FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
Form N-CSRS
September 07, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21636

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
(Exact name of registrant as specified in charter)

1001 Warrenville Road, Suite 300
LISLE, IL 60532
(Address of principal executive offices) (Zip code)

W. Scott Jardine, Esq.
First Trust Portfolios L.P.
1001 Warrenville Road, Suite 300
LISLE, IL 60532
(Name and address of agent for service)

registrant's telephone number, including area code: (630) 241-4141

Date of fiscal year end: DECEMBER 31

Date of reporting period: JUNE 30, 2005

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
SEMI-ANNUAL REPORT
FOR THE SIX MONTHS ENDED JUNE 30, 2005

TABLE OF CONTENTS

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
JUNE 30, 2005

HOW TO READ THIS REPORT

This report contains information that can help you evaluate your investment. It includes details about the First Trust/Aberdeen Global Opportunity Income Fund (the "Fund") and presents data and analysis that provide insight into the Fund's performance and investment approach.

By reading the letter from the Fund's President, James A. Bowen, you will obtain an understanding of how the market environment affected its performance. The statistical information that follows can help you understand the Fund's performance.

It is important to keep in mind that the opinions expressed by Mr. Bowen and First Trust Advisors L.P. personnel are just that: informed opinions. They should not be considered to be promises or advice. The opinions, like the statistics, cover the period through the date on the cover of this report. Of course, the risks of investing in the Fund are spelled out in the prospectus.

SHAREHOLDER LETTER

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND (FAM)
SEMI-ANNUAL REPORT
JUNE 30, 2005

Dear Shareholders:

The First Trust/Aberdeen Global Opportunity Income Fund (the "Fund") posted a net asset value ("NAV") total return of 2.0% in the first half of 2005, vs. 3.3% for the Lehman Global Emerging Markets Index and - 2.6% for the Lehman Global Aggregate Index, which measures the performance of investment grade bonds. The Fund's market price total return was -3.5% for the six months ended June 30, 2005. The Fund traded at a 4.8% discount to its NAV on June 30, 2005.

The Fund has paid out four monthly distributions of $0.13 per share including its initial distribution paid in March 2005. The current distribution rate on FAM was 8.5%, based on its June 30, 2005 market price.

The Fund invests in a diversified portfolio of debt securities predominantly issued outside of the U.S. and seeks to benefit from weakness in the U.S. dollar, interest rate environments that are less correlated to the U.S. market and improving credit quality situations. In the first half of 2005, FAM has encountered a stronger U.S. dollar, which rallied 7.5% against a basket of major currencies, and some profit taking in the global and emerging debt markets in March, but has weathered these challenges nicely, in our opinion.

Inflation rates outside of the U.S. remain fairly subdued. The Organisation for Co-operation and Development reported that inflation in the 30 major countries it monitors averaged 2.4% for the 12-month period ended May 2005. That rate actually falls to 1.8% if you do not factor in the price increases for food. Despite the high price of oil, global inflation has been contained to this point, which is a positive for bond investors.

Credit quality retains a favorable bias according to Standard & Poor's Corporation ("S&P"). Global default rates are low relative to historical levels. However, for the first time in four quarters, downgrades outpaced upgrades in the second quarter of 2005. The global downgrade ratio (downgrades to total rating actions) for all corporate issuers increased to 54% in the second quarter from 47% in the first quarter. General Motors Corp. and Ford Motor Co. accounted for 53% of the total debt affected by S&P's downgrades globally. Overall, S&P still characterizes the credit underpinnings as "solid."

We continue to appreciate your interest in the Fund.

Sincerely,

/S/ JAMES A. BOWEN
James A. Bowen
President of the First Trust/Aberdeen Global Opportunity Income Fund
August 8, 2005

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
JUNE 30, 2005 (UNAUDITED)

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Semi-Annual Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933. Forward-looking statements include statements regarding the goals, beliefs, plans or current expectations of First Trust Advisors L.P. and its representatives, taking into account the information currently available to them. Forward-looking statements include all statements that do not relate solely to current or historical fact. For example, forward-looking statements include the use of words such as "anticipate," "estimate," "intend," "expect," "believe," "plan," "may," "should," "would," or other words that convey uncertainty of future events or outcomes.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Fund's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. When evaluating the information included in this Semi-Annual Report, you are cautioned not to place undue reliance on these forward-looking statements, which reflect the judgment of First Trust Advisors L.P. and its representatives only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events and circumstances that arise after the date hereof.

PORTFOLIO COMPONENTS+*

[GRAPHIC OMITTED]
EDGAR REPRESENTATION OF DATA POINTS IN PRINTED GRAPHIC

Russia	8.2%
Mexico	7.6%
Norway	6.8%
Brazil	6.3%
Australia	5.9%
Multinational	5.4%
Venezuela	4.8%
Colombia	4.7%
Canada	4.4%
Peru	4.2%
Germany	4.1%
South Africa	4.0%
United Kingdom	3.7%
Uruguay	3.6%
New Zealand	3.6%
Netherlands	3.5%
Philippines	3.3%
Jamaica	3.1%
Poland	3.0%
Kazakhstan	2.6%
Spain	2.4%

Sweden	2.2%
Turkey	2.0%
Austria	0.4%
Indonesia	0.2%

+ Percentages are based on total investments. Please note that the percentages on the Portfolio of Investments are based on net assets.
* Portfolio securities are included in a country based upon their underlying credit exposure as determined by Aberdeen Asset Management Inc. - the Sub-Advisor.

 See Notes to Financial Statements.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
PORTFOLIO OF INVESTMENTS
JUNE 30, 2005 (UNAUDITED)

PRINCIPAL VALUE (LOCAL CURRENCY)		MARKET VALUE (US DOLLARS)
	FOREIGN BONDS AND NOTES+ - 140.1%	
	AUSTRALIA - 8.3%	
10,500,000	Australian Government (AUD), 7.500%, 9/15/09	$ 8,710,373
11,000,000	Australian Government (AUD), 7.500%, 7/15/05	8,376,650
5,000,000	New South Wales Treasury Corp. (AUD), 8.000%, 3/01/08	4,052,590
8,300,000	Queensland Treasury (AUD), 6.000%, 7/14/09	6,491,021
		27,630,634
	AUSTRIA - 0.6%	
2,500,000	Republic of Austria (TRY), 14.000%, 8/03/06	1,882,093
	BRAZIL - 8.8%	
10,000,000	Banco Bradesco (BRL), 17.500%, 12/10/07	4,333,618
11,200,000	BIE Bank & Trust (BRL), 16.800%, 3/13/07	4,777,388
5,750,000	Citibank NA (BRL), 15.000%, 7/02/10	2,547,607
1,997,120	Citigroup Global Markets (USD), 6.000%, 4/02/08	2,187,094
11,200,000	Electropaulo Metropolitan (BRL), 19.125%, 6/28/10	4,796,574
7,500,000	Federal Republic of Brazil (USD), 9.250%, 10/22/10	8,346,750
2,000,000	Petrobras International Finance (USD), 8.375%, 12/10/18	2,135,000
		29,124,031
	CANADA - 6.1%	

7,000,000	Canadian Government (CAD), 5.250%, 6/01/13	6,305,485
6,700,000	Canadian Government (CAD), 5.750%, 6/01/29	6,644,440
10,965,000	Province of Ontario (NZD), 6.250%, 6/16/15	7,536,146
		20,486,071
	COLOMBIA - 6.5%	
24,113,000,000	Republic of Colombia (COP), 11.750%, 3/01/10	10,997,778
24,739,000,000	Republic of Colombia (COP), 12.000%, 10/22/15	10,712,740
		21,710,518

See Notes to Financial Statements.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
PORTFOLIO OF INVESTMENTS - (CONTINUED)
JUNE 30, 2005 (UNAUDITED)

PRINCIPAL VALUE (LOCAL CURRENCY)		MARKET VALUE (US DOLLARS)
FOREIGN BONDS AND NOTES+ - CONTINUED		
	GERMANY - 5.7%	
4,600,000	KfW Bankengruppe (GBP), 4.750%, 12/07/10	$ 8,384,752
3,650,000	KfW International Finance (CAD), 4.950%, 10/14/14	3,186,600
11,000,000	KfW Kredit Wiederaufbau (NZD), 6.000%, 7/15/09	7,564,488
		19,135,840
	INDONESIA - 0.3%	
8,000,000,000	Indonesia Recapital Bond (IDR), 14.000%, 6/15/09	903,829
	JAMAICA - 4.3%	
3,000,000	Government of Jamaica (EUR), 11.000%, 7/27/12	4,149,043
7,450,000	Government of Jamaica (EUR), 10.500%, 10/27/14	10,150,731
		14,299,774
	KAZAKHSTAN - 3.7%	
6,000,000	Kazkommerts International BV (USD),	

	7.875%, 4/07/14	6,158,401
6,000,000	TuranAlem Finance BV (USD), 8.000%, 3/24/14	6,075,120
		12,233,521
	MEXICO - 10.6%	
61,355,100	Mexican Fixed Rate Bonds (MXN), 9.500%, 12/18/14	5,779,846
10,000,000	Pemex Project Funding Master Trust (USD), 7.750%, 9/29/49	10,120,210
246,000,000	United Mexican States (MXN), 8.000%, 12/07/23	19,470,905
		35,370,961
	MULTINATIONAL - 7.6%	
8,400,000	European Investment Bank (AUD), 5.750%, 9/15/09	6,480,694
4,400,000	European Investment Bank (GBP), 7.625%, 12/07/07	8,485,637
6,500,000	European Investment Bank (NZD), 6.500%, 9/10/14	4,574,619
2,000,000	European Investment Bank (TRY), 14.500%, 2/21/07	1,517,174
2,240,000	Nordic Investment Bank (GBP), 5.750%, 11/06/08	4,193,402
		25,251,526

 See Notes to Financial Statements.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
PORTFOLIO OF INVESTMENTS - (CONTINUED)
JUNE 30, 2005 (UNAUDITED)

PRINCIPAL VALUE (LOCAL CURRENCY)		MARKET VALUE (US DOLLARS)
FOREIGN BONDS AND NOTES+ - CONTINUED		
	NETHERLANDS - 4.9%	
4,900,000	Bank Nederlandse Gemeenten NV (GBP), 4.625%, 12/07/06	$ 8,840,858
11,000,000	Bank Nederlandse Gemeenten NV (NZD), 5.250%, 6/17/09	7,396,781
		16,237,639
	NEW ZEALAND - 5.0%	

11,700,000	Government of New Zealand (NZD), 7.000%, 7/15/09	8,476,775
12,000,000	Government of New Zealand (NZD), 6.500%, 2/15/06	8,356,195

		16,832,970

	NORWAY - 9.5%	
11,000,000	Eksportsfinans (TRY), 14.625%, 3/15/07	8,297,332
11,300,000	Kommunalbanken (TRY), 14.750%, 2/09/09	8,569,910
8,600,000	Kommunalbanken AS (AUD), 5.750%, 10/15/07	6,568,355
4,500,000	Kommunalbanken AS (GBP), 4.750%, 1/28/10	8,197,298

		31,632,895

	PERU - 5.9%	
23,750,000	Peru Bono Soberano (PEN), 9.910%, 5/05/15	7,818,453
4,000,000	Republic of Peru (USD), 9.875%, 2/06/15	4,980,001
6,000,000	Republic of Peru (USD), 8.750%, 11/21/33	6,783,300

		19,581,754

	PHILIPPINES - 4.6%	
9,000,000	Republic of Philippines (USD), 9.500%, 2/02/30	9,219,150
6,000,000	Republic of Philippines (USD), 8.875%, 3/17/15	6,267,300

		15,486,450

	POLAND - 4.2%	
23,000,000	Poland Government (PLZ), 6.000%, 5/24/09	7,211,130
22,200,000	Poland Government (PLZ), 5.000%, 10/24/13	6,823,818

		14,034,948

	RUSSIA - 11.5%	
13,420,000	Alrosa Company SA (USD), 8.875%, 11/17/14	15,286,722
3,000,000	Aries Vermogensverwaltung GM (USD), 9.600%, 10/25/14	3,893,868

See Notes to Financial Statements.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
PORTFOLIO OF INVESTMENTS - (CONTINUED)
JUNE 30, 2005 (UNAUDITED)

PRINCIPAL VALUE		MARKET VALUE

(LOCAL CURRENCY)		(US DOLLARS)
	FOREIGN BONDS AND NOTES+ - CONTINUED	
	RUSSIA - (CONTINUED)	
5,000,000	Russian Stand Bank (USD), 8.125%, 4/21/08	$ 5,051,751
14,000,000	UBS Luxembourg (Vimpelcom) (USD), 8.000%, 2/11/10	14,128,100
		38,360,441
	SOUTH AFRICA - 5.6%	
124,600,000	Republic of South Africa (ZAR), 8.000%, 12/21/18	18,725,392
	SPAIN - 3.4%	
8,700,000	Instituto de Credito Oficial (AUD), 5.500%, 11/15/06	6,614,944
5,250,000	Instituto de Credito Oficial (CAD), 5.000%, 3/31/20	4,547,257
		11,162,201
	SWEDEN - 3.1%	
7,000,000	Swedish Export Credit (NZD), 6.000%, 12/19/08	4,787,589
8,000,000	Swedish Export Credit (NZD), 4.300%, 6/26/06	5,431,310
		10,218,899
	TURKEY - 2.8%	
8,900,000	Finans Capital Finance Ltd. (USD), 9.000%, 10/07/14	9,350,785
	UNITED KINGDOM - 5.2%	
3,100,000	United Kingdom Treasury (GBP), 5.750%, 12/07/09	5,937,660
3,100,000	United Kingdom Treasury (GBP), 5.000%, 3/07/08	5,694,411
3,000,000	United Kingdom Treasury (GBP), 7.250%, 12/07/07	5,773,450
		17,405,521
	URUGUAY - 5.1%	
8,750,000	Republic of Uruguay (USD), 9.250%, 5/17/17	9,362,500
177,300,000	Republica Orient Uruguay (UYU), 17.750%, 2/04/06	7,523,978
		16,886,478

