3,507,747)
Cumulative effect of change in accounting principle		282,072		
Net earnings (loss)	**(60,517,659)**	**1,040,411**	**(25,587,611)**	**(3,507,747)**
Basic earnings (loss) per share:				
Continuing operations	(0.87)	(0.01)	(0.51)	(0.07)
Discontinued operations	(0.35)	0.02	0.00*	0.00*

Cumulative effect of change in accounting principle		0.01		
Basic earnings (loss) per share	**(1.22)**	**0.02**	**(0. 51)**	**(0.07)**
Diluted earnings (loss) per share:				
Continuing operations	(0.87)	(0.01)	(0.51)	(0.07)
Discontinued operations	(0.35)	0.02	0.00*	0.00*
Cumulative effect of change in accounting principle		0.01		
Diluted earnings (loss) per share	**(1.22)**	**0.02**	**(0.51)**	**(0.07)**

*: Representing per share amount which is less than RMB 0.01.

See accompanying notes to consolidated financial statements.

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eLong, Inc.

Consolidated Statements of Shareholders Equity and Comprehensive Income (loss)

	Ordinary shares		High vote Ordinary shares							
	Number of Shares	Amount RMB	Number of Shares	Amount RMB	Stock warrant RMB	Additional paid-in capital RMB	Deferred compensation RMB	Accumulated other comprehensive income (loss) RMB	Accumulated deficit RMB	Total shareholders equity RMB
December 31, 2004	**28,652,551**	**2,372,079**	**11,188,570**	**926,022**	**84,906,056**	**673,132,565**	**(40,107,620)**	**240,001**	**(42,579,244)**	**678,889,859**
Unrealized loss on investment securities, net of taxes of nil								(171,765)		(171,765)
Net loss									(60,517,659)	(60,517,659)
Total comprehensive loss										(60,689,424)
Grant of stock options and Performance Units						5,178,429	(5,178,429)			
Exercise of stock options	1,718,250	141,844				11,320,517				11,462,361
Exercise of stock warrants, net of expenses	98,973	8,192	17,362,134	1,436,977	(84,906,056)	966,551,480				883,090,593
Indemnity refund						(1,005,341)				(1,005,341)
Repurchase and cancellation of ordinary shares, net of expenses	(8,681,067)	(718,489)				(437,551,499)				(438,269,988)
Amortization of deferred compensation, net of forfeiture impact						(2,815,249)	17,667,467			14,852,218
December 31, 2005	**21,788,707**	**1,803,626**	**28,550,704**	**2,362,999**		**1,214,810,902**	**(27,618,582)**	**68,236**	**(103,096,903)**	**1,088,330,278**
Unrealized loss on investment securities, net of taxes of nil								(96,802)		(96,802)
Net earnings									1,040,411	1,040,411
Total comprehensive income										943,609
	319,922	25,211				6,069,096				6,094,307

Exercise of stock options and warrants									
Adoption of SFAS No.123R					(27,618,582)	27,618,582			
Share-based compensation cost					10,260,600				10,260,600
Capital contribution from sale of business to entity under common control					94,170,501				94,170,501
December 31, 2006	**22,108,629**	**1,828,837**	**28,550,704**	**2,362,999**	**1,297,692,517**		**(28,566)**	**(102,056,492)**	**1,199,799,295**

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eLong, Inc.

Consolidated Statements of Shareholders Equity and Comprehensive Income (loss) (Continued)

	Ordinary shares		High vote Ordinary shares			Additional		Accumulated other		
	Number of Shares	Amount RMB	Number of Shares	Amount RMB	Stock warrant RMB	paid-in capital RMB	Deferred compensation RMB	comprehensive income RMB	Accumulated deficit RMB	Total shareholders equity RMB
Realized loss on investment securities upon disposal, net of taxes of nil								28,566		28,566
Net loss									(25,587,611)	(25,587,611)
Total comprehensive loss										(25,559,045)
Exercise of stock options and warrants	192,718	14,721				3,135,130				3,149,851
Exercise of Performance Units	17,154	1,291				(1,291)				
Share-based compensation cost						7,220,551				7,220,551
December 31, 2007	**22,318,501**	**1,844,849**	**28,550,704**	**2,362,999**		**1,308,046,907**			**(127,644,103)**	**1,184,610,652**
December 31, 2007-US$		**252,906**		**323,938**		**179,317,153**			**(17,498,438)**	**162,395,559**

See accompanying notes to consolidated financial statements.

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eLong, Inc.

Consolidated Statements of Cash Flows

	Year ended December 31,			
	2005 RMB	**2006 RMB**	**2007 RMB**	**2007 US$**
Cash flows from operating activities:				
Net earnings (loss)	(60,517,659)	1,040,411	(25,587,611)	(3,507,747)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:				
Minority interest (related to discontinued operations)	(832,836)	(111,573)		
Cumulative effect of change in accounting principle		(282,072)		
Foreign exchange loss	25,888,143	33,258,502	65,917,833	9,036,525
Impairment loss of goodwill, intangible assets and property and equipment	17,544,663		1,038,896	142,420
Allowance for doubtful accounts	3,557,148	957,149	2,206,673	302,508
Loss on disposal of property and equipment	60,409	414,395	208,229	28,546
Depreciation of fixed assets and amortization of intangible assets	9,964,548	12,813,406	16,565,314	2,270,901
Utilization of pre-acquisition net operating loss carry forwards		4,083,112		
Share based compensation	14,801,571	12,221,421	6,002,062	822,809
Gain on discontinued operations		(2,649,682)		
Deferred income taxes	502,186	(3,237,776)	(1,682,525)	(230,653)
Gain on disposal of investment			(134,089)	(18,382)
Changes in working capital, net of impact from acquisitions:				
Accounts receivable	966,032	5,460,245	(14,497,502)	(1,987,429)
Prepaid expenses and other current assets	2,826,755	(996,705)	(4,641,390)	(636,278)
Other non-current assets	(4,857,072)	(4,136,713)	(18,257,591)	(2,502,891)
Amounts due from related parties		(462,059)	(1,707,080)	(234,020)
Accounts payable	10,853,369	10,374,149	23,449,811	3,214,681
Accrued expenses and other current liabilities	8,019,345	6,134,981	(7,686,495)	(1,053,726)
Amounts due to related parties	1,701,363	1,672,376	1,154,821	158,312
Net cash provided by operating activities	**30,477,965**	**76,553,567**	**42,349,356**	**5,805,576**
Cash flows from investing activities:				
Capital expenditures	(19,887,306)	(20,661,826)	(22,190,033)	(3,041,981)
Acquisitions, net of cash acquired	(16,112,269)	(7,894,780)	(250,000)	(34,272)
Proceeds from disposal of property and equipment	237,048	615,178	206,437	28,300
Proceeds from disposal of business, net direct expense		113,947,501		
Increase in restricted assets		(11,384,231)	(373,326)	(51,178)
Payment for short term investment			(19,120,000)	(2,621,117)
Payment relating to discontinued operations			(15,567)	(2,134)
Payments made on behalf of related parties		(1,636,646)	(1,895,678)	(259,874)
Withdrawal of investment deposit	2,950,000			
Net cash (used in) provided by investing activities	**(32,812,527)**	**72,985,196**	**(43,638,167)**	**(5,982,256)**
Cash flows from financing activities:				
Proceeds from warrants exercise, net of investment banking fee	771,596,526			
Repurchase of ordinary shares	(393,651,851)			
Exercise of stock options and stock warrants	11,462,362	6,094,306	3,149,851	431,806
Payments for initial public offering costs	(9,129,797)	(8,487,133)		
Repayment of short-term loan		(6,000,000)		
Payments for Series B preferred shares offering costs	(220,497)			
Proceeds from release of restricted cash, net of expenses	24,001,565	75,706,911		
Proceeds received on behalf of related parties			4,777,439	654,928
Payable to former shareholders		26,693,515		
Receipts in advance (refund) in relation to share option exercise		1,132,594	(572,082)	(78,425)
Net cash provided by financing activities	**404,058,308**	**95,140,193**	**7,355,208**	**1,008,309**
Effect of foreign exchange rate changes on cash	**(23,210,169)**	**(33,916,633)**	**(66,942,571)**	**(9,177,004)**
Net increase (decrease) in cash and cash equivalents	378,513,577	210,762,323	(60,876,174)	(8,345,375)

Cash and cash equivalents at beginning of year	610,046,779	988,560,356	1,199,322,679	164,412,398
Cash and cash equivalents at end of year	**988,560,356**	**1,199,322,679**	**1,138,446,505**	**156,067,023**
Supplemental disclosures of cash flow information:				
Cash paid for income taxes	414,626	1,963,628	14,238,145	1,951,875
Accrual for purchase of equipment and software	6,721,588	4,823,503	5,521,328	756,906

See accompanying notes to consolidated financial statements.

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eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND DESCRIPTION OF BUSINESS

ELong, Inc. (the Company through its consolidated subsidiaries and variable interest entities (VIEs) (collectively the Group), is principally engaged in the provision of travel services, including hotel information and reservation services, airline reservations and ticketing, and to a lesser extent, packaged-tour services, Internet-related advertising and other related services in the People s Republic of China (the PRC).

