

ITRON INC /WA/
Form 8-K
December 05, 2017

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

December 5, 2017

Date of Report (Date
of Earliest Event
Reported)

ITRON, INC.

(Exact Name of
Registrant as
Specified in its
Charter)

Washington

(State or Other Jurisdiction
of Incorporation)

000-22418

(Commission File No.)

91-1011792

(IRS Employer
Identification No.)

2111 N. Molter Road, Liberty Lake, WA 99019

(Address of Principal Executive Offices, Zip Code)

(509) 924-9900

(Registrant's Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item Other Events
8.01

On December 5, 2017, Itron, Inc. (the “Company”) and Silver Spring Networks, Inc. (“Silver Spring”) issued a press release (the “Joint Press Release”) announcing that the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the “HSR Act”), for the Company’s previously announced pending acquisition of Silver Spring expired without a request for additional information by the Federal Trade Commission. Expiration of the waiting period under the HSR Act satisfies one of the conditions to the closing of the acquisition as specified in the Agreement and Plan of Merger, dated September 17, 2017 by and among the Company, Ivory Merger Sub., Inc., a wholly-owned subsidiary of the Company, and Silver Spring (the “Merger Agreement”).

The closing of the acquisition is subject to Silver Spring stockholder approval and the satisfaction of certain other closing conditions set forth in the Merger Agreement. A copy of the Joint Press Release announcing these events dated December 5, 2017 is attached hereto as Exhibit 99.1.

Item Financial Statements and Exhibits.
9.01

(d) Exhibits.

Exhibit

Number Description

99.1 Joint Press Release dated December 5, 2017.*

* This exhibit is intended to be furnished and shall not be deemed "filed" for purposes of the Exchange Act

SIGNATURE

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, hereunto duly authorized.

ITRON, INC.

Dated: December 5, 2017 By: /s/ Joan S. Hooper
Joan S. Hooper
Senior Vice President and
Chief Financial Officer

EXHIBIT INDEX

Exhibit
Number Description

99.1 Joint Press Release dated December 5, 2017.*

* This exhibit is intended to be furnished and shall not be deemed "filed" for purposes of the Exchange Act.

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COPART, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****July 31, 2007, 2006 and 2005****(2) Acquisitions (Continued)***Pro-forma Financial Information*

The unaudited financial information in the table below summarizes the combined results of operations of the Company and the results of Universal prior to the Acquisition, on a pro forma basis, as though the companies had been combined as of August 1, 2005 for each period presented. Pro forma financial information for our other acquisitions have not been presented, as the effects were not material to our historical consolidated financial statements either individually or in aggregate. The pro forma financial information for all periods presented also includes the business combination accounting effect on conforming Universal's revenue recognition policy to the Company's, adjustments related to the fair value of acquired inventory and fixed assets, amortization charges from acquired intangible assets, and related tax effects of these adjustments. The following pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the earliest period presented, nor does it intend to be a projection of future results (unaudited, in thousands, except per share amounts):

	Years Ended July 31,	
	2007	2006
Total revenues	\$ 643,181	\$ 621,501
Operating income	\$ 204,930	\$ 167,307
Income before income taxes	\$ 215,747	\$ 169,546
Net income	\$ 133,222	\$ 94,612
Earnings per share	\$ 1.47	\$ 1.05
Diluted earnings per share	\$ 1.43	\$ 1.02

Fiscal 2006 Transactions

During fiscal 2006, the Company made the following three acquisitions: Auto Auction Associates of Montana, Inc., Heartland Insurance Pool, Inc. and Central Penn Sales, LLC. These three companies consisted of seven separate facilities. The consideration paid for these acquisitions consisted of \$23.0 million in cash. The acquired net assets consisted of accounts and advances receivable, vehicle pooling costs, fixed assets, land, buildings, goodwill, and covenants not to compete. The acquisitions were accounted for using the purchase method of accounting, and the operating results subsequent to the acquisition dates are included in the Company's consolidated statements of income. These new facilities contributed \$6.9 million of revenues during fiscal 2006. The excess of the purchase price over the fair market value of the net identifiable assets acquired of \$19.0 million has been recorded as goodwill. The Company estimates the entire goodwill balance relating to these acquisitions will be deductible for tax purposes. In addition, the Company paid \$1.3 million for covenants

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(2) Acquisitions (Continued)

not to compete relating to these acquisitions, which are being amortized over five to seven years. In conjunction with the Central Penn Sales acquisition, the Company entered into leases for the use of these facilities at fair value.

Fiscal 2005 Transactions

During fiscal 2005, the Company made the following two acquisitions: Kentucky Auto Salvage Pool, Inc. (KASP) of Lexington, Kentucky and Insurance Auctions of Missouri, Inc. of Columbia, Missouri. The consideration paid for these acquisitions consisted of \$4.5 million in cash. The acquired net assets consisted of accounts and advances receivable, vehicle pooling costs, fixed assets, land, buildings, goodwill, and covenants not to compete. The acquisitions were accounted for using the purchase method of accounting, and the operating results subsequent to the acquisition dates are included in the Company's consolidated statements of income. These new facilities contributed \$0.7 million of revenues during fiscal 2005. The excess of the purchase price over the fair market value of the net identifiable assets acquired of \$3.7 million has been recorded as goodwill. The Company estimates the entire goodwill balance relating to these acquisitions will be deductible for tax purposes. In addition, the Company paid \$0.3 million for covenants not to compete relating to these acquisitions, which are being amortized over five to seven years. In conjunction with the Lexington, Kentucky and Columbia, Missouri, acquisitions, the Company entered into leases for the use of these facilities at fair value.

Pro forma financial information for the fiscal 2006 and 2005 acquisitions does not result in a significant change from actual results.

