

COPART INC
Form 10-K
September 29, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Form 10-K

**ANNUAL REPORTS PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

(Mark
One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: July 31, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE
SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from _____ to _____
Commission file number 0-23255**

Copart, Inc.

(Exact name of registrant as specified in its charter)

California **94-2867490**
(State or other jurisdiction of *(I.R.S. Employer*
incorporation or organization) *Identification Number)*
4665 Business Center Drive Fairfield, **94534**
California *(Zip code)*
(Address of principal executive offices)

Registrant's telephone number, including area code:
(707) 639-5000

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

| Title of Each Class | Name of each exchange on which registered |
|--|--|
| Common Stock, no par value (Including associated Preferred Stock Rights) | The NASDAQ Stock Market LLC (NASDAQ Global Select Market) |

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been

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subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated
Filer

Accelerated
Filer

Non-Accelerated
Filer

Smaller Reporting
Company

(Do not check if a
smaller reporting
company)

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

The aggregate market value of the voting and non-voting Common Stock held by non-affiliates of the registrant as of January 31, 2008 (the last business day of the registrant's most recently completed second fiscal quarter) was \$2,340,296,687 based upon the closing sales price reported for such date on the NASDAQ Global Select Market (formerly the NASDAQ National Market). For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

At September 26, 2008, registrant had 83,283,898 outstanding shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13, and 14 of Part III incorporate certain information by reference from the registrant's definitive proxy statement for its 2008 Annual Meeting of Shareholders (Proxy Statement) to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year end of July 31, 2008. Except with respect to the information specifically incorporated by reference, the Proxy Statement is not deemed to be filed as a part hereof.

**Annual Report on Form 10-K
for the Fiscal Year Ended July 31, 2008**

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the fiscal year ended July 31, 2008, or this Form 10-K, including the information incorporated by reference herein, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "intend," "forecast," "anticipate," "believe," "estimate," "predict," "potential," "continue" or the negative of these terms or other comparable terminology. The forward-looking statements contained in this Form 10-K involve known and unknown risks, uncertainties and situations that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These forward-looking statements are made in reliance upon the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These factors include those listed in Item 1A Business under the caption entitled "Risk Factors" beginning on page 18 of this Form 10-K and those discussed elsewhere in this Form 10-K. Unless the context otherwise requires, references in this Form 10-K to "Copart," the "Company," "we," "us," or "our" refer to Copart, Inc. We encourage investors to review these factors carefully together with the other matters referred to herein, as well as in the other documents we file with the Securities and Exchange Commission (the "SEC"). We may from time to time make additional written and oral forward-looking statements, including statements contained in the Company's filings with the SEC. We do not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

Although we believe that, based on information currently available to Copart and its management, the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements.

Corporate Information

We were incorporated in California in 1982 and became a public company in 1994. Our principal executive offices are located at 4665 Business Center Drive, Fairfield, California 94534 and our telephone number at that address is (707) 639-5000. Our website is www.copart.com. The contents of our website are not incorporated by reference into this Form 10-K. We provide free of charge through a link on our website access to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as amendments to those reports, as soon as reasonably practical after the reports are electronically filed with, or furnished to, the SEC.

Copart , VB , CopartDirect , BID4U and CoPartfinder are trademarks of Copart, Inc. This Form 10-K also includes other trademarks of Copart and of other companies.

PART I

Item 1. Business

General

Copart, Inc. is a leading provider of vehicle remarketing services in the United States (US), Canada and the United Kingdom (UK).

We provide vehicle sellers with a full range of remarketing services to process and sell vehicles over the Internet through our Virtual Bidding Second Generation Internet auction-style sales technology, which we refer to as VB². Sellers are primarily insurance companies but also include banks and financial institutions, charities, car dealerships, fleet operators, vehicle rental companies and the general public. We sell principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters and, at certain locations, we sell directly to the general public. The majority of the vehicles sold on behalf of the insurance companies are either damaged vehicles deemed a total loss or not economically repairable by the insurance companies or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. We offer vehicle sellers a full range of remarketing services that expedite each stage of the vehicle sales process, minimize administrative and processing costs and maximize the ultimate sales price.

In North America, we sell vehicles primarily as an agent and derive revenue primarily from sales transaction fees paid by vehicle sellers and vehicle buyers as well as related fees for services such as towing and storage. In the UK we operate primarily on a principal basis, purchasing the salvage vehicle outright from the insurance companies and reselling the vehicle for our own account.

During fiscal 2004, in North America, and during fiscal 2008 in the UK, we discontinued all live auctions and began remarketing vehicles on our Internet based auction-style selling platform which we call VB². This technology and model allows for bidding in two phases. The first phase is an open preliminary bidding feature that allows a buyer to enter bids either at a bidding station at the storage facility during the preview days or over the Internet. To improve the effectiveness of bidding, the VB² system lets a buyer see the current high bid on the vehicle they want to purchase. The preliminary bidding phase is an open bid format similar to eBay. Buyers enter the maximum price they are willing to pay for a vehicle and VB²'s BID4U feature will incrementally bid the vehicle on their behalf during all phases of the auction. Preliminary bidding ends one hour prior to the start of a second bidding phase, an Internet-only virtual auction. This second phase allows bidders the opportunity to bid against each other and the high preliminary bidder. The bidders enter bids via the Internet in real time, BID4U submits bids for the high preliminary bidder, up to their maximum bid. When bidding stops, a countdown is initiated. If no bids are received during the countdown, the vehicle sells to the highest bidder. VB² opens our sales process to registered buyers anywhere in the world who have Internet access.

We believe the implementation of VB² across our North American salvage operations has increased the pool of available buyers for each sale and the added competition has increased the amount buyers are willing to pay for vehicles. We also believe that it has improved the efficiency of our operations by eliminating the expense and capital requirements associated with live auctions. For fiscal 2008, sales of North American vehicles, on a unit basis, to buyers registered outside the state where the vehicle is located accounted for 50.8% of total vehicles sold (24.6% of vehicles were sold to out of state buyers and 26.2% were sold to out of country buyers, based on registration). We implemented the use of VB² in the UK in fiscal 2008. We cannot predict whether the implementation of VB² in the UK will have the same favorable impact on our buyer base and operating efficiencies that we experienced in North America.

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We believe that we offer the highest level of service in the salvage vehicle sales and remarketing industry and have established our leading market position by:

providing coverage that facilitates seller access to buyers around the world, reducing towing and third-party storage expenses, offering a local presence for vehicle inspection stations, and providing prompt response to catastrophes and natural disasters by specially-trained teams;

providing a comprehensive range of customer services that include merchandising services, efficient title processing, timely pick-up and delivery of vehicles, and Internet sales;

establishing and efficiently integrating new facilities and acquisitions;

increasing the number of bidders that can participate at each sale through the ease and convenience of Internet bidding;

applying technology to enhance operating efficiency through Internet bidding, web-based order processing, salvage value quotes, electronic communication with buyers and sellers, vehicle imaging, and an electronic used vehicle parts locator service; and

providing the venue for insurance customers through our Virtual Insured Exchange (VIX) product to enter a vehicle into a sealed bid sale to establish its true value, allowing the insurance customer to avoid dealing with estimated values when negotiating with owners who wish to retain their damaged vehicles.

Our business has grown, we believe, as a result of i) acquisitions, ii) increases in the overall volume in the salvage car market, iii) growth in market share, iv) increases in amount of revenue generated per sales transaction resulting from increases in the gross selling price and the addition of value-added services for both buyers and sellers, and v) the growth in non-insurance company sellers. For fiscal year 2008, which ended July 31, 2008, our revenues were approximately \$784.8 million and our operating income was approximately \$237.9 million.

On June 14, 2007, we entered the UK salvage market through the acquisition of Universal Salvage Plc (Universal). In fiscal 2008, we made the following additional acquisitions: Century Salvage Sales Limited (Century) on August 1, 2007; AG Watson Auto Salvage & Motors Spares (Scotland) Limited (AG Watson) on February 29, 2008; and Simpson Bros. (York) Holdings Limited (Simpson) on April 4, 2008. Universal, Century and Watson were all leading providers of vehicle remarketing services to the motor insurance and automotive industries. Simpson was primarily an auto dismantler and was acquired primarily for its real estate holdings.

In fiscal 2008, we began two new programs (i) Copart Dealer Services (CDS), by which we sell dealer-trade-ins using our VB² application and (ii) CopartDirect, whereby we sell cars on behalf of the general public, using our VB² application, so that individuals can avoid the inconvenience of selling the car themselves. Our goal through these two programs is to expand VB²'s application beyond traditional salvage in order to expand our customer base. CDS targets franchise and independent dealerships while CopartDirect targets the general public.

In North America, we acquired one new vehicle storage facility in Sikeston, Missouri and opened six new vehicle storage facilities located in London, Canada; Windsor, New Jersey; Walton, Kentucky; Birmingham, Alabama; Minneapolis, Minnesota and Prairie Grove, Arkansas. As of July 31, 2008, we had 129 facilities in the US, 2 facilities in Canada and 12 facilities in the UK.

In fiscal 2006, we adopted a formal plan to discontinue the operations of Motors Auction Group, or MAG, a wholly owned subsidiary, and dispose of the related assets or convert them to our salvage business. We operated six public automobile sales facilities located in Detroit, Michigan; Chesapeake, Virginia; New Castle, Delaware; Greencastle, Pennsylvania; Pittsburgh, Pennsylvania and Richmond, Virginia. We sold the businesses located in Chesapeake, New Castle and

Greencastle prior to the end of fiscal 2006. We converted Detroit, Pittsburgh and Richmond into salvage facilities. As of the end of fiscal 2006, no MAG operations remained.

Industry Overview

The vehicle remarketing industry provides a venue for sellers to dispose or liquidate vehicles to a broad domestic and international buyer pool. In North America, sellers generally auction or sell their vehicles on consignment either for a fixed fee or a percentage of the sales price. On occasion in North America and on a primary basis in the UK, companies in our industry will purchase vehicles from the largest segment of sellers, insurance companies, and resell the vehicle for their own account. The vehicles are usually purchased at a price based either on a percentage of the vehicles' estimated pre-accident cash value and/or based on the extent of damage. Vehicle remarketers typically operate from multiple facilities where vehicles are processed, viewed, stored and delivered to the buyer. While most companies in this industry remarket vehicles through a physical auction, Copart sells all of its vehicles on its Internet selling platform, VB², thus eliminating the requirement for buyers to travel to an auction location to participate in the sales process. In the UK, all sales were converted to VB² during fiscal 2008.

Although there are other sellers of vehicles, such as financial institutions, vehicle leasing companies, automobile rental companies, charities, automobile dealers, and the general public, the primary seller of vehicles is insurance companies.

Automobile manufacturers are incorporating new standard features, including unibody construction, passenger safety cages with surrounding crumple zones to absorb impacts, plastic components, airbags, xenon lights, computer systems, heated seats, and navigation systems. We believe that one effect of these additional features is that newer vehicles involved in accidents are more costly to repair and, accordingly, more likely to be deemed a total loss for insurance purposes. This may result in an increased supply of total loss salvage vehicles from insurance companies.

The primary buyers of the vehicles are vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers, exporters and in some states, the general public. Vehicle dismantlers, which we believe are the largest group of vehicle buyers, either dismantle a salvage vehicle and sell parts individually or sell the entire vehicle to rebuilders, used vehicle dealers, or the public. Vehicle rebuilders and vehicle repair licensees generally purchase salvage vehicles to repair and resell. Used vehicle dealers generally purchase recovered stolen or slightly damaged vehicles for resale.