The Company, through its subsidiaries, conducts its operations in the PRC through a series of agreements with various VIEs. These VIEs are designed and used solely to facilitate the Company s participation in Internet content provision, short messaging, call center services, advertising business, travel agency and air-ticketing services, which are industries in the PRC in which foreign ownership is restricted. The Company does not have any direct equity interest in the VIEs. However, pursuant to certain agreements and arrangements with its VIEs, the Company has the economic controlling interest over and is the primary beneficiary of these entities.

The Company has an economic controlling interest over the VIEs through a series of related agreements, including exclusive technical services agreements, equity pledge agreements, operating agreements and loan agreements. Through these agreements, the Company is the primary beneficiary of these entities as it absorbs a majority of the VIEs expected losses and receives a majority of the VIEs expected residual returns. As a result, the financial position and results of the VIEs have been consolidated in the Company s consolidated financial statements.

As of December 31, 2007, Expedia Inc. controls approximately 95% of the Company s voting power and has the ability to control substantially all of the Company s management and business operations.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and VIEs. All significant transactions and balances between the Company, its subsidiaries and VIEs have been eliminated upon consolidation.

(b) Basis of presentation

The accompanying consolidated financial statements of the Group have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

(c) Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual financial results could differ significantly from these estimates. Significant items subject to such estimates and assumptions include allowances for doubtful accounts and deferred income tax assets, provision for loyalty points, stock-based compensation, the allocation of the purchase price for the Company s business acquisitions, useful lives and residual values of property and equipment and intangible assets, and the recovery of the carrying values of long-lived assets, goodwill and intangible assets.

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eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(d) Foreign currencies

The Group s functional and reporting currency is the Renminbi (RMB .) Monetary assets and liabilities denominated in currencies other than the RMB are translated into RMB using the applicable exchange rates quoted by the People s Bank of China (PBOC) at the balance sheet dates. All such exchange gains and losses are included in foreign currency exchange loss, net in the consolidated statements of operations.

Translations of amounts from RMB into United States dollars (U.S. dollars) are solely for the convenience of the reader and are calculated at the rate of US$1.00 = RMB7.2946, representing the noon buying rate in the City of New York for cable transfers of RMB, as certified for customs purposes by the Federal Reserve Bank of New York, on December 31, 2007. No representation is made that the RMB amounts could have been, or could be, converted, realized or settled into U.S. dollars at that rate on December 31, 2007, or at any other rate.

(e) Commitments and contingencies

In the normal course of business, the Group is subject to contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters. Liabilities for such contingencies are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

(f) Revenue recognition

The Group s revenues are principally derived from providing hotel reservations, air-ticketing and other related travel services. The Group recognizes revenues when all of the following have occurred: persuasive evidence of arrangement with the customer, services have been performed, fees are fixed or determinable and collectibility of the fees is reasonably assured. These criteria as related to the Group s revenues are considered to have been met as follows:

Hotel reservation services

The Group receives commissions from travel suppliers for hotel room reservations booked through the Group. Commissions from hotel reservation services rendered are recognized after hotel customers have completed their stay at the applicable hotel. The Group presents revenues from such transactions on a net basis in the statements of operations, as the Group acts as an agent, does not assume any inventory risk, and has no obligations to the hotel for cancelled hotel reservations. Contracts with certain travel suppliers contain escalating commissions that are subject to achieving specific performance targets. Such escalating commissions are recognized when the performance targets have been achieved.

Air-ticketing services

The Group receives commissions from travel suppliers for air-ticketing services booked through the Group. Commissions from air-ticketing services rendered are recognized upon the delivery of the ticket to the customer, net of estimated cancellations. Estimated cancellations were insignificant for the years ended December 31, 2005, 2006 and 2007. The Group presents revenues from such transactions on a net basis in the statements of operations, as the Group acts as an agent, does not assume any inventory risk, and has no obligations for cancelled airline ticket reservations. Contracts with certain airlines contain discretionary escalating commissions that are paid to the Group subject to achieving specific performance targets. Such discretionary escalating commissions are recognized on a cash basis because the Group cannot reasonably estimate such commissions.

eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other travel services

The Group receives commissions from travel product providers for vacation package products and services booked through the Group. Commissions are recognized as revenue upon the delivery of the air ticket to the customer, net of estimated cancellations. Cancellations were insignificant for the years ended December 31, 2005, 2006 and 2007. The Group presents revenues from such transactions on a net basis in the statements of operations, as the Group acts as an agent and does not assume any inventory risk for cancelled vacation package bookings. The Group suspended its vacation package service in July 2007.

The Company also provides Chinese hotel inventory procurement, rating and availability negotiating service to Travelscape LLC (Travelscape), which is controlled by Expedia Inc. and recognizes revenue when Travelscape confirms the revenue sharing amount which is based on pre-agreed commission sharing rate.

Non- travel services

Non-travel services primarily comprise wireless services and Internet-related advertising services.

Revenue from Internet-related advertising contracts, which is paid in cash, is recognized over the contractual advertisement display period. Revenue from the provision of wireless services is recognized when the services have been rendered, the amount can be reliably measured and there is no uncertainty of settlement with the telecom operators.

The Company s subsidiaries and VIEs, are subject to business tax and surcharges on the revenues generated from services rendered in China. Commencing January 1, 2007, business tax and surcharges are recorded on a net basis (excluded from revenues) in the consolidated statement of operations. Amounts for all prior periods presented have been reclassified for comparative purpose.

(g) Income taxes

Income taxes are provided using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates or change in tax status is recognized in income in the period the change in tax rates or the tax law is enacted. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion, or all, of the deferred tax assets will not be realized.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 109 *Accounting for Income Taxes* , the tax benefits associated with the utilization of pre-acquisition net operating losses carryforwards for which a valuation allowance was established at the date of the acquisition are recognized in the consolidated financial statements after the acquisition date as follows: (i) first to reduce to zero any goodwill related to the acquisition; (ii) second to reduce to zero other non-current intangible assets related to the acquisition; and (iii) third to reduce income tax expense.

On January 1, 2007, the Group adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 gives guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and requires that an entity recognize in its financial statements the impact of a tax position, if that

eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

position is more likely than not to be sustained upon an examination, based on the technical merits of the position. The adoption of FIN 48 on January 1, 2007 did not have any effect on the Group s consolidated financial statements.

The Group records interest related to unrecognized tax benefits in interest expense and records related penalties in general and administrative expenses in the Group s consolidated statements of operations.

(h) Share-based compensation

Prior to January 1, 2006, the Group accounted for employee share-based arrangements using the preferable fair value recognition provision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Effective January 1, 2006, the Group adopted SFAS No. 123 *(revised 2004), Share-Based Payment (SFAS No. 123R)*, which replaced SFAS No. 123 and superseded APB No. 25, *Accounting for Stock Issued to Employees* (APB No. 25). The Group adopted SFAS No. 123R using the modified prospective approach, and accordingly, prior periods have not been restated to reflect the impact of SFAS No. 123R. In accordance with SFAS No. 123R, all grants of stock options and Performance Units are recognized in the consolidated financial statements based on their grant date fair values. The valuation provisions of SFAS No. 123R apply to new awards granted after the adoption of SFAS No. 123R, to awards granted to employees before the adoption of SFAS No. 123R whose related requisite services had not been provided, and to awards which were subsequently modified or cancelled. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 107 (SAB No. 107) relating to SFAS No. 123R. The Group has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123R.

SFAS No. 123R requires forfeitures to be estimated at the date of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. Share-based compensation cost was recorded net of estimated forfeitures such that expense was recorded only for those share-based awards that are expected to vest. Previously under SFAS No. 123, to the extent awards were forfeited prior to vesting, the corresponding previously recognized expense was reversed in the period of forfeiture. Upon the adoption of SFAS No. 123R, the Group recorded a cumulative effect of RMB 282,072 to account for the expected forfeitures of share-based awards granted prior to January 1, 2006 for which the Group previously recorded as an expense. As required by SFAS No. 123R, a balance of RMB 27,618,582 of deferred compensation on January 1, 2006, date of adoption, was eliminated against additional paid-in capital.

Under SFAS No. 123R, the Group applies the Black-Scholes valuation model in determining the fair value of options granted. Risk-free interest rates are based on US Treasury yield for the terms consistent with the expected life of award at the time of grant. Expected life is based on historical exercise patterns, which the Group believes are representative of future behavior. Expected dividend yield is determined in view of the Company s historical dividend payout rate. The Group estimates expected volatility at the date of grant based on a combination of historical volatilities and volatilities of comparable companies. The Group recognizes compensation cost on all share-based awards on a straight-line basis over the requisite service period. Forfeiture rate is estimated based on historical forfeiture and adjusted to reflect consideration for foreseeable future changes in facts and circumstances, if any.

Compensation cost related to 2006 and 2007 employee Performance Units, which are awards in the form of units that are denominated in a hypothetical equivalent number of the Company s ordinary shares, which number of units are determined based on the fair market value of the Company s ordinary shares on the date immediately preceding the grant date and which, when vested, are settled in either ordinary shares or cash. At the time of grant, the Company s board of directors or the compensation committee determines if the Company will settle the Performance Units in cash, shares or both. Settlement terms of Performance

eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Units, once established, may only be changed by approval of the Company s board of directors or the compensation committee. Except with respect to the Performance Units granted to the Company s independent directors which are to be settled in cash, shares or both, Performance Units granted to staff during 2006 and 2007 are to be settled in ordinary shares. Those Performance Units granted during 2006 and 2007 to the Company s independent directors are to be settled upon vesting by shares or cash that is equal to the fair market value of the vested ordinary shares on the vesting date. Forfeiture rate is estimated based on historical forfeiture and adjusted to reflect consideration for foreseeable future changes in facts and circumstances, if any.