(3) Discontinued Operations and Goodwill Impairment

During fiscal 2006, the Company adopted a formal plan to discontinue the operations of Motors Auction Group (MAG) and dispose of or convert the related assets. The MAG yards to be converted into salvage facilities will continue to be included in the results of continuing operations on the income statements.

Under SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test or on an interim basis if certain indicators are present. The discontinuation of an operating segment is one of those indicators. Accordingly, goodwill was tested for impairment in accordance with the provisions of SFAS No. 142 during the second quarter of 2006. The Company used a combination of valuation techniques, which included consideration of market-based approaches and an income approach, in determining the fair value of the Company's applicable reporting unit in the interim impairment test of goodwill.

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(3) Discontinued Operations and Goodwill Impairment (Continued)

The impairment test indicated that the carrying value of the MAG goodwill exceeded its implied fair value. The corresponding write-down of goodwill of \$21.8 million to its fair value was reported as a component of discontinued operations in the accompanying consolidated statements of income. The Company also determined that the value of the remaining MAG covenants not to compete was impaired and recorded an impairment charge in the amount of \$0.5 million. This write-down of covenants not to compete is also reported as a component of discontinued operations in the accompanying consolidated statements of income.

During the second quarter of fiscal 2006, the Company sold the business and related assets of one of the MAG locations for approximately \$0.1 million. During the third quarter, the Company sold the business and related assets including the real estate of one of the MAG locations. The Company received a \$12 million promissory note from the buyer as purchase consideration. The promissory note is reflected in land purchase options and other assets at its net present value in the accompanying consolidated balance sheet at July 31, 2007 and 2006. The promissory note bears interest at 7% per annum. Interest only payments on the note are due monthly until maturity on May 28, 2011, at which time the balance of the note is due in full. The note receivable is collateralized by the real estate and is personally guaranteed by the buyer. The buyer is in compliance with the terms of the promissory note and the Company believes the note amount is fully recoverable. The consideration was allocated to the real estate, based on an appraisal, and to the business in proportion to their estimated fair values. The portion of the consideration allocated to the real estate sale totaled \$7.1 million. The Company deferred a gain on the sale of the real estate of approximately \$2.5 million that will be recognized upon payment of the principal balance of the note receivable. The remaining consideration of \$4.9 million is allocated to the sale of the business. The Company recognized a gain on the sale of the business of approximately \$3.0 million, which is included in the results of the discontinued operations. During the fourth quarter of fiscal 2006, the Company sold the remainder of the business and related assets excluding the real estate of another MAG location. The Company received a \$1.2 million promissory note and \$0.2 million in cash from the buyer as purchase consideration. The buyer is in compliance with the terms of the promissory note and the Company believes the note amount is fully recoverable. The promissory note is reflected in land purchase options and other assets at its net present value in the accompanying consolidated balance sheet at July 31, 2007 and 2006. The Company recognized a gain on the sale of the business of approximately \$1.3 million, which is included in the results of discontinued operations. As of July 31, 2006, no MAG locations remained. Three of the original six MAG locations were sold and three were converted into salvage facilities.

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(3) Discontinued Operations and Goodwill Impairment (Continued)

Summarized results of operations for MAG is set forth below (in thousands):

	Years Ended July 31,		
	2007	2006	2005
Revenues	\$	\$ 6,351	\$ 9,380
Income (loss) before income taxes		(17,950)	474
Income tax (expense) benefit		2,237	(181)
Net income (loss) from discontinued operations	\$	\$ (15,713)	\$ 293

The net carrying values of the assets that were sold, and the related goodwill and other intangibles that were impaired, during fiscal 2006 totaled approximately \$28.7 million as of July 31, 2005. This balance consisted of approximately \$23.1 million of goodwill, \$5.0 million of property and equipment and \$0.6 million of intangibles.

(4) Short-term Investments

Short-term investments consist of the following (in thousands):

	July 31, 2007	2006
Available-for-sale securities:		
Auction rate securities	\$ 102,625	\$ 148,725
	\$ 102,625	\$ 148,725

(5) Accounts Receivable, Net

Accounts receivable consists of the following (in thousands):

	July 31, 2007	2006
Advance charges receivable	\$ 72,628	\$ 66,704
Trade accounts receivable	37,891	33,454
Other receivables	1,627	1,621
	112,146	101,779
Less allowance for doubtful accounts	(2,251)	(1,820)
	\$ 109,895	\$ 99,959

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(5) Accounts Receivable, Net (Continued)

Advance charges receivable represents amounts paid to third parties on behalf of insurance companies for which the Company will be reimbursed when the vehicle is sold. Trade accounts receivable includes fees and gross proceeds to be collected from insurance companies and buyers.

The movements in the allowance for doubtful accounts is as follows (in thousands):

Description and Fiscal Year	Balance at Beginning of Year	Charged to Costs And Expenses	Deductions Applications to Bad Debt	Balance at End of Year
Allowance for doubtful accounts:				
July 31, 2007	\$ 1,820	\$ 2,097	\$ (1,666)	\$ 2,251
July 31, 2006	\$ 1,272	\$ 1,555	\$ (1,007)	\$ 1,820
July 31, 2005	\$ 1,789	\$ 247	\$ (764)	\$ 1,272

(6) Property and Equipment, Net

Property and equipment consists of the following (in thousands):

	July 31, 2007	2006
Transportation and other equipment	\$ 23,847	\$ 17,059
Office furniture and equipment	44,534	38,734
Land	218,144	155,323
Buildings and leasehold improvements	296,860	263,707
	583,385	474,823
Less accumulated depreciation and amortization	(162,721)	(132,880)
	\$ 420,664	\$ 341,943

Depreciation expense on property and equipment was approximately \$35.0 million, \$30.8 million and \$29.5 million for the fiscal years ended July 31, 2007, 2006 and 2005 respectively.