The majority of our vehicles are sold on behalf of insurance companies and are usually vehicles involved in an accident. Typically the damaged vehicle is towed to a storage facility or a vehicle repair facility for temporary storage pending insurance company examination. The vehicle is inspected by the insurance company's adjuster, who estimates the costs of repairing the vehicle and gathers information regarding the damaged vehicle's mileage, options and condition in order to estimate its actual cash value (pre-accident value). The adjuster determines whether to pay for repairs or to classify the vehicle as a total loss based upon the adjuster's estimate of repair costs, vehicle's salvage value, and the pre-accident or settlement value, as well as customer service considerations. If the cost of repair is greater than the pre-accident value less the estimated salvage value, the insurance company generally will classify the vehicle as a total loss. The insurance company will thereafter assign the vehicle to a remarketer, settle with the insured and receive title to the vehicle.

We believe the primary factors that insurance companies consider when selecting a remarketing company include:

the anticipated percentage return on salvage (i.e., gross salvage proceeds, minus vehicle handling and selling expenses, divided by the actual cash value);

the services provided by the salvage vehicle sales company and the degree to which such services reduce administrative costs and expenses;

the price the salvage vehicle sales company charges for its services;

national coverage and ability to respond on a national scale;

the ability to provide analytical data to the seller; and

in the UK, the actual amount paid for the vehicle.

In the UK, insurance companies generally tender periodic contracts for the purchase of salvaged vehicles. The insurance company will generally award the contract to the company that is willing to pay the highest price for the vehicles.

Generally, upon receipt of the pick up order (the assignment), the company arranges for the transport of a vehicle to a facility. As a service to the vehicle seller, the company will customarily pay advance charges (reimbursable charges paid on behalf of vehicle sellers) to obtain the vehicle's release from a towing company or vehicle repair facility. Advance charges paid on behalf of the vehicle seller are either recovered upon sale of the vehicle or invoiced separately to the seller.

The salvage vehicle then remains in storage at one of our facilities until ownership documents are transferred from the insured vehicle owner and the title to the vehicle is cleared through the appropriate state's motor vehicle regulatory agency, or DMV. In the US, total loss vehicles may be sold in most states only after obtaining a salvage title from the DMV. Upon receipt of the appropriate documentation from the DMV, which is generally received within 45 to 60 days of vehicle pick-up, the vehicle is sold either on behalf of the insurance company or for our own account, depending on the terms of the contract. In the UK, upon release of interest by the vehicle owner, the insurance company notifies us that the vehicle is available for sale.

Generally, sellers of non-salvage vehicles will arrange to deliver the vehicle to one of the company's locations. At that time, the vehicle information will be uploaded to the vehicle database and made available for the buyers to review. The vehicle is then sold either at a live auction or, in our case, on VB² typically within 7 days. Proceeds are then collected from the buyer, seller fees are then subtracted and the remainder is remitted to the seller.

Operating and Growth Strategy

Our growth strategy is to increase our revenues and profitability by, among other things (i) acquiring and developing new vehicle storage facilities in key markets including foreign markets, (ii) pursuing national and regional vehicle supply agreements, (iii) expanding our remarketing service offerings to sellers and buyers, and (iv) expanding the application of VB² into new markets and to new sellers within the vehicle market. In addition, to maximize gross sales proceeds and cost efficiencies at each of our acquired facilities we introduce our (i) pricing structure, (ii) selling processes, (iii) operational procedures, (iv) management information systems, and (v) when appropriate, redeploy existing personnel.

As part of our overall expansion strategy, our objective is to increase our revenues, operating profits, and market share in the vehicle sales industry. To implement our growth strategy, we intend to continue to do the following:

Acquire and Develop New Vehicle Storage Facilities in Key Markets Including Foreign Markets

Our strategy is to offer integrated services to vehicle sellers on a national or regional basis by acquiring or developing facilities in new and existing markets. We integrate our new acquisitions into our global network and capitalize on certain operating efficiencies resulting from, among other things, the reduction of duplicative overhead and the implementation of our operating procedures.

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The following table sets forth facilities that we have acquired or opened from August 1, 2005 through July 31, 2008.

| Salvage Locations | Acquisition/ Opening Date | Geographic Service Area |
|----------------------------|------------------------------|---|
| Honolulu, Hawaii | August 2005 | Hawaii |
| Greenwood, Nebraska | September 2005 | Eastern Nebraska |
| Grand Island, Nebraska | September 2005 | Eastern Nebraska |
| York Haven, Pennsylvania | November 2005 | Southern Pennsylvania |
| Chambersburg, Pennsylvania | November 2005 | Southern Pennsylvania |
| Altoona, Pennsylvania | November 2005 | Central Pennsylvania |
| Fruitland, Maryland | November 2005 | Eastern Maryland |
| Lansing, Michigan | December 2005 | Central Michigan |
| Billings, Montana | March 2006 | Central Montana |
| Dover, Florida | July 2006 | Western Florida |
| Jacksonville, Florida | July 2006 | Northeast Florida |
| Baltimore Maryland | November 2006 | Central Maryland |
| Woodburn, Oregon | January 2007 | Central Oregon |
| Sandy, England | June 2007 | East England and Midlands |
| Sandtoft, England | June 2007 | Northern England |
| Sandwich, England | June 2007 | London and South East United Kingdom |
| Westbury, England | June 2007 | South Wales and South West United Kingdom |
| Chester, England | June 2007 | North Wales and North West England |
| Denny, Scotland | * June 2007 | Scotland |
| Wootton, England | June 2007 | Central United Kingdom |
| Punta Gorda, Florida | July 2007 | Southwest Florida |
| Peterlee, England | August 2007 | Northern England |
| Wisbech, England | August 2007 | Eastern England |
| Rochford, England | August 2007 | Southeast England |
| London, Canada | September 2007 | Southern Ontario |
| Windsor, New Jersey | November 2007 | Central New Jersey |
| Walton, Kentucky | January 2008 | Northern Kentucky |
| Birmingham, Alabama | February 2008 | Central Alabama |
| Inverkeithing, Scotland | March 2008 | Central Scotland |
| Whitburn, Scotland | March 2008 | Central Scotland |
| Featherstone, England | * March 2008 | Northeast England |
| Doncaster, England | * March 2008 | Northeast England |
| Minneapolis, Minnesota | March 2008 | Central Minnesota and Wisconsin |
| Sikeston, Missouri | March 2008 | Southeast Missouri |
| York, England | April 2008 | Northern England |
| Prairie Grove, Arkansas | July 2008 | Northwest Arkansas |

*

Closed in fiscal 2008

Pursue National and Regional Vehicle Supply Agreements

Our broad national presence enhances our ability to enter into local, regional or national supply agreements with vehicle sellers. We actively seek to establish national and regional supply agreements with insurance companies by promoting our ability to achieve high net returns and broader access to buyers through our national coverage and electronic commerce capabilities. By utilizing our existing insurance company seller relationships, we are able to build new seller relationships and pursue additional supply agreements in existing and new markets.

Expand Our Service Offerings to Sellers and Buyers

Over the past several years, we have expanded our available service offerings to vehicle sellers and buyers. The primary focus of these new remarketing service offerings is to maximize returns to our sellers and maximize product value to our buyers. This includes, for our sellers, real-time access to sales data over the Internet and, for our buyers, the implementation of VB² real-time bidding at all of our facilities, permitting buyers at any location worldwide to participate in the sales at all of our yards. We plan to continue to refine and expand our remarketing services, including offering software that can assist our sellers in expediting claims and salvage management tools that help sellers integrate their systems with ours.

Our Competitive Advantages

We believe that the following attributes and the services that we offer position us to take advantage of many opportunities in the vehicle remarketing service industry.

National Coverage and Ability to Respond on a National Scale

Since our inception in 1982, we have expanded from a single facility in Vallejo, California to an integrated network of 143 facilities located in the United States, Canada and the United Kingdom as of July 31, 2008. We are able to offer integrated services to our vehicle sellers, which allows us to respond to the needs of our sellers and buyers with maximum efficiency. Our coverage provides our sellers with key advantages, including:

- a reduction in administrative time and effort;
- a reduction in overall vehicle towing costs;
- convenient local facilities;
- improved access to buyers throughout the world;
- a prompt response in the event of a natural disaster or other catastrophe; and
- consistency in remarketing of vehicles.

Value-Added Services

We believe that we offer the most comprehensive range of remarketing services in our industry, including:

- Internet bidding, Internet proxy bidding, and virtual sales powered by VB², which enhance the competitive bidding process;
- online payment capabilities via our ePay product;
- e-mail notifications to potential buyers of vehicles that match desired characteristics;
- sophisticated vehicle processing at storage sites, including ten-view digital imaging of each vehicle and the scanning of each vehicle's title and other significant documents such as body shop invoices, all of which are available from us through the Internet;
- CoPartfinder, our Internet-based used vehicle parts locator that provides vehicle dismantlers with greater resale opportunities for their purchases;

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Specialty sales, which allow buyers the opportunity to focus on select types of vehicles: i.e. motorcycles, heavy equipment, boats, recreational vehicles and rental cars; and

Interactive Online Counter Bidding, which allows sellers who have placed a minimum bid or a bid to be approved on a vehicle to directly counter bid the current high bidder.

Proven Ability to Acquire and Integrate Acquisitions

We have a proven track record of successfully acquiring and integrating vehicle storage facilities. Since becoming a public company in 1994, we have completed the acquisition of 74 vehicle storage facilities both in North America and the UK. As part of our acquisition and integration strategy, we seek to:

expand our global presence;

strengthen our networks and access new markets;

utilize our existing corporate and technology infrastructure over a larger base of operations; and

introduce our comprehensive services and operational expertise.

We strive to integrate all new facilities, when appropriate, into our existing network without disruption of service to vehicle sellers. We work with new sellers to implement our fee structures and new service programs. We typically retain existing employees at acquired facilities in order to retain knowledge about, and respond to, the local market. We also assign a special integration team to help convert newly acquired facilities to our own management information and proprietary software systems, enabling us to ensure a smooth and consistent transition to our business operating and sales systems.

Technology to Enhance and Expand Our Business

We have developed management information and proprietary software systems that allow us to deliver a fully integrated service offering. Our proprietary software programs provide vehicle sellers with online access to data and reports regarding their salvage vehicles being processed at any of our facilities. This technology allows vehicle sellers to monitor each stage of our salvage vehicle sales process, from pick up to sale and settlement by the buyer. Our full range of Internet services allows us to expedite each stage of the salvage vehicle sales process and minimizes the administrative and processing costs for us as well as our sellers. We believe that our integrated technology systems generate improved capacity and financial returns for our clients, resulting in high client retention, and allow us to expand our national supply contracts.

Our Service Offerings

We offer vehicle sellers a full range of vehicle remarketing services, which expedite each stage of the vehicle sales process, maximizing proceeds and minimizing costs. Not all service offerings are available in all markets.

Online Seller Access

Through Copart Access, our Internet-based service for vehicle sellers, we enable sellers to assign vehicles for sale, check sales calendars, view vehicle images and history, view and reprint body shop invoices and towing receipts and view the historical performance of the vehicles sold at our sales.

Salvage Estimation Services

We offer Copart ProQuote, a proprietary service that assists sellers in the vehicle claims evaluation process by providing online salvage value estimates, which help sellers determine whether to repair a particular vehicle or deem it a total loss.

Estimating Services

We offer vehicle sellers in the UK estimating services for vehicles taken to our facilities. Estimating services provide our insurance company sellers repair estimates which allow the insurance company to determine if the vehicle is a total loss vehicle. If the vehicle is determined to be a total loss, it is generally assigned to inventory.

End-of-Life Vehicle Processing

In the UK, we are an authorized treatment facility, or ATF, for the disposal of End-of-Life vehicles, or ELVs.

Virtual Insured Exchange (VIX)

We provide the venue for insurance customers to enter a vehicle into a sealed bid sale to establish its true value, thereby allowing the insurance customer to avoid dealing with estimated values when negotiating with owners who wish to retain their damaged vehicles.