Share-based compensation awards which are settled in cash upon vesting are classified as liabilities and included in accrued expenses and other current liabilities in the accompanying consolidated balance sheet. Compensation cost related to liability-classified awards is determined based on the current share price and other pertinent factors at the balance sheet date, and the proportionate amount of the requisite service that has been rendered to date. Changes in fair value of the liability-classified awards after the requisite service period has been completed are immediately recognized as compensation cost in the period in which the change in fair value occurs.

The Group accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS No. 123R and Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. All transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date of the fair value of the equity instrument issued is the date on which the counterparty s performance is completed.

(i) Loyalty points provision

Cardholders of the VIP, regular, and co-branded cards issued by the Group earn loyalty points based on their usage of the cards. The Group provides travel awards and other non-cash gifts to the cardholders upon redemption of loyalty points that are accumulated based on cardholders transactions with the Group. Due to the limited history of the loyalty points reward program, the Group cannot make reasonable and reliable estimates of the forfeiture levels of the loyalty points. Therefore, the Group recognizes estimated costs to provide free travel and other non-cash gifts based on historical redemption rates. The liabilities for loyalty points are reduced upon the redemption or expiration of the loyalty points. The estimated costs are included in sales and marketing expense in the consolidated statements of operations.

(j) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposit placed with banks or other financial institutions. The Group considers highly liquid investments that are readily convertible to known amounts of cash and with original maturities from the date of purchase of three months or less to be cash equivalents.

(k) Short-term investment

Short-term investment represents a held-to-maturity debt security reported at amortized cost with a maturity of less than one year. The Company assesses declines in the value of the investment to determine whether such decline is other-than-temporary and thus the investment is impaired. This assessment is made by considering available evidence including changes in general market conditions, specific industry and

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

individual company data, the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the individual company, and the Company s intent and ability to hold the investment.

(l) Accounts receivable

Accounts receivable are recorded at the invoiced amount and are non-interest bearing. The allowance for doubtful accounts is the Group s best estimate of the amount of probable credit losses in the Group s existing accounts receivable. The Group reviews its allowance for doubtful accounts periodically and determines the allowance based on historical write-off experience, the aging of the accounts receivable balance and the customer s credit worthiness. Specific accounts are reviewed individually for collectibility. Accounts receivable are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Group does not have any off-balance-sheet credit exposure related to its customers.

(m) Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and amortization. The Group also capitalizes certain costs incurred during the application development stage related to the development of internal-use software in accordance with Statement of Position (SOP) No.98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, and EITF Issue No. 00-2, *Accounting for Web Site Development Costs*. Costs incurred related to the planning and post-implementation phases of development are expensed as incurred.

Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives, taking into account any estimated residual value:

Capitalized software development cost	3 years
Computer equipment and system software	3-5 years
Furniture, fixtures and office equipment	5 years

Leasehold improvements are amortized using the straight-line method over 2 to 5 years which represents the shorter of the lease term or estimated useful life of the assets.

(n) Goodwill and other intangible assets

Goodwill represents the excess of costs over fair value of the net assets of businesses acquired. The Group follows the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually or more frequently if certain circumstances indicate a possible impairment may exist. The Group completes its annual impairment assessment for goodwill and intangible assets in December of each year.

The Group evaluates the recoverability of goodwill using a two-step impairment test approach at the reporting unit level. In the first step, the fair value of the reporting unit is compared to its carrying value including goodwill. The fair value of the reporting unit is determined based upon a combination of multiple of earnings and future cash flows. If the fair value of the reporting unit is less than the carrying value, a second step is performed which compares the implied fair value of the reporting unit s goodwill to the book value of the goodwill. In determining the implied fair value of the reporting unit goodwill, the fair values of

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eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the tangible net assets and recognized and unrecognized intangible assets are deducted from the fair value of the reporting unit. If the implied fair value of the reporting unit goodwill is lower than its carrying amount, goodwill is impaired and is written down to its implied fair value.

The impairment test on an intangible asset that is not subject to amortization consists of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

(o) Impairment of long-lived assets

The Group evaluates for impairment of its long-lived assets to be held and used, including equipment and software, separately identifiable intangible assets which are subject to amortization and other non-current assets, when events or changes in circumstances indicate, in management s judgment, that the carrying value of such assets may not be recoverable in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets.* Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying value of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount that the carrying value exceeds the estimated fair value. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of carrying amount or estimated fair value less the cost to sell, and are no longer depreciated.

(p) Employee benefit plans

As stipulated by the regulations of the PRC, the Group participates in various defined contribution plans pursuant to which certain retirement, medical and other welfare benefits are provided to employees. The Group is required to make contributions to these plans at a stated contribution rate based on monthly basic compensation of qualified employees. The Group has no other obligation for the payment of employee benefits associated with these plans beyond the contributions described above. For the years ended December 31, 2005, 2006 and 2007, the Group contributed RMB 12,557,754, RMB16,212,136 and RMB17,820,361, respectively to these plans.

(q) Statutory reserves

Under PRC law, the Company s wholly-owned foreign subsidiaries are required to provide for certain statutory reserves, namely a general reserve, an enterprise expansion fund and a staff welfare and bonus fund. These subsidiaries are required to allocate at least 10% of their after tax profits on individual company basis as determined under PRC GAAP to the general reserve and have the right to discontinue allocations to the general reserve if such reserve has reached 50% of registered capital on individual company basis. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the Board of Directors of these subsidiaries. The Company s VIEs in the PRC are also subject to similar statutory reserve requirements. These reserves can only be used for specific purposes and are not transferable to the Company in the form of loans, advances, or cash dividends.

(r) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of ordinary shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net earnings (loss) by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of the ordinary shares issuable upon

eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the exercise of outstanding stock options, stock warrants and the settlement of Performance Units. Ordinary equivalent shares in the diluted earnings (loss) per share computation are excluded in net loss periods as their effect would be anti-dilutive. Ordinary shares include high-vote ordinary shares.

(s) Advertising expense

The Group incurs advertising expense consisting of radio, magazine and SMS advertising, and online internet advertising expense to promote the Group s brands and products. The Group expenses the production costs associated with advertisements in the period in which the advertisement first takes place. The Group expenses the costs of communicating the advertisement as incurred each time the advertisement is shown. For the years ended December 31, 2005, 2006, and 2007, the advertising expense was RMB13,237,247, RMB12,393,014 and RMB18,742,438. As of December 31, 2006 and 2007, the Group had RMB154,699 and RMB941,711 of prepaid marketing expenses which are included in prepaid expenses and other current assets in the consolidated balance sheets.

(t) Segment reporting

The Group operates and manages its business as two reportable segments Hotel and Air. In accordance with SFAS No. 131, *Disclosures about Segment of an Enterprise and Related Information* (SFAS No. 131), the Group s chief operating decision-maker has been identified as the CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Group. The Group does not allocate any operating expenses or assets to its hotel and air segments as management does not use this information to measure the performance of the reportable segments.

The Group generates substantially all revenues from customers in the PRC. Accordingly, no geographical segments are presented.

(u) Operating leases

The Group leases office space under operating lease agreements with original lease periods up to five years. Rental expenses are recognized from the date of initial possession of the leased property on a straight-line basis over the term of the lease. Certain lease agreements contain rent holidays, which are recognized on a straight-line basis over the lease term. Lease renewal periods are considered on a lease-by-lease basis and are generally not included in the initial lease term.

(v) Financial instruments

Financial instruments of the Group are primarily comprised of cash and cash equivalents, restricted assets, accounts receivable, investment securities, accounts payable, and accrued expenses and other payables. As of December 31, 2006 and 2007, their carrying value approximated their fair value due to their short term nature.

(w) Reclassification

Prior to 2007, the Group recorded revenue gross of business tax and surcharges. In 2007 upon the adoption of EITF Issue No.06-3 *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*, business tax and surcharges are recognized as a reduction of revenue. Management believes that net presentation is

eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

preferable because such presentation presents the benefit to be retained by the Group. In 2007 business tax and surcharges have been presented on a net basis in the consolidated statement of operations. As a result of the change business tax and surcharges of RMB10,487,647 and RMB 14,702,612 for the years ended December 31, 2005 and 2006 were reclassified from operating expenses to a reduction of revenue to conform with the current year presentation.

Further, certain prior year amounts have been reclassified with no effect on net earnings or retained earnings to conform to the 2007 financial statement presentation.