COPART, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****July 31, 2007, 2006 and 2005****(7) Goodwill**

The change in carrying amount of goodwill is as follows (in thousands):

Balance as of July 31, 2005	\$ 116,375
Goodwill relating to acquisitions during the period	19,015
Goodwill impairment included in loss from discontinued operations	(21,800)
Divestitures	(1,299)
Balance as of July 31, 2006	112,291
Goodwill relating to Universal acquisition during the period (refer Note 2)	49,354
Balance as of July 31, 2007	\$ 161,645

In accordance with the guidance in SFAS No. 142, goodwill is not amortized. Instead, it is tested for impairment on an annual basis or more frequently upon the occurrence of circumstances that indicate that goodwill may be impaired. The Company's annual impairment tests were performed in the fourth quarter of fiscal 2007 and 2006. The annual results of these tests indicated that goodwill was not impaired. The assessment measured the amount by which the carrying amount of goodwill exceeded the market value of the Company's sole reporting unit. Refer to Note 3, for additional discussion related to the impairment of goodwill from discontinued operations recognized during fiscal 2006. As of July 31, 2007, the aggregate amount of goodwill impairment losses recognized totaled \$21.8 million

(8) Intangibles, Net

Intangible assets consists of the following (in thousands, except remaining useful life):

	July 31 , 2007		Weighted Average Remaining Useful Life (in years)
	Gross carrying Amount	Accumulated amortization	
Amortized intangible assets:			
Covenants not to compete	\$ 10,071	\$ (8,887)	3
Supply contracts	21,889	(421)	6
Tradename	2,964	(35)	10
Software	1,780	(202)	1
Licenses and databases	318	(35)	1
	\$ 37,022	\$ (9,580)	

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2007, 2006 and 2005

(8) Intangibles, Net (Continued)

	July 31, 2006		
	Gross carrying Amount	Accumulated amortization	Weighted Average Remaining Useful Life (in years)
Amortized intangible assets:			
Covenants not to compete	\$ 10,071	\$ (8,197)	3
	\$ 10,071	\$ (8,197)	

Aggregate amortization expense on intangible assets was approximately \$1.4 million, \$0.7 million and \$1.0 million for the fiscal years ended July 31, 2007, 2006, and 2005, respectively. Intangible amortization expense for the next five fiscal years based upon July 31, 2007 intangible assets is expected to be as follows (in thousands):

2008	\$ 6,218
2009	4,287
2010	4,250
2011	4,063
2012	3,970

(9) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following (in thousands):

	July 31, 2007	2006
Trade accounts payable	\$ 13,392	\$ 8,716
Accounts payable to insurance companies	39,421	28,748
Accrued insurance	4,312	3,235
Accrued compensation and benefits	16,824	13,697
Other accrued liabilities	11,133	6,374
	\$ 85,082	\$ 60,770

The Company is partially self-insured for certain losses related to general liability, workers compensation and auto liability. Accrued insurance liability represents an estimate of the ultimate cost of claims incurred as of

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(9) Accounts Payable and Accrued Liabilities (Continued)

the balance sheet date. The estimated liability is not discounted and is established based upon analysis of historical data, including the severity of our frequency of claims, actuarial estimates and is reviewed periodically by management to ensure that the liability is appropriate.

(10) Long-Term Debt

On February 23, 2001, the Company entered into a credit facility with its existing banking syndicate. The facility provided by Wells Fargo Bank, Fleet National Bank and U.S. Bank National Association consisted of an unsecured revolving reducing line of credit in the amount of approximately \$10.6 million. On May 8, 2006, the line of credit was reduced to zero and the line of credit was terminated in accordance with its terms.

On November 13, 2006, Universal, our wholly owned subsidiary purchased on June 14, 2007, entered into three credit facilities with National Westminster Bank Plc. The first facility provides approximately \$8.0 million in overdraft protection and working capital. The second and third facilities of approximately \$6.0 and \$10.0 million, respectively, provide liquidity for acquisitions and investments. Each of these facilities carries an interest rate of the bank's index, which was 5.75% at July 31, 2007, plus .75% and is collateralized by real property. At July 31, 2007, there were no amounts borrowed under these facilities.

(11) Shareholders' Equity

General

The Company has authorized the issuance of 180 million shares of common stock, no par value, of which approximately 88,333,677 shares are issued and outstanding at July 31, 2007. As of July 31, 2007 and 2006, the Company has reserved 1,337,337 and 1,515,883 shares of common stock, respectively for the issuance of options granted under the company's stock option plans and 982,626 and 1,049,360 shares of common stock, respectively for the issuance of shares under the Copart, Inc. Employee Stock Purchase Plan (ESPP). The Company has authorized the issuance of 5 million shares of preferred stock, no par value, none of which are issued or outstanding at July 31, 2007.

Stock Repurchase

In February 2003, the Company's Board of Directors authorized the Company to repurchase up to 9 million shares of its common stock. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the share repurchase program. The repurchases will be made at such times and in such amounts as the Company deems appropriate and may be discontinued at any time. For the year ended July 31, 2007, the Company

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(11) Shareholders Equity (Continued)

repurchased 2,995,405 shares at a weighted average price of \$29.91. For the year ended July 31, 2006, the Company repurchased 366,000 shares at a weighted average price of \$24.24. For the year ended July 31, 2005, the Company did not repurchase any shares. The total number of shares repurchased under the program as of July 31, 2007 was 7,033,705, leaving 1,966,295 million available under the repurchase program.