Transportation Services

We maintain contracts with third-party vehicle transport companies, which enables us to pick up most of our sellers' vehicles within 24 hours. Our national network and transportation capabilities provides cost and time savings to our vehicle sellers and ensures on-time vehicle pick up and prompt response to catastrophes and natural disasters in North America. In the UK, we perform transportation services through a combination of our fleet of over 100 vehicles, and third party vehicle transport companies.

Vehicle Inspection Stations

We offer certain of our major insurance company sellers office and yard space to house vehicle inspection stations on-site at our storage facilities. We have over 30 vehicle inspection stations at our facilities. An on-site vehicle inspection station provides our insurance company sellers with a central location to inspect potential total loss vehicles, which reduces storage charges that otherwise may be incurred at the initial storage or repair facility.

On-Demand Reporting

We provide vehicle sellers with real time data for vehicles that we process for the particular seller. This includes the vehicle sellers' gross and net returns on each vehicle, service charges, and other data that enable our vehicle sellers to more easily administer and monitor the vehicle disposition process. In addition, we have developed a database containing over 240 fields of real-time and historical information accessible by our sellers allowing for their generation of custom ad hoc reports and customer specific analysis.

DMV Processing

We have extensive expertise in DMV document and title processing for salvage vehicles. We have developed a computer system which provides a direct link to the DMV computer systems of several states, allowing us to expedite the processing of vehicle title paperwork.

Flexible Vehicle Processing Programs

At the election of the seller, we sell vehicles pursuant to our Percentage Incentive Program (PIP), Consignment Program or Purchase Program.

Percentage Fee Consignment. Our Percentage Incentive Program is an innovative processing program designed to broadly serve the needs of vehicle sellers. Under PIP, we agree to sell all of the

vehicles of a seller in a specified market, usually for a predetermined percentage of the vehicle sales price. Because our revenues under PIP are directly linked to the vehicle's sale price, we have an incentive to actively merchandise those vehicles to maximize the net return. We provide the vehicle seller, at our expense, with transport of the vehicle to our nearest facility, and DMV document and title processing. In addition, we provide merchandising services such as covering or taping openings to protect vehicle interiors from weather, washing vehicle exteriors, vacuuming vehicle interiors, cleaning and polishing dashboards and tires, making keys for drivable vehicles, and identifying drivable vehicles. We believe our merchandising efforts increase the sales prices of the vehicles, thereby increasing the return on salvage vehicles to both vehicle sellers and us.

Consignment Program. Under our consignment program, we sell vehicles for a fixed consignment fee. Although sometimes included in the consignment fee, we may also charge additional fees for the cost of transporting the vehicle to our facility, storage of the vehicle, and other incidental costs.

Purchase Program. Under the purchase program, we purchase vehicles from a vehicle seller at a formula price, based on a percentage of the vehicles' estimated pre-accident value (PAV), or "actual cash value" (ACV), and sell the vehicles for our own account.

Buyer Network

We maintain a database of thousands of registered buyers in the vehicle dismantling, rebuilding, repair, resale and exporting businesses. Public buyer information is included in this database as we sell directly to the general public at certain locations. Our database includes each buyer's vehicle preference and purchasing history. This data enables us to notify via e-mail prospective buyers throughout the world of salvage vehicles available for bidding that match their vehicle preferences. Listings of salvage vehicles to be sold on a particular day and location are also made available on the Internet.

Sales Process

We offer a flexible and unique sales process designed to maximize the sale prices of the vehicles. We utilize VB², an auction-style sales methodology that we developed. This technology and model allows for bidding in two phases. The first phase is an open preliminary bidding feature that allows a buyer to enter bids either at a bidding station at the storage facility during the preview days or over the Internet. To improve the effectiveness of bidding, the VB² system lets a buyer see the current high bid on the vehicle they want to purchase. The preliminary bidding phase is an open bid format similar to eBay. Buyers enter the maximum price they are willing to pay for a vehicle and VB²'s BID4U feature will incrementally bid the vehicle on their behalf during all phases of the auction. Preliminary bidding ends one hour prior to the start of a second bidding phase, an Internet-only virtual auction. This second phase allows bidders the opportunity to bid against each other and the highest preliminary bidder. The bidders enter bids via the Internet in real time, BID4U submits bids for the highest preliminary bidder, up to their maximum bid. When bidding stops, a countdown is initiated. If no bids are received during the countdown, the vehicle sells to the highest bidder. VB² opens our sales process to registered buyers anywhere in the world who have Internet access.

CoPartfinder

CoPartfinder is our unique Internet "search engine" that enables users to locate used vehicle parts quickly and efficiently. CoPartfinder is accessible by the public through a Copart-sponsored website. CoPartfinder lists vehicles recently sold through VB² and identifies certain purchasers. This allows vehicle dismantlers and other resellers to streamline their parts sale process and access a large pool of potential buyers. Parts buyers can use CoPartfinder to search for specific vehicle makes and models and view digital images of vehicles that meet their requirements. Once a specific parts seller is identified for a specific part requirement, buyers have the option to call, fax, or e-mail the dismantler/seller. We believe that CoPartfinder provides an incentive for vehicle dismantlers to purchase their salvage vehicles through our sales process.

Copart Dealer Services

We provide franchise and independent dealerships with a convenient method to sell their trade-ins through any of our North American facilities. We have engaged agents that target these dealerships and work with them throughout the sales process.

CopartDirect

We provide the general public with a fast and convenient method to sell vehicles through any of our North American facilities. Anyone can call 1-888-Sell-it-1, drop off their vehicle and transferable title at any of our North American facilities. We remarket the vehicle by listing it on VB², monitoring the sale, handling the title processing and collecting payment from the buyer.

Seller Marketing

We process vehicles from hundreds of different vehicle sellers. State Farm Insurance Company accounted for 10%, 11% and 14% of our revenues for fiscal years 2008, 2007 and 2006, respectively. No other customer accounted for more than 10% of our total revenues during the same periods. Of the total number of vehicles processed during fiscal years 2008, 2007 and 2006, we obtained approximately 83%, 84% and 87%, respectively, from insurance company sellers. Our arrangements with our sellers are typically subject to cancellation by either party upon 30 to 90 days notice.

We typically contract with the regional or branch office of an insurance company or other vehicle sellers. The agreements are customized to each vehicle seller's particular needs and often provide for the disposition of different types of salvage vehicles by differing methods. Our arrangements generally provide that we will sell total loss and recovered stolen vehicles generated by the vehicle seller in a designated geographic area.

We market our services to vehicle sellers through an in-house sales force and independent agents that utilize a variety of sales techniques, including targeted mailing of our sales literature, telemarketing, follow-up personal sales calls, Internet search engines, employee referrals, tow shop referrals, participation in trade shows and vehicle and insurance industry conventions. We market our services to the general public under CopartDirect by utilizing an in-house sales force and we market our services to franchise and independent dealerships through a group of independent agents. We may, when appropriate, provide vehicle sellers with detailed analysis of the net return on vehicles and a proposal setting forth ways in which we believe that we can improve net returns on vehicles and reduce administrative costs and expenses.

Buyers

We maintain a database of thousands of registered buyers in the vehicle dismantling, rebuilding, repair licensees, used vehicle dealers and exporters. We believe that we have

established a broad international and domestic buyer base by providing buyers with a variety of programs and services. To gain admission to one of our sales and become a registered buyer, prospective buyers must first pay an initial registration fee and an annual fee, provide requested personal and business information, and have, in most states, a vehicle dismantler's, dealer's, resale, repair or export license. In certain venues we may sell to the general public. Registration entitles a buyer to transact business at any of our sales subject to local licensing and permitting requirements. A buyer may also bring guests to a facility for a fee to preview vehicles for sale. Strict admission procedures are intended to prevent frivolous bids that would invalidate the sale. We market to buyers on the Internet and via e-mail notifications, sales notices, telemarketing, and participation in trade show events.

Competition

We face significant competition from other remarketers of both salvage and non salvage vehicles. We believe our principal competitors include vehicle auction and sales companies and vehicle dismantlers. These national, regional and local competitors may have established relationships with vehicle sellers and buyers and may have financial resources that are greater than ours. The largest national or regional vehicle auctioneers in North America include the Adesa Corporation, Auction Broadcasting Company, Insurance Auto Auctions, Inc. and Manheim Auctions. The largest national dismantler is LKQ Corporation. LKQ, in addition to trade groups of dismantlers such as the American Recycling Association and the United Recyclers Group, may purchase salvage vehicles directly from insurance companies, thereby bypassing vehicle remarketing companies entirely. In the UK, our principal competitors are privately held independent remarketers.

Management Information Systems

Our primary management information system consists of an IBM AS/400 mainframe computer system, integrated computer interfaces, and proprietary business operating software that we developed and which tracks salvage sales vehicles throughout the sales process. We have implemented our proprietary business operating software at all of our storage facilities. In addition, we have integrated our mainframe computer system with Internet and Intranet systems in order to provide secure access to our data and images in a variety of formats.

Our auction-style service product, VB², is served by an array of identical high-density, high-performance servers. Each individual sale is configured to run on an available server in the array and can be rapidly provisioned to any other available server in the array as required. Our sale, Internet and imaging services are load balanced across different geographical data centers.

We have invested in a production data center that is designed to run the business in the event of an emergency. The facility's electrical and mechanical systems are continually monitored. This facility is located in an area considered to be free of weather-related disasters and earthquakes.

As of July 31, 2008, our UK operations utilized our proprietary business operating software and servers described above.

Employees

As of July 31, 2008, we had 2,975 full-time employees, of whom approximately 486 were engaged in general and administrative functions and approximately 2,489 were engaged in yard operations. As of July 31, 2008, we had 2,361 and 614 employees located in North America and the UK, respectively. We are not currently subject to any collective bargaining agreements and believe our relationships with our employees are good.

Environmental Matters

Our operations inside and outside the US are subject to various laws and regulations regarding the protection of the environment. In the salvage vehicle remarketing industry, large numbers of wrecked vehicles are stored at facilities and, during that time, spills of fuel, motor oils and other fluids may occur, resulting in soil, surface water or groundwater contamination. Certain of our facilities store petroleum products and other hazardous materials in above-ground containment tanks and some of our facilities generate waste materials such as solvents or used oils that must be disposed of as non-hazardous or hazardous waste, as appropriate. We have implemented procedures to reduce the amount of soil contamination that may occur at our facilities, and we have initiated safety programs and training of personnel on the safe storage and handling of hazardous materials. We believe that we are in compliance, in all material respects, with all applicable environmental regulations and we do not anticipate any material capital expenditures to remain in environmental compliance. If additional or more stringent requirements are imposed on us in the future, we could incur additional capital expenditures.

In connection with the acquisition of our Dallas, Texas facility in 1994, we 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. We began the stabilization process in 1996 and completed it in 1999. We 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, our 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. Our 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 we received in July 2004, the TCEQ approved with comment our water monitoring report dated February 24, 2004. The TCEQ instructed us 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, we requested that no further action be taken and that a closure letter be issued by the TCEQ. In September 2007, the TCEQ notified us 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 water quality standards. In February 2008, the TCEQ provided comments to our proposal for surface water

sampling. In March 2008, our environmental engineer submitted to the TCEQ an addendum to the surface water sampling plan, which was approved by the TCEQ in June 2008. Sampling is anticipated to be performed in September or October, 2008. We are not assured of receiving the no-further-action letter and we 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, we detected a small quantity of two hazardous substances in a temporary groundwater monitoring well at the Dallas facility. Our environmental consultants concluded that both substances arose from an off-site source and no further action was recommended.