(x) Recently issued accounting pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measurement of fair value, and expands disclosures required for fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. On February 12, 2008, the FASB issued FASB Staff position No. 157-2, *Effective date of FASB Statement No. 157* which defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 is required to be adopted by the Group in fiscal year 2008. The Group does not expect the adoption of SFAS No. 157 will have a material impact on the consolidated financial statements.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The entity shall report unrealized gains and losses on items for which the fair value option has been elected. SFAS No.159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Group in fiscal year 2008. In connection with current period financial statements, the Group does not have items eligible for Fair Value Option under SFAS No. 159. The Group does not expect the adoption of SFAS No. 159 will have a material impact on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R (Revised), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes requirements for the recognition and measurement of acquired assets, liabilities, goodwill, and non-controlling interests (formerly minority interests). SFAS No. 141R also provides disclosure requirements related to business combinations. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. SFAS No. 141R will be applied prospectively to business combinations with an acquisition date on or after December 15, 2008. The Group is in the process of evaluating the impact of the adoption of SFAS 141R on its consolidated financial statements.

(3) CORRECTION OF IMMATERIAL ERRORS

The accompanying consolidated financial statements of the Group as of and for the years ended December 31, 2005 and 2006 have been adjusted from previously issued financial statements to correct the following immaterial errors:

1) As of December 31, 2006, the Group accrued income tax and business tax liabilities in relation to expenses for which, based on the Group s estimate and then available information, the related tax-qualified invoices were not expected to be collected and therefore the expenses were not deductible for tax purposes. Subsequent to December 31, 2006 and prior to the issuance of the 2006 financial statements, the Group

eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

collected the majority of the tax qualified invoices and therefore such expenses were deductible for tax purpose as of and for the year ended December 31, 2006. The effect of this adjustment for the year ended December 31, 2006 is to decrease income tax expense by RMB1.6 million, decrease income taxes payable by RMB2.0 million, and decrease by RMB 0.4 million each of the following: statement of operations line item, business tax and surcharges, and balance sheet line items, prepaid expenses and other current assets, and accrued expenses and other current liabilities.

2) In 2007, the Group re-evaluated its accounting for the mirror options granted to Expedia Asia Pacific, an entity controlled by Expedia, Inc., and concluded that the Expedia Asia Pacific options should be classified as a liability and re-measured to their fair value each reporting period until settlement. As a result, the Group revised the previously issued financial statements as of and for the years ended December 31, 2005 and 2006 to correct an immaterial error corresponding to its accounting for 260,204 Expedia Asia Pacific mirror options. The effect of this correction is to decrease general and administrative expenses for the year ended December 31, 2006 by RMB0.14 million (2005: RMB 1.71 million), increase accrued expenses and other current liabilities by RMB1.99 million as of December 31, 2006, and decrease shareholders equity by RMB 2.13 million as of December 31, 2006 as compared to the Group s previously issued financial statements.

(4) ACQUISITIONS AND DISCONTINUED OPERATIONS

Shanghai Xinwang Computer Technology Co., Ltd. (Fortune Trip) and Bravado Investments Limited (Bravado)

On July 7, 2005, the Company completed the acquisition of 100% of the outstanding equity interests of Fortune Trip and Bravado. The total purchase price for Fortune Trip and Bravado was RMB 21,981,392, plus capitalized acquisition costs of RMB1,394,134. The results of Fortune Trip and Bravado have been included in the consolidated statements of operations since July, 2005, the date of acquisition.

Raytime

In May 2006, the Group sold Raytime BVI and its wholly-owned subsidiary, Golden VIP, and ZM VIP (collectively, Raytime) for RMB 1,500,000 to the original selling shareholders of Raytime. The sale proceeds was not received in cash, but reduced the remaining RMB 4,000,000 payable by the Group to the original selling shareholders of Raytime by RMB 1,500,000. The Group recorded a gain on disposal of RMB 2,649,682 in May 2006, representing the excess of the selling price over the carrying amount of the Group s investment in these entities on the date of sale. As a result of the sale, all remaining contingent consideration payable was cancelled.

Online Dating Division

During the third quarter of 2006, the Group sold the interactive online dating community business to an entity, whose controlling shareholder is also the controlling shareholder of the Group for US$14,625,000 (RMB 114,780,017). As this transaction was between entities under common control, the proceeds in excess of the carrying value of the net assets sold of RMB 94,170,501 was recorded as an increase to additional paid-in capital.

The financial results of Raytime and the interactive online dating community businesses have been reflected as discontinued operations in the accompanying consolidated statements of operations and related disclosures for all periods presented. As a result, the footnote disclosures have been revised to exclude the amounts related to the financial results of the Raytime and interactive online dating community businesses for all periods presented. The consolidated statements of cash flows include both discontinued operations for all periods presented through the date of disposition.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table displays summarized information for discontinued operations:

	Year ended December 31,		
	2005	**2006**	**2007**
Revenues	21,554,483	13,173,371	
Earnings (loss) before income tax	(16,934,889)	1,226,768	112,260
Income tax expense	298,236	24,302	8,420

(5) RESTRICTED ASSETS

In 2006, US$1,462,500 was deposited in an Escrow bank account as guarantees to meet the requirements of disposal of the online dating division. With an original maturity of 18 months it was included in other non-current assets as of December 31, 2006. As of December 31, 2007, the US$1,543,434 was due within one year and therefore classified as current restricted assets in the accompanying consolidated balance sheet.

(6) ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	December 31,	
	2006	**2007**
Accounts receivable	32,429,569	42,933,362
Allowance for doubtful accounts	(4,192,172)	(1,795,120)
Account receivable, net	**28,237,397**	**41,138,242**

The following table presents movement of the allowance for accounts receivable:

	Year ended December 31,		
	2005	**2006**	**2007**
Balance at the beginning of year	1,730,738	4,128,344	4,192,172
Additions charged to bad debt expense	3,618,713	809,147	1,596,659
Write-offs charged against the allowance	(1,221,107)	(745,319)	(3,993,711)
Balance at the end of year	**4,128,344**	**4,192,172**	**1,795,120**

(7) PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

December 31,	
2006	**2007**

Computer equipment	30,276,346	36,147,057
Furniture and office equipment	7,047,429	7,860,456
Leasehold improvements	6,649,282	7,608,024
Computer system software	12,866,362	20,177,194
Capitalized software development	4,215,194	6,446,696
	61,054,613	78,239,427
Less: Accumulated depreciation and amortization	(24,925,111)	(37,324,263)
Projects in process	1,679,736	3,046,420
Property and equipment, net	**37,809,238**	**43,961,584**

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As of December 31, 2006 and 2007, the Group s capitalized software development costs, including projects in progress, net of accumulated amortization, were RMB4,608,006 and RMB5,929,193 respectively. For the years ended December 31, 2005, 2006, and 2007, the Group recorded amortization of capitalized software development costs of RMB114,342, RMB1,066,682 and RMB1,785,945, respectively.

During the year ended December 31, 2007, the Group suspended offering vacation package products. As a result the vacation package business property and equipment was written down to its fair value and the Group recognized a charge of RMB545,216 during the year ended December 31, 2007, which is included in write-down of property and equipment and intangible assets in the consolidated statement of operations.

(8) GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets consists of the following:

	December 31,	
	2006	**2007**
Goodwill	30,000,019	30,000,019
Intangible assets with definite lives, net	3,345,944	1,792,265
Intangible assets with indefinite lives	400,000	400,000
Total intangibles, net	**3,745,944**	**2,192,265**

The Group s intangible asset with indefinite lives relates to a trade name acquired in the acquisition of Fortune Trip.

In 2005, the Group operated as one operating segment. Raytime BVI, Golden VIP and ZM VIP comprised the Raytime reporting unit which is one level below the Group s operating segment. The goodwill arising from these acquisitions and the related assets and liabilities, including intangible assets, were allocated to the Raytime reporting unit. Based on the lower than estimated performance of Raytime, the Group determined the definite lived intangible related to Raytime might be impaired. Accordingly, the Group performed an impairment analysis.

As a result of the impairment tests undertaken of identifiable goodwill and the Raytime definite lived intangible asset, the Group recorded impairment charges, which are included in earnings from discontinued operations before income taxes in the consolidated statement of operations, of RMB 14,462,720 and RMB3,081,943 respectively for the year ended December 31, 2005. No impairment charges for goodwill and indefinite lived intangibles were recorded for the years ended December 31, 2006 or 2007.