See Notes to Financial Statements.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
PORTFOLIO OF INVESTMENTS - (CONTINUED)
JUNE 30, 2005 (UNAUDITED)

PRINCIPAL VALUE (LOCAL CURRENCY)		MARKET VALUE (US DOLLARS)
	FOREIGN BONDS AND NOTES+ - CONTINUED	
	VENEZUELA - 6.8%	
19,200,000	Republic of Venezuela (USD), 8.500%, 10/08/14	$ 19,990,080
2,500,000	Republic of Venezuela (USD), 9.250%, 9/15/27	2,630,000
		22,620,080
	TOTAL FOREIGN BONDS AND NOTES+	466,565,251
	(Cost $461,138,724)	
	TOTAL INVESTMENTS - 140.1% (Cost $461,138,724)	466,565,251
	LOAN OUTSTANDING - (43.8)%	(145,826,536)
	NET OTHER ASSETS AND LIABILITIES - 3.7%	12,379,014
	NET ASSETS - 100.0%	$ 333,117,729

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*	Aggregate cost is the same for federal tax and financial reporting purposes
+	Portfolio securities are included in a country based upon their underlying credit exposure as determined by Aberdeen Asset Management Inc. - the Sub-Advisor.
AUD	Australian Dollar
BRL	Brazilian Real
CAD	Canadian Dollar
COP	Colombian Peso
EUR	European Monetary Unit
GBP	British Pound Sterling
IDR	Indonesian Rupiah
JPY	Japanese Yen
KRW	South Korean Won
MXN	Mexican Peso
NZD	New Zealand Dollar
PEN	Peruvian New Sol
PLZ	Polish Zloty
SEK	Swedish Krona
SGD	Singapore Dollar
TRY	Turkish Lira

TWD	Taiwan Dollar
USD	United States Dollar
UYU	Uruguay Peso
ZAR	South African Rand

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
SCHEDULE OF CREDIT DEFAULT SWAPS
JUNE 30, 2005 (UNAUDITED)

COUNTERPARTY	REFERENCE ENTITY	BUY/SELL PROTECTION	PAY/RECEIVE FIXED RATE	EXPIRATION DATE	N
Citigroup Global Capital Markets Ltd.	Federal Republic of Brazil 12.250% due 03/06/30	Sell	4.320%	04/20/10	$8
Citigroup Global Capital Markets Ltd.	Republic of Philippines 10.625% due 03/16/25	Sell	4.110%	06/20/10	10

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
SCHEDULE OF FORWARD FOREIGN CURRENCY CONTRACTS
JUNE 30, 2005 (UNAUDITED)

FORWARD FOREIGN CURRENCY CONTRACTS TO BUY

	CONTRACTS TO RECEIVE				
EXPIRATION DATE	LOCAL CURRENCY*		VALUE IN U.S. $	IN EXCHANGE FOR U.S. $	U AP (DE OF
07/05/05	BRL	14,000,000	5,988,938	5,721,291	$
07/20/05	JPY	1,088,246,000	9,830,462	10,000,000	
07/27/05	JPY	2,277,496,200	20,587,100	21,000,000	
07/20/05	KRW	4,554,675,000	4,401,752	4,500,000	
07/27/05	KRW	28,282,800,000	27,331,196	28,000,000	
07/20/05	SEK	33,400,000	4,268,813	4,423,691	
07/20/05	SGD	15,041,250	8,928,887	9,000,000	
07/27/05	SGD	33,380,000	19,820,735	20,000,000	
07/20/05	TWD	313,600,000	9,888,811	10,000,000	

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FORWARD FOREIGN CURRENCY CONTRACTS TO SELL
CONTRACTS TO DELIVER

EXPIRATION DATE		LOCAL CURRENCY*	VALUE IN U.S. $	IN EXCHANGE FOR U.S. $	U AP (DE OF
07/27/05	AUD	62,000,000	47,113,118	47,850,670	$
07/05/05	BRL	14,000,000	5,988,938	5,754,213	
07/20/05	CAD	19,700,000	16,086,254	15,929,851	
07/20/05	GBP	23,600,000	42,250,997	42,966,443	
07/20/05	KRW	4,554,675,000	4,401,752	4,418,154	
07/27/05	KRW	28,282,800,000	27,331,196	27,435,056	
07/20/05	NZD	28,400,000	19,721,846	20,173,940	
07/27/05	NZD	51,000,000	35,390,430	36,024,870	
07/20/05	SEK	33,400,000	4,279,855	4,380,098	
07/20/05	TWD	313,600,000	9,888,811	9,900,552	
					$
Net Unrealized Appreciation of Forward Foreign Currency Contracts					$

* Please see page 7 for currency descriptions.

See Notes to Financial Statements.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
STATEMENT OF ASSETS AND LIABILITIES
JUNE 30, 2005 (UNAUDITED)

ASSETS:
Investments, at value
(Cost $461,138,724) ....
Cash ....
Foreign currency (Cost $282,739) ....
Interest receivable ....
Receivable for investment securities sold ....
Unrealized appreciation on forward foreign currency contracts ....
Prepaid expenses ....

Total Assets ....

LIABILITIES:
Outstanding loan payable ....
Payable for investment securities purchased ....

Interest and fees due on loan payable ....
Unrealized depreciation on credit default swap contracts ....
Investment advisory fee payable ....
Interest on swap contracts ....
Custodian fee payable ....
Payable to administrator ....
Accrued expenses and other payables ....

Total Liabilities ....

NET ASSETS ....

NET ASSETS CONSIST OF:
Undistributed net investment income ....
Accumulated net realized loss on investments sold, forward foreign currency contracts and foreign currencies and net other assets ....
Net unrealized appreciation of investments, forward foreign currency contracts, swap contracts and foreign currencies and net other assets ....
Par value ....
Paid-in capital ....

Total Net Assets ....

NET ASSET VALUE, per Common Share (par value $0.01 per Common Share) ....

Number of Common Shares outstanding ....

 See Notes to Financial Statements.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 (UNAUDITED)

INVESTMENT INCOME:
Interest (net of foreign withholding tax of $313,787) ....

Total investment income ....

EXPENSES:
Investment advisory fee ....
Interest and fees on outstanding loan payable ....
Administration fee ....
Custodian fees ....
Audit and legal fees ....
Printing fees ....
Trustees' fees and expenses ....
Transfer agent fees ....
Other ....

Total expenses ....

NET INVESTMENT INCOME ....

NET REALIZED AND UNREALIZED LOSS ON INVESTMENTS:
Net realized loss on:
Investments sold ....
Forward foreign currency contracts ....
Foreign currencies and net other assets ....

Net realized loss on investments sold during the period ....

Net change in unrealized appreciation/(depreciation) of:
Investments ....
Swap contracts ....
Forward foreign currency contracts ....
Foreign currencies and net other assets ....

Net change in unrealized appreciation/(depreciation) of investments during the period ......

Net realized and unrealized loss on investments ....

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ....

See Notes to Financial Statements.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
STATEMENTS OF CHANGES IN NET ASSETS

	SIX MONTHS ENDED 06/30/2005 (UNAUDITED)
Net investment income	$ 10,698,0
Net realized loss on investments sold during the period	(9,594,8
Net change in unrealized appreciation/(depreciation) of investments during the period	5,230,9
Net increase in net assets resulting from operations	6,334,1
DISTRIBUTIONS TO SHAREHOLDERS FROM:	
Net investment income	(9,029,9
Total distributions to shareholders	(9,029,9
CAPITAL TRANSACTIONS:	
Net proceeds from sale of 160,000 and 17,205,236 Common Shares	3,056,0
Offering costs	(6,4
Net increase in net assets	353,7
NET ASSETS:	
Beginning of period	332,763,9

End of period	$ 333,117,7
Undistributed net investment income at end of period	$ 2,051,7

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* The Fund commenced operations on November 16, 2004.

 See Notes to Financial Statements.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2005 (UNAUDITED)

Cash flows from operating activities:	
Investment income received	$ 9,757,499
Payment of operating expenses	(3,292,148)
Proceeds from forward foreign currency contracts	(4,246,672)
Interest on swap contracts	159,311
Proceeds from sales of long-term securities	148,677,215
Purchases of long-term securities	(341,902,173)
Interest expense	(448,653)
CASH USED BY OPERATING ACTIVITIES	
Cash flows from financing activities:	
Proceeds from Common Shares sold	3,049,600
Distributions paid	(9,029,923)
Issuance of loan	145,826,536
CASH PROVIDED BY FINANCING ACTIVITIES	
Decrease in cash	
Cash at beginning of period	
Cash at end of period	

RECONCILIATION OF NET INCREASE IN NET ASSETS FROM OPERATIONS TO CASH USED BY OPERATING ACTIVITIES:	
Net increase in net assets resulting from operations	
Increase in investments*	$ (201,857,065)
Increase in interest receivable	(7,131,471)
Increase in other assets	(220,676)
Increase in receivable for investments sold	(1,885,875)
Increase in payable for investments purchased	11,980,723
Increase in swap contracts	454,753
Increase in forward foreign currency contracts	(782,362)
Increase in interest expense payable	1,822,752
Increase in interest on swap contracts	159,311
Decrease in accrued expenses	(169,828)
CASH USED BY OPERATING ACTIVITIES	

* Includes net change in unrealized appreciation of investments of $1,026,938.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
FINANCIAL HIGHLIGHTS
FOR A COMMON SHARE OUTSTANDING THROUGHOUT EACH PERIOD

	SIX MONTHS ENDED 06/30/2005 (UNAUDITED)
Net asset value, beginning of period	$ 19.34
INCOME FROM INVESTMENT OPERATIONS:	
Net investment income	0.62
Net realized and unrealized gain/(loss) on investments	(0.26)
Total from investment operations	0.36
DISTRIBUTIONS PAID TO SHAREHOLDERS FROM:	
Net investment income	(0.52)
Total from distributions	(0.52)
Common shares offering costs charged to paid-in capital	--
Net asset value, end of period	$ 19.18
Market value, end of period	$ 18.25
TOTAL RETURN BASED ON NET ASSET VALUE (A)+	2.04%
TOTAL RETURN BASED ON MARKET VALUE (B)+	(3.45)%
RATIOS TO AVERAGE NET ASSETS/SUPPLEMENTAL DATA:	
NET ASSETS, END OF PERIOD (IN 000'S)	$ 333,118
Ratio of total expenses to average net assets excluding interest expense	1.77%**
Ratio of total expenses to average net assets	3.16%**
Ratio of net investment income to average net assets	6.53%**
Portfolio turnover rate	35.09%
SENIOR INDEBTEDNESS:	
Loan outstanding (in 000's)	$ 145,827
Asset coverage per $1,000 of indebtedness (c)	$ 3,284

NOTES TO FINANCIAL STATEMENTS

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
JUNE 30, 2005 (UNAUDITED)

1. FUND DESCRIPTION

First Trust/Aberdeen Global Opportunity Income Fund (the "Fund") is a diversified, closed-end management investment company organized as a Massachusetts business trust on September 7, 2004 and is registered with the Securities and Exchange Commission ("SEC") under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund trades under the ticker symbol FAM on the New York Stock Exchange ("NYSE").

The Fund's primary investment objective is to seek a high level of current income. As a secondary objective, the Fund will seek capital appreciation. The Fund will pursue these objectives by investing in the world bond markets through a diversified portfolio of investment grade and below-investment grade government and corporate debt securities. There can be no assurance that the Fund's investment objectives will be achieved.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

PORTFOLIO VALUATION:

The net asset value ("NAV") of the Common Shares of the Fund is computed based upon the value of the Fund's portfolio and other assets. The NAV is determined as of the close of regular trading on the NYSE, normally 4:00 p.m. Eastern time, on each day the NYSE is open for trading. Domestic debt securities and foreign securities are priced using data reflecting the earlier closing of the principal markets for those securities. The Fund calculates NAV per Common Share by subtracting the Fund's liabilities (including accrued expenses, dividends payable and any borrowings of the Fund) and the liquidation value of any outstanding Preferred Shares from the Fund's Managed Assets (the value of the securities and other investments the Fund holds plus cash or other assets, including interest accrued but not yet received minus accrued liabilities other than the principal amount of borrowings) and dividing the result by the total number of Common Shares outstanding.

The Fund's investments are valued daily at market value, or in the absence of market value with respect to any portfolio securities, at fair value according to procedures adopted by the Fund's Board of Trustees. A majority of the Fund's assets are valued using market information supplied by third parties. In addition, structured products, including currency-linked notes, credit-linked notes as well as interest rate swaps and credit default swaps, are valued using a pricing service or quotes provided by the selling dealer or financial institution. In the event that market quotations are not readily available, the pricing service does not provide a valuation for a particular asset, or the valuations are deemed unreliable, or if events occurring after the close of the principal markets for particular securities (e.g., domestic debt and foreign securities), but before the Fund values its assets, would materially affect NAV, First Trust Advisors L.P. ("First Trust") may use a fair value method to value the Fund's securities and investments. The use of fair value pricing by the Fund is governed by valuation procedures adopted by the Fund's Board of Trustees, in accordance with the provisions of the 1940 Act.