We do not believe that any of the above environmental matters will, either individually or in the aggregate, have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Governmental Regulations

Our operations are subject to regulation, supervision and licensing under various federal, national, international, provincial, state and local statutes, ordinances and regulations. The acquisition and sale of damaged and recovered stolen vehicles is regulated by various state, provincial and international motor vehicle departments. In addition to the regulation of sales and acquisitions of vehicles, we are also subject to various local zoning requirements with regard to the location of our storage facilities. These zoning requirements vary from location to location. At various times, we may be involved in disputes with local governmental officials regarding the development and/or operation of our business facilities. We believe that we are in compliance in all material respects with applicable regulatory requirements. We may be subject to similar types of regulations by federal, national, international, provincial, state, and local governmental agencies in new markets.

Legal Proceedings

We are involved in litigation and damage claims arising in the ordinary course of business, such as actions related to injuries, property damage, and handling or disposal of vehicles. This litigation includes the following matters:

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 August 23, 2007, we filed: (i) a Motion to Dismiss Claims for Improper Venue, (ii) a Motion to Dismiss for Failure to Join Persons Needed for Just Adjudication, (iii) a Motion To Dismiss for Lack of Diversity Jurisdiction, (iv) a Motion to Dismiss Load Out Fee Class Action for Failure to State Claim, and (v) a Motion to Dismiss Load Out Fee Class Action for Lack of Diversity Jurisdiction. On February 22, 2008, the court granted the motions to dismiss with regard to all claims, leaving only the antitrust claim pending. On July 15, 2008, the federal antitrust claims were dismissed with prejudice. No material claims remain.

On November 20, 2007, Car Auction & Reinsurance Solutions, Inc. (CARS) filed suit against Copart in the Superior Court in the County of New Castle, Delaware. CARS is seeking \$4.7 million in damages, punitive damages, and prejudgment interest related to allegations involving breach of contract and misrepresentation. We believe the claim is without merit and are defending the lawsuit vigorously.

On November 30, 2007, Tracy Utterback Suggs filed suit against Copart in Harris County, Texas District Court. The complaint alleges breach of contract and negligence for allowing Suggs' vehicle

to be destroyed. The plaintiff claims that the vehicle in question was the key piece of evidence in support of an anticipated design defect products liability case against American Honda and that the Company is responsible for the spoliation of that evidence. On May 28, 2008, the parties reached a settlement in principle at mediation. The settlement does not result in any material contribution on the part of Copart because our insurance company agreed to fund the settlement, under a reservation of rights. All portions of the settlement requiring court approval have been approved. The lawsuit remains open pending the final funding of the settlement by the insurance company. We are aware, however, that the insurance company intends to claim that we are responsible for a \$2 million self-insured retention. We cannot determine that a loss is probable, and we cannot reasonably estimate the amount of a loss regarding this claim, if a claim is made. We intend to vigorously defend any claim made by the insurance company.

On April 18, 2007, Heather Trafton, as personal representative of the estate of Larry Trafton, filed a wrongful death suit against Carlos Sigas Star Auto and Copart in the Circuit Court of the Thirteenth Judicial Circuit of Florida in the County of Hillsborough, Florida. The plaintiff alleges that Manuel Vega, a driver for the independent tow company Carlos Sigas Star Auto, caused the death of decedent, motorcyclist Larry Trafton, by running a red light and colliding with Mr. Trafton at an intersection. Although neither Mr. Sigas nor Mr. Vega are employees of Copart, the plaintiff alleges that we are responsible for the wrongful death of Mr. Trafton. On or about February 6, 2008, we received the plaintiff's initial monetary demand in the amount of \$6 million. On September 16, 2008, the parties reached a settlement in principle at mediation. The settlement does not result in any material contribution on the part of Copart. The settlement remains subject to the parties entering into formal settlement agreements, and it must also be approved by the court. However, we believe the ultimate outcome will not have a material impact on our consolidated financial position, results of operations or cash flows.

On July 14, 2008, we filed a lawsuit against Auto Auction Services Corp. (AASC) in US District Court, Northern District of California. The principal parties are Copart as plaintiff and AASC as defendant. The complaint identifies, but did not name as defendants, various co-conspirators, including Manheim Auctions, Inc. and ADESA, Inc. The complaint primarily alleges that AASC and its co-conspirators engaged in a group boycott and concerted refusal to deal with Copart for the purpose of excluding Copart from effectively providing vehicle auction services to fleet operators, fleet management companies, national or regional banks, finance companies, and leasing companies, all in violation of federal and California antitrust and unfair competition laws. We are seeking injunctive relief and unspecified monetary damages.

We provide 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 our future results of operations cannot be predicted because any such effect depends on future results of operations and the amount and timing of the resolution of such matters. We believe that any ultimate liability will not have a material effect on our 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. We maintain insurance which may or may not provide coverage for claims made against us. There is no assurance that there will be insurance coverage available when and if needed. Additionally, the insurance that we carry requires that we pay for costs and/or claims exposure up to the amount of the insurance deductibles negotiated when insurance is purchased.

Intellectual Property and Proprietary Rights

In June 2003, we filed a provisional US patent application on VB² in the United States. This provisional patent application was followed by a US utility application filed in July 2003 and a concurrent international application that has since been nationalized and is pending in the Netherlands, Canada, Australia, China, the European Union, Mexico and Japan. The patent was

issued by the United States Patent and Trademark Office on January 1, 2008. Generally, patents issued in the US are effective for 20 years from the earliest asserted filing date of the patent application. The duration of foreign patents varies in accordance with the provisions of applicable local law. We are not dependent upon any single patent application and there can be no assurance that any patents will be issued from pending applications or that any patents that are issued will provide meaningful protection or other commercial advantages to us.

We also rely on a combination of trade secret, copyright and trademark laws, as well as contractual agreements to safeguard our proprietary rights in technology and products. In seeking to limit access to sensitive information to the greatest practical extent, we routinely enter into confidentiality and assignment of invention agreements with each of our employees and consultants and nondisclosure agreements with our key customers and vendors.

Seasonality

Historically, our operating results have been subject to quarterly variations based on a variety of factors, of which the primary influence is the seasonal change in weather patterns. During the winter months we tend to have higher demand for our products because there are more weather related accidents.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below before making an investment decision. Our business could be harmed if any of these risks as well as other risks not currently known to us or that we currently deem immaterial, materialized. The trading price of our common stock could decline due to the occurrence of any of these risks, and you may lose all or part of your investment. In assessing the risks described below, you should also refer to the other information contained in this Form 10-K, including our consolidated financial statements and the related notes and schedule, and other filings with the SEC before deciding to purchase any shares of our common stock.

We depend on a limited number of major vehicle sellers. The loss of one or more of these major sellers could adversely affect our results of operations and financial condition, and an inability to increase our sources of vehicle supply could adversely affect our growth rates.

Historically, a limited number of vehicle sellers have accounted for a substantial portion of our revenues. During fiscal 2008, vehicles supplied by our largest seller accounted for approximately 10% of our revenues. Seller arrangements are either written or oral agreements typically subject to cancellation by either party upon 30 to 90 days notice. Vehicle sellers have terminated agreements with us in the past in particular markets, which has affected the pricing for sales services in those markets. There can be no assurance that our existing agreements will not be cancelled. Furthermore, there can be no assurance that we will be able to enter into future agreements with vehicle sellers or that we will be able to retain our existing supply of salvage vehicles. A reduction in vehicles from a significant vehicle seller or any material changes in the terms of an arrangement with a substantial vehicle seller could have a material adverse effect on our results of operations and financial condition. In addition, a failure to increase our sources of vehicle supply could adversely affect our earnings and revenue growth rates.

Our recent acquisitions in the UK expose us to risks arising from the acquisitions and risks associated with operating in markets outside North America. We may acquire additional companies in the UK or Europe or seek to establish new yards or facilities to complement the acquired companies' operations. We have no prior experience operating outside North America, and any failure to integrate these recently acquired companies or future UK or European acquisitions into our operations successfully could have an adverse effect on our financial position, results of operations or cash flows.

During fiscal 2007, we completed the acquisition of Universal Salvage plc, or Universal, our first acquisition in the UK. In fiscal 2008, we completed the acquisitions of Century Salvage Sales Limited, or Century, Simpson Bros. (York) Holdings, Limited and AG Watson Auto Salvage & Motor Spares (Scotland) Limited all located within the UK. We may continue to acquire additional companies or operations in the UK or Europe or may seek to establish new yards or operations in the UK or Europe now that we have established a presence in these markets. We have limited experience operating our business outside North America, which presents numerous strategic, operational, and financial risks to us.

Our recent acquisitions in the UK and continued expansion of our operations outside North America pose substantial risks and uncertainties that could have an adverse effect on our future operating results. In particular, we may not be successful in realizing anticipated synergies from these acquisitions, or we may experience unanticipated costs or expenses integrating the acquired operations into our existing business. For example, in the second quarter of fiscal 2008, we experienced losses associated with credit card fraud in the UK. Although historical practice in the UK market has been to accept credit cards, we have not accepted them in North America and may need to further enhance our security systems to reduce the risk of credit card fraud. In addition, our operating expenses were adversely affected in the second quarter by incremental integration expenses. We have and may continue to incur substantial expenses establishing new yards or

operations in the UK or Europe. Among other things, we have deployed our VB² vehicle remarketing technologies at all of our operations in the UK and we cannot predict whether this deployment will be successful or will result in increases in the revenues or operating efficiencies of any acquired companies relative to their historic operating performance. Integration of our respective operations, including information technology integration and integration of financial and administrative functions, may not proceed as we currently anticipate and could result in presently unanticipated costs or expenses (including unanticipated capital expenditures) that could have an adverse effect on our future operating results. We cannot provide any assurances that we will achieve our business and financial objectives in connection with these acquisitions or our strategic decision to expand our operations internationally.

We have limited experience operating our business outside North America and lack familiarity with local laws, regulations and business practices. We will need to develop policies and procedures to manage our business on a global scale. Operationally, the businesses of Universal, Century and AG Watson have depended on key seller relationships, and we will need to maintain those. If we fail to maintain those relationships it would have an adverse effect on our operating objectives for the UK and could have an adverse effect on our future operating results.

In addition, we anticipate our international operations will subject us to a variety of risks associated with operating on an international basis, including:

the difficulty of managing and staffing foreign offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;

the need to localize our product offerings, particularly with respect to VB²;

tariffs and trade barriers and other regulatory or contractual limitations on our ability to operate in certain foreign markets; and

exposure to foreign currency exchange rate risk, which we have not been previously subject to in any material amounts.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Our failure to manage any of these risks successfully could harm our international operations and have an adverse effect on our operating results.

If we determine that our goodwill has become impaired, we may incur significant charges to our pre-tax income.

Goodwill represents the excess of cost over the fair market value of net assets acquired in business combinations. In the future, goodwill and intangible assets may increase as a result of future acquisitions. Goodwill and intangible assets are reviewed at least annually for impairment. Impairment may result from, among other things, deterioration in the performance of acquired businesses, adverse market conditions, and adverse changes in applicable laws or regulations, including changes that restrict the activities of the acquired business. Our recent acquisitions of Universal, Century, Simpson Bros. (York) Holdings, Limited and AG Watson Auto Salvage & Motor Spares (Scotland) Limited resulted in a significant increase in the amount of goodwill on our balance sheet. As of July 31, 2008, our total goodwill, subject to future impairment testing, was approximately \$177 million.

In the UK we operate primarily on a principal basis, purchasing the salvage vehicle outright from the insurance companies and reselling the vehicle to buyers.

The period-to-period comparability of our operating results and financial condition is substantially affected by business acquisitions during such periods. In particular, the UK acquisitions, because of their size and, also, because the UK operates primarily on the principal model versus the agency model employed in North America, will have a significant impact on the comparability of revenues, margins and margin percentages in future periods. Continued operations

on a principal basis will have a negative impact on our future consolidated gross margin percentages, and exposes us to inventory risks including:

loss from theft or damage;

loss from devaluation; and

loss from obsolescence.