During the year ended December 31, 2007, the Group recorded impairment charges of RMB 493,680 in relation to customer list in relation to Fortune Trip, which is included in write-down of property and equipment and intangible assets in the consolidated statement of operations. The impairment mainly resulted from a significant decline in forecasted sales and cash flows from Fortune Trip due to its inability to maintain active customers that contribute revenue to the Group. These factors resulted in the carrying value of the customer list being greater than its fair value, and therefore a write-down to fair value was required. The fair value of the customer list was calculated by estimating the present value of future cash flows associated with the customer list.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the changes in goodwill

	December 31,	
	2006	**2007**
Goodwill at the beginning of the year	34,083,131	30,000,019
Reduction due to utilization of pre-acquisition NOL carryforward	(4,083,112)	
Goodwill at the end of the year	**30,000,019**	**30,000,019**

Intangible assets, which all have definite lives, consist of the following:

	December 31,	
	2006	**2007**
Customer lists	5,300,000	5,300,000
Less: accumulated amortization	(1,954,056)	(3,014,055)
Less: provision for impairment in value		(493,680)
	3,345,944	**1,792,265**
Weighted average useful lives of the intangible assets with definite lives	5	5

Amortization expense was RMB 634,055, RMB 1,060,000 and RMB 1,060,000 for the years ended December 31, 2005, 2006 and 2007, respectively. The annual estimated amortization expense of the acquired intangible assets for each of the next five years is as follows:

	Amortization
2008	848,906
2009	628,906
2010	314,453
2011	
2012	
Total	1,792,265

(9) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other payables consist of the following:

	December 31,	
	2006	**2007**
Accrual payroll and welfare	13,738,372	14,515,756
Accrued expenses	21,002,875	28,837,943
Other accrued expenses and payables	13,863,852	10,014,664
Receipts in advance for exercise of share option	1,187,715	8,898
Advances and deposits from customers	1,733,934	1,976,560

Expedia Asia Pacific mirror share option (note 13)	1,985,933	114,850
Business and other taxes	3,613,920	3,410,000
Payable to former shareholders (note 14)	26,035,384	24,354,638
Total accrued expenses and other payables	**83,161,985**	**83,233,309**

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eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) REVENUES

Revenues by category consist of the following:

	For the year ended December 31,		
	2005	2006	2007
Travel:			
Hotel reservation	151,990,059	209,275,155	240,803,384
Air-ticketing	23,773,159	38,287,644	57,455,084
Other	2,696,091	8,398,189	5,588,080
Total travel revenues	**178,459,309**	**255,960,988**	**303,846,548**
Non-travel	11,869,843	8,582,692	11,550,123
Total revenues	**190,329,152**	**264,543,680**	**315,396,671**

(11) INCOME TAXES

The Company, its subsidiaries and consolidated VIEs file separate income tax returns.

Cayman

Under the current laws of Cayman Islands, the Company is not subject to tax on their income or capital gains. In addition, no Cayman Islands withholding tax is imposed upon any payments of dividends.

China

Prior to January 1, 2008 the Company s subsidiaries and VIEs were subject to enterprise income tax (EIT) at a rate of 33%. As described below, certain of the Company s subsidiaries and VIEs were subject to preferential rates ranging from 15% to 27% and income tax holidays ranging from 100% to 50%.

eLongNet Information Technology (Beijing) Co., Ltd. (eLong Information), a subsidiary of the Group, obtained the status of a High New Technology Enterprise in November 2006 was entitled it to a preferential EIT rate of 15% from January 1, 2006 to December 31, 2007.

Beijing eLong Information Technology Co., Ltd. (Beijing Information), a VIE of the Group, obtained the status of a High New Technology Enterprise that entitles it to a preferential EIT rate of 15% from January 1, 2001 to December 31, 2008. Beijing Information has also been granted a tax holiday for exemption of EIT for three years from January 1, 2001 to December 31, 2003, and a 50% reduction in the EIT rate (i.e. 7.5%) from January 1, 2004 to December 31, 2006.

Further, certain branches of these VIEs are taxed at 27% of deemed taxable income, which is determined based on revenue.

In March 2007, the Chinese government enacted the Corporate Income Tax (CIT) law and promulgated related regulations which were effective January 1, 2008, which imposes a unified income tax rate of 25% for both domestic and foreign invested enterprises. High New Technology Enterprise will still enjoy a preferential CIT rate of 15%, and the qualifying criteria under the CIT law was released in April 2008. The Group is in the process of evaluating eLong Information and Beijing Information s qualification as High New Technology

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Enterprises under the new rules. Commencing January 1, 2008 eLong Information and Beijing Information will be subject to an income tax rate of 25%. However, if eLong Information and Beijing Information obtain a certificate of a High New Technology Enterprises , they can enjoy the preferential tax rate of 15%. There is no assurance that eLong information and Beijing Information will meet the qualifying criteria of High New Technology Enterprise .

The Group expects that eLong Information and Beijing Information will apply for the High New Technology Enterprise status that will allow these entities to enjoy a 15% preferential tax rate under the CIT law. To comply with SFAS.No.109, measuring a deferred tax liability or asset using the enacted tax rate, the Group must use income tax rate of 25% in its calculation of its deferred tax balances as of December 31, 2007 until the Group receives official approval for High New Technology Enterprises status. The effect of change in rate will then be recorded as a reduction in deferred tax assets with a corresponding debit to deferred tax expense in the period in which the approval is obtained.

Furthermore, prior to January 1, 2008, the Company was exempted from withholding tax on dividends it received from its PRC subsidiaries. Under the CIT law and its Implementing Rules, enterprises incorporated in a foreign country or region are classified as either a non-resident enterprise or a resident enterprise. Non-resident enterprises without an institution or establishment inside PRC, or whose income has no connection with its institutions and establishment inside PRC, are subject to withholding tax at the rate of 10% with respect to their PRC-sourced dividend income distributed from earnings accumulated after January 1, 2008. The 10% withholding tax rate is subject to applicable tax agreements or treaties between PRC and other tax jurisdiction. The undistributed earnings generated before January 1, 2008 shall be exempted from withholding tax when they are distributed to the foreign investor in the year 2008 or thereafter. The Group has not yet determined if it will be subject to the 10% withholding tax.

The Chinese tax system is subject to substantial uncertainties and has been subject to recently enacted changes, the interpretation and enforcement of which are also uncertain. There can be no assurance that changes in Chinese tax laws or their interpretation or their application will not subject the Group s PRC entities to substantial Chinese taxes in the future.

Income tax expense (benefit) attributable to earnings (loss) from continuing operations consists of:

	Current	Deferred	Total
Year ended December 31, 2005	1,118,487	484,667	1,603,154
Year ended December 31, 2006	6,073,035	(3,237,776)	2,835,259
Year ended December 31, 2007	2,567,868	(1,682,525)	885,343

For the year ended December 31, 2006, the current tax expense included charges in lieu of tax in respect to the utilization of pre-acquisition net operating losses of RMB 4,083,112.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The significant components of deferred income tax expense (benefit) attributable to income (loss) from continuing operations for the years ended December 31, 2005, 2006 and 2007 are as follows:

	For the year ended December 31,		
	2005	**2006**	**2007**
Deferred tax benefit (exclusive of the effect of the component below)	(4,747,827)	(1,038,082)	(1,763,334)
Increase (decrease) in the valuation allowance for deferred tax assets	5,232,494	(2,199,694)	80,809
Deferred income tax expense (benefit)	**484,667**	**(3,237,776)**	**(1,682,525)**

The impact of tax holiday on earnings (loss) from continuing operations was RMB234,139 (0.01 per share), RMB 115,680 (nil per share) and nil in the years ended December 31, 2005, 2006 and 2007, respectively.

Income tax expense (benefit) differed from the amounts computed by applying the PRC enterprise income tax rate of 33% to pretax earnings (loss) from continuing operations as a result of the following:

	For the year ended December 31,		
	2005	**2006**	**2007**
Computed expected tax (benefit) expense	(13,754,855)	789,073	(8,186,016)
Change in the valuation allowance for deferred tax assets allocated to income tax expense	5,232,494	(2,199,694)	80,809
Adjustment to deferred tax assets and liabilities for changes in enacted tax rates		1,685,801	(3,180)
Expiration of net operation loss carry forward			314,985
Tax holiday	(234,139)	(115,680)	
Tax rate differential	(425,377)	(2,100,638)	(78,000)
Foreign tax differential	5,627,083	2,468,024	7,471,113
Adjustment of estimated income tax accruals			(1,064,117)
Non deductible entertainment expenses	392,833	160,214	90,453
Non deductible personnel expenses	1,104,450	1,768,487	1,123,265
Non deductible allowance for doubtful accounts	1,228,964	97,612	576,746
Amortization of intangible assets	1,846,895		
Unqualified tax deductions		243,759	187,450
Other	584,806	38,301	371,835
Actual income tax expense	**1,603,154**	**2,835,259**	**885,343**

According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations will be extended to five years under special circumstances, which are not clearly defined. In the case of transfer pricing issues, the statute of limitations is three years, and will be extended to ten years under special circumstances, which are not clearly defined. There is no statute of limitations in the case of tax evasion. The Group s 2003 to 2007 tax returns remain subject to examination by the PRC tax authorities. The Group did not have any unrecognized tax benefits for the year ended December 31, 2007, and it does not expect that the amount of unrecognized tax benefits will change significantly within the next 12 months. No interest or penalty related to unrecognized uncertain tax positions was recorded in the 2007 consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below.

	For the year ended December 31,	
	2006	**2007**
Deferred tax assets:		
Operating loss carryforwards	1,629,074	1,045,976
Operating loss carryforwards, pre-acquisition	1,500,254	1,127,070
Property and equipment	400,237	255,741
Accrued expenses	298,656	3,750,254
Total gross deferred tax assets	**3,828,221**	**6,179,041**
Less: valuation allowance	(1,594,808)	(1,675,617)
Net deferred tax assets	**2,233,413**	**4,503,424**
Deferred tax liabilities:		
Intangible assets with indefinite lives	132,000	100,000
Intangible assets with definite lives	952,360	516,486
Restricted assets		2,677,615
Total deferred tax liabilities	**1,084,360**	**3,294,101**
Total net deterred tax asset	1,149,053	1,209,323
Deferred tax assets, net:		
Current, included in prepaid expenses and other current assets	298,656	1,072,639
Non-current, included in other non-current assets	982,397	236,684
Deferred tax liabilities:	132,000	100,000

The amount included in the change in the valuation allowance for deferred tax assets was an increase (decrease) in the beginning-of-the-year balance of the valuation allowance because of a change in circumstances that caused a change in judgment about the realizability of the related deferred tax asset in future years. Such amounts were RMB453,384, RMB(387,167), and RMB598,915 for the years ended December 31, 2005, 2006, and 2007, and is primarily due to certain allowances for doubtful accounts that were deemed nondeductible.