Employee Stock Purchase Plan

The ESPP provides for the purchase of up to an aggregate of 2.5 million shares of common stock of the Company by employees pursuant to the terms of the ESPP. The Company's ESPP was adopted by the Board of Directors and approved by the shareholders in 1994. The ESPP was amended and restated in 2003 and again approved by the shareholders. Under the ESPP, employees of the Company who elect to participate have the right to purchase common stock at a 15 percent discount from the lower of the market value of the common stock at the beginning or the end of each six month offering period. The ESPP permits an enrolled employee to make contributions to purchase shares of common stock by having withheld from their salary an amount up to 10 percent of their compensation (which amount may be increased from time to time by the Company but may not exceed 15% of compensation). No employee may purchase more than \$25,000 worth of common stock (calculated at the time the purchase right is granted) in any calendar year. The Compensation Committee of the Board of Directors administers the ESPP. The number of shares of common stock issued pursuant to the ESPP during each of fiscal 2007, 2006 and 2005 was 66,734, 83,765 and 68,633, respectively. As of July 31, 2007, 1,517,375 shares of common stock have been issued pursuant to the ESPP and 982,626 shares remain available for purchase under the ESPP.

Stock Options

In December 2001, the Company adopted the Copart, Inc. 2001 Stock Option Plan (Plan), presently covering an aggregate of 4.5 million shares of the Company's common stock. The Plan provides for the grant of incentive stock options to employees and non-qualified stock options to employees, officers, directors and consultants at prices not less than 100% and 85% of the fair market value for incentive and non-qualified stock options, respectively, as determined by the Board of Directors at the grant date. Incentive and non-qualified stock options may have terms of up to ten years and vest over periods determined by the Board of Directors. Options generally vest ratably over a five-year period. The Plan replaced the Company's 1992 Stock Option Plan (1992 Plan), which expired in August 2002. At July 31, 2007, 1,337,337 shares were available for future grant under the Plan.

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2007, 2006 and 2005

(11) Shareholders' Equity (Continued)

The following table sets forth stock-based compensation expense included in the Company's Consolidated Statements of Income (in thousands):

	Years Ended July 31,		
	2007	2006	2005
Yard operations	\$ 910	\$ 700	\$ 125
General and administrative	2,572	1,600	286

There were no compensation costs capitalized as part of the cost of an asset as of July 31, 2007 and 2006.

A summary of the status of the Company's non-vested shares as of July 31, 2007 and changes during fiscal 2007 is as follows:

	Number of Shares (000 s)	Weighted average Grant date Fair Value
Non-vested shares at July 31, 2006	1,615	\$ 7.46
Grants of options	216	\$ 10.17
Vested	(715)	\$ 6.39
Forfeitures or expirations	(40)	\$ 9.93
Non-vested shares at July 31, 2007	1,076	\$ 8.54

Option activity for the year ended July 31, 2007 is summarized as follows:

	Shares (in 000s)	Weighted- average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value (in 000s)
Outstanding at July 31, 2006	5,874	\$ 12.75		
Grants of options	216	\$ 28.64		
Exercises	(824)	\$ 13.40		
Forfeitures or expirations	(40)	\$ 24.30		
Outstanding at July 31, 2007	5,226	\$ 13.20	4.50	\$ 78,260
Exercisable at July 31, 2007	4,150	\$ 10.96	3.65	\$ 71,331
Vested and expected to vest at July 31, 2007	4,907	\$ 13.03	4.45	\$ 74,126

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(11) Shareholders' Equity (Continued)

As required by SFAS 123(R), the Company made an estimate of expected forfeitures and is recognizing compensation cost only for those equity awards expected to vest.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between the Company's closing stock price on the last trading day of the year ended July 31, 2007 and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their options on July 31, 2007. The aggregate intrinsic value of options exercised was approximately \$12.1 million, \$4.9 million and \$2.9 million in the fiscal years ended July 31, 2007, 2006 and 2005, respectively and represents the difference between the exercise price of the option and the estimated fair value of the Company's common stock on the dates exercised. As of July 31, 2007, the total compensation cost related to non-vested stock-based awards granted to employees under the Company's stock option plans but not yet recognized was \$7.1 million, net of estimated forfeitures. This cost will be amortized on straight-line basis over a weighted average term of 2.55 years and will be adjusted for subsequent changes in estimated forfeitures. The fair value of options vested in fiscal 2007, 2006 and 2005 is \$4.4 million, \$2.2 million and \$2.3 million, respectively.

A summary of stock options outstanding and exercisable at July 31, 2007 follows:

Range of Exercise Prices	Options Outstanding		Weighted-Average Exercise Price	Options Exercisable	
	Number Outstanding at July 31, 2007 (in 000s)	Weighted-Average Remaining Contractual Life		Number Exercisable at July 31, 2007 (in 000s)	Weighted-Average Exercise Price
\$2.90 - \$4.47	1,500	1.08	\$ 3.54	1,500	\$ 3.54
\$7.75 - \$10.99	815	5.69	\$ 9.78	672	\$ 9.89
\$11.02 - \$16.93	1,211	3.44	\$ 14.18	1,201	\$ 14.19
\$17.16 - \$29.89	1,700	7.70	\$ 22.68	777	\$ 21.21
	5,226	4.50	\$ 13.20	4,150	\$ 10.96

On March 6, 2003, the Company's Board of Directors declared a dividend of one right (a "Right") to purchase one-thousandth share of the Company's Series A Participating Preferred Stock for each outstanding share of Common Stock of the Company. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Preferred Stock at an exercise price of \$120.48.

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(11) Shareholders' Equity (Continued)

In general, subject to certain limited exceptions, the Rights become exercisable when a person or group acquires 15% or more of the Company's common stock or a tender offer or exchange offer for 15% or more of the Company's common stock is announced or commenced. After any such event, the Company's other stockholders may purchase an additional \$120.48 worth of additional shares of the Company's common stock at 50% of the then-current market price. The Rights will cause substantial dilution to a person or group that attempts to acquire us on terms not approved by the Company's Board of Directors. The Rights may be redeemed by the Company at \$0.001 per Right at any time before any person or group acquires 15% or more of our outstanding common stock.