SECURITIES TRANSACTIONS AND INVESTMENT INCOME:

Securities transactions are recorded as of the trade date. Realized gains and losses from securities transactions are recorded on the identified cost basis. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis, including amortization of premiums and accretion of discounts.

Securities purchased or sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date; interest income on such securities is not accrued until settlement date. The Fund instructs the custodian to segregate assets of the Fund with a current value at least equal to the amount of its when-issued purchase commitments.

FOREIGN CURRENCY:

The books and records of the Fund are maintained in U.S. dollars. Foreign currencies, investments and other assets and liabilities are translated into U.S. dollars at the exchange rates prevailing at the end of the period. Purchases and sales of investment securities and items of income and expense are translated on the respective dates of such transactions. Unrealized gains and losses which result from changes in foreign currency exchange rates have been included in the net change in unrealized appreciation/(depreciation) of foreign currencies and net other assets in the Statement of Operations. Net realized foreign currency gains and losses include the effect of changes in exchange rates between trade date and settlement date on investment security transactions, foreign currency transactions and interest and

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dividends received. The portion of foreign currency gains and losses related to fluctuations in exchange rates between the initial purchase trade date and subsequent sale trade date is included in the net realized gains and losses on foreign currencies and net other assets in the Statement of Operations.

FORWARD FOREIGN CURRENCY CONTRACTS:

Forward foreign currency contracts are agreements to exchange one currency for another at a future date and at a specified price. The Fund may use forward foreign currency contracts to facilitate transactions in foreign securities and to manage the Fund's foreign currency exposure. These contracts are valued daily, and the Fund's net equity therein, representing unrealized gain or loss on the contracts as measured by the difference between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is included in the Statement of Assets and Liabilities. Realized and unrealized gains and losses are included in the Statement of Operations. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in currency and securities values and interest rates. Due to the risks, the Fund could incur losses up to the entire contract amount, which may exceed the net unrealized value shown in the Statements of Assets and Liabilities.

CREDIT DEFAULT SWAP CONTRACTS:

The Fund has entered into credit default swap contracts with the Fund being the "buyer" and the counterparty the "seller" in these transactions. As a buyer of the credit default swap contracts, the Fund is obligated to pay the counterparty a periodic stream of payments over the term of the contract provided that no event of default (e.g., grace period extension, obligation acceleration, repudiation/moratorium, or restructuring) relating to the security occurs or until the termination of the swap contract, whichever is first. If no event of default occurs, the Fund will have made a series of periodic payments and recover nothing of monetary value. If an event of default occurs, the counterparty must pay the Fund the full notional value, or "par value," of the specified security. The amount of the cash payment from the counterparty to the Fund is based on the difference of the par value of the specified security that may have, through default, lost some, most or all of its value. Credit default swap transactions are entered into for hedging or investment purposes.

The Fund purchases credit default swap contracts in order to hedge against the risk of a fall in the capital price, or default, of debt securities it holds. This involves the risk that the swap may expire worthless and the credit risk that the seller may fail to satisfy its payment obligations to the Fund in the event of a default. The Fund may only enter into such transactions with counterparties rated A- or higher.

DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS:

The Fund will distribute to holders of its Common Shares monthly dividends of all or a portion of its net income after the payment of interest and dividends in connection with the leverage. If the Fund recognizes a long-term capital gain, it will be required to allocate such gain between the Common Shares and Preferred Shares, if any, issued by the Fund in proportion to the total dividends paid for the year. Distributions will automatically be reinvested into additional Common Shares pursuant to the Fund's Dividend Reinvestment Plan unless cash distributions are elected by the shareholder.

Distributions from income and capital gains are determined in accordance with income tax regulations, which may differ from accounting principles generally accepted in the United States of America. These differences are primarily due to differing treatments of income and gains on various investment securities held by the Fund, timing differences and differing characterization of distributions made by the Fund.

As of December 31, 2004, the components of distributable earnings on a tax basis were as follows:

Ordinary Income	$ 822,392

INCOME TAXES:

The Fund intends to continue to qualify as a regulated investment company by complying with the requirements under Subchapter M of the Internal Revenue Code of 1986, as amended, and by distributing substantially all of its net investment income and net realized gains to shareholders. Accordingly, no provision has been made for federal or state income taxes.

NOTES TO FINANCIAL STATEMENTS - (CONTINUED)

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
JUNE 30, 2005 (UNAUDITED)

EXPENSES:

The Fund pays all expenses directly related to its operations.

ORGANIZATIONAL AND OFFERING COSTS:

Organization costs consist of costs incurred to establish the Fund and enable it to legally do business. These costs include filing fees, listing fees, legal services pertaining to the organization of the business and audit fees relating to the initial registration and auditing the initial statement of assets and liabilities, among other fees. Offering costs consist of legal fees pertaining to the Fund's shares offered for sale, registration fees, underwriting fees, and printing of the initial prospectus, among other fees. First Trust and Aberdeen Asset Management Inc. have paid all organizational expenses and all offering costs of the Fund (other than sales load) that exceeded $0.04 per Common Share. The Fund's share of Common Share offering costs, $688,210 and $6,400 in 2004 and 2005, respectively, was recorded as a reduction of the proceeds from the sale of Common Shares.

3. INVESTMENT ADVISORY FEE AND OTHER AFFILIATED TRANSACTIONS

First Trust is a limited partnership with one limited partner, Grace Partners of DuPage L.P., and one general partner, The Charger Corporation. First Trust serves as investment advisor to the Fund pursuant to an Investment Management Agreement. First Trust is responsible for the ongoing monitoring of the Fund's investment portfolio, managing the Fund's business affairs and certain administrative services necessary for the management of the Fund. For these investment management services, First Trust is entitled to a monthly fee calculated at an annual rate of 1.00% of the Fund's Managed Assets.

Aberdeen Asset Management Inc. (the "Sub-Advisor") serves as the Fund's sub-advisor and manages the Fund's portfolio subject to First Trust's supervision. The Sub-Advisor receives a portfolio management fee of 0.50% of Managed Assets that is paid monthly by First Trust out of its investment advisory fee.

PFPC Inc. ("PFPC"), an indirect, majority-owned subsidiary of The PNC Financial Services Group Inc., serves as the Fund's Administrator and Transfer Agent in accordance with certain fee arrangements. PFPC Trust Company, an indirect, majority-owned subsidiary of The PNC Financial Services Group Inc., serves as the Fund's Custodian in accordance with certain fee arrangements.

The Fund pays each Trustee who is not an officer or employee of First Trust or any of its affiliates an annual retainer of $10,000 which includes compensation for all regular quarterly board meetings and regular committee meetings. No additional meeting fees are paid in connection with regular quarterly board meetings or regular committee meetings. Additional fees of $1,000 and $500 are paid to non-interested Trustees for special board meetings and non-regular committee meetings, respectively. These additional fees are shared by the funds in the First Trust fund complex that participate in the particular meeting and are not per fund fees. Trustees are also reimbursed for travel and out-of-pocket expenses in connection with all meetings.

4. PURCHASES AND SALES OF SECURITIES

Cost of purchases and proceeds from sales of securities, other than U.S. government obligations and short-term obligations, for the six months ended June 30, 2005, aggregated amounts were $357,759,256 and $153,319,358, respectively.

As of June 30, 2005, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was $10,754,195, and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was $5,327,668.

5. COMMON SHARES

As of June 30, 2005, 17,365,236 of $0.01 par value Common Shares were issued. An unlimited number of Common Shares has been authorized under the Fund's Dividend Reinvestment Plan.

COMMON SHARE TRANSACTIONS WERE AS FOLLOWS:

	SIX MONTHS ENDED JUNE 30, 2005		PERIOD ENDED DECEMBER 31, 2004	
	SHARES	AMOUNT	SHARES	AMOUNT
Proceeds from shares sold	160,000	$3,056,000	17,205,236	$328,620,008
Offering costs	--	(6,400)	--	(688,210)
	160,000	$3,049,600	17,205,236	$327,931,798

6. PREFERRED SHARES OF BENEFICIAL INTEREST

The Fund's Declaration of Trust authorizes the issuance of an unlimited number of preferred shares of beneficial interest, par value $0.01 per share (the "Preferred Shares"), in one or more classes or series, with rights as determined by the Board of Trustees without the approval of Common Shareholders. As of June 30, 2005, no Preferred Shares had been issued.

7. REVOLVING LOAN AGREEMENT

On January 10, 2005, the Fund entered into a revolving loan agreement among the Fund and certain primary and secondary lenders, which provides for a loan agreement facility to be used as leverage for the Fund. The credit facility provides for a secured line of credit for the Fund where Fund assets are pledged against advances made to the Fund. Under the requirements of the 1940 Act, the Fund, immediately after any such borrowings, must have an "asset coverage" of at least 300% (331/3% of the Fund's total assets after borrowings). The total commitment under the facility is up to $165,000,000. For the six months ended

June 30, 2005, the average amount outstanding was $138,257,532, with a weighted average interest rate of 3.03%. The Fund also pays a commitment fee of 0.325% per year, which is included in interest and fees on outstanding loan payable on the Statement of Operations.

8. CONCENTRATION OF RISK

An investment in the Fund's Common Shares is subject to investment risk, including the possible loss of the entire principal invested. An investment in Common Shares represents an indirect investment in the securities owned by the Fund, which include a global bond portfolio of investment grade and below-investment grade government and corporate debt securities. The value of these securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. Common Shares at any point in time may be worth less than the original investment, even after taking into account the reinvestment of Fund dividends and distributions. Security prices can fluctuate for several reasons including the general condition of the bond market, or when political or economic events affecting the issuers occur.

Non-Investment Grade Securities Risk: The Fund may invest up to 60% of its Managed Assets in non-investment grade securities. Non-investment grade securities are rated below "Baa3" by Moody's Investors Services, Inc., below "BBB-" by Standard & Poors, or comparably rated by another nationally recognized statistical rating organization or, if unrated, determined by the Sub-Advisor to be of comparable credit quality. Non-investment grade debt instruments are commonly referred to as "high yield" or "junk" bonds, are considered speculative with respect to the issuer's capacity to pay interest and repay principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high yield securities tend to be very volatile, and these securities are less liquid than investment grade debt securities.

9. SUBSEQUENT EVENTS

On June 20, 2005, the Fund declared a dividend of $0.13 per share, which represents a dividend from net investment income to Common Shareholders of record July 6, 2005, payable July 15, 2005.

On July 20, 2005, the Fund declared a dividend of $0.13 per share, which represents a dividend from net investment income to Common Shareholders of record August 3, 2005, payable August 15, 2005.

ADDITIONAL INFORMATION (UNAUDITED)

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
JUNE 30, 2005

DIVIDEND REINVESTMENT PLAN

If your Common Shares are registered directly with the Fund or if you hold your Common Shares with a brokerage firm that participates in the Fund's Dividend Reinvestment Plan (the "Plan"), unless you elect to receive cash distributions, all dividends and distributions on your Common Shares, will be automatically reinvested by PFPC Inc. (the "Plan Agent"), in additional Common Shares under the Plan. If you elect to receive cash distributions, you will receive all distributions in cash paid by check mailed directly to you by PFPC Inc., as the dividend paying agent.

If you decide to participate in the Plan, the number of Common Shares you will receive will be determined as follows:

(1) If the Common Shares are trading at or above net asset value at the time of valuation, the Fund will issue new shares at a price equal to the greater of (i) net asset value per Common Share on that date or (ii) 95% of the market price on that date.

(2) If the Common Shares are trading below net asset value at the time of valuation, the Plan Agent will receive the dividend or distribution in cash and will purchase Common Shares in the open market, on the NYSE or elsewhere, for the participants' accounts. It is possible that the market price for the Common Shares may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per share paid by the Plan Agent may exceed the market price at the time of valuation, resulting in the purchase of fewer shares than if the dividend or distribution had been paid in Common Shares issued by the Fund. The Plan Agent will use all dividends and distributions received in cash to purchase Common Shares in the open market within 30 days of the valuation date except where temporary curtailment or suspension of purchases is necessary to comply with federal securities laws. Interest will not be paid on any uninvested cash payments.

You may withdraw from the Plan at any time by giving written notice to the Plan Agent, or by telephone in accordance with such reasonable requirements as the Plan Agent and Fund may agree upon. If you withdraw or the Plan is terminated, you will receive a certificate for each whole share in your account under the Plan and you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Agent will sell your shares and send you the proceeds, minus brokerage commissions.

The Plan Agent maintains all shareholders' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Common Shares in your account will be held by the Plan Agent in non-certificated form. The Plan Agent will forward to each participant any proxy solicitation material and will vote any shares so held only in accordance with proxies returned to the Fund. Any proxy you receive will include all Common Shares you have received under the Plan.

There is no brokerage charge for reinvestment of your dividends or distributions in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions. Capital gains and income are realized, although cash is not received by you.

If you hold your Common Shares with a brokerage firm that does not participate in the Plan, you will not be able to participate in the Plan and any dividend reinvestment may be effected on different terms than those described above.

The Fund reserves the right to amend or terminate the Plan if in the judgment of the Board of Trustees the change is warranted. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained by writing PFPC Inc., 301 Bellevue

Parkway, Wilmington, Delaware 19809.

PROXY VOTING POLICIES AND PROCEDURES

A description of the policies and procedures that the Fund uses to determine how to vote proxies and information how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) without charge, upon request, by calling (800) 988-5891; (2) on the Fund's website located at http://www.ftportfolios.com; and (3) on the Securities and Exchange Commission's website at http://www.sec.gov.

FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND
JUNE 30, 2005

PORTFOLIO HOLDINGS

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available (1) by calling (800) 988-5891; (2) on the Fund's website located at http://www.ftportfolios.com; (3) on the SEC's website at http://www.sec.gov; and (4) for review and copying at the SEC's Public Reference Room ("PRR") in Washington, DC. Information regarding the operation of the PRR may be obtained by calling 1-800-SEC-0330.

SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

The Joint Annual Meeting of Shareholders of Energy Income and Growth Fund, First Trust Value Line(R) 100 Fund, First Trust/Fiduciary Asset Management Covered Call Fund and First Trust/Aberdeen Global Opportunity Income Fund was held on April 18, 2005. At the Annual Meeting the Fund's Board of Trustees, consisting of James A. Bowen, Niel B. Nielson, Thomas R. Kadlec, Richard E. Erickson and David M. Oster, were elected to serve an additional one year term. The number of votes cast for James A. Bowen was 13,535,271, the number of votes withheld was 108,359 and the number of abstentions was 3,721,606. The number of votes cast for Niel B. Nielson was 13,536,397, the number of votes withheld was 107,233 and the number of abstentions was 3,721,606. The number of votes cast for Richard E. Erickson was 13,549,512, the number of votes withheld was 94,118 and the number of abstentions was 3,721,606. The number of votes cast for Thomas R. Kadlec was 13,546,021, the number of votes withheld was 97,609 and the number of abstentions was 3,721,606. The number of votes cast for David M. Oster was 13,548,647, the number of votes withheld was 94,983 and the number of abstentions was 3,721,606.

[NOTE TO FINANCIAL PRINTER: Insert a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Act (17 CFR 270.30e-1) HERE.]

ITEM 2. CODE OF ETHICS.

Not applicable.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable.

ITEM 6. SCHEDULE OF INVESTMENTS

Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the report to shareholders filed under Item 1 of this form.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not yet applicable.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.
None.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There have been no material changes to the procedures by which the shareholders may recommend nominees to the registrant's board of directors, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 7(d)(2)(ii)(G) of Schedule 14A (17 CFR 240.14a-101), or this Item.

ITEM 11. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR

270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant's second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

(a)(1) Not applicable.

(a)(2) Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

(a)(3) Not applicable.

(b) Certifications pursuant to Rule 30a-2(b) under the 1940 Act and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(registrant) FIRST TRUST/ABERDEEN GLOBAL OPPORTUNITY INCOME FUND

By (Signature and Title)* /S/ JAMES A. BOWEN

James A. Bowen, Chairman of the Board,
President and Chief Executive Officer
(principal executive officer)

Date SEPTEMBER 1, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* /S/ JAMES A. BOWEN

James A. Bowen, Chairman of the Board,
President and Chief Executive Officer
(principal executive officer)

Date SEPTEMBER 1, 2005

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By (Signature and Title)*           /S/ MARK R. BRADLEY
                                ------------------------------------------------------
                                    Mark R. Bradley, Treasurer, Controller,
                                    Chief Financial Officer and Chief Accounting
                                    Officer (principal financial officer)

Date               SEPTEMBER 1, 2005
    ----------------------------------------------------------------------------


* Print the name and title of each signing officer under his or her signature.
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="2"> 115

Net cash used in financing activities

(2,109) (579)

Effect of exchange rate changes on cash and cash equivalents

13 75

Decrease in cash and cash equivalents

(1,233) (2,261)

Cash and cash equivalents, beginning of period

31,645 17,851

Cash and cash equivalents, end of period

$30,412 $15,590

Supplemental Disclosures of Cash Flow Information:

Cash refunded for income taxes, net

$ $

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of this financial information.

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eLoyalty Corporation

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 General

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of eLoyalty Corporation (we , eLoyalty or the Company) include all normal and recurring adjustments necessary for a fair presentation of our condensed consolidated financial position as of March 31, 2007, the condensed consolidated results of our operations for the three months ended March 31, 2007 and April 1, 2006 and our condensed consolidated cash flows for the three months ended March 31, 2007 and April 1, 2006, and are in conformity with Securities and Exchange Commission (SEC) Rule 10-01 of Regulation S-X.

The results of operations for any interim period are not necessarily indicative of the results for the full year. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

Note 2 Summary of Significant Accounting Policies

Reclassifications and Revisions

Beginning in the first quarter of 2007, eLoyalty has classified certain expenses, which have been previously reported within Cost of services, as Selling, general, and administrative expense. We feel this revised classification provides a clearer understanding of the key profit/loss drivers and investments in our business. These changes in classification are the result of the ongoing evolution of our business model from Consulting to Managed services and the investments we are making to build market share and competitive advantage with our Behavioral Analytics Service Line. The changes will be reflected prospectively as the Company cannot accurately and reliably estimate prior periods under the new approach. The three changes are:

Solution Development/Support: Costs associated with our Behavioral Analytics solution development teams and other Managed services administrative and support personnel will be classified as Selling, general and administrative expense. When these resources are working specifically on client revenue generating activities, their direct costs will be classified as Cost of services.

Account Management: Costs associated with our vertical industry teams, made up of industry experts, account partners and project managers, will be classified as Selling, general and administrative expense. When these resources are working specifically on client revenue generating activities, their direct costs will be classified as Cost of services.

Delivery Executive/Support: Costs associated with overall delivery executive management and administrative support personnel will be classified as Selling, general and administrative expense.

The impact of these changes in the first quarter of 2007 was to decrease Cost of services and, correspondingly, increase Selling, general, and administrative expense by $4.7 million, non-cash compensation was $1.6 million of this amount.

Note 3 Revenue Recognition

Behavioral Analytics Service Line

Consulting services revenue included in the Behavioral Analytics Service Line primarily consists of fees charged to our clients to perform Behavioral Analytics Assessments. These assessments are generally performed for our clients on a fixed fee basis. Revenue is recognized as the services are performed with performance generally assessed on the ratio of actual hours incurred to date compared to the total estimated hours over the entire contract.

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Managed services revenue included in the Behavioral Analytics Service Line consists of planning, deployment and subscription fees. The planning and deployment fees are considered to be installation fees related to the long-term subscription contract and are deferred until the installation is complete and is then recognized over the term of the applicable subscription contract. The terms of these subscription contracts generally range from three to five years. As of March 31, 2007 and December 30, 2006, eLoyalty had deferred revenue totaling $5.9 million and $5.5 million, respectively. Installation costs incurred are deferred up to an amount not to exceed the amount of deferred installation revenue and additional amounts that are recoverable based on the contractual arrangement. Such costs are amortized over the term of the subscription contract. Costs in excess of the foregoing revenue amount are expensed in the period incurred. eLoyalty had deferred costs totaling $3.7 million as of March 31, 2007 and December 30, 2006.

Revenue associated with the Behavioral Analytics subscription fees are recognized as the services are performed for the client. For example, the monthly subscription fee will consist of the number of customer service representatives accessing the system and/or hours of calls analyzed during the specific month.

CIPCC Service Line

Consulting services revenue included in the Converged Internet Protocol Contact Center (CIPCC) Service Line consists of operational consulting and integrating or building a system for the client. These services are provided to the client on a time and materials basis or on a fixed fee basis. For the integration or building of a system, eLoyalty recognizes revenue based on services performed with performance generally assessed on the ratio of hours incurred to date compared to the total estimated hours over the entire contract. For all other consulting services, we recognize revenue as the services are performed for the client.

Managed Services revenue included in the CIPCC Service Line consists of contact center support and monitoring. Support and monitoring fees are generally contracted for a fixed fee and the revenue is recognized ratably over the term of the contract. Support fees that are contracted on a time and materials basis would be recognized as the services are performed for the client.

For fixed price Managed service contracts where we provide support for third-party software and hardware, revenue is recorded at the gross amount of the sale because the contracts satisfy the requirements of Emerging Issues Task Force (EITF) 99-19 Reporting Revenue Gross as a Principal versus Net as an Agent . If the contract does not meet the requirements of EITF 99-19, Managed services revenue is recorded at the net amount of the sale. Historically, very few transactions did not satisfy the requirements of EITF 99-19. However, in mid 2006, the Company signed a new reseller agreement with its largest vendor that may increase the number of transactions that require the revenue to be recognized for the net amount of the sale.

Revenue from the sale of Product, which consists primarily of third-party software and hardware resold by eLoyalty, is generally recorded at the gross amount of the sale because the contracts satisfy the requirements of EITF 99-19. Software revenue is recognized in accordance with Statement of Position (SOP) 97-2 Software Revenue Recognition .

Within the CIPCC Service Line, Consulting services, Managed services and the resale of Product may be sold and delivered together. In arrangements that include the resale of software, SOP 97-2 requires determination of vendor specific objective evidence (VSOE) for each of the individual elements. If VSOE does not exist for the allocation of revenue to the various elements of the arrangement, all revenue from the arrangement is deferred until all elements of the arrangement without VSOE have been delivered to the client. If the remaining undelivered elements are post contract support (PCS) or other deliverables with similar attribution periods, the arrangement revenue is then recognized ratably over the remaining period of the PCS. Revenue of $2.2 million and $2.1 million has been deferred as of March 31, 2007 and December 30, 2006, respectively, due to the lack of VSOE for elements within these arrangements. This revenue will be recognized when the elements without VSOE are delivered to the client or will be recognized ratably over the remaining term of the PCS period if the VSOE for the PCS is not established.

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Traditional CRM

Consulting services revenue included in the Traditional CRM Service Line consists of operational consulting and integrating or building a system for the client. These services are provided to the client on a time and materials basis or on a fixed fee basis. For the integration or building of a system, eLoyalty recognizes revenue based on services performed with performance generally assessed on the ratio of hours incurred to date compared to the total estimated hours over the entire contract. For all other consulting services, we recognize revenue as the services are performed for the client.

Managed Services revenue included in the Traditional CRM Service Line consists of marketing application hosting, email fulfillment and remote application support. Revenue related to hosting services, generally a fixed monthly fee, is recognized as the services are performed for the client. Any related setup fee would be recognized over the contract period of the hosting arrangement. Revenue related to the email fulfillment services is recognized as the services are provided to the client. For example, the monthly email fulfillment fee is based on the number of emails distributed for the client. Contracts for remote application support can be based on a fixed fee or time and materials basis. Revenue is recognized ratably over contract period for fixed fee support. Revenue is recognized as the services are provided to the client for time and material contracts.

In accordance with EITF 00-21 Revenue Arrangements with Multiple Elements , arrangements containing multiple services are segmented into separate elements when the services represent separate earning processes. Revenue related to contracts with multiple elements is allocated based on the fair value of the element and is recognized in accordance with our accounting principles for each element, as described above. If the fair value for each element cannot be established, revenue is deferred until all elements have been delivered to the client. If PCS is the only remaining activity without established fair value, the revenue is recognized ratably over the service period. Each of our Service Lines may have arrangements that could be reviewed in accordance with EITF 00-21.

Reimbursed expenses revenue includes billable costs related to travel and other out-of-pocket expenses incurred while performing services for our clients. The cost of third-party product and support may be included within this category if the transaction does not satisfy the requirements of EITF 99-19 and the net revenue is recognized as Product or Managed services revenue. An equivalent amount of reimbursable expenses is included in Cost of revenue.

Payments received for Managed services contracts in excess of the amount of revenue recognized for these contracts are recorded as Unearned revenue until revenue recognition criteria are met.

If our estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable.

Note 4 Stock-Based Compensation

Stock-Based Plans

The Company issues stock awards under two stock incentive plans: the eLoyalty Corporation 1999 Stock Incentive Plan (the 1999 Plan) and the eLoyalty Corporation 2000 Stock Incentive Plan (the 2000 Plan). Under the 1999 Plan and the 2000 Plan, awards of restricted stock or bonus (installment) stock, salary replacement, stock options, stock appreciation rights and performance shares may be granted to directors, officers, employees, consultants, independent contractors and agents of eLoyalty and its subsidiaries. Awards granted under the 1999 Plan and 2000 Plan are made at the discretion of the Compensation Committee of eLoyalty s Board of Directors or another duly constituted committee of the Board (the Compensation Committee). If shares or options awarded under the 1999 Plan and the 2000 Plan are not issued due to cancellation of unvested or unexercised options or shares, then those options or shares again become available for issuance under the plans. Under the 1999 Plan, on the first day of each fiscal year, beginning in 2000, the aggregate number of shares available for issuance under the Plan is automatically increased by an amount equal to 5% of the total number of shares of common stock that are outstanding. Under the 2000 Plan, the Company originally reserved 280,000 shares of eLoyalty common stock for issuance. As of March 31, 2007, there were a total of 237,060 shares available for future grants under the 1999 and 2000 Plans and Treasury stock.

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Stock compensation expense was $3.6 million and $0.7 million for the three months ended March 31, 2007 and April 1, 2006, respectively. eLoyalty recognized stock-based compensation under Statement of Financial Accounting Standards (SFAS) No. 123R Shared-Based Payment in 2006. eLoyalty recognizes stock compensation expense on a straight-line basis over the vesting period. The Company has established its forfeiture rate based on historical experience. eLoyalty did not recognize the windfall tax benefit related to the excess tax deduction because we currently do not anticipate realizing the tax savings associated with this deduction. The amount of this excess tax deduction was $1.5 million for the three months ended March 31, 2007 and $4.5 million for the year ended December 30, 2006.

Restricted Stock

Restricted stock awards are shares of eLoyalty common stock granted to an individual. During the restriction period, the holder of the restricted stock receives all of the benefits of ownership (right to dividends, voting rights, etc.), other than the right to sell or otherwise transfer any interest in the stock. Installment stock awards are grants to an individual of a contractual right to receive future grants of eLoyalty common stock in specified amounts on specified vesting dates, subject to the individual remaining an eLoyalty employee on the specified vesting dates.