Our strategic shift from live sales to an entirely Internet-based sales model presents new risks, including substantial technology risks.

During 2004, in North America and during 2008 in the United Kingdom we converted all of our sales from a live auction process to an entirely Internet-based auction-style model based on technology developed internally by us. The conversion represented a significant change in the way we conduct business and currently presents numerous risks, including our increased reliance on the availability and reliability of our network systems. In particular, we believe the conversion presents the following risks, among others:

Our operating results in a particular period could be adversely affected in the event our networks are not operable for an extended period of time for any reason, as a result of Internet viruses, or as a result of any other technological circumstance that makes us unable to conduct our virtual sales.

Our business is increasingly reliant on internally developed technology, and we have limited historic experience developing technologies or systems for large-scale implementation and use.

Our general and administrative expenses have tended to increase as a percentage of revenue as our information technology payroll has increased.

The change in our business model may make it more difficult for management, investment analysts, and investors to model or predict our future operating results until sufficient historic data is available to evaluate the effect of the VB² implementation over a longer period of time and in different economic environments.

Our increasing reliance on proprietary technology subjects us to intellectual property risks, including the risk of third party infringement claims or the risk that we cannot establish or protect intellectual property rights in our technologies. We have filed patent applications for VB² in the Netherlands, Canada, Australia, China, the European Union, Mexico and Japan, but we cannot provide any assurances that the patents will actually be issued, or if issued that the patents would not later be found to be unenforceable or invalid.

Our results of operations may not continue to benefit from the implementation of VB² to the extent we have experienced in recent periods.

We believe that the implementation of our proprietary VB² sales technologies across our operations has had a favorable impact on our results of operations by increasing the size and geographic scope of our buyer base and increasing the average selling price for vehicles sold through our sales. VB² was implemented across all of our North American and UK salvage yards beginning in fiscal 2004 and fiscal 2008, respectively. We do not believe, however, that we will continue to experience improvements in our results of operations at the same relative rates we have experienced in the last few years. In addition, we cannot predict whether we will experience the same initial benefits from the implementation of VB² in the UK market, or in future markets we may enter, that we experienced in North America.

Failure to have sufficient capacity to accept additional cars at one or more of our storage facilities could adversely affect our relationships with insurance companies or other sellers of vehicles.

Capacity at our storage facilities varies from period to period and from region to region. For example, following adverse weather conditions in a particular area, our yards in that area may fill and limit our ability to accept additional salvage vehicles while we process existing inventories. As discussed below, Hurricanes Katrina and Rita had, in certain quarters, an adverse effect on our operating results, in part because of yard capacity constraints in the Gulf Coast area. We regularly evaluate our capacity in all our markets and, where appropriate, seek to increase capacity through the acquisition of additional land and yards. We may not be able to reach agreements to purchase independent storage facilities in markets where we have limited excess capacity, and zoning restrictions or difficulties obtaining use permits may limit our ability to expand our capacity through acquisitions of new land. Failure to have sufficient capacity at one or more of our yards could adversely affect our relationships with insurance companies or other sellers of vehicles, which could have an adverse effect on our operating results.

Factors such as mild weather conditions can have an adverse effect on our revenues and operating results as well as our revenue and earnings growth rates by reducing the available supply of salvage vehicles. Conversely, extreme weather conditions can result in an oversupply of salvage vehicles that requires us to incur abnormal expenses to respond to market demands.

Mild weather conditions tend to result in a decrease in the available supply of salvage vehicles because traffic accidents decrease and fewer automobiles are damaged. Accordingly, mild weather can have an adverse effect on our salvage vehicle inventories, which would be expected to have an adverse effect on our revenue and operating results and related growth rates. Conversely, our inventories will tend to increase in poor weather such as a harsh winter or as a result of adverse weather-related conditions such as flooding. During periods of mild weather conditions, our ability to increase our revenues and improve our operating results and related growth will be increasingly dependent on our ability to obtain additional vehicle sellers and to compete more effectively in the market, each of which is subject to the other risks and uncertainties described in these sections. In addition, extreme weather conditions, although they increase the available supply of salvage cars, can have an adverse effect on our operating results. For example, during the year ended July 31, 2006, we recognized substantial additional costs associated with the impact of Hurricanes Katrina and Rita in Gulf Coast states. These additional costs, characterized as "abnormal" under Statement of Financial Accounting Standards 151, were recognized during the year ended July 31, 2006, and included the additional subhauling, payroll, equipment and facilities expenses directly related to the operating conditions created by the hurricanes. In the event that we were to again experience extremely adverse weather or other anomalous conditions that result in an abnormally high number of salvage vehicles in one or more of our markets, those conditions could have an adverse effect on our future operating results.

High fuel prices may have an adverse effect on our revenues and operating results as well as our earnings growth rates.

Increases in the cost of fuel could lead to a reduction in miles driven per car and a reduction in accident rates. A material reduction in accident rates could have a material impact on revenue growth. In addition, under our percentage incentive program contracts, or PIP, the cost of towing the vehicle to one of our facilities is included in the PIP fee. We may incur increased fees, which we will not be able to pass on to our sellers of vehicles. A material increase in tow rates could have a material impact on our operating results.

The salvage vehicle sales industry is highly competitive and we may not be able to compete successfully.

We face significant competition for the supply of salvage vehicles and for the buyers of those vehicles. We believe our principal competitors include other vehicle remarketing companies with whom we compete directly in obtaining vehicles from insurance companies and other sellers, and large vehicle dismantlers, who may buy salvage vehicles directly from insurance companies, bypassing the salvage sales process. Many of the insurance companies have established relationships with competitive remarketing companies and large dismantlers. Certain of our competitors may have greater financial resources than us. Due to the limited number of vehicle sellers, particularly in the UK, the absence of long-term contractual commitments between us and our sellers and the increasingly competitive market environment, there can be no assurance that our competitors will not gain market share at our expense.

We may also encounter significant competition for local, regional and national supply agreements with vehicle sellers. There can be no assurance that the existence of other local, regional or national contracts entered into by our competitors will not have a material adverse effect on our business or our expansion plans. Furthermore, we are likely to face competition from major competitors in the acquisition of vehicle storage facilities, which could significantly increase the cost of such acquisitions and thereby materially impede our expansion objectives or have a material adverse effect on our results of operations. These potential new competitors may include consolidators of automobile dismantling businesses, organized salvage vehicle buying groups, automobile manufacturers, automobile auctioneers and software companies. While most vehicle sellers have abandoned or reduced efforts to sell salvage vehicles directly without the use of service providers such as us, there can be no assurance that this trend will continue, which could adversely affect our market share, results of operations and financial condition. Additionally, existing or new competitors may be significantly larger and have greater financial and marketing resources than us; therefore, there can be no assurance that we will be able to compete successfully in the future.

Because the growth of our business has been due in large part to acquisitions and development of new facilities, the rate of growth of our business and revenues may decline if we are not able to successfully complete acquisitions and develop new facilities.

We seek to increase our sales and profitability through the acquisition of additional facilities and the development of new facilities. There can be no assurance that we will be able to:

continue to acquire additional facilities on favorable terms;

expand existing facilities in no-growth regulatory environments;

increase revenues and profitability at acquired and new facilities;

maintain the historical revenue and earnings growth rates we have been able to obtain through facility openings and strategic acquisitions; or

create new vehicle storage facilities that meet our current revenue and profitability requirements.

As we continue to expand our operations, our failure to manage growth could harm our business and adversely affect our results of operations and financial condition.

Our ability to manage growth is not only dependent on our ability to successfully integrate new facilities, but also on our ability to:

hire, train and manage additional qualified personnel;

establish new relationships or expand existing relationships with vehicle sellers;

identify and acquire or lease suitable premises on competitive terms;

secure adequate capital; and

maintain the supply of vehicles from vehicle sellers.

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Our inability to control or manage these growth factors effectively could have a material adverse effect on our financial position, results of operations, or cash flows.

Our annual and quarterly performance may fluctuate, causing the price of our stock to decline.

Our revenues and operating results have fluctuated in the past and can be expected to continue to fluctuate in the future on a quarterly and annual basis as a result of a number of factors, many of which are beyond our control. Factors that may affect our operating results include, but are not limited to, the following:

fluctuations in the market value of salvage and used vehicles;

as a result of our recently acquired companies in the UK, the impact of foreign exchange gain and loss;

our ability to successfully integrate our newly acquired operations in the UK and any additional international markets we may enter;

the availability of salvage vehicles;

variations in vehicle accident rates;

buyer participation in the Internet bidding process;

delays or changes in state title processing;

changes in international, state or federal laws or regulations affecting salvage vehicles;

changes in local laws affecting who may purchase salvage vehicles;

our ability to integrate and manage our acquisitions successfully;

the timing and size of our new facility openings;

the announcement of new vehicle supply agreements by us or our competitors;

severity of weather and seasonality of weather patterns;

the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our business, operations and infrastructure;

the availability and cost of general business insurance;

labor costs and collective bargaining;

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availability of subhaulers at competitive rates;

acceptance of buyers and sellers of our Internet-based model deploying VB², a proprietary Internet auction-style sales technology;

changes in the current levels of out of state and foreign demand for salvage vehicles;

the introduction of a similar Internet product by a competitor; and

the ability to obtain necessary permits to operate.

Due to the foregoing factors, our operating results in one or more future periods can be expected to fluctuate. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. In the event such fluctuations result in our financial performance being below the expectations of public market analysts and investors, the price of our common stock could decline substantially.

Our strategic shift to an Internet-based sales model has increased the relative importance of intellectual property assets to our business, and any inability to protect those rights could have a material adverse effect on our business, financial condition, or results of operations.

Implementation of VB² in our operations has increased the relative importance of intellectual property rights to our business. Our intellectual property rights include a patent for VB² as well as trademarks, trade secrets, copyrights and other intellectual property rights. In addition, we may enter into agreements with third parties regarding the license or other use of our intellectual

property in foreign jurisdictions. Effective intellectual property protection may not be available in every country in which our products and services are distributed, deployed, or made available. We seek to maintain certain intellectual property rights as trade secrets. The secrecy could be compromised by third parties, or intentionally or accidentally by our employees, which would cause us to lose the competitive advantage resulting from those trade secrets. Any significant impairment of our intellectual property rights, or any inability to protect our intellectual property rights, could have a material adverse effect on our financial position, results of operations, or cash flows.

We have in the past been and may in the future be subject to intellectual property rights claims, which are costly to defend, could require us to pay damages, and could limit our ability to use certain technologies in the future.

Litigation based on allegations of infringement or other violations of intellectual property rights are common among companies who rely heavily on intellectual property rights. Our reliance on intellectual property rights has increased significantly in recent years as we have implemented our VB² auction-style sales technologies across our business and ceased conducting live auctions in our North American operations. As we face increasing competition, the possibility of intellectual property rights claims against us grows. Litigation and any other intellectual property claims, whether with or without merit, can be time-consuming, expensive to litigate and settle, and can divert management resources and attention from our core business. An adverse determination in current or future litigation could prevent us from offering our products and services in the manner currently conducted. We may also have to pay damages or seek a license for the technology, which may not be available on reasonable terms and which may significantly increase our operating expenses, if it is available for us to license at all. We could also be required to develop alternative non-infringing technology, which could require significant effort and expense.

New accounting pronouncements or new interpretations of existing standards could require us to make changes or adjustments in our accounting policies and procedures that could adversely effect our financial statements.

The Financial Accounting Standards Board, the SEC, or other accounting organizations or governmental entities issue new pronouncements or new interpretations of existing accounting standards that may require us to change our accounting policies and procedures. To date, we do not believe any new pronouncements or interpretations have had an adverse effect on our financial condition or results of operations, but future pronouncements or interpretations could require us to change our policies or procedures. Moreover, we continually review our critical accounting policies in light of the accounting literature and changes in our operations.