(12) Income Taxes

Income (loss) from continuing operations before taxes consists of the following (in thousands):

	Years ended July 31		
	2007	2006	2005
U.S.	\$ 215,538	\$ 174,636	\$ 165,073
Non U.S.	1,883	(114)	(478)
Total income before taxes	\$ 217,421	\$ 174,522	\$ 164,595

The Company's income tax expense (benefit) from continuing operations consists of (in thousands):

	Years Ended July 31,		
	2007	2006	2005
Federal:			
Current	\$ 79,760	\$ 62,754	\$ 59,242
Deferred	(6,202)	(4,264)	(5,233)
	73,558	58,490	54,009
State:			
Current	7,430	3,895	9,290
Deferred	(418)	(523)	(527)
	7,012	3,372	8,763
Foreign:			
Current	2,331		
Deferred	(1,818)		
	513		
	\$ 81,083	\$ 61,862	\$ 62,772

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(12) Income Taxes (Continued)

A reconciliation by year of the expected U.S. statutory tax rate (35% of income before income taxes) to the actual effective income tax rate is as follows:

	Years Ended July 31,		
	2007	2006	2005
Federal statutory rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax benefit	3.3	1.9	3.5
Compensation and fringe benefits	0.2	0.3	0.2
Other differences	(1.2)	(1.8)	(0.6)
Effective tax rate	37.3 %	35.4 %	38.1 %

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below, (in thousands):

	Years Ended July 31,	
	2007	2006
Deferred tax assets:		
Allowance for doubtful accounts	\$ 847	\$ 691
Accrued compensation and benefits	2,149	1,444
State taxes	1,868	42
Accrued other	1,831	789
Deferred revenue	1,847	1,852
Property and equipment	13,466	16,431
State net operating losses	819	378
Foreign net operating loss	351	455
Total gross deferred tax assets	23,178	22,082
Less valuation allowance	(959)	(786)
Net deferred tax assets	22,219	21,296
Deferred tax liabilities:		
Vehicle pooling costs	(9,715)	(10,694)
Prepaid insurance	(617)	(645)
Intangibles and goodwill	(21,319)	(12,011)
Total gross deferred tax liabilities	(31,651)	(23,350)
Net deferred tax liability	\$ (9,432)	\$ (2,054)

COPART, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

July 31, 2007, 2006 and 2005

(12) Income Taxes (Continued)

The above net deferred tax liability has been reflected in the accompanying balance sheets as follows (in thousands):

	July 31, 2007	2006
North America current liabilities	\$ 3,219	\$ 7,191
North America non-current liabilities (assets)	(7,785)	(5,137)
UK non-current liabilities	13,998	
Net deferred tax liability	\$ 9,432	\$ 2,054

The Company's ability to realize deferred tax assets is dependent on its ability to generate future taxable income. Accordingly, the Company has established a valuation allowance in taxable jurisdictions where the utilization of the tax assets are uncertain. Additional timing differences or future tax losses may occur which could warrant a need for establishing additional valuation allowances against certain deferred tax assets.

The Company is under routine income tax audits in two states for tax years between 2001 and 2005. Management believes that adequate amounts have been provided for any adjustments that may ultimately result from these examinations.

In fiscal 2007, 2006 and 2005, the Company recognized a tax benefit of approximately \$3.8 million, \$2.3 million and \$1.1 million, respectively, upon the exercise of certain stock options which is reflected in shareholders' equity.

The valuation allowance for the years ended July 31, 2007 and 2006 was approximately \$1.0 million and \$0.8 million, respectively, which is a net increase of \$0.2 million.

The Company has a Canadian net operating loss of approximately \$1.0 million, most of which expires between 2011 and 2014. In addition, the Company also has various state net operating losses of \$15.0 million, which expire between 2017 and 2027.

The Company has not provided US federal income and foreign withholding taxes from undistributed earnings of its foreign operations, including Universal, because it plans to permanently reinvest the earnings of its foreign operations as of July 31, 2007. If these earnings were distributed, foreign tax credits may become available under current law to reduce or eliminate the resultant US income tax liability.

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(13) Net Income Per Share

The table below reconciles weighted average shares outstanding to weighted average shares and dilutive potential share outstanding (in thousands):

	Years Ended July 31,		
	2007	2006	2005
Weighted average common shares outstanding	90,651	90,372	90,162
Effect of dilutive securities-stock options	2,804	2,553	2,822
Diluted weighted average common shares outstanding	93,455	92,925	92,984

There were no adjustments to net income required in calculating diluted net income per share. Options to purchase approximately 110,000, 42,000 and 82,500 shares of our common stock at an average price of \$29.76, \$27.22 and \$24.14 per share were outstanding at July 31, 2007, 2006 and 2005, respectively, but were not included in the computation of diluted net income per share because the exercise price of the options was greater than the average market price of the common shares.

(14) Segments and Other Geographic Information

Operating segments are defined as components of a business about which separate financial information is available that is evaluated regularly by the chief operating decision maker with respect to the allocation of resources and performance. The Company considers itself to operate in a single operating segment, specifically providing vehicle suppliers, primarily insurance companies, with a full range of services to process and sell salvage vehicles, primarily over the Internet through the Company's Virtual Bidding Second Generation (VB2) Internet auction-style sales technology.