Restricted and installment stock award activity was as follows for the quarter ended March 31, 2007:

	Shares	Weighted Average Price
Nonvested balance at December 30, 2006	1,263,107	$ 9.69
Granted	289,493	$ 21.95
Vested	(209,084)	$ 13.33
Forfeited	(6,500)	$ 4.90
Nonvested balance at March 31, 2007	1,337,016	$ 11.81

	For the Three Months Ended	
(In millions)	March 31, 2007	April 1, 2006
Total fair value of restricted and installment stock awards vested	$ 4.3	$ 1.7

As of March 31, 2007, there remains $15.3 million of unrecognized compensation expense related to restricted and installment stock awards. These costs are expected to be recognized over a weighted average period of 3.7 years.

Stock Options

Stock option awards may be in the form of incentive or non-qualified options. Stock options are granted generally with an exercise price per share equal to the fair market value of a share of eLoyalty common stock on the date of grant and a maximum term of 10 years. The stock option terms are set by the Compensation Committee and generally became exercisable over a period of four years. The vesting can occur after a one or two-year period, with the balance of the shares vesting in equal monthly installments over the remainder of the four-year period, or the entire award can vests in equal monthly or quarterly increments over the vesting period. For the three months ended March 31, 2007, the Company recognized compensation expense related to option awards of $0.2 million.

In addition, the 1999 Plan provides that each non-employee director receive a non-qualified stock option to purchase 5,000 shares of eLoyalty common stock when he or she commences service as a director. Stock options granted to non-employee directors upon commencement of services vest ratably over a period of 48 months. The day after the annual stockholder s meeting, each non-employee director is granted a non-qualified stock option to purchase 5,000 shares of eLoyalty common stock. Stock options granted to non-employee directors following an annual stockholder s meeting vest ratably over a period of 12 months. Stock options granted to non-employee directors have an exercise price per share equal to the fair market value of a share of eLoyalty common stock on the grant date and are exercisable for up to 10 years.

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During the quarter ended March 31, 2007, a total of 200,000 options were granted to four of the Company s executive officers, with a maximum term of 10 years. The exercise price per share was equal to the closing price of a share of eLoyalty common stock on February 20, 2007 ($21.95). These options vest in 16 equal quarterly installments.

Option activity was as follows for the quarter ended March 31, 2007:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Weighted Average Fair Value of Option Grants
Outstanding as of December 30, 2006	513,869	$ 24.75	5.4	
Granted	200,000	$ 21.95		$ 11.71
Exercised	(975)	$ 8.50		
Forfeited	(304)	$ 68.00		
Outstanding as of March 31, 2007	712,590	$ 23.97	6.5	
Exercisable as of March 31, 2007	503,748	$ 25.56		
Outstanding intrinsic value at March 31, 2007 (in millions)	$ 3.4			
Exercisable intrinsic value at March 31, 2007 (in millions)	$ 3.1			

(In millions)	For the Three Months Ended March 31, 2007	April 1, 2006
Total fair value of stock options vested	$ 0.2	$
Intrinsic value of stock options exercised	$	$ 0.1
Proceeds received from option exercises	$	$

As of March 31, 2007, there remains $2.2 million of unrecognized compensation expense related to stock options. These costs are expected to be recognized over a weighted average period of 1.9 years.

The fair value for options granted during the quarter ended March 31, 2007, was estimated on the date of grant using a Black Scholes option-pricing model. There were no stock options granted during the first quarter of 2006. The Company used the following assumptions:

	For the Three Months Ended March 31, 2007
Risk-free interest rates	4.7%
Expected dividend yield	
Expected volatility	57%
Expected lives	5 years

Historical Company information is the primary basis for the selection of expected life, expected volatility and expected dividend yield assumptions. The risk-free interest rate is selected based on the yields from U.S. Treasury Strips with a remaining term equal to the expected term of the options being valued.

Salary Replacement Program

eLoyalty implemented a Salary Replacement Program in November 2006. Under the program, executives and Vice Presidents exchange a percentage of their salary in exchange for grants of shares of the Company s common stock. The salary reduction percentages range from 10% to 25% dependent on salary levels of impacted executives and Vice Presidents. The

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program began December 1, 2006 and has been authorized by the Board of Directors through December 31, 2007. During 2007, subject to quarterly Compensation Committee approval, the Company will issue common stock at fair market value commensurate to cash salary reductions. The Salary Replacement Program permits grants of shares of the Company s common stock up to an aggregate of 140,000 shares.

The Salary Replacement Program share activity was as follows for the quarter ended March 31, 2007:

Shares available as of December 30, 2006	121,913
Issued	(21,554)
Shares available as of March 31, 2007	100,359

Employee Stock Purchase Plan

eLoyalty s Board of Directors recently submitted a proposal to eLoyalty s stockholders to increase the number of shares available under the Employee Stock Purchase Plan to 500,000. Subject to stockholder approval, eLoyalty expects to reinstate that Plan in the third quarter of 2007.

Note 5 Severance and Related Costs

Severance costs are comprised primarily of contractual salary and related fringe benefits over the severance payment period. Facility costs include losses on contractual lease commitments, net of estimated sublease recoveries, and impairment of leasehold improvements and certain office assets. Other costs include laptop costs, contractual computer lease termination costs and employee related expenses.

In fiscal year 2006, in response to the business environment, shifting skill and geographic requirements, a number of cost reduction activities were undertaken, principally consisting of personnel reductions. These actions were designed to shape the workforce to meet eLoyalty s expected business requirements. There were no severance and related costs in the first quarter of 2007 compared to $0.4 million in the first quarter of 2006. The $0.4 million of expense recorded in the first quarter of 2006 is primarily related to employee severance and related costs for the elimination of one position.

During the first three months of 2007, eLoyalty made cash payments of $0.1 million related to cost reduction actions initiated in 2006 and earlier periods. Substantially all severance and other charges were paid out by the first quarter of 2007 pursuant to agreements entered into with affected employees. Facility costs related to office space reductions and office closures, reserved for in fiscal years 2002 and 2001, are to be paid pursuant to contractual lease terms through September 2007.

The severance and related costs and their utilization for the first three months of 2007 are as follows:

(In millions)	Facilities	Total
Balance, December 30, 2006	$ 0.3	$ 0.3
Payments	(0.1)	(0.1)
Balance, March 31, 2007	$ 0.2	$ 0.2

As of March 31, 2007, $0.2 million remains reserved in Other current liabilities and relates to facility lease payments, net of estimated sublease recoveries, and is expected to be paid over the next six months.

Note 6 Income Taxes

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, Accounting for Income Taxes. The Interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position

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only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

The Company adopted the provisions of FIN 48 on December 31, 2006. As a result of FIN 48 implementation, the Company recorded a $12.8 million decrease in the deferred tax assets associated with the net operating loss carryover, which is offset with a reduction to the valuation allowance with no net change to retained earnings. The Company has unrecognized tax benefits of $12.8 million as of December 30, 2006. Due to the Company s worldwide net operating loss carryover position, these unrecognized tax benefits will not impact the Company s effective tax rate, if recognized.

The amount of unrecognized tax benefits did not materially change as of March 31, 2007. Any change in the amount of unrecognized tax benefits within the next twelve months is not expected to result in a significant impact on the results of operations or the financial position of the Company.

Due to the Company s worldwide net operating loss carryover position, accrued interest and penalties associated with uncertain tax positions as of December 30, 2006 are not material. The liability for the payment of interest and penalties did not materially change as of March 31, 2007. Interest and penalties associated with uncertain tax positions are recorded as part of income tax expense.

The Company is not currently under audit by the Internal Revenue Service (IRS) for any years. The statutes of limitation for the Company s income tax returns after 2001 remain open for examination by the IRS. In addition, the net operating loss carryforwards can be examined for a period of three years after filing the tax return for the year the loss is used. The Company has not been contacted by the IRS for examination for any of these years.

Foreign and U.S. state jurisdictions have statutes of limitations generally ranging from 3 to 5 years. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the states. eLoyalty Corporation and its subsidiaries may have various state and foreign income tax returns for immaterial jurisdictions in the process of examination throughout the reporting period.

Note 7 Other Long-Term Assets

Long-term prepaid assets were $4.7 million and $3.9 million as of March 31, 2007 and December 30, 2006, respectively. These assets include deferred costs associated with deployment of our Behavioral Analytics™ solution and payments related to third-party support contracts. These costs are recognized ratably over the term of the associated contracts.

Note 8 Comprehensive Net Loss

Comprehensive net loss is comprised of the following:

	For the Three Months Ended	
(In millions)	**March 31, 2007**	**April 1, 2006**
Net loss	$ (4.5)	$ (3.4)
Other comprehensive loss:		
Effect of currency translation		0.1
Comprehensive net loss	$ (4.5)	$ (3.3)

The accumulated other comprehensive loss, which represents the cumulative effect of foreign currency translation adjustments, was $3.7 million at March 31, 2007 and December 30, 2006, respectively.

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Note 9 Loss Per Share

The following table sets forth the computation of the loss and shares used in the calculation of basic and diluted loss per share:

	For the Three Months Ended	
(In millions)	March 31, 2007	April 1, 2006
Net loss	$ (4.5)	$ (3.4)
Series B preferred stock dividends	(0.4)	(0.4)
Net loss available to common stockholders	$ (4.9)	$ (3.8)
Per common share		
Basic loss before Series B preferred stock dividends	$ (0.57)	$ (0.52)
Basic net loss	$ (0.61)	$ (0.58)
Weighted average common shares outstanding (in thousands)	8,035	6,596
Currently anti-dilutive common stock equivalents(1) (in thousands)	4,864	4,853

(1) In periods in which there was a loss, the dilutive effect of common stock equivalents, which is primarily related to the 7% Series B Convertible Preferred Stock, was not included in the diluted loss per share calculation as they were antidilutive.

Note 10 Segment Information

eLoyalty engages in business activities in one operating segment, which provides Consulting services, Managed services, and Product on both a fixed-price and a time and materials basis. eLoyalty s services are delivered to clients in North America (U.S. and Canada), Europe and Australia. eLoyalty s long-lived assets are located in North America and Europe. Long-lived assets consist of property, plant and equipment, software, furniture and fixtures and leasehold improvements (net of accumulated depreciation). Net revenue for eLoyalty s international operations (Europe and Australia) was $0.6 million and $1.5 million, in the first quarter of 2007 and 2006, respectively.

Note 11 Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that SFAS No. 159 may have on our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that SFAS No. 157 may have on our financial position or results of operations.

In June 2006, the FASB ratified a consensus opinion reached by EITF on EITF Issue 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). The guidance in EITF Issue 06-3 requires disclosure in interim and annual financial statements of the amount of taxes on a gross basis, if significant, that are assessed by a governmental authority that are imposed on and concurrent with a

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specific revenue producing transaction between a seller and customer such as sales, use, value added and some excise taxes. Additionally, the income statement presentation (gross or net) of such taxes is an accounting policy decision that must be disclosed. The consensus in EITF Issue 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The Company adopted EITF Issue 06-3 effective December 31, 2006. The Company presents these taxes on a net basis. The adoption of EITF Issue 06-3 did not have a material effect on our financial position or results of operations.

Note 12 Litigation and Other Contingencies

eLoyalty, from time to time, has been subject to legal claims arising in connection with its business. While the results of these claims cannot be predicted with certainty, there are no asserted claims against eLoyalty that, in the opinion of management, if adversely decided, would have a material effect on eLoyalty s financial position, results of operations or cash flows.

eLoyalty is a party to various agreements, including substantially all major services agreements and intellectual property licensing agreements, under which it may be obligated to indemnify the other party with respect to certain matters, including, but not limited to, indemnification against third-party claims of infringement of intellectual property rights with respect to software and other deliverables provided by us in the course of our engagements. These obligations may be subject to various limitations on the remedies available to the other party, including, without limitation, limits on the amounts recoverable and the time during which claims may be made and may be supported by indemnities given to eLoyalty by applicable third parties. Payment by eLoyalty under these indemnification clauses is generally subject to the other party making a claim that is subject to challenge by eLoyalty and dispute resolution procedures specified in the particular agreement. Historically, eLoyalty has not been obligated to pay any claim for indemnification under its agreements and management is not aware of future indemnification payments that it would be obligated to make.

Under its bylaws, subject to certain exceptions, the Company has agreed to indemnify its officers and directors for certain events or occurrences while the officer or director is, or was serving, at its request in such capacity or in certain related capacities. The Company has a separate indemnification agreement with its directors and officers that requires it, subject to certain exceptions, to indemnify him to the fullest extent authorized or permitted by its bylaws and the Delaware General Corporation Law. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer liability insurance policy that limits its exposure and enables it to recover a portion of any future amounts paid. As a result of its insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. The Company has no liabilities recorded for these agreements as of March 31, 2007.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Critical Accounting Policies and Estimates

Our management s discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to the costs and timing of completion of client projects, our ability to collect accounts receivable, the timing and amounts of expected payments associated with cost reduction activities, the ability to realize our net deferred tax assets, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

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Revenue Recognition

Behavioral Analytics Service Line

Consulting services revenue included in the Behavioral Analytics Service Line primarily consists of fees charged to our clients to perform Behavioral Analytics Assessments. These assessments are generally performed for our clients on a fixed fee basis. Revenue is recognized as the services are performed with performance generally assessed on the ratio of actual hours incurred to date compared to the total estimated hours over the entire contract.