Government regulation of the salvage vehicle sales industry may impair our operations, increase our costs of doing business and create potential liability.

Participants in the salvage vehicle sales industry are subject to, and may be required to expend funds to ensure compliance with, a variety of governmental, regulatory and administrative rules, regulations, land use ordinances, licensure requirements and procedures, including those governing vehicle registration, the environment, zoning and land use. Failure to comply with present or future regulations or changes in interpretations of existing regulations may result in impairment of our operations and the imposition of penalties and other liabilities. At various times, we may be involved in disputes with local governmental officials regarding the development and/or operation of our business facilities. We believe that we are in compliance in all material respects with applicable regulatory requirements. We may be subject to similar types of regulations by federal, national, international, provincial, state, and local governmental agencies in new markets. In addition, new regulatory requirements or changes in existing requirements may delay or increase the cost of opening new facilities, may limit our base of salvage vehicle buyers and may decrease demand for our vehicles.

Changes in laws affecting the importation of salvage vehicles may have an adverse effect on our business and financial condition.

Our Internet-based auction-style model has allowed us to offer our products and services to international markets and has increased our international buyer base. As a result, foreign importers of salvage vehicles now represent a significant part of our total buyer base. Changes in laws and regulations that restrict the importation of salvage vehicles into foreign countries may reduce the demand for salvage vehicles and impact our ability to maintain or increase our international buyer base. For example, in March 2008, a decree issued by the president of Mexico became effective that placed restrictions on the types of vehicles that can be imported into Mexico from the United States. The adoption of similar laws or regulations in other jurisdictions that have the effect of reducing or curtailing our activities abroad could have a material adverse effect on our results of operations and financial condition by reducing the demand for our products and services.

The operation of our storage facilities poses certain environmental risks, which could adversely effect our financial position, results of operations or cash flows.

Our operations are subject to federal, state, national, provincial and local laws and regulations regarding the protection of the environment in the countries which we have storage facilities. In the salvage vehicle remarketing industry, large numbers of wrecked vehicles are stored at storage facilities and, during that time, spills of fuel, motor oil and other fluids may occur, resulting in soil, surface water or groundwater contamination. In addition, certain of our facilities generate and/or store petroleum products and other hazardous materials, including waste solvents and used oil. In the UK, we provide vehicle de-pollution and crushing services for End-of-Life program vehicles. We could incur substantial expenditures for preventative, investigative or remedial action and could be exposed to liability arising from our operations, contamination by previous users of certain of our acquired facilities, or the disposal of our waste at off-site locations. Environmental laws and regulations could become more stringent over time and there can be no assurance that we or our operations will not be subject to significant costs in the future. Although we have obtained indemnification for pre-existing environmental liabilities from many of the persons and entities from whom we have acquired facilities, there can be no assurance that such indemnifications will be adequate. Any such expenditures or liabilities could have a material adverse effect on our results of operations and financial condition.

If we experience problems with our providers of fleet operations, our business could be harmed.

We rely solely upon independent subhaulers to pick up and deliver vehicles to and from our North American storage facilities. We also utilize, to a lesser extent, independent subhaulers in the UK. Our failure to pick up and deliver vehicles in a timely and accurate manner could harm our reputation and brand, which could have a material adverse effect on our business. Further, an increase in fuel cost may lead to increased prices charged by our independent subhaulers, which may significantly increase our cost. We may not be able to pass these costs on to our sellers or buyers.

If we experience problems with our UK trucking fleet operations, our business could be harmed.

We utilize a combination of a fleet of company owned trucks and independent subhaulers to pick up and deliver vehicles to and from our UK storage facilities. We are subject to the risks associated with providing trucking services, including inclement weather, disruptions in transportation infrastructure, availability and price of fuel, any of which could result in an increase in our operating expenses and reduction in our net income.

We are partially self-insured for certain losses.

We are partially self-insured for certain losses related to medical insurance, general liability, workers' compensation and auto liability. Our liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial estimates. While we believe these estimates are reasonable based on the information currently available, if actual trends, including the severity of claims and medical cost inflation, differ from our estimates, our results of operations could be impacted. Further, we rely on independent actuaries to assist us in establishing the proper amount of reserves for anticipated payouts associated with these self-insured exposures.

Our executive officers, directors and their affiliates hold a large percentage of our stock and their interests may differ from other shareholders.

Our executive officers, directors and their affiliates beneficially own, in the aggregate, approximately 26% of our common stock as of July 31, 2008. If they were to act together, these shareholders would have significant influence over most matters requiring approval by shareholders, including the election of directors, any amendments to our articles of incorporation and certain significant corporate transactions, including potential merger or acquisition transactions. In addition, without the consent of these shareholders, we could be delayed or prevented from entering into transactions that could be beneficial to us or our other investors. These shareholders may take these actions even if they are opposed by our other investors.

We have a shareholder rights plan, or poison pill, which could affect the price of our common stock and make it more difficult for a potential acquirer to purchase a large portion of our securities, to initiate a tender offer or a proxy contest, or to acquire us.

In March 2003, our board of directors adopted a shareholder rights plan, commonly known as a poison pill. The poison pill may discourage, delay, or prevent a third party from acquiring a large portion of our securities, initiating a tender offer or proxy contest, or acquiring us through an acquisition, merger, or similar transaction. Such an acquirer could be prevented from consummating one of these transactions even if our shareholders might receive a premium for their shares over then-current market prices.

If we lose key management or are unable to attract and retain the talent required for our business, we may not be able to successfully manage our business or achieve our objectives.

Our future success depends in large part upon the leadership and performance of our executive management team, all of whom are employed on an at-will basis and none of whom are subject to any agreements not to compete. If we lose the service of one or more of our executive officers or key employees, in particular Willis J. Johnson, our Chief Executive Officer, and A. Jayson Adair, our President, or if one or more of them decides to join a competitor or otherwise compete directly or indirectly with us, we may not be able to successfully manage our business or achieve our business objectives.

Our cash investments are subject to numerous risks.

We may invest our excess cash in securities or money market funds backed by securities, that may include US treasuries, other federal, state and municipal debt, bonds, preferred stock, commercial paper, insurance contracts and other securities both privately and publicly traded. All securities are subject to risk, including fluctuations in interest rates, credit risk, market risk and systemic economic risk. Changes or movements in any of these risks may result in a loss or an impairment to our invested cash and may have a material affect on our financial statements.

*Executive Officers of the Registrant***Executive Officers**

Our executive officers and their ages as of July 31, 2008 were as follows:

| Name | Age | Position |
|----------------------|------------|---|
| Willis J. Johnson | 61 | Chairman of the Board, Chief Executive Officer and Director |
| A. Jayson Adair | 38 | President and Director |
| Vincent W. Mitz | 45 | Executive Vice President |
| William E. Franklin | 52 | Senior Vice President and Chief Financial Officer |
| Paul A. Styer | 52 | Senior Vice President, General Counsel and Secretary |
| Robert H. Vannuccini | 41 | Senior Vice President of Marketing |
| David L. Bauer | 47 | Senior Vice President of Information Technology and Chief Information Officer |
| Russell D. Lowy | 49 | Chief Operating Officer |
| Thomas E. Wylie | 57 | Senior Vice President of Human Resources |
| Simon E. Rote | 36 | Vice President of Finance |

Willis J. Johnson, our founder, has served as our Chairman of the Board since 2004, Chief Executive Officer since 1986 and as a director since 1982. Mr. Johnson served as our President from 1986 until May 1995. Mr. Johnson was an officer and director of U-Pull-It, Inc., or UPI, a self-service auto dismantler which he co-founded in 1982, from 1982 through September 1994. Mr. Johnson sold his entire interest in UPI in September 1994. Mr. Johnson has over 30 years of experience in owning and operating auto dismantling companies.

A. Jayson Adair has served as our President since November 1996 and as a director since September 1992. From April 1995 until October 1996, Mr. Adair served as our Executive Vice President. From August 1990 until April 1995, Mr. Adair served as our Vice President of Sales and Operations and from June 1989 to August 1990, Mr. Adair served as our Manager of Operations.

Vincent W. Mitz has served as our Executive Vice President since August 2007. From May 1995 until July 2007, Mr. Mitz served as our Senior Vice President of Marketing. Prior thereto, Mr. Mitz was employed by NER Auction Systems from 1981 until its acquisition by Copart in 1995. At NER, Mr. Mitz held numerous positions culminating as Vice President of Sales and Operations for NER's New York region from 1990 to 1993 and Vice President of Sales & Marketing from 1993 to 1995.

William E. Franklin has served as our Senior Vice President and Chief Financial Officer since March 2004. Mr. Franklin has over 20 years of international finance and executive management experience. From October 2001 to March 2004, he served as the Chief Financial Officer of Ptek Holdings, Inc., an international telecommunications company. Prior to that he was the President and CEO of Clifford Electronics, an international consumer electronics company. Mr. Franklin received a Master's degree in Business Administration from the University of Southern California and his Bachelor's of Science degree in Finance from California State University, Bakersfield. Mr. Franklin is a Certified Public Accountant.

Paul A. Styer has served as our General Counsel since September 1992, served as our Senior Vice President since April 1995 and as our Vice President from September 1992 until April 1995. Mr. Styer served as one of our directors from September 1992 until October 1993. Mr. Styer has served as our Secretary since October 1993. From August 1990 to September 1992, Mr. Styer conducted an independent law practice. Mr. Styer received a B.A. from the University of California, Davis and a J.D. from the University of the Pacific. Mr. Styer is a member of the State Bar of California.

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Robert H. Vannuccini has served as our Senior Vice President of Marketing since August 2007. Prior thereto, Mr. Vannuccini served as our Vice President of National Accounts from 1999 to 2007 and our Midwest regional Account Manager from 1995 to 1999. Prior to that, Mr. Vannuccini was employed by NER as the Midwest Regional Account Manager from 1994 until its acquisition by Copart in 1995. Prior to his experience at NER, Mr. Vannuccini was an Assistant Vice President with Fleet Financial Group from 1991 to 1994. Mr. Vannuccini received his Bachelor of Business Administration degree in Banking and Finance from Hofstra University, Hempstead, New York in 1988.

David L. Bauer has served as our Senior Vice President of Information Technology and Chief Information Officer since joining Copart in December 1995. Prior thereto, Mr. Bauer was an independent systems consultant from 1987 to 1995. Prior to working independently, Mr. Bauer spent 1983 to 1987 working in Arthur Andersen & Company's Management Information Consulting Division, leaving in 1987 as a Consulting Manager. Mr. Bauer earned a B.A. in Economics from the University of California, San Diego in 1981 and an MBA from University of California, Davis in 1983.

Russell D. Lowy has served as our Chief Operating Officer since August 2007. From July 2002 to July 2007, Mr. Lowy served as our Senior Vice President of Operations. Mr. Lowy served as Vice President of Operations, Eastern Division from December 1999 to July 2002. From December 1998 to December 1999, Mr. Lowy served as Director of Training and Auditing. Mr. Lowy served as Assistant Vice President of Operations from 1996 to 1997, Regional Manager of Northern California from 1995 to 1996 and Marketing Manager from 1993 to 1994. Prior to joining us, Mr. Lowy spent nine years with ADP Claims Solutions Group. Mr. Lowy received a B.S. in Business Administration from California State University, Chico in 1982.

Thomas E. Wylie has served as our Senior Vice President of Human Resources since September 2003. Mr. Wylie has over 25 years of human resources and organizational change management experience. From January 2001 to November 2003 he served as Vice President, Human Resources, Systems and Administration for the California Division of Kaiser Permanente, a health care organization headquartered in Oakland, California. Prior to that he was the Vice President of Human Resources for Global Business Services, a division of Honeywell International in Morristown, New Jersey. He held several other positions with Honeywell starting in 1979. Mr. Wylie received a bachelor's degree from Hamline University in St. Paul, Minnesota.