The gross amount of operating loss carryforwards which will expire in 2008 to 2012 as follows: RMB1,146,621 in 2008, RMB2,376,516 in 2009, RMB4,122,083 in 2010, RMB751,724 in 2011, and RMB295,240 in 2012.

Goodwill was reduced by nil, RMB4,083,112 and nil for the years ended December 31, 2005, 2006 and 2007, respectively, for the utilization of acquired tax benefits that were previously reduced by the valuation allowance. As of December 31, 2007, the amount of valuation allowance associated with pre-acquisition net operating losses of RMB 610,584 will be recorded as a reduction of goodwill if recognized in future years.

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences become deductible or utilized. The Group considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon an assessment of the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible or can be utilized, management has provided a valuation allowance of RMB1,594,808 and RMB1,675,617 as of December 31, 2006 and 2007, respectively. After reducing the

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

deferred tax assets by the valuation allowance, the deferred tax assets were RMB1,281,053 and RMB1,309,323 as of December 31, 2006 and 2007, respectively, represent the deferred tax assets of entities that have been profitable and therefore are more likely than not to be realized. The amount of the deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

(12) COMMITMENTS AND CONTINGENCY

The Group has several non-cancelable operating leases, primarily for office rent. Payments under operating leases, including periodic rent escalation and rent free period, are charged as expenses on a straight-line basis over the lease term.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2007 are:

	Minimum lease payment
2008	8,984,340
2009	912,786
2010	131,600
2011	
2012	
Total	**10,028,726**

Rental expenses incurred under operating leases for the years ended December 31, 2005, 2006 and 2007 amounted to RMB 5,672,598, RMB9,643,785 and RMB 11,183,306 respectively.

(13) SHARE-BASED COMPENSATION

Stock options

In April 2001, the Company adopted the stock option plan (the 2001 Plan) pursuant to which the Company s Board of Directors may grant stock options to selected directors, officers, key employees and consultants of the Group. The Plan authorizes the Company to grant options to purchase up to 4 million ordinary shares. On August 26, 2003, the Company increased the number of ordinary shares authorized to be issued under the 2001 Stock Option Plan to 5,500,000.

In July 2004, the Company adopted a stock and annual incentive plan (the 2004 Plan) that allows the Board of Directors to grant stock options, stock appreciation rights, restricted stock or Performance Units to officers, employees, directors or consultants of the Group to purchase up to an aggregate of 4,000,000 shares of ordinary shares.

The options under both 2001 Plan and 2004 Plan have a contractual life of ten years and vest and become exercisable ratably over three to five years from the date of grant, except the options granted in 2001, which do not require future services, nor contains a performance or market condition, which are expensed on grant date.

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Assumptions used to determine the fair value of stock options granted during 2005, 2006 and 2007 are summarized in the following table.

	For the year ended December 31,		
	2005	2006	2007
Weighted average grant date fair value per share	$ 2.75	$ 3.49	$ 2.81
Weighted average assumptions used			
Expected volatility	43%	50%	55%
Expected dividends			
Expected life	4 years	6.35 years	6.5 years
Risk-free interest rate (per annum)	2.63%	4.22%	4.43%

A summary of stock options activity under the 2001 Plan for the years ended December 31, 2005, 2006 and 2007 is as follows:

	Number of Shares	Weighted average exercise price	Weighted Average Remaining Contractual Term	Aggregated Intrinsic Value (In thousands)
Balance at December 31, 2005	3,650,524	US$ 0.75		
Granted				
Exercised	(230,956)	US$ 1.53		
Forfeited	(151,887)	US$ 1.53		
Expired				
Balance at December 31, 2006	3,267,681	US$ 0.66		
Granted				
Exercised	(161,718)	US$ 1.53		
Forfeited	(15,096)	US$ 1.53		
Expired	(20,000)	US$ 1.53		
Balance at December 31, 2007	3,070,867	US$ 0.61	3.56 years	US$ 10,847
Fully vested and exercisable as of December 31, 2007	3,063,692	US$ 0.61	3.56 years	US$ 10,828

A summary of stock options activity under the 2004 Plan for the years ended December 31, 2005, 2006 and 2007 is as follows:

	Number of Shares	Weighted average exercise price	Weighted Average Remaining Contractual Term	Aggregated Intrinsic Value (In thousands)
Balance at December 31, 2005	1,911,450	US$ 5.41		
Granted	121,951	US$ 6.15		
Exercised	(79,750)	US$ 5.25		
Forfeited	(515,376)	US$ 5.26		

Expired					
Balance at December 31, 2006	1,438,275	US$ 5.53			
Granted	711,112	US$ 4.80			
Exercised	(31,000)	US$ 5.25			
Forfeited	(495,714)	US$ 5.27			
Expired	(59,124)	US$ 5.51			
Balance at December 31, 2007	1,563,549	US$ 5.29	7.47 years	US$	14
Fully vested and exercisable as of December 31, 2007	1,043,449	US$ 5.53	6.68 years	US$	

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The aggregated intrinsic value of stock options outstanding and exercisable at December 31, 2007 was calculated based on the closing price of the Company s ordinary shares on December 31, 2007 of $4.14 per share. The total intrinsic value of stock options exercised during the years ended December 31, 2005, 2006, and 2007 was $9.5 million, $1.4 million and $0.6 million, respectively.

As of December 2007, there was RMB 21.16 million of total unrecognized compensation cost related to unvested stock options to be recognized over a weighted-average remaining vesting period of 4.1 years. Total unrecognized compensation cost may be adjusted for future changes in estimated forfeitures.

Expedia Options

On October 1, 2004, the Company entered into a stock option agreement with Expedia Asia Pacific pursuant to which, in exchange for Expedia Asia Pacific giving its consent to the issuance of 250,000 options to certain of the Company s officers, the Company granted Expedia Asia Pacific an option to purchase up to 260,204 of the Company s ordinary shares at a purchase price of US$5.25 per share. The option mirrors the provisions of 250,000 option granted to the Company s officers on October 1, 2004. The option becomes exercisable by Expedia Asia Pacific each time any such officer exercises any of the 250,000 options. In connection with each exercise by an officer, Expedia Asia Pacific is entitled to exercise a portion of its option such that Expedia Asia Pacific would receive (if Expedia Asia Pacific exercises its option to the fullest extent in connection with such officer exercise) 51% of the aggregate ordinary shares issued to such officer and Expedia Asia Pacific in connection with such officer exercise. To the extent that any of the officers options terminate or expire without being exercised, an amount of Expedia Asia Pacific s option equal to 51% of (i) such officer s terminated or expired options divided by (ii) 0.49 will likewise terminate or expire.

Prior to January 1, 2007, the Group accounted for the 260,204 Expedia Asia Pacific options in a manner similar to employees options and the fair value as determined on the grant date was recognized over the vesting period of the 250,000 officer options

In 2007, the Group re-evaluated its accounting for the Expedia Asia Pacific mirror option s agreement and concluded that the Expedia Asia Pacific options should be classified as a liability and re-measured to its fair value each reporting period until settlement. The Group made an immaterial correction of an error and revised the previously issued financial statements to reflect the revised accounting method in prior periods. As a result of the re-measurement the Group recognized income (expense) of RMB50,647, RMB(1,408,475) and RMB1,871,083 for the years ended December 31, 2005, 2006, 2007. Further as of December 31, 2006 and 2007 the liability corresponding to the Expedia Asia Pacific options was RMB1,985,933 and RMB114,850, respectively.

The following table presents a summary of the Company s stock options (excluding the mirror options granted to Expedia Asia Pacific) outstanding and exercisable at December 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Shares (In thousands)**	**Weighted Average Price Per Share**	**Weighted Average Remaining Contractual Life (Years)**	**Shares (In thousands)**	**Weighted Average Exercise Price**
$0.10 - $2.00	3,070	$ 0.61	3.56	3,064	$ 0.61
$2.01 - $4.00	50	$ 3.87	9.94		N/A
$4.01 - $6.00	1,364	$ 5.13	7.41	901	$ 5.25
$6.01 - $8.00	120	$ 6.71	7.21	112	$ 6.71
$8.01 - $10.00	30	$ 9.43	6.96	30	$ 9.43
$0.10 - $10.00	4,634	$ 2.19	4.88	4,107	$ 1.86

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Performance Units

Performance Units are rights to receive the Company s ordinary shares, or in some cases, a cash award linked to the Company s ordinary share value. Performance Units vest ratably over a five-year period, are not entitled to dividends or voting rights, and are generally converted to ordinary shares upon vesting on a one-for-one basis. When the Performance Unit grants are settled in cash, the cash amount is set at the equivalent of the fair market value of the number of the Company s ordinary shares that the grantee would have received on a particular vesting date, had the grant been settled in shares.