Managed services revenue included in the Behavioral Analytics Service Line consists of planning, deployment and subscription fees. The planning and deployment fees are considered to be installation fees related to the long-term subscription contract and are deferred until the installation is complete and is then recognized over the term of the applicable subscription contract. The terms of these subscription contracts generally range from three to five years. As of March 31, 2007 and December 30, 2006, eLoyalty had deferred revenue totaling $5.9 million and $5.5 million, respectively. Installation costs incurred are deferred up to an amount not to exceed the amount of deferred installation revenue and additional amounts that are recoverable based on the contractual arrangement. Such costs are amortized over the term of the subscription contract. Costs in excess of the foregoing revenue amount are expensed in the period incurred. eLoyalty had deferred costs totaling $3.7 million as of March 31, 2007 and December 30, 2006.

Revenue associated with the Behavioral Analytics subscription fees are recognized as the services are performed for the client. For example, the monthly subscription fee will consist of the number of customer service representatives accessing the system and/or hours of calls analyzed during the specific month.

CIPCC Service Line

Consulting services revenue included in the Converged Internet Protocol Contact Center (CIPCC) Service Line consists of operational consulting and integrating or building a system for the client. These services are provided to the client on a time and materials basis or on a fixed fee basis. For the integration or building of a system, eLoyalty recognizes revenue based on services performed with performance generally assessed on the ratio of hours incurred to date compared to the total estimated hours over the entire contract. For all other consulting services, we recognize revenue as the services are performed for the client.

Managed Services revenue included in the CIPCC Service Line consists of contact center support and monitoring. Support and monitoring fees are generally contracted for a fixed fee and the revenue is recognized ratably over the term of the contract. Support fees that are contracted on a time and materials basis would be recognized as the services are performed for the client.

For fixed price Managed service contracts where we provide support for third-party software and hardware, revenue is recorded at the gross amount of the sale because the contracts satisfy the requirements of Emerging Issues Task Force (EITF) 99-19 Reporting Revenue Gross as a Principal versus Net as an Agent . If the contract does not meet the requirements of EITF 99-19, Managed services revenue is recorded at the net amount of the sale. Historically, very few transactions did not satisfy the requirements of EITF 99-19. However, in mid 2006, the Company signed a new reseller agreement with its largest vendor that may increase the number of transactions that require the revenue to be recognized for the net amount of the sale.

Revenue from the sale of Product, which consists primarily of third-party software and hardware resold by eLoyalty, is generally recorded at the gross amount of the sale because the contracts satisfy the requirements of EITF 99-19. Software revenue is recognized in accordance with Statement of Position (SOP) 97-2 Software Revenue Recognition .

Within the CIPCC Service Line, Consulting services, Managed services and the resale of Product may be sold and delivered together. In arrangements that include the resale of software, SOP 97-2 requires determination of vendor specific objective evidence (VSOE) for each of the individual elements. If VSOE does not exist for the allocation of revenue to the various elements of the arrangement, all revenue from the arrangement is deferred until all elements of the arrangement without VSOE have been delivered to the client. If the remaining undelivered elements are post contract support (PCS) or other deliverables with similar attribution periods, the arrangement revenue is then recognized ratably over the remaining period of the PCS. Revenue of $2.2 million and $2.1 million has been deferred as of March 31, 2007 and December 30, 2006, respectively, due to the lack of VSOE for elements within these arrangements. This revenue will be recognized when the elements without VSOE are delivered to the client or will be recognized ratably over the remaining term of the PCS period if the VSOE for the PCS is not established.

Traditional CRM

Consulting services revenue included in the Traditional CRM Service Line consists of operational consulting and integrating or building a system for the client. These services are provided to the client on a time and materials basis or on a fixed fee basis. For the integration or building of a system, eLoyalty recognizes revenue based on services performed with performance generally assessed on the ratio of hours incurred to date compared to the total estimated hours over the entire contract. For all other consulting services, we recognize revenue as the services are performed for the client.

Managed Services revenue included in the Traditional CRM Service Line consists of marketing application hosting, email fulfillment and remote application support. Revenue related to hosting services, generally a fixed monthly fee, is recognized as the services are performed for the client. Any related setup fee would be recognized over the contract period of the hosting arrangement. Revenue related to the email fulfillment services is recognized as the services are provided to the client. For example, the monthly email fulfillment fee is based on the number of emails distributed for the client. Contracts for remote application support can be based on a fixed fee or time and materials basis. Revenue is recognized ratably over contract period for fixed fee support. Revenue is recognized as the services are provided to the client for time and material contracts.

In accordance with EITF 00-21 Revenue Arrangements with Multiple Elements , arrangements containing multiple services are segmented into separate elements when the services represent separate earning processes. Revenue related to contracts with multiple elements is allocated based on the fair value of the element and is recognized in accordance with our accounting principles for each element, as described above. If the fair value for each element cannot be established, revenue is deferred until all elements have been delivered to the client. If PCS is the only remaining activity without established fair value, the revenue is recognized ratably over the service period. Each of our Service Lines may have arrangements that could be reviewed in accordance with EITF 00-21.

Reimbursed expenses revenue includes billable costs related to travel and other out-of-pocket expenses incurred while performing services for our clients. The cost of third-party product and support may be included within this category if the transaction does not satisfy the requirements of EITF 99-19 and the net revenue is recognized as Product or Managed services revenue. An equivalent amount of reimbursable expenses is included in Cost of revenue.

Payments received for Managed services contracts in excess of the amount of revenue recognized for these contracts are recorded as Unearned revenue until revenue recognition criteria are met.

If our estimates indicate that a contract loss will occur, a loss provision is recorded in the period in which the loss first becomes probable and reasonably estimable.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments and customers indicating their intention to dispute their obligation to pay for contractual services provided by us. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

We have recorded full income tax valuation allowances on our net deferred tax assets to account for the unpredictability surrounding the timing of realization of our U.S. and non-U.S. net deferred tax assets due to uncertain economic conditions. The valuation allowances may be reversed at a point in time when management determines realization of these tax assets has become more likely than not, based on a return to predictable levels of profitability.

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Stock-Based Compensation

We adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment , beginning January 1, 2006, using the modified prospective method. The adoption of SFAS No. 123R did not have a material impact on our financial position or results of operations. SFAS No. 123R requires entities to recognize compensation expense from all share-based payment transactions in the financial statements after the adoption date. SFAS No. 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all companies to apply a fair-value-based measurement method in accounting for all share-based payment transactions with employees. Historical Company information is the primary basis for the selection of expected life, expected volatility, expected dividend yield assumptions and anticipated forfeiture rates. The risk-free interest rate is selected based on the yields from U.S. Treasury Strips with a remaining term equal to the expected term of the options being valued. Under the modified prospective method, financial statements for periods prior to the date of adoption are not adjusted for the change in accounting.

Income Taxes

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, Accounting for Income Taxes. The Company adopted the provisions of FIN 48 on December 31, 2006. The Interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Significant judgment is used to determine the likelihood of the benefit. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

Other Significant Accounting Policies

For a description of the Company s other significant accounting policies, see Note Two Summary of Significant Accounting Policies of the Notes to Consolidated Financial Statements included in our Annual Report filed on Form 10-K for the year ended December 30, 2006.

Forward-Looking Statements

This Quarterly Report on Form 10-Q (this Form 10-Q) contains forward-looking statements that are based on current management expectations, forecasts and assumptions. These include, without limitation, statements containing the words believes , anticipates , estimates , expects , plans intends , projects , future , should , could , seeks , target , may , will continue to , predicts , forecasts , potential , guidance , expressions, references to plans, strategies, objectives and anticipated future performance and other statements that are not strictly historical in nature. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements. Such risks, uncertainties and other factors that might cause such a difference include, without limitation, the following:

- Uncertainties associated with the attraction of new clients, the continuation of existing and new engagements with existing clients and the timing of related client commitments; reliance on a relatively small number of customers for a significant percentage of our revenue, reliance on major suppliers, including Customer Relationship Management (CRM) software providers and other alliance partners, and maintenance of good relations with key business partners;

- Risks involving the variability and predictability of the number, size, scope, cost, and duration of and revenue from client engagements;

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Risks associated with our reliance on a large primary product partner within our CIPCC Service Line, including our reliance on that partner s product positioning, pricing, and discounting strategies.

Management of the other risks associated with increasingly complex client projects and new service offerings, including execution risk;

Management of growth and development and introduction of new service offerings;

Challenges in attracting, training, motivating and retaining highly skilled management, strategic, technical, product development and other professional employees in a competitive information technology labor market;

Continuing intense competition in the information technology services industry generally and, in particular, among those focusing on the provision of CRM services and software;

The rapid pace of technological innovation in the information technology services industry;

The ability to raise sufficient amounts of debt or equity capital to meet our future operating and financial needs;

Protection of our technology, proprietary information and other intellectual property rights from challenges by third parties;

Risks associated with compliance with international, Federal and state privacy laws and the protection of highly confidential information of clients and their customers;

Future legislative or regulatory actions relating to the information technology or information technology service industries, including those relating to data privacy;

Risks associated with global operations, including those relating to the economic conditions in each country, potential currency exchange and credit volatility, compliance with a variety of foreign laws and regulations and management of a geographically dispersed organization;

General economic, business and market conditions;

Changes by the Financial Accounting Standards Board (FASB) or the Securities and Exchange Commission (SEC) of authoritative accounting principles generally accepted in the United States of America or policies or changes in the application or interpretation of those rules or regulations;

Acts of war or terrorism, including, but not limited to, the events taking place in the Middle East, the current military action in Iraq and the continuing war on terrorism, as well as actions taken or to be taken by the United States and other governments as a result of further acts or threats of terrorism, and the impact of these acts on economic, financial and social conditions in the countries where we operate; and

The timing and occurrence (or non-occurrence) of transactions and events which may be subject to circumstances beyond our control. The risks included here are not exhaustive. Refer to Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 30, 2006 for further discussion regarding our exposure to these and other risks.

Readers are cautioned not to place undue reliance on forward-looking statements. They reflect opinions, assumptions and estimates only as of the date they are made, and eLoyalty Corporation undertakes no obligation to publicly update or revise any forward-looking statements in this report, whether as a result of new information, future events or circumstances or otherwise.

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Background

eLoyalty is a leading management consulting, systems integration, and managed services company focused on optimizing customer interactions. With professionals throughout North America and an additional presence in Europe, eLoyalty offers a broad range of enterprise CRM services and solutions that include: creating customer strategies; defining technical architectures; improving sales, service and marketing processes; and selecting, implementing, integrating, supporting and hosting best-of-breed CRM and analytics software applications.

eLoyalty is focused on growing and developing its business through two primary Service Lines: Behavioral Analytics and CIPCC Solutions. Through these Service Lines and through our Traditional CRM business, the Company generates three types of revenue: (1) Consulting services revenue is generally project-based and sold on a time and materials or fixed-fee basis; (2) Managed services revenue is recurring, annuity revenue that is secured through long-term (generally one to five year) contracts; and (3) Product revenue is generated through the resale of third-party software and hardware. The chart below shows the relationship between these Service Lines and the types of revenue generated from each.

	Consulting Services Revenue	**Managed Services Revenue**	**Product Revenue**
Behavioral Analytics Service Line	Assessments and follow-on consulting	Subscription revenue and amortized deployment revenue	None
CIPCC Service Line	Implementation and follow-on consulting	Contact Center monitoring and support	Hardware and software resale, primarily products from Cisco Systems
Traditional CRM	Consulting and systems integration engagements	Marketing application hosting, email fulfillment, and remote application support	None

In recent years, eLoyalty has invested heavily to develop the following differentiated capabilities in our primary Service Lines:

Behavioral Analytics

eLoyalty pioneered this solution, which applies human behavioral modeling to analyze and improve customer interactions. Using its Behavioral Analytics solution, eLoyalty can help clients:

- Automatically measure customer satisfaction and agent performance on every call;
- Identify and understand customer personality;
- Improve rapport between agent and customer;
- Reduce call handle times while improving customer satisfaction;
- Identify opportunities to improve self-service applications; and
- Improve cross-sell and up-sell success rates.

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eLoyalty has designed a scalable application platform to enable the Company to rapidly implement Behavioral Analytics solutions for its clients. The Behavioral Analytics solution is delivered as a subscription service, primarily in a remote-hosted model.

Converged Internet Protocol Contact Center Solutions

eLoyalty s CIPCC Service Line focuses on helping clients realize the benefits of transitioning their contact centers to a single network infrastructure from the traditional two-network (voice network and separate data network) model. These benefits include cost savings, remote agent flexibility and application enhancements. eLoyalty has developed a set of tools and methodologies to help clients financially model, plan migration paths, and configure, integrate and support Converged Internet Protocol (IP) network solutions within their contact center environments.

The following table and the sections below further describe the various types of revenue we derive from the services we provide to our clients:

	For the First Quarter Ended			
	2007		2006	
	Dollars in Millions	Percentage of Revenue	Dollars in Millions	Percentage of Revenue
Revenue:				
Consulting services	$ 13.4	48%	$ 11.7	60%
Managed services	8.8	32%	5.2	26%
Services revenue	**22.2**	**80%**	**16.9**	**86%**
Product	4.4	16%	1.9	10%
Net revenue	**26.6**	**96%**	**18.8**	**96%**
Reimbursed expenses	1.3	4%	0.8	4%
Total revenue	**$ 27.9**	**100%**	**$ 19.6**	**100%**

Consulting services, Managed services and the resale of Product are frequently sold and delivered together. It is not uncommon for a Consulting services engagement surrounding the design and implementation of customer service or marketing solutions to lead to the sale of both Product and Managed services, including a long-term maintenance and support or hosting relationship. These services and products are packaged and marketed through common business development and management account teams. Our Consulting services and Managed services delivery teams often work together and leverage common tools and methodologies to deliver this spectrum of solutions to our clients.