The following geographic data is provided in accordance with SFAS No. 131. Revenues are based upon the geographic location of the selling facility and are summarized in the following table (in thousands):

	Years Ended July 31,		
	2007	2006	2005
United States	\$ 541,801	\$ 526,456	\$ 446,930
Canada	4,060	2,115	801
North America	545,861	528,571	447,731
United Kingdom	14,819		
	\$ 560,680	\$ 528,571	\$ 447,731

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(14) Segments and Other Geographic Information (Continued)

Long-Lived assets based upon geographic location are summarized in the following table (in thousands):

	July 31, 2007	2006
United States	\$ 512,346	\$ 479,854
Canada	5,661	3,501
North America	518,007	483,355
United Kingdom	132,885	
	\$ 650,892	\$ 483,355

(15) Commitments and Contingencies

Leases

The Company leases certain domestic and foreign facilities and certain equipment under noncancelable operating leases. In addition to the minimum future lease commitments presented below, the leases generally require the Company to pay property taxes, insurance, maintenance and repair costs. Certain leases provide the Company with either a right of first refusal to acquire or an option to purchase a facility at fair value. Certain leases also contain escalation clauses and renewal option clauses calling for increased rents. Where a lease contains an escalation clause or a concession such as a rent holiday, rent expense is recognized on a straight-line basis over the lease term in accordance with FASB Technical Bulletin 85-3 *Accounting for Operating Leases with Scheduled Rent Increases*.

At July 31, 2007, Future minimum lease commitments under noncancelable operating leases with initial or remaining lease terms in excess of one year are as follows (in thousands):

Years Ending July 31,	Operating Leases
2008	\$ 20,330
2009	17,936
2010	16,270
2011	14,165
2012	11,766
Thereafter	37,898
	\$ 118,365

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2007, 2006 and 2005

(15) Commitments and Contingencies (Continued)

Facilities rental expense for the fiscal years ended July 31, 2007, 2006 and 2005 aggregated approximately \$16.7 million, \$18.0 million and \$17.2 million, respectively. Yard operations equipment rental expense for the fiscal years ended July 31, 2007, 2006 and 2005 aggregated approximately \$4.6 million, \$4.4 million and \$4.0 million, respectively.

Commitments

Letters of Credit

The Company had outstanding letters of credit of \$11.8 million at July 31, 2007. These letters of credit secure certain insurance obligations.

Purchase Commitments

The Company has obligations under certain UK seller contracts for the purchase of vehicles at pre-determined prices, which typically are based upon a percentage of the pre-accident value, as defined in the contracts.

Contingencies

Legal Matters

The Company is involved in litigation and damage claims arising in the ordinary course of business, such as actions related to injuries, property damage, and the handling or disposal of vehicles. Legal fees and other costs associated with such actions are expensed as incurred and were not material in any period reported. In addition, the Company assesses, in conjunction with its legal counsel, the need to record a liability for litigation and contingencies. The Company reserves for costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The Company believes that the ultimate disposition of these matters will not have a material effect on its financial position, results of operations or cash flows. However, the amount of future reserves required associated with these claims, if any, cannot be determined with certainty. This litigation includes the following matters:

On September 16, 2005, Richard M. Gray filed suit against Copart of Connecticut, Inc. and A. Safrin, in the State Court for the County of Chatham, State of Georgia, alleging a class action for unreasonable amounts claimed for storage liens by the Company, and related claims. Relief sought includes class certification,

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(15) Commitments and Contingencies (Continued)

damages, fees, costs and expenses. The Company's motion for summary judgment was heard on January 31, 2007 and was denied. The Company believes the claim is without merit, and is defending the lawsuit vigorously.

On July 28, 2006, Foreign Car Sales and Service LLC (FCS) filed suit against Copart in the United States District Court for the Middle District of Louisiana, originally alleging antitrust violations and unfair trade practices. Relief sought originally included class certification based on both unfair trade practices and Sherman Act violations, damages, fees, costs and expenses. On January 5, 2007, the Magistrate required FCS to amend its complaint. A First Amended Complaint was rejected, and a Second Amended Complaint was submitted February 16, 2007, in which FCS abandoned its unfair trade practices claims, and now relies simply on breach of contract claims. FCS continues to seek certification of a class based upon violations of the Sherman Act. Plaintiff is in *pro se* and is demanding a total award of 51% of Copart's issued stock, as well as approximately \$97,000 in damages arising from damages to vehicles. The Company filed a motion to dismiss based on lack of subject matter jurisdiction, improper venue, and failure to state a claim. The Company believes the claims are without merit, and are defending the lawsuit vigorously.

On August 7, 2006, Kimberly and Jason Green filed suit against Copart in the Superior Court of the State of California, County of Sacramento, making allegations pursuant to a California consumer protection statute similar to a class action for unreasonable amounts claimed for storage liens by the Company, and related claims. Relief sought includes class certification, damages, fees, costs and expenses. The Company filed an answer on September 1, 2006 denying the claim. On July 2, 2007, the parties entered into a settlement agreement terminating the lawsuit.

The Company accrues for costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on the Company's future results of operations cannot be predicted because any such effect depends on future results of operations, the amount and timing of the resolution of such matters. The Company believes that any ultimate liability will not have a material effect on its financial position, results of operations or cash flows. However, the amount of the liabilities associated with these claims, if any, cannot be determined with certainty.

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(15) Commitments and Contingencies (Continued)