The cost of the Performance Units awards was determined using the fair value (based on the fair value of the underlying ordinary shares on the date immediately preceding the grant date) of the Company s ordinary shares on the date of grant, net of expected forfeitures, and compensation cost was recognized on a straight-line basis over the vesting term.

A summary of Performance Units activity under the 2004 Plan for the years ended December 31, 2006 and 2007 is as follows:

	Number of Shares	Weighted average grant date fair value	
Balance at December 31, 2005	104,895	US$	5.00
Granted	304,545	US$	6.94
Settled			
Forfeited	(84,516)	US$	5.20
Expired			
Balance at December 31, 2006	324,924	US$	6.83
Granted	565,880	US$	4.84
Settled	(17,154)	US$	6.46
Forfeited	(304,088)	US$	5.95
Cancelled	(1,856)	US$	7.12
Balance at December 31, 2007	567,706	US$	4.90

The Group recorded stock-based compensation cost of RMB 14,801,571 and RMB 12,221,421 and RMB 6,002,062 for the years ended December 31, 2005, 2006 and 2007, respectively, with respect to the stock options and Performance Units granted under the 2001 and 2004 Plans.

Warrants

In August 2003, the Company issued warrants to purchase 600,000 of the Company s ordinary shares at an exercise price of US$0.75 per share to Broadband Capital Management LLC (Broadband), and two outside consultants, in consideration for investment banking services provided to the Company in respect of the private placement of US$15 million aggregate principal amount of Series A preferred shares in August 2003. The Company accounted for the warrants issued to Broadband and the two consultants in accordance with SFAS No. 123 and EITF Issue No. 96-18. The fair value of the warrants granted was RMB4,818,960 on the date of grant using the Black-Scholes option pricing model (excluding a volatility assumption as the Company was a non-public entity at the date the warrants were issued). The assumptions used in determining the fair value of the warrants were as follows: expected dividend yield 0%, risk free interest rate of 2.9%, and a contractual life of 10 years. The estimated fair value of the warrants of RMB4,818,960 was charged against the gross proceeds of the Series A preferred shares as such costs were incremental and specifically and directly attributable to the actual placement of such securities.

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During the years ended December 31, 2006 and 2007, 10,540 and nil warrants were exercised into 9,216 and nil of ordinary shares after netting off shares equal to the exercise price due. As of December 31, 2006 and 2007, the number of warrants outstanding and exercisable was 15,121.

(14) PREFERRED SHARES

Series B Preferred Shares

On August 4, 2004, the Company issued and sold 11,188,570 Series B preferred shares to Expedia Asia Pacific, which is now a wholly owned subsidiary of Expedia, Inc. (or Expedia) for an aggregate purchase price of US$58,690,062 (RMB485,777,647), or US$5.25 per Series B preferred share.

Pursuant to the Expedia Asia Pacific purchase agreements, the Company used the proceeds from the sale of the Series B preferred shares to repurchase from existing shareholders an aggregate of 4,012,411 of its ordinary shares and 1,581,874 of the Company s Series A preferred shares. After the share repurchase, the Company retained US$29,345,033 (RMB242,888,916) of the aggregate purchase price. Of that amount US$4,401,754 (RMB 36,433,318) was deposited into an escrow account which was subject to (i) possible claims by Expedia Asia Pacific for indemnification under the agreement between the Company and Expedia Asia Pacific for representations, warranties and covenants provided by the Company, and (ii) payment to Expedia Asia Pacific for certain post-closing matters. On August 4, 2005 and April 30, 2006, 25% and 75% of the escrow funds were released to the Company, respectively.

Also in connection with the sale of the Series B preferred shares, on August 4, 2004 the Company granted Expedia Asia Pacific a warrant which was exercisable by Expedia Asia Pacific during the first 30 business days following the completion of the Company s initial public offering. Expedia Asia Pacific s warrant entitled it to purchase that number of the Company s high-vote ordinary shares which would result in Expedia Asia Pacific s holding 51% of the Company s outstanding ordinary shares on a fully-diluted basis after giving effect to the repurchase from existing shareholders of a number of ordinary shares equal to one-half of the shares purchased by Expedia Asia Pacific pursuant to its warrant.

In December 2004, Expedia Asia Pacific, which is now controlled by its ultimate parent, Expedia, exercised the warrant and, on January 7, 2005, purchased 17,362,134 of the Company s high-vote ordinary shares for an aggregate cash purchase price of US$107,818,852 (RMB 892,362,729). As a result of Expedia Asia Pacific s exercise of its warrant, the Company is controlled by Expedia, and Expedia has the power to control substantially the Company s management and business operations. The Company used the proceeds from Expedia Asia Pacific s warrant exercise to repurchase 8,681,067 ordinary shares from certain of the Company s existing shareholders. Out of the total proceeds of US$53,909,426 retained by the Company, US$8,086,414 was deposited into an escrow account which was subject to (i) possible claims by Expedia Asia Pacific for indemnification under the agreement between the Company and Expedia Asia Pacific for representations, warranties and covenants provided by the Company, and (ii) payment to Expedia Asia Pacific for certain post-closing matters. As of December 31, 2005, as a result of the adjustments made on March 31, 2006 to the warrant purchase price and the share repurchase price, the Company recorded US$98,270 (RMB766,909) due to Expedia Asia Pacific with a corresponding reduction to additional paid-in capital, and recorded US$49,135 (RMB383,454) due from certain of the Company s existing shareholders with a corresponding increase to additional paid-in capital. On April 2006, US$9,527,365(RMB74,352,509) of the escrow funds was released to the Company, net of the above amounts due to Expedia and due from shareholders.

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On December 17, 2004, the Series B preferred shares were converted, on a one-to-one basis, into 11,188,570 high-vote ordinary shares in conjunction with Expedia Asia Pacific s exercise of the warrant to purchase high-vote ordinary shares.(See note 15)

(15) ORDINARY SHARES

Ordinary Shares

On August 4, 2004, in connection with the issuance of the Series B preferred shares, the Company purchased from certain existing shareholders 4,012,411 ordinary shares (inclusive of the 150,500 shares described above) and 1,581,874 of the Company s Series A preferred shares. Such ordinary shares and Series A preferred shares were subsequently cancelled. 1,585,750 Series A Preferred Shares were converted into an equal number of ordinary shares effective upon the completion of the Company s initial public offering on November 2, 2004. These ordinary shares were sold by the selling shareholders to the public in the initial public offering. On the same day, 6,619,870 Series A Preferred Shares were automatically converted into an equal number of ordinary shares.

Immediately prior to the closing of Expedia Asia Pacific s warrant purchase on January 7, 2005, the Company issued an aggregate of 98,973 ordinary shares to certain warrant holders at US$0.75 per share (US$74,229.75 or RMB 614,363) upon the exercise of the warrants. The Company subsequently repurchased these ordinary shares in connection with the issuance of the high-vote ordinary shares (See below).

During the years ended December 31, 2005, 2006 and 2007, the Company issued 1,718,250, 319,922 and 209,872 ordinary shares to certain of its option and Performance Units holders for an aggregate exercise price of US$1,387,922 (or RMB 11,462,361), US$772,628 (or RMB 6,094,307) and US$76,625 (or RMB 579,339), respectively.

Since 2006, to facilitate the employee stock option exercise process, the Company issued depositary shares to its brokers. These shares are not considered outstanding until issued to the employees as a result of the exercise of stock options. As of December 31, 2006 and 2007, 915,042 and 755,170 depositary shares were issued to brokers and not to the shareholders.

High-Vote Ordinary Shares

Expedia Asia Pacific or its affiliate, Expedia, held 11,188,570 high-vote ordinary shares as a result of the automatic conversion on December 17, 2004 of all outstanding Series B Preferred Shares.

Expedia Asia Pacific beneficially holds 28,550,704 high-vote ordinary shares, which constitute all of the Company s outstanding high-vote ordinary shares and, as a result, controls approximately 95% of the voting power of all shares of the Company s voting stock. In addition, certain other shareholders are parties to an investor agreement with Expedia Asia Pacific under which they have agreed to vote their ordinary shares in the election of directors designated by Expedia Asia Pacific. Expedia Asia Pacific has the ability to control the composition of the Company s Board of Directors, including the right to select six of the thirteen members of the Board, the ability to nominate the remaining directors and vote their shares to elect them and the right to vote their shares to remove members of the Board of Directors.

The rights of the ordinary shares and high-vote ordinary shares are the same except that each high-vote ordinary share is entitled to 15 votes, whereas each ordinary share is entitled to one vote.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) EARNINGS (LOSS) PER ORDINARY SHARE

Potentially dilutive securities that could potentially dilute basic earnings per ordinary share include stock options and Performance Units granted to employees, directors and non-employees and stock warrants granted to non-employees. In 2005 and 2007, ordinary equivalent shares in the diluted loss per ordinary share computation are excluded as their effect would be anti-dilutive.