Consulting Services

In addition to the Consulting services revenue generated by our Behavioral Analytics and CIPCC engagements, we derive a substantial portion of our revenue from a broad range of CRM consulting work with long-standing accounts, as well as newer accounts more recently obtained through our Behavioral Analytics and CIPCC Service Lines. Our Consulting services are billed on a time and materials basis or on a fixed-fee basis and generally include a combination of the following:

Evaluating our clients efficiency and effectiveness in handling customer interactions. We observe, measure, and analyze the critical aspects of each customer interaction, including the number of legacy systems used to handle the situation, interaction time, reason for interaction and actions taken to resolve any customer issues.

Performing detailed financial analysis to calculate the expected return on investment for the implementation of various CRM solutions. This process helps our clients establish goals, alternatives and priorities and assigns client accountability throughout resulting projects.

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Designing integrated architectures for enterprise-wide contact center environments. Our architects optimize cost efficiency with reliability, functionality, and effectiveness as we help our clients migrate to state-of-the-art infrastructure.

Implementing the functional, technical, and human performance aspects of CRM solutions. This often involves the integration of a variety of infrastructure and application hardware and software from third-party vendors.

Managed Services

Growth in Managed services revenue is primarily driven by Behavioral Analytics and CIPCC engagements. These Managed services consist of the following:

Behavioral Analytics Managed Services include the deployment and ongoing operation of our proprietary Behavioral Analytics solution. Based on each client s business requirements, the applications are configured and integrated into the client s environment and then deployed in either a remote-hosted or, in some cases, on-premise hosted environment. The service is provided on a subscription basis and the contract duration generally is three to five years. The fees and costs related to the initial deployment are deferred and amortized over the life of the contract.

Contact Center Managed Services include monitoring and support related to complex IP and traditional contact center voice architectures. These services include routine maintenance and technology upgrades, the resolution of highly complex issues that involve multiple technology components and vendors. Our support and monitoring services reduce the cost and impact of contact center downtime and anticipate problems before they occur.

In addition, we also generate Managed services revenue from two other sources. Marketing Managed Services revenue is generated from the accounts we obtained through the acquisition of the assets of Interelate, Inc. in 2004. The services provided to these accounts include hosted customer and campaign data management and mass email fulfillment. We also continue to provide remote call center application support and maintenance services to a small number of long-term clients. These two sources of Managed services revenue are likely to diminish over time as we focus on growth through the Behavioral Analytics and CIPCC Service Lines.

Product

We also generate revenue from the resale of Product, which consists of software and hardware primarily sold through our CIPCC Service Line. The vast majority of this revenue relates to reselling products from Cisco Systems, Inc.

Business Outlook

In fiscal year 2007, we anticipate solid growth in Services revenue as a result of moderate improvement expected in Consulting services revenue and strong growth in our Managed services revenue. This anticipated growth is due to our continued focus on our primary Service Lines, CIPCC and Behavioral Analytics™, and the shifting of selling and delivery resources toward those areas. We expect growth in Managed services revenue as a result of higher CIPCC support and maintenance revenue and substantially higher Behavioral Analytics™ deployment and subscription revenue. The increase in Consulting services revenue should result from strong growth in Consulting revenue from our CIPCC and Behavioral Analytics™ Service Lines. Other sources of Managed services revenue, such as remote application maintenance and support and Marketing Managed Services, are likely to experience a slight decline in 2007. We expect to significantly increase our Managed services backlog in 2007 as a result of the growth in our Service Lines. See Managed Services Backlog below.

Product revenue is likely to increase moderately in 2007 as it is driven by the growth within our CIPCC Service Line. However, there are significant variances in size among the individual engagements within this Service Line and eLoyalty is not always selected as the product supplier for the engagement. As a result, Product revenue levels may fluctuate significantly in each fiscal quarter.

We continue to be encouraged by the significant growth of our Managed services backlog described below, the strength of our new business pipeline, and the improvement in our revenue mix that are being driven by our Behavioral Analytics™ and CIPCC Service Lines. Gross margins should improve in fiscal year 2007 as we begin to recognize the subscription and deferred deployment revenue associated with an increasing number of Behavioral Analytics™ clients. We will continue to invest in the personnel required to sell and manage complex, long-term relationships and in the resources required to develop, deliver and support our innovative Behavioral Analytics™ solution. These investments should continue to put pressure on our profitability and cash resources in 2007, but we feel they are required to continue to build a significant Managed services backlog and to build and maintain a competitive advantage.

Near-Term Liquidity

Our near-term capital resources consist of our current cash balances together with anticipated future cash flows. Our balance of cash and cash equivalents was $30.4 million as of March 31, 2007 and $31.6 million as of December 30, 2006. The Company has financing in place with LaSalle Bank National Association (the Bank). The maximum principal amount of the secured line of credit under the agreement remained at $2.0 million through the first quarter of 2007 (the Facility). In addition, our restricted cash of $0.3 million at March 31, 2007 is available to support letters of credit issued under the Facility for operational commitments, and to accommodate a Bank credit requirement associated with the purchase and transfer of foreign currencies and credit card payments. We anticipate that our current unrestricted cash resources, together with other expected internally generated funds, should be sufficient to satisfy our working capital and capital expenditure needs for the next twelve months.

Managed Services Backlog

As a result of the strategic and long-term nature of Managed services revenue, we believe it is appropriate to monitor the level of backlog associated with these agreements. The Managed services backlog was $64.2 million as of March 31, 2007 and $60.7 million as of December 30, 2006. Of the March 31, 2007 backlog, approximately 56% is related to our Behavioral Analytics™ offering, 35% is related to our CIPCC offerings and the remaining balance is from other Managed services. eLoyalty uses the term backlog with respect to its Managed services engagements to refer to the expected revenue to be received under the applicable contract, based on its currently contracted terms and, when applicable, currently anticipated levels of usage and performance. Actual usage and performance might be greater or less than anticipated. In general, eLoyalty s Managed services contracts may be terminated by the customer without cause, but early termination by a customer usually requires a substantial early termination payment. Managed services contracts range from one to five years in duration.

First Quarter 2007 Compared with First Quarter 2006

Net Revenue

	For the First Quarter Ended			
	2007		2006	
	Dollars in Millions	Percentage of Revenue	Dollars in Millions	Percentage of Revenue
Revenue:				
Consulting services	$ 13.4	50%	$ 11.7	62%
Managed services	8.8	33%	5.2	28%
Services revenue	**22.2**	**83%**	**16.9**	**90%**
Product	4.4	17%	1.9	10%
Net revenue	**$ 26.6**	**100%**	**$ 18.8**	**100%**

Net revenue is total revenue excluding reimbursable expenses that are billed to our clients. Our net revenue increased 41% to $26.6 million in the first quarter of 2007, up $7.8 million from $18.8 million in the first quarter of 2006.

Revenue from Consulting services increased 15% to $13.4 million in the first quarter of 2007, up from $11.7 million in the first quarter of 2006. Consulting services represented 50% of net revenue for the first quarter of 2007 and 62% of net revenue for the first quarter of 2006. The increase in Consulting services revenue is primarily due to continued growth, approximately 71%, of our CIPCC Service Line. Spending by our Consulting services clients fluctuates between periods primarily due to the short-term nature of these agreements, which may result in gaps in client spending due to timing differences between the completion of existing projects and the start of new projects.

Revenue from Managed services increased $3.6 million, or 69%, to $8.8 million in the first quarter of 2007 from $5.2 million in the first quarter of 2006. Managed services represented 33% of net revenue for the first quarter of 2007 and 28% of net revenue for the first quarter of 2006. The increase in Managed services revenue resulted from the transition of several Behavioral Analytics projects to the subscription phase of their respective arrangements and the continued growth in our CIPCC Service Line.

Revenue from the sale of Product increased $2.5 million, or 132%, to $4.4 million in the first quarter of 2007 from $1.9 million in the first quarter of 2006. Revenue from the sale of Product represented 17% of net revenue for the first quarter of 2007 and 10% of net revenue for the first quarter of 2006. This increase is primarily driven by the growth in our CIPCC Service Line. There are significant variances in size among individual engagements within this Service Line and eLoyalty is not always selected as the Product supplier for the engagement. As a result, annual and quarterly Product revenue may fluctuate significantly.

Utilization of billable consulting personnel was 82% for the first quarter of 2007, compared to 67% for the first quarter of 2006. Utilization is defined as billed time as a percentage of total available time. The average bill rate decreased to $147 for the first quarter of 2007 compared to $161 for the first quarter of 2006. This decrease is primarily due to the favorable impact of a one time minimum purchase payment in the first quarter of 2006. The billing rate for Consulting services within our Traditional CRM Service Line decreased due to increased volume with a client who has lower contracted rates. The impact of this rate decline was partially offset by favorable billing rates for Consulting services within our CIPCC Service Line.

Our revenue concentration has increased as our top 5 customers accounted for 50% and 44% of total revenue in the first quarter of 2007 and 2006, respectively. The top 10 customers accounted for 62% and 63% of total revenue for the first quarter of 2007 and 2006, respectively. In addition, the top 20 customers accounted for 79% of total revenue for the first quarter of 2007 and 78% of total revenue for the first quarter of 2006. One customer accounted for 10% or more of total revenue in the first quarter of 2007. United HealthCare Services, Inc. accounted for 29% of total revenue for the first quarter of 2007 and 13% of total revenue for the first quarter of 2006, respectively. Higher concentration of revenue with a single customer or a limited group of customers can result in increased revenue risk should one of these clients significantly reduce its demand for our services.

Cost of Revenue Before Reimbursed Expenses, Exclusive of Depreciation and Amortization

Cost of revenue before reimbursed expenses includes Cost of services and Cost of product, each of which is discussed below.

Cost of services

Beginning in the first quarter of 2007, eLoyalty has classified certain expenses, which have been previously reported within Cost of services, as Selling, general, and administrative expense. We feel this revised classification provides a clearer understanding of the key profit/loss drivers and investments in our business. These changes in classification are the result of the ongoing evolution of our business model from Consulting to Managed services and the investments we are making to build market share and competitive advantage with our Behavioral Analytics Service Line. The changes will be reflected prospectively as the Company cannot accurately and reliably estimate prior periods under the new approach. The three changes are:

Solution Development/Support: Costs associated with our Behavioral Analytics solution development teams and other Managed services administrative and support personnel will be classified as Selling, general and

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administrative expense. When these resources are working specifically on client revenue generating activities, their direct costs will be classified as Cost of services.

Account Management: Costs associated with our vertical industry teams, made up of industry experts, account partners and project managers, will be classified as Selling, general and administrative expense. When these resources are working specifically on client revenue generating activities, their direct costs will be classified as Cost of services.

Delivery Executive/Support: Costs associated with overall delivery executive management and administrative support personnel will be classified as Selling, general and administrative expense.

The impact of these changes in the first quarter of 2007 was to decrease Cost of services and, correspondingly, increase Selling, general, and administrative expense by $4.7 million, non-cash compensation was $1.6 million of this amount. In the discussion below and in comparisons to prior periods in future filings, the impact of these changes in classification is further described.

Cost of services is primarily comprised of labor costs including salaries, fringe benefits, and incentive compensation of our delivery personnel and Selling, general and administrative personnel working on direct, revenue generation activities and third-party pass through costs related to our Managed services. Cost of services also includes employee costs for travel expenses, training, laptop computer leases and other expenses of a non-billable nature. Cost of services excludes depreciation and amortization.

Cost of services in the first quarter of 2007 was $14.7 million compared to $14.2 million in the first quarter of 2006. The cost increase is primarily due to higher non-cash compensation expenses which include bonuses paid with stock awards, higher internal and external resource levels to support the increased level of revenue and higher third-party support costs driven by growth in our CIPCC related Managed services revenue. These increases were largely offset by the reclassification of $4.7 million of non-revenue generating costs related to account management, solution development/support, and delivery executive/support as discussed above.

Cost of product

Cost of product is the amount we pay our vendors for the third-party software and hardware that we resell, primarily through our CIPCC Service Line. Primary factors affecting Cost of product are Product revenue level, our ability to qualify for rebates from our largest Product vendor, and the vendor specific mix of the products we resell within a period. The amount of the rebates will vary with the level of Cisco Product revenue, as the rebates are calculated as a percentage of the specific Product cost. Eligibility for these rebates is determined by our ability to meet vendor-established performance criteria, some of which are outside our control. Prior to the third quarter of 2006, we recognized these rebates in our financial statements in the period when any contingency associated with the contractual payment was resolved. In the third quarter of 2006, we began to recognize the value of these rebates in the period we purchased the product because of our historical performance of meeting all required criteria and our ability to reasonably estimate the value of these rebates.

Cost of product in the first quarter of 2007 was $3.5 million, or 80% of Product revenue compared to $1.2 million, or 60% of Product revenue in the first quarter of 2006. The cost increase was primarily due to the higher level of Product revenue in the first quarter of 2007. The percentage increase was primarily due to the mix of vendor-specific products sold in the first quarter of 2006 and the change in the treatment of rebates as described above.

Selling, General and Administrative

Selling, general and administrative expenses consist primarily of salaries, incentive compensation and employee benefits for business development, account management, solution development/support, marketing, administrative personnel, facilities cost, a provision for uncollectible amounts and costs for our technology infrastructure and applications. The personnel costs included here are net of any labor costs directly related to the generation of revenue, which are represented in Cost of services.

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As noted above, prior to 2007, all costs related to account management and solution development/support and delivery executive/support personnel were included in Cost of services.