Environmental Matters

In connection with the acquisition of the Dallas, Texas facility in 1994, the Company set aside \$3.0 million to cover the costs of environmental remediation, stabilization and related consulting expenses for a six-acre portion of the facility that contained elevated levels of lead due to the activities of the former operators. The Company began the stabilization process in 1996 and completed it in 1999. The Company paid all remediation and related costs from the \$3.0 million fund and, in accordance with the acquisition agreement, distributed the remainder of the fund to the seller of the Dallas facility, less \$0.2 million which was held back to cover the costs of obtaining the no-further-action letter. In September 2002, the Company's environmental engineering consultant issued a report, which concludes that the soil stabilization has effectively stabilized the lead-impacted soil, and that the concrete cap should prevent impact to storm water and subsequent surface water impact. The Company's consultant thereafter submitted an Operations and Maintenance Plan (Plan) to the Texas Commission on Environmental Quality (TCEQ) providing for a two-year inspection and maintenance plan for the concrete cap, and a two-year ground and surface water monitoring plan. In January of 2003, the TCEQ approved the Plan, subject to the additions of upstream (background) surface water samples from the intermittent stream adjacent to the facility and documentation of any repairs to the concrete cap during the post closure-monitoring period. The first semi-annual water sampling was conducted in April 2003, which reflected that the lead-impacted, stabilized soil is not impacting the ground and/or surface water. The second round of semi-annual water samples collected in October and November 2003 reported concentration of lead in one storm water and one surface water sample in excess of the established upstream criteria for lead. In correspondence, which the Company received in July 2004, the TCEQ approved with comment our water monitoring report dated February 24, 2004. The TCEQ instructed the Company to continue with post-closure monitoring and maintenance activities and submit the next report in accordance with the approved schedules. In February 2005, a report from our environmental engineering consultant was transmitted to the TCEQ containing the results of annual monitoring activities consisting of two (2) semi-annual sampling events which occurred in April/June 2004 and October/November 2004. Laboratory analytical results indicated no lead concentrations exceeding the target concentration level set in the Corrective Measures Study for the site, but some results were in excess of Texas surface water quality standards. The Company's environmental engineering consultant concluded in the February 2005 report to the TCEQ that it is unlikely that lead concentrations detected in the storm water runoff samples are attributable to the lead impacted soils. Based on the results of the 2004 samplings, the Company requested that no further action be taken and that a closure letter be issued by the TCEQ. In September 2007, the TCEQ notified the Company that they did not concur with our consultant's conclusions and recommendations. The TCEQ said it would not provide a closure letter until additional sampling of surface water is performed which reflects concentrations of lead below Texas surface

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COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(15) Commitments and Contingencies (Continued)

water quality standards. This sampling is anticipated to be performed in September or October, 2007. The Company is not assured of receiving the no-further-action letter and may incur further liabilities if the stabilization process proves ineffective, or if later testing of surface or ground water reflects concentrations of lead which exceed Texas surface or ground water quality standards. In addition, in 1994, the Company detected a small quantity of two hazardous substances in a temporary groundwater monitoring well at the Dallas facility. The Company's environmental consultants concluded that both substances arose from an off-site source and no further action was recommended.

The Company does not believe that any of the above environmental matters will, either individually or in the aggregate, have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

(16) Guarantees Indemnifications to Officers and Directors

The Company has entered into indemnification agreements, a form of which is incorporated by reference in the exhibits of this annual report on Form 10-K, with the members of our board of directors to indemnify them to the extent permitted by law against any and all liabilities, costs, expenses, amounts paid in settlement and damages incurred by the directors as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors are sued as a result of their service as members of our board of directors.

(17) Related Party Transactions

The Company leases certain of its facilities from officers and/or directors of the Company under various lease agreements. Rental payments under these leases aggregated approximately \$0.4 million for the fiscal year ended July 31, 2007 and \$0.5 million for the years ended July 31, 2006 and 2005, and expire on various dates through 2012. The Company leases certain of its facilities from other employees of the Company under various lease agreements. Rental payments under these leases aggregated approximately \$0.3 million, \$0.3 million and \$0.4 million for the fiscal years ended July 31, 2007, 2006 and 2005, respectively.

On July 2, 2007, the Company repurchased in a private transaction 1,100,000 shares of its common stock held jointly by James Grosfeld, one of the Company's directors, and his wife, and 73,000 shares of its common stock held by a charitable foundation established by Mr. and Mrs. Grosfeld. The price paid for the repurchased shares was \$30.77 per share, the closing market price of the Company's common stock as quoted on the Nasdaq Global Market on July 2, 2007. The repurchase of these shares was pre-approved by the Audit Committee of our Board of Directors, with Mr. Grosfeld abstaining.

There were no amounts due or from related parties at July 31, 2007 and 2006.

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(18) Employee Benefit Plan

The Company sponsors a 401(k) defined contribution plan covering its eligible employees. The plan is available to all U.S. employees who meet minimum age and service requirements and provides employees with tax deferred salary deductions and alternative investment options. The Company matches 20% of employee contributions up to 15% of employee salary deferral. The Company recognized an expense of approximately \$0.4 million, \$0.3 million and \$0.2 million for the fiscal years ended July 31, 2007, 2006 and 2005, respectively related to this plan.

The Company also sponsors an additional defined contribution plan for most of its UK employees, which is available to all UK employees who meet minimum service requirements. The Company matches up to 5% of employee contributions.

(19) Investment in Unconsolidated Entity

During the year ended July 31, 2006, the Company invested approximately \$9.0 million for a 50% equity interest in Lanelogic, a Delaware limited liability corporation (Lanelogic). The Company has no further contractual funding commitment. Based on the Company's evaluation of Lanelogic and the related agreements, management believes that Lanelogic does not constitute a Variable Interest Entity as defined in FIN No. 46, *Consolidation of Variable Interest Entities*. As a result, the Company's investment has been accounted for under the equity method prescribed by APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*.

During the second quarter ended January 31, 2007, the Company's Chairman and CEO, made a personal unsecured loan to Lanelogic to prevent a restriction of working capital from disrupting its business as Lanelogic sought additional equity financing. The loan was repaid during the second quarter ended January 31, 2007. The Company has concluded that the personal unsecured loan did not cause a change in the accounting of Lanelogic as an equity method investment. During the second quarter ended January 31, 2007, Lanelogic received a strategic equity investment totaling approximately \$10 million from two new investment groups as well as Lanelogic's founder. The Company did not participate in this additional equity financing into Lanelogic. In addition, Lanelogic converted from a limited liability company to a Delaware Corporation, of which the Company is now a stockholder.