Simon E. Rote has served as our Vice President of Finance since March 2003. Prior thereto, Mr. Rote served as our Controller from December 1998 to March 2003, and as our Assistant Controller from December 1997 to December 1998. Mr. Rote was an auditor with KPMG LLP from 1994 to 1997. Mr. Rote received a B.S. in Accounting from St. Mary's College in 1994.

Our executive officers are elected by our board of directors and serve at the discretion of the board. There are no family relationships among any of our directors or executive officers, except that A. Jayson Adair is the son-in-law of Willis J. Johnson.

Item 1B. *Unresolved Staff Comments*

Not Applicable.

Item 2. *Properties*

Our corporate headquarters are located in Fairfield, California. This facility consists of approximately 100,000 square feet of office space owned by Copart. We also own or lease an additional 143 operating facilities. In the US, we have facilities in every state except Delaware, New Hampshire, North Dakota, Rhode Island, South Dakota, Vermont and Wyoming. In Canada, we are only in the province of Ontario. In the UK, as of July 31, 2008, we owned or leased 12 operating facilities. We believe that our existing facilities are adequate to meet current requirements and that

suitable additional or substitute space will be available as needed to accommodate any expansion of operations and additional offices on commercially acceptable terms.

Item 3. *Legal Proceedings*

We are involved in litigation and damage claims arising in the ordinary course of business, such as actions related to injuries, property damage, and handling or disposal of vehicles. This litigation includes the following matters:

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 August 23, 2007, we filed: (i) a Motion to Dismiss Claims for Improper Venue, (ii) a Motion to Dismiss for Failure to Join Persons Needed for Just Adjudication, (iii) a Motion To Dismiss for Lack of Diversity Jurisdiction, (iv) a Motion to Dismiss Load Out Fee Class Action for Failure to State Claim and (v) a Motion to Dismiss Load Out Fee Class Action for Lack of Diversity Jurisdiction. On February 22, 2008, the court granted the motions to dismiss with regard to all claims, leaving only the antitrust claim pending. On July 15, 2008, the federal antitrust claims were dismissed with prejudice. No material claims remain.

On November 20, 2007, Car Auction & Reinsurance Solutions, Inc. (CARS) filed suit against Copart in the Superior Court in the County of New Castle, Delaware. CARS is seeking \$4.7 million in damages, punitive damages, and prejudgment interest related to allegations involving breach of contract and misrepresentation. We believe the claim is without merit and are defending the lawsuit vigorously.

On November 30, 2007, Tracy Utterback Suggs filed suit against Copart in Harris County, Texas District Court. The complaint alleges breach of contract and negligence for allowing Suggs' vehicle to be destroyed. The plaintiff claims that the vehicle in question was the key piece of evidence in support of an anticipated design defect products liability case against American Honda and that we are responsible for the spoliation of that evidence. On May 28, 2008, the parties reached a settlement in principle at mediation. The settlement does not result in any material contribution on the part of Copart because our insurance company agreed to fund the settlement, under a reservation of rights. All portions of the settlement requiring court approval have been approved. The lawsuit remains open pending the final funding of the settlement by the insurance company. We are aware, however, that the insurance company intends to claim that we are responsible for a \$2 million self-insured retention. We cannot determine that a loss is probable, and we cannot reasonably estimate the amount of a loss regarding this claim, if a claim is made. We intend to vigorously defend any claim made by the insurance company.

On April 18, 2007, Heather Trafton, as personal representative of the estate of Larry Trafton, filed a wrongful death suit against Carlos Sigas Star Auto and Copart in the Circuit Court of the Thirteenth Judicial Circuit of Florida in the County of Hillsborough, Florida. The plaintiff alleges that Manuel Vega, a driver for the independent tow company Carlos Sigas Star Auto, caused the death of decedent, motorcyclist Larry Trafton, by running a red light and colliding with Mr. Trafton at an intersection. Although neither Mr. Sigas nor Mr. Vega are employees of Copart, the plaintiff alleges that we are responsible for the wrongful death of Mr. Trafton. On or about February 6, 2008, we received the plaintiff's initial monetary demand in the amount of \$6 million. On September 16, 2008, the parties reached a settlement in principle at mediation. The settlement does not result in any material contribution on the part of Copart. The settlement remains subject to the parties entering into formal settlement agreements, and it must also be approved by the court. However, we believe the ultimate outcome will not have a material impact on our consolidated financial position, results of operations or cash flows.

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On July 14, 2008, we filed a lawsuit against Auto Auction Services Corp. (AASC) in US District Court, Northern District of California. The principal parties are Copart as plaintiff and AASC as defendant. The complaint identifies, but did not name as defendants, various co-conspirators, including Manheim Auctions, Inc. and ADESA, Inc. The complaint primarily alleges that AASC and its co-conspirators engaged in a group boycott and concerted refusal to deal with Copart for the purpose of excluding Copart from effectively providing vehicle auction services to fleet operators, fleet management companies, national or regional banks, finance companies, and leasing companies, all in violation of federal and California antitrust and unfair competition laws. We are seeking injunctive relief and unspecified monetary damages.

We accrue 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 our 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. We believe that any ultimate liability will not have a material effect on our 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.

Item 4. *Submission of Matters to a Vote of Security Holders*

We did not submit any matters to a vote of our shareholders during the fourth quarter of our 2008 fiscal year.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**Market Information**

The following table summarizes the high and low sales prices per share of our common stock for each quarter during the last two fiscal years. As of July 31, 2008, there were 83,274,995 shares outstanding. Our common stock has been quoted on the Nasdaq under the symbol "CPRT" since March 17, 1994. As of July 31, 2008, we had 1,614 shareholders of record. On July 31, 2008, the last reported sale price of our common stock on the Nasdaq Global Select Market was \$43.86 per share.

| Fiscal Year 2008 | High | Low |
|-------------------------|-------------|------------|
| Fourth Quarter | 49.34 | 39.50 |
| Third Quarter | 42.83 | 33.81 |
| Second Quarter | 43.27 | 33.44 |
| First Quarter | 38.58 | 27.90 |

| Fiscal Year 2007 | High | Low |
|-------------------------|-------------|------------|
| Fourth Quarter | 31.42 | 28.11 |
| Third Quarter | 30.45 | 27.36 |
| Second Quarter | 31.42 | 28.52 |
| First Quarter | 30.39 | 26.31 |

Dividend Policies

We have not paid a cash dividend since becoming a public company in 1994. We currently intend to retain any earnings for use in our business.

We expect to continue to use cash flows from operations to finance our working capital needs and to develop and grow our business. In addition to our stock repurchase, we are considering a variety of alternative potential uses for our remaining cash balances and our cash flow from operations. These alternative potential uses include additional stock repurchases, the payment of dividends and acquisitions.

Repurchase of Our Common Stock

In October 2007, our Board of Directors approved a 20 million share increase in our stock repurchase program bringing the total current number of shares authorized for repurchase to 29 million shares. 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. Subject to applicable securities laws, such repurchases will be made at such times and in such amounts as we deem appropriate and may be discontinued at any time. For the year ended July 31, 2008, we repurchased 6,615,764 shares at a weighted average price of \$40.70. For the year ended July 31, 2007, we repurchased 2,995,405 shares at a weighted average price of \$29.91. For the year ended July 31, 2006, we repurchased 366,000 shares at a weighted average price of \$24.24. At the end of fiscal year 2008, the total number of shares repurchased under the program was 13,649,469. As of July 31, 2008, 15,350,531 shares were available for repurchase under our program.

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The number and average price of shares purchased in each fiscal year are set forth in the table below:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares That May Yet Be Purchased Under the Program |
|--------------------|---|--|--|---|
| <i>Fiscal 2008</i> | | | | |
| First Quarter | | | | 21,966,295 |
| Second Quarter | 982,655 | \$ 41.67 | 982,655 | 20,983,640 |
| Third Quarter | 2,779,509 | \$ 38.77 | 2,779,509 | 18,204,131 |
| Fourth Quarter | 2,853,600 | \$ 42.24 | 2,853,600 | 15,350,531 |
| <i>Fiscal 2007</i> | | | | |
| First Quarter | | | | |
| Second Quarter | | | | |
| Third Quarter | | | | |
| Fourth Quarter | 2,995,405 | \$ 29.91 | 2,995,405 | 1,966,295 |
| <i>Fiscal 2006</i> | | | | |
| First Quarter | | | | |
| Second Quarter | 366,000 | \$ 24.24 | 366,000 | 4,961,700 |
| Third Quarter | | | | |
| Fourth Quarter | | | | |

Issuances of Unregistered Securities

There were no issuances of unregistered securities in the quarter ended July 31, 2008.

Performance Graph

Notwithstanding any statement to the contrary in any of our previous or future filings with the SEC, the following information relating to the price performance of our common stock shall not be deemed "filed" with the SEC or "Soliciting Material" under the Exchange Act, or subject to Regulation 14A or 14C, or to liabilities of Section 18 of the Exchange Act except to the extent we specifically request that such information be treated as soliciting material or to the extent we specifically request that such information be treated as soliciting material or to the extent we specifically incorporate this information by reference.

The following is a line graph comparing the cumulative total return to shareholders of our common stock at July 31, 2008 since July 31, 2003, to the cumulative total return over such period of (i) the Nasdaq Composite Index and (ii) a peer group.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Copart, Inc., The NASDAQ Composite Index
And A Peer Group

| | 7/03 | 7/04 | 7/05 | 7/06 | 7/07 | 7/08 |
|------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Copart, Inc. | \$ 100.00 | \$ 237.21 | \$ 260.77 | \$ 284.01 | \$ 300.00 | \$ 467.59 |
| Nasdaq Composite | \$ 100.00 | \$ 110.63 | \$ 128.07 | \$ 125.91 | \$ 153.98 | \$ 139.25 |
| Peer Group | \$ 100.00 | \$ 189.10 | \$ 327.72 | \$ 655.41 | \$ 495.05 | \$ 494.73 |

*

Assumes that \$100.00 was invested on July 31, 2003 in our common stock and in the Nasdaq Stock Market (US) Index and the peer group, and that all dividends were reinvested. No dividends have been declared on our common stock. Shareholder returns over the indicated period should not be considered indicative of future shareholder returns.