Basic and diluted earnings (loss) per ordinary share have been calculated as follows:

	For the year ended December 31,		
	2005	2006	2007
Net earnings (loss) applicable to ordinary shareholders	(60,517,659)	1,040,411	(25,587,611)
Denominator for basic earnings (loss) per share:			
Weighted average number of ordinary shares outstanding	49,637,963	50,391,885	50,756,869
Denominator for diluted earnings (loss) per share:	49,637,963	53,749,470	50,756,869
Basic earnings (loss) per share	(1.22)	0.02	(0.51)
Diluted earnings (loss) per share	(1.22)	0.02	(0.51)

(17) CONCENTRATION OF RISKS

Credit and concentration risks

The carrying amounts of cash and cash equivalents, accounts receivable and other receivables represent the Group s maximum exposure to credit risk in relation to financial assets. As of December 31, 2006 and 2007, substantially all of the Group s cash and cash equivalents were held in major financial institutions located in the PRC, Hong Kong Special Administrative Region and the United States, which management believes are of high credit quality. Accounts receivable are typically unsecured and denominated in RMB, and are derived from revenues earned from operations arising in the PRC. The Group performs ongoing credit evaluations of its customers financial condition and generally does not require collateral on accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management s expectations.

The Group has a diversified base of customers. No individual customer contributed to more than 10% of total revenues for the years ended December 31, 2005, 2006 and 2007. No individual customer accounted for more than 10% of accounts receivable as of December 31, 2006 and 2007.

The Group does not have concentrations of available sources of labors, services, franchises, licenses or other rights that could, if suddenly eliminated, severely impact its operations.

Business and economic risks

The Group s business is subject to certain risks and concentrations including dependence on relationships with travel suppliers, primarily airlines and hotels, dependence on third-party technology providers, exposure to risks associated with online commerce security and credit card fraud.

The Group conducts its principal operations in the PRC and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of United States and Western European companies. These include risks associated with, among others, the political, economic, legal environment and social uncertainties in the PRC, influence of the China National Tourism Administration over certain aspects of the Group s operations and competition in the travel agency industry.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Group is currently targeting the Chinese market. The Chinese government regulates Internet access, the distribution of online news and other information, the provision of online commerce and provision of travel agency services through strict business licensing requirements and other governmental regulations. These regulations include limiting foreign ownership in Chinese companies providing Internet access, information and other online Internet services and travel agency services. Management, after consultation and advice from PRC legal counsel, is of the opinion that the Group s business complies with existing Chinese laws and regulations. However, the interpretation and application of current or proposed requirements and regulations may have an adverse effect on the Group s business, financial condition and result of operations.

(18) SEGMENT INFORMATION

Since the year of 2006, the Group has operated two reportable segments: Hotel and Air.

These reportable segments are business units that offer different products that are managed separately because each requires different service provision and marketing strategies.

The Hotel segment mainly provides the services to customers for the reservation with hotels and the Air segment provides the services to customers for the air tickets booking with airline companies. Other segment provides internet-related advertising services.

In 2007 the Group started to recognize business tax and surcharges as a reduction of revenue and use revenue net of business tax to measure operating performance.

The change in 2006 from a single reportable segment results from a change in internal organizational and financial reporting structure. The Group determined its segments based on how the Group s chief operating decision maker manages the Group s business, makes operating decisions and evaluates operating performance. A summary of the results of the reportable segments with all historical amounts reclassified to conform to the current segment presentation is as follows:

	Year ended December 31, 2007				
	Hotel	**Air**	**Other**	**Corporate**	**Total(RMB)**
Revenues	240,803,384	57,455,084	17,138,203		315,396,671
Business tax and surcharges	(12,040,169)	(3,160,030)	(2,610,093)		(17,810,292)
Cost of services	(33,412,658)	(40,231,011)	(1,042,501)	(7,811,415)	(82,497,585)
Service development expenses	(7,300,479)	(3,202,201)	(13,515,635)	(24,583,964)	(48,602,279)
Total contribution	**188,050,078**	**10,861,842**	**(30,026)**	**(32,395,379)**	**166,486,515**

	Year ended December 31, 2006				
	Hotel	**Air**	**Other**	**Corporate**	**Total(RMB)**
Revenues	209,275,155	38,287,644	16,980,881		264,543,680
Business tax and surcharges	(10,463,758)	(2,105,820)	(2,133,034)		(14,702,612)
Cost of services	(28,762,854)	(24,409,252)	(1,258,042)	(7,815,207)	(62,245,355)
Service development expenses	(4,969,639)	(5,705,147)	(10,750,395)	(20,496,472)	(41,921,653)
Total contribution	**165,078,904**	**6,067,425**	**2,839,410**	**(28,311,679)**	**145,674,060**

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	Year ended December 31, 2005				
	Hotel	**Air**	**Other**	**Corporate**	**Total(RMB)**
Revenues	151,990,059	23,773,159	14,565,934		190,329,152
Business tax and surcharges	(7,599,503)	(1,307,524)	(1,580,620)		(10,487,647)
Cost of services	(24,501,783)	(10,967,942)	(2,983,531)	(1,993,732)	(40,446,988)
Service development expenses	(3,743,451)	(9,148,990)	(11,647,088)	(11,758,060)	(36,297,589)
Total contribution	**116,145,322**	**2,348,703**	**(1,645,305)**	**(13,751,792)**	**103,096,928**

(19) RELATED PARTY TRANSACTIONS

The principal related party transactions for the years ended December 31, 2005, 2006 and 2007 are as follows:

Equity-related transactions with Expedia

During the year ended December 31, 2005, the Group paid Expedia Asia Pacific RMB 729,246, as indemnification for certain obligations under the Series B preferred shares purchase agreement.

In January 2005, in connection with the issuance and sale of 17,362,134 high-vote ordinary shares for US$107.8 million, the Group repurchased 8,681,067 ordinary shares from certain shareholders for an aggregate of US$53,909,426 (US$6.21 per share). The repurchases included the purchase of 4,293,156 ordinary shares, for an aggregate of US$26,636,199 (after taking into consideration the adjustment in the repurchase price) from a Group controlled by a former member of the Group s Board of Directors, and 40,506 ordinary shares, for an aggregate of US$251,313 (after taking into consideration the adjustment in the repurchase price), from the Group s then chief financial officer. As a result of the adjustment in the warrant exercise price and repurchase price described in Note 14, the Group refunded to Expedia Asia Pacific US$98,270 and certain of the Group s existing shareholders refunded to the Group US$49,134. The Group accrued the amount due to Expedia Asia Pacific and recorded a receivable from the selling shareholders as of December 31, 2005. In April 2006, the Group received RMB 26,693,515 of final escrow release on behalf of former selling shareholders in relation with the sale of shares held by Billable Development, Mr. Wang Gui Ying and Mr. Wang Yi Jie to Expedia Asia Pacific in 2004. As of December 31, 2007, the amount has not been paid to these former shareholders.

Commercial agreements with Expedia

In April 2006, the Group entered into a contract with Expedia, Inc. The Group provides the international hotel booking service through Expedia s hotel inventory. RMB3,056,410 and RMB6,570,281 were charged by Expedia in 2006 and 2007. The balance due to Expedia, Inc. was RMB964,562 and RMB682,762 as of December 31, 2006 and 2007.

In August 2006, the Group entered into a contract with Travelscape LLC, which is ultimately controlled by Expedia Inc. The Group provides Chinese hotel inventory procuring, rating and availability negotiating service to Travelscape LLC. RMB3,185,106 and RMB2,944,925 of revenue was recognized in 2006 and 2007. The balance due from Travelscape LLC was RMB241,133 and RMB1,258,875 as of years ended December 31, 2006 and 2007. This agreement was terminated in March 2008.

eLong, Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Services provided by and to Expedia

In 2006 an Expedia s employee served as the Group s software development director under an one-year Secondment Agreement. The Group recorded salary and benefit of US$64,095 (RMB500,204) and nil in 2006 and 2007, and the balance of RMB500,204 as of years ended December 31, 2006 and 2007 was unpaid.

In 2006 and 2007 Expedia prepaid expense of RMB94,157 and RMB297,950 on behalf of the Group and the balance of RMB392,107 was unpaid as of December 31, 2007.

In 2007 the Group recorded RMB1,138,436 (2006:RMB1,067,721, 2005:RMB 747,330) in consulting fees for services provided by Expedia The amount of RMB1,815,051 and RMB2,953,487 was unpaid at December 31, 2006 and 2007.

Subleases to Expedia

The Group entered into some sublease agreements with Expedia in 2006 and subleased certain office space to Expedia s subsidiaries in China. In 2007 the Group recorded other non-travel revenue of RMB58,716 from such subleases and the balance of RMB16,531 was unpaid as of December 31, 2007.

Spin-off

In September 2006, the Group sold its online dating business to Match.com for US$14.6 million (RMB 114,780,017). Match.com and the Group are under the common control of one individual. The Group recorded RMB206,228 and RMB627,921 in fees for services provided to Match.com subsequent to the sale in 2006 and 2007. In addition, the Group collected cash and prepaid certain expenses on behalf of one subsidiary of Match.com. As of December 31, 2006 Match.com owed the Group RMB1.84 million, and as of December 31, 2007, the Group owed Match.com RMB578,255.

In 2007 the Group prepaid certain expenses of RMB207,506 on behalf of Expedia.

(20) SUBSEQUENT EVENTS

In February 2008 the Company s Board of Directors approved the repurchase by the Company of the Company s American Depositary Shares/or Ordinary Shares for up to a maximum aggregate price of US$20 million. Through June 20, 2008, the Company had repurchased 515,273 American Depositary Shares at an aggregate cost of US$ 4.3 million.