On August 15, 2007, subsequent to the end of the Company's fiscal year, the Company's Chairman and CEO provided a personal guaranty in favor of Dealer Services Corporation as a condition for providing a credit facility to Lanelogic, Inc. a corporation in which Copart has non-controlling interest. The guaranty was approved by the Company's Audit Committee. The Company has concluded that the personal guaranty does not cause a change in the accounting of Lanelogic as an equity method investment.

COPART, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****July 31, 2007, 2006 and 2005****(19) Investment in Unconsolidated Entity (Continued)**

As of July 31, 2007 and 2006, the Company's investment in Lanelogic totaled \$0 and \$2.1 million, respectively. The Company has discontinued recording its share of the losses of Lanelogic because it has no commitment to provide further funding.

(20) Noncash Financing and Investing Activities

In fiscal 2007, 2006 and 2005, the Company received 6,597, 4,378 and 42,071 shares of common stock, respectively as payment for the exercise of 18,462, 8,678 and 95,106 shares of common stock under the 1992 Stock Option Plan and/or 2001 Stock Option Plan, respectively. The Company retired these shares upon receipt.

(21) Quarterly Information (in thousands, except per share data) (Unaudited)(1)

Fiscal Year 2007	Fiscal Quarter			
	First	Second	Third	Fourth
Revenues	\$ 132,121	\$ 128,925	\$ 145,652	\$ 153,982
Operating income	\$ 46,893	\$ 45,164	\$ 57,229	\$ 53,860
Income from continuing operations	\$ 48,355	\$ 48,692	\$ 62,025	\$ 58,349
Net income	\$ 30,345	\$ 30,392	\$ 38,867	\$ 36,734
Basic income per share from continuing operations	\$ 0.34	\$ 0.33	\$ 0.43	\$ 0.41
Basic net income per share	\$ 0.34	\$ 0.33	\$ 0.43	\$ 0.41
Diluted income per share from continuing operations	\$ 0.32	\$ 0.32	\$ 0.41	\$ 0.40
Diluted net income per share	\$ 0.32	\$ 0.32	\$ 0.41	\$ 0.40

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(21) Quarterly Information (in thousands, except per share data) (Unaudited)(1) (Continued)

Fiscal Year 2006	First	Second	Third	Fourth
Revenues:				
2006 as reported	\$ 119,025	\$ 125,099	\$ 149,513	\$ 137,220
2006 as restated	\$ 116,739	N/A	N/A	N/A
Operating income:				
2006 as reported	\$ 34,226	\$ 37,015	\$ 53,351	\$ 47,197
2006 as restated	\$ 33,999	N/A	N/A	N/A
Income from continuing operations:				
2006 as reported	N/A	\$ 26,118	\$ 33,180	\$ 30,788
2006 as restated	\$ 22,574	N/A	N/A	N/A
Income (loss) from discontinued operations:				
2006 as reported	N/A	\$ (18,265)	\$ 1,530	\$ 785
2006 as restated	\$ 237	N/A	N/A	N/A
Net income:				
2006 as reported	\$ 22,813	\$ 7,852	\$ 34,710	\$ 31,573
2006 as restated	\$ 22,813	N/A	N/A	N/A
Basic income per share from continuing operations				
2006 as reported	\$ 0.25	\$ 0.29	\$ 0.37	\$ 0.34
2006 as restated	\$ 0.25	N/A	N/A	N/A
Basic net income per share				
2006 as reported	\$ 0.25	\$ 0.09	\$ 0.38	\$ 0.35
2006 as restated	\$ 0.25	N/A	N/A	N/A
Diluted income per share from continuing operations				
2006 as reported	\$ 0.25	\$ 0.28	\$ 0.37	\$ 0.33
2006 as restated	\$ 0.25	N/A	N/A	N/A
Diluted net income per share				
2006 as reported	\$ 0.25	\$ 0.08	\$ 0.37	\$ 0.34
2006 as restated	\$ 0.25	N/A	N/A	N/A

The tables above restate the 2006 periods presented for the effect of the discontinued operations in fiscal 2006 (Refer to Note 3).

(1) Earnings per share were computed independently for each of the periods presented; therefore, the sum of the earnings per share amounts for the quarters may not equal the total for the year.

COPART, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 2007, 2006 and 2005

(22) Subsequent events

In August 2007, the Company completed the acquisition of Century Salvage Sales Limited, a vehicle salvage disposal company with three facilities located in the UK. The total purchase price was approximately \$9.1 million. This brings the total number of facilities to ten in the UK as of September 27, 2007.

On August 21, 2007, the Compensation Committee exercised its discretion pursuant to the terms of the 2001 Stock Option Plan to accelerate, effective December 31, 2007, the vesting of all unvested shares of the Company's common stock subject to options held by James E. Meeks. It is expected that on December 31, 2007, Mr. Meeks will hold options to purchase approximately 68,750 unvested shares that will be subject to this acceleration.

On September 14, 2007 James Grosfeld and Harold Blumenstein, who have served as members of our board of directors since 1993 and 1994, respectively, resigned as members to pursue other business and personal interests.

In connection with their resignations, the board of directors exercised its discretion pursuant to the terms of the 2001 Stock Option Plan to accelerate the vesting of all unvested shares of the Company's common stock subject to options held by Mr. Grosfeld and Mr. Blumenstein. As of September 6, 2007, Mr. Grosfeld and Mr. Blumenstein each held options to acquire 86,000 shares of common stock, of which 30,316 were otherwise unvested. In addition, the board approved amendments to outstanding option agreements with Mr. Grosfeld and Mr. Blumenstein to extend the period in which they will be able to exercise their options following their resignation until the earlier of September 14, 2012 or the date the option would otherwise have terminated by its terms assuming they had continued to serve as members of the board of directors.

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