Selling, general and administrative expenses increased $6.4 million, or 107%, to $12.4 million in the first quarter of 2007 from $6.0 million in the first quarter of 2006. Of this increase, $4.7 million is attributable to the change in classification of the non-revenue generating costs associated with account management, solution development/support and delivery executive/support personnel. The remainder is primarily the result of increased non-cash compensation costs including bonuses paid with stock awards.

Severance and Related Costs

In 2006, in response to the then current business environment and shifting skill and geographic requirements, a number of cost reduction activities were undertaken, principally consisting of personnel reductions. Annual savings related to the cost reduction actions in fiscal year 2006 were $2.4 million and will be realized in fiscal year 2007. Facility costs related to office space reductions and office closures in fiscal years 2002 and 2001 should be paid pursuant to contractual lease terms through September 2007. Substantially all severance and related costs associated with cost reduction activities were paid out by the end of the first quarter of 2007, pursuant to agreements entered into with affected employees.

Severance and related costs decreased $0.4 million, to $0.0 million in the first quarter of 2007 compared to $0.4 million in the first quarter of 2006. In the first quarter of 2006, severance and related costs of $0.4 million primarily reflected $0.4 million of employee severance and related costs for the elimination of one position.

Depreciation and Amortization

Depreciation and amortization expense increased $0.3 million, or 60%, to $0.8 million in the first quarter of 2007 compared to $0.5 million in the first quarter of 2006. The increase in depreciation and amortization is primarily related to continued investment in our Behavioral Analytics™ Service Line.

Operating Loss

Primarily as a result of the previously-described business conditions, we experienced an operating loss of approximately $4.9 million for the first quarter of 2007, compared to an operating loss of approximately $3.5 million for the first quarter of 2006.

Interest and Other Income (Expense), net

Non-operating interest and other income (expense) increased $0.2 million, to $0.3 million in the first quarter of 2007 compared to $0.1 million in the first quarter of 2006. The $0.2 million increase was primarily related to higher cash balances and higher yields on our investments.

Income Tax Benefit (Provision)

Income tax benefit (provision) was approximately $0 in the first quarter of 2007 and 2006. As of March 31, 2007, total deferred tax assets of $45.5 million are fully offset by a valuation allowance. The level of uncertainty in predicting when we will return to acceptable levels of profitability, sufficient to utilize our net U.S. and non-U.S. operating losses and realize our deferred tax assets requires that a full income tax valuation allowance be recognized in the financial statements.

Net Loss Available to Common Stockholders

We reported a net loss available to common stockholders of $4.9 million in the first quarter of 2007 as compared with a net loss available to common stockholders of $3.8 million in the first quarter of 2006. We reported a net loss of $0.61 per share on a basic and diluted basis in the first quarter of 2007 compared to a net loss of $0.58 per share on a basic and diluted basis in the first quarter of 2006.

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Liquidity and Capital Resources

Introduction

Our principal capital requirements are to fund working capital needs, capital expenditures, other investments in support of revenue generation and growth and payment of Series B stock dividends. As of March 31, 2007, our principal current capital resources consist of our cash and cash equivalent balances of approximately $30.4 million and restricted cash of approximately $0.3 million. Our cash and cash equivalents position decreased $1.2 million, or 4%, to $30.4 million as of March 31, 2007 compared to $31.6 million as of December 30, 2006. The decrease is primarily due to the acquisition of treasury stock, capital expenditures and dividend payments partially offset by positive working capital management. Restricted cash remained constant at $0.3 million as of March 31, 2007 and December 30, 2006, respectively.

Cash Flows from Operating Activities

Cash flows from operating activities were a source of cash of $1.9 million during the first three months of 2007 and a use of cash of $1.3 million during the first three months of 2006. Net cash flows of $1.9 million in 2007 arose primarily from prepayments by our clients related to our Managed services contracts offset by payment of deferred Managed services costs (including Behavioral Analytics™ deployment costs and third-party maintenance contracts) and an increase in accounts receivable. Net cash outflows of $1.3 million in 2006 arose primarily from operating losses and annual corporate insurance payments partially offset by prepayments by our clients related to our Managed services contracts. DSO of 53 days at March 31, 2007 represented an increase of 4 days compared to 49 days at December 30, 2006. We do not expect any significant collection issues with our clients. At March 31, 2007, there remained $0.2 million of unpaid severance and related costs. See Note 5 Severance and Related Costs .

Cash Flows from Investing Activities

The Company used approximately $1.0 million and $0.5 million of cash during the first three months of 2007 and 2006, respectively, primarily for capital expenditures. The level of capital expenditures for fiscal year 2007 is highly dependent upon the number of new contracts we enter into for hosted Behavioral Analytics™. We currently expect our capital expenditures to be less than $15.0 million for fiscal year 2007.

Cash Flows from Financing Activities

The Company used approximately $2.1 million and $0.6 million of cash during the first three months of 2007 and 2006, respectively, for financing activities. Net cash outflows of $2.1 million during the first three months of 2007 were primarily attributable to $1.4 million of cash used for the acquisition of treasury stock and $0.7 million of cash dividend payments, paid in January on the Series B stock. The treasury stock acquired reflects shares that were obtained in meeting employee tax obligations associated with the vesting of shares granted in previously approved stock awards. Prior to February 1, 2007, the shares associated with these employee tax obligations were cancelled.

Net cash outflows of $0.6 million during the first three months of 2006 were primarily attributable to cash dividends of $0.7 million, paid in January on the Series B stock.

In addition, a semi-annual dividend payment of approximately $0.7 million is expected to be paid in future periods on the Series B stock. The amount of each such dividend would decrease by any conversions of the Series B stock into common stock, although any such conversions would require that we pay accrued but unpaid dividends at time of conversion.

Near-Term Liquidity

Our near-term capital resources consist of our current cash balances together with anticipated future cash flows. Our balance of cash and cash equivalents was $30.4 million as of March 31, 2007 and $31.6 million as of December 30, 2006. In addition, our restricted cash of $0.3 million at March 31, 2007 is available to support letters of credit issued under our LaSalle credit facility (as described below) for operational commitments, and to accommodate a LaSalle Bank credit requirement associated with the purchase and transfer of foreign currencies and credit card payments.

Bank Facility

The Company maintains the Facility with the Bank. The maximum principal amount of the secured line of credit under the agreement remained at $2.0 million through the first quarter of 2007. The Facility requires eLoyalty to maintain a minimum cash and cash equivalent balance within a secured account at the Bank. The balance in the secured account cannot be less than the outstanding balance drawn on the line of credit, and letter of credit obligations under the Facility, plus a de minimis reserve to accommodate a Bank credit requirement associated with the purchase and transfer of foreign currencies and credit card payments. Available credit under the Facility has been reduced by approximately $0.3 million related to letters of credit issued under the Facility for operational commitments and a Bank credit requirement associated with the purchase and transfer of foreign currencies and credit card payments. As a result, approximately $1.7 million remains available under the Facility at March 31, 2007. Loans under the Facility bear interest at the Bank s prime rate or, at eLoyalty s election, an alternate rate of LIBOR (London InterBank Offering Rate) plus 0.75%. We did not have any borrowings or interest expense under the Facility during the first three months of 2007 and 2006, respectively.

Accounts Receivable Customer Concentration

At March 31, 2007, one customer, United HealthCare Services, Inc., accounted for 25% of total net accounts receivable. Of this amount, we collected 41% from United HealthCare Services, Inc. through May 4, 2007. Of the total March 31, 2007 gross accounts receivable, we collected approximately 41% as of May 4, 2007. Because we have a high percentage of our revenue dependent on a relatively small number of customers, delayed payments by a few of our larger clients could result in a reduction of our available cash.

Summary

We anticipate that our current unrestricted cash resources, together with other expected internally generated funds, will be sufficient to satisfy our working capital and capital expenditure needs for the next twelve months. If, however, our operating activities or net cash needs for the next twelve months were to differ materially from current expectations due to uncertainties surrounding the current capital market, credit and general economic conditions, competition, potential for suspension or cancellation of a large project, there is no assurance that we would have access to additional external capital resources on acceptable terms.

Contractual Obligations

As of March 31, 2007, our remaining required payment obligations under lease and certain other commitments are shown in the following table:

Contractual Obligations (In millions)	**Total**	**Less Than 1 Year**	**1 - 3 Years**	**3 - 5 Years**	**More Than 5 Years**
Letters of credit	$ 0.1	$ 0.1	$	$	$
Operating leases	$ 2.8	$ 1.1	$ 1.6	$ 0.1	$
Severance and related costs	$ 0.3	$ 0.3	$	$	$
Purchase obligations	$ 7.3	$ 7.3	$	$	$
Total	$ 10.5	$ 8.8	$ 1.6	$ 0.1	$

Letters of Credit

Letters of credit reflect standby letters of credit issued as collateral for operational leases.

Operating Leases

Operating leases reflect leases entered into by the Company for technology and office equipment as well as office space.

Severance and Related Costs

Severance and related costs reflect payments the Company intends to make in future periods for severance and other related costs due to cost reduction activities in fiscal year 2007 and prior years. The amounts listed have not been reduced by minimum sublease rentals of $0.1 million due in fiscal year 2007, under non-cancelable subleases.

Purchase Obligations

Purchase obligations reflect the costs of goods or services eLoyalty had procured prior to March 31, 2007, but for which eLoyalty had not tendered payment. Purchase orders for third-party support costs associated with Managed services support agreements are also included.

Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that SFAS No. 159 may have on our financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements , which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This statement is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that SFAS No. 157 may have on our financial position or results of operations.

In June 2006, the FASB ratified a consensus opinion reached by EITF on EITF Issue 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). The guidance in EITF Issue 06-3 requires disclosure in interim and annual financial statements of the amount of taxes on a gross basis, if significant, that are assessed by a governmental authority that are imposed on and concurrent with a specific revenue producing transaction between a seller and customer such as sales, use, value added and some excise taxes. Additionally, the income statement presentation (gross or net) of such taxes is an accounting policy decision that must be disclosed. The consensus in EITF Issue 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The Company adopted EITF Issue 06-3 effective December 31, 2006. The Company presents these taxes on a net basis. The adoption of EITF Issue 06-3 did not have a material effect on our financial position or results of operations.

Item 3. ***Qualitative and Quantitative Disclosures about Market Risk***

We provide solutions to clients in a number of countries including the United States, Australia, Canada, Germany, Ireland and the United Kingdom. For the quarter ended March 31, 2007 and April 1, 2006, 6% and 15%, respectively, of our net revenue was denominated in foreign currencies. Historically, we have not experienced material fluctuations in our results of operations due to foreign currency exchange rate changes. As a result of our exposure to foreign currencies, future financial results could be affected by factors such as changes in foreign currency exchange rates or weak economic conditions in those foreign markets. We do not currently engage, nor is there any plan to engage, in hedging foreign currency risk.

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We also have interest rate risk with respect to changes in variable rate interest on our revolving line of credit, as well as interest rate risk related to our cash and cash equivalents and restricted cash. Interest on the line of credit is currently based on either the bank s prime rate, or LIBOR, which varies in accordance with prevailing market conditions. A change in interest rate impacts the interest expense on the line of credit and cash flows, but does not impact the fair value of the debt. This interest rate risk will not have a material impact on our financial position or results of operations.

Item 4. ***Controls and Procedures***

(a) Evaluation of Disclosure Controls and Procedures

Based on their evaluation for the period covered by this Form 10-Q, eLoyalty s Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2007, the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective.

(b) Management s Report on Internal Control over Financial Reporting

eLoyalty s management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to 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 due to changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company conducted its evaluation of the effectiveness of internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on its evaluation, our management concluded that our internal control over financial reporting was effective as of the end of the period covered by this Form 10-Q.

Grant Thornton LLP, an independent registered public accounting firm, audited the Consolidated Financial Statements included in the Form 10-K for the year ended December 30, 2006 and, as part of their audit, issued reports, on (1) our management s assessment of the effectiveness of our internal control over financial reporting and (2) the effectiveness of our internal control over financial reporting. Refer to Report of Grant Thornton LLP Independent Registered Public Accounting Firm in our Annual Report on Form 10-K for the year ended December 30, 2006.

(c) Changes in Internal Control over Financial Reporting

There has been no change in eLoyalty s internal control over financial reporting that occurred during the first quarter of 2007 that has materially affected, or is reasonably likely to materially affect, eLoyalty s internal control over financial reporting.

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Part II. Other Information

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

The following table provides information relating to the Company s purchase of shares of its common stock in the first quarter of 2007. All of these purchases reflect shares withheld upon vesting of restricted stock or installment stock, to satisfy tax withholding obligations.

Period	Total Number of Shares Purchased	Average Price Paid Per Share
December 31, 2006 January 30, 2007		
Common stock	114	$ 18.64
January 31, 2007 February 28, 2007		
Common stock	67,265	$ 20.59
March 1, 2007 March 31, 2007		
Common stock	86	$ 20.10
Total		
Common stock	67,465	$ 20.58

Item 6. **Exhibits**

10.21 Form of Indemnification Agreement, entered into between eLoyalty Corporation and each of Tench Coxe and Jay C. Hoag and the other eLoyalty non-employee directors (filed as Exhibit 10.15 to the S-1).

31.1 Certification of Kelly D. Conway under Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Steven C. Pollema under Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Kelly D. Conway and Steven C. Pollema under Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Lake Forest, State of Illinois, on May 10, 2007.

eLOYALTY CORPORATION

By /s/ STEVEN C. POLLEMA
Steven C. Pollema
Vice President, Operations
and Chief Financial Officer
(Duly authorized signatory and Principal
Financial and Accounting Officer)

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