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Item 6. Selected Financial Data

The following selected operating and balance sheet data, as of and for the years ended July 31, 2008, 2007, and 2006 have been derived from the audited consolidated financial statements of the Company. The following selected operating and balance sheet data, as of and for the years ended July 31, 2005 and 2004 have been derived from audited consolidated financial statements of the Company. The selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and the notes thereto.

| | Fiscal Year Ending July 31, | | | | |
|---|--|--------------|------------|------------|------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| | (In 000's except per share and other data) | | | | |
| Operating Data | | | | | |
| Revenues | \$ 784,848 | \$ 560,680 | \$ 528,571 | \$ 447,731 | \$ 391,014 |
| Operating Income | 237,917 | 203,145 | 171,562 | 156,436 | 124,461 |
| Income from continuing operations before income taxes | 249,650 | 217,421 | 174,522 | 164,595 | 129,921 |
| Income tax expense | (92,718) | (81,083) | (61,862) | (62,772) | (50,929) |
| Income from continuing operations | 156,932 | 136,338 | 112,660 | 101,823 | 78,992 |
| Income (loss) from discontinued operations, net of income tax effects | | | (15,713) | 293 | 228 |
| Net income | 156,932 | 136,338 | 96,947 | 102,116 | 79,220 |
| Basic per share amounts: | | | | | |
| Income from continuing operations | \$ 1.80 | \$ 1.50 | \$ 1.24 | \$ 1.13 | \$ 0.89 |
| Discontinued operations | \$ | \$ | \$ (0.17) | \$ | \$ |
| Net income per share | \$ 1.80 | \$ 1.50 | \$ 1.07 | \$ 1.13 | \$ 0.89 |
| Weighted average shares | 87,412 | 90,651 | 90,372 | 90,162 | 89,457 |
| Diluted per share amounts: | | | | | |
| Income from continuing operations | \$ 1.75 | \$ 1.46 | \$ 1.21 | \$ 1.10 | \$ 0.87 |
| Discontinued operations | \$ | \$ | \$ (0.17) | \$ | \$ |
| Net income per share | \$ 1.75 | \$ 1.46 | \$ 1.04 | \$ 1.10 | \$ 0.87 |
| Weighted average shares | 89,858 | 93,455 | 92,925 | 92,984 | 91,537 |
| Balance Sheet Data | | | | | |
| Cash, cash equivalents and short-term investments | \$ 38,954 | \$ 210,246 | \$ 279,850 | \$ 253,643 | \$ 199,141 |
| Working capital | \$ 84,501 | \$ 247,850 | \$ 328,017 | \$ 293,696 | \$ 228,535 |
| Total assets | \$ 956,247 | \$ 1,014,600 | \$ 899,240 | \$ 793,884 | \$ 692,981 |
| Total debt | \$ 2,240 | \$ 2,793 | \$ | \$ | \$ 16 |
| Shareholders' equity | \$ 798,996 | \$ 880,866 | \$ 809,970 | \$ 709,379 | \$ 602,263 |
| Other Data | | | | | |
| Number of storage facilities | 143 | 131 | 122 | 117 | 107 |

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K, including the information incorporated by reference herein, contains forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act. All statements other than statements of historical facts are statements that could be deemed forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "intend," "forecast," "anticipate," "believe," "estimate," "predict," "potential," "continue" or the negative of these terms or other comparable terminology. The forward-looking statements contained in this Form 10-K involve known and unknown risks, uncertainties and situations that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These forward-looking statements are made in reliance upon the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These factors include those listed in Part I, Item 1A. "Risk Factors" beginning on page 18 of this Form 10-K and those discussed elsewhere in this Form 10-K. We encourage investors to review these factors carefully together with the other matters referred to herein, as well as in the other documents we file with the SEC. The Company may from time to time make additional written and oral forward-looking statements, including statements contained in the Company's filings with the SEC. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

Although we believe that, based on information currently available to the Company and its management, the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements.

Overview

We provide vehicle sellers, with a full range of remarketing services to process and sell vehicles primarily over the Internet through our Virtual Bidding Second Generation, or VB², Internet auction-style sales technology, which we refer to as VB². Sellers are primarily insurance companies but also include banks and financial institutions, charities, car dealerships, fleet operators, vehicle rental companies and the general public. We sell principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters, however at certain locations, we sell directly to the general public. The majority of the vehicles sold on behalf of the insurance companies are either damaged vehicles deemed a total loss or not economically repairable by the insurance companies or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. We offer vehicle sellers a full range of remarketing services that expedite each stage of the salvage vehicle sales process and minimize administrative and processing costs. In the United States, or US, we sell vehicles primarily as an agent and derive revenue primarily from fees paid by vehicle sellers and vehicle buyers as well as related fees for services such as towing and storage. In the United Kingdom, or UK, we operate primarily on a principal basis, purchasing the salvage vehicle outright from the insurance companies and reselling the vehicle for our own account.

Our revenues consist of sales transaction fees charged to vehicle sellers and vehicle buyers, transportation revenue and purchased vehicle revenues. Revenues from sellers are generally generated either on a fixed fee contract basis where we collect a fixed amount for selling the vehicles regardless of the selling price of the vehicle or, under our Percentage Incentive Program, or PIP program, our fees are generally based on a predetermined percentage of the vehicle sales price. Under the fixed fee program, we generally charge an additional fee for title processing and

special preparation. Although sometimes included in the consignment fee, we may also charge additional fees for the cost of transporting the vehicle to our facility, storage of the vehicle, and other incidental costs. Under the consignment programs, only the fees associated with vehicle processing are recorded in revenue, not the actual sales price (gross proceeds). Sales transaction fees also include fees charged to vehicle buyers for purchasing vehicles, storage and annual registration. Transportation revenue includes charges to sellers for towing vehicles under certain contracts. Transportation revenue also includes towing charges assessed to buyers for delivering vehicles. Purchased vehicle revenue, includes the gross sales price of the vehicle which we have purchased or are otherwise considered to own and are primarily generated in the UK.

Operating costs consist primarily of operating personnel (which includes yard management, clerical and yard employees), rent, contract vehicle towing, insurance, fuel, equipment maintenance and repair, and costs of vehicles we sold under purchase contracts. Because we operate as a principal in the UK, purchasing and reselling salvaged vehicles for our own account, we expect operating costs to increase as a percentage of revenue in future periods. Costs associated with general and administrative expenses consist primarily of executive management, accounting, data processing, sales personnel, human resources, professional fees, research and development and marketing expenses.

During fiscal 2004 and fiscal 2008, we converted all of our North American and United Kingdom vehicle remarketing facilities, respectively, to an Internet-based auction-style model using our VB² Internet sales technology. This process employs a two-step bidding process. The first step, called the preliminary bid, allows buyers to submit bids up to one hour before a real time virtual auction begins. The second step allows buyers to bid against each other, and the high bidder from the preliminary bidding process, in a real-time process over the Internet.

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

Acquisitions and New Operations

We have experienced significant growth as we have acquired twenty three vehicle storage facilities and established thirteen new facilities since the beginning of fiscal 2006. All of these acquisitions have been accounted for using the purchase method of accounting.

As part of our overall expansion strategy of offering integrated services to vehicle sellers, we anticipate acquiring and developing facilities in new regions, as well as the regions currently served by our facilities. As part of this strategy, in fiscal 2008, we acquired eight new facilities in the UK located in Peterlee; Wisbech; Rochford; York; Inverkeithing; Whitburn; Featherstone and Doncaster and in North America, we acquired one facility in Sikeston, Missouri and opened six new facilities in London, Ontario; Windsor, New Jersey; Walton, Kentucky; Birmingham, Alabama; Minneapolis, Minnesota and Prairie Grove, Arkansas. In fiscal 2007, we acquired seven new facilities in the UK located in Sandy; Sandtoft, Sandwich, Westbury, Chester, Denny; and Wootton and in North America we opened new facilities in Baltimore, Maryland; Woodburn, Oregon; and Punta Gorda, Florida. In fiscal 2006, we acquired new facilities in or near Greenwood, Nebraska; Grand Island, Nebraska; York Haven, Pennsylvania; Chambersburg, Pennsylvania; Altoona, Pennsylvania; Fruitland, Maryland; Billings, Montana and opened new facilities in or near Honolulu, Hawaii; Lansing, Michigan; Dover, Florida and Jacksonville, Florida. The Denny, Doncaster and Featherstone facilities were closed prior to July 31, 2008. We believe that these acquisitions and openings strengthen our coverage as we have 143 facilities located in North America and the United Kingdom and are able to provide national coverage for our sellers.

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In April 2008, we completed the acquisition of Simpson Bros. (York) Holdings Limited, a United Kingdom limited liability company (Simpson), which operates one location in York, England. Simpson's primary business activity was the dismantling of automobiles and the sales of salvaged auto parts. In the same month, we also completed the acquisition of Bob Lowe Salvage Pool, Inc., which operates one location in Sikeston, Missouri. In February 2008, we completed the purchase of the assets and business of AG Watson Auto Salvage & Motors Spares (Scotland) Limited (AG Watson) which operates two salvage locations in Scotland and two salvage locations in northern England. In August 2007, we completed the acquisition of Century Salvage Sales Limited (Century), a vehicle salvage disposal company with three facilities located in the UK. The total consideration paid for these acquisitions consisted of approximately \$38.2 million in cash, net of cash acquired.

On June 14, 2007, we acquired all the issued share capital of Universal Salvage plc, or Universal, for £2.00 per share (approximately \$3.94 based on currency exchange rates on June 14, 2007). Universal, based in the UK and operating exclusively within the UK, is a service provider to the motor insurance and automotive industries. The aggregate acquisition consideration paid by us totaled approximately £60.7 million (approximately \$120.0 million based on currency exchange rates on June 14, 2007) and was funded from our available cash resources. We also assumed outstanding indebtedness of Universal totaling approximately £2.3 million (\$4.5 million as of June 14, 2007). The acquisition was our first acquisition outside North America and included the seven facilities discussed above.

The period-to-period comparability of our operating results and financial condition is substantially affected by business acquisitions, new openings, weather and product introductions during such periods. In particular, the UK acquisition, because of its size and, also, because the UK operates primarily on the principal model versus the agency model employed in the United States, will have a significant impact on the comparability of revenues and gross margin percentages in future periods.

In addition to growth through acquisitions, we seek to increase revenues and profitability by, among other things, (i) acquiring and developing new vehicle storage facilities in key markets, (ii) pursuing national and regional vehicle seller agreements, (iii) expanding our service offerings to sellers and buyers, and (iv) expanding the application of VB² into new markets. In addition, we implement our pricing structure and merchandising procedures and attempt to effect cost efficiencies at each of our acquired facilities by implementing our operational procedures, integrating our management information systems and redeploying personnel, when necessary.

Results of Operations

The following table sets forth for the periods indicated below, certain information derived from our consolidated statements of income presented in absolute dollars and as a percentage of revenues. There can be no assurance that any trend in operating results will continue in the future.

Fiscal 2008 Compared to Fiscal 2007

Revenues

The following sets forth information on customer revenue by geographic region based on the location of the selling entity (in thousands, except percentages):

| | 2008 | Percentage of Revenue | 2007 | Percentage of Revenue |
|----------------|-------------------|--------------------------------------|-------------------|--------------------------------------|
| North America | \$ 596,965 | 76% | \$ 545,861 | 97% |
| United Kingdom | 187,883 | 24% | 14,819 | 3% |
| | \$ 784,848 | 100% | \$ 560,680 | 100% |

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Revenues from continuing operations were approximately \$784.8 million during fiscal 2008, an increase of approximately \$224.2 million, or 40%, over fiscal 2007. Revenue growth from same store sales in North America, those opened before August 1, 2007, was approximately \$46.7 million. Revenue growth from new facilities in North America, those opened or acquired after August 1, 2007, including facilities in or near London, Ontario; Windsor, New Jersey; Walton, Kentucky; Birmingham, Alabama; Minneapolis, Minnesota; Sikeston, Missouri and Prairie Grove, Arkansas was approximately \$4.4 million. Of the increase in revenues in fiscal 2008 as compared to fiscal 2007, \$173.1 million was attributable to revenues generated in the UK. We entered the UK market through four acquisitions, the first being the acquisition of Universal Salvage in June 2007. Prior to that transaction, we had no UK operations.

In the UK, we operate primarily on a principle basis purchasing cars outright and reselling them for our own account. Under this method, the total amount of the selling price and the total amount of the cost of the car are reflected in the results of operations. In North America, we operate primarily on an agency basis; selling the car on behalf of the seller and collecting only a service fee. Under this method only the earned fee is included in the results of operations, not the gross selling price and the cost of the car.

Yard Operation Expenses. Yard operation expenses from continuing operations were approximately \$462.6 million during fiscal 2008, an increase of approximately \$168.7 million, or 57.4%, over fiscal 2007. Included in yard expenses is depreciation expense of \$32.2 million, of which \$4.5 million was attributable to the UK operations and represents an increase of \$1.5 million over fiscal 2007. In North America, yard operation expense, excluding depreciation, increased by \$11.7 million and was attributable to the increase in the volume of cars processed. UK operations generated yard operating expenses of \$170.1 million. Yard operation expenses increased to 58.9% of revenues during fiscal 2008, as compared to 52.4% of revenues during fiscal 2007. In the UK, we operate primarily on a principle basis purchasing the vehicle outright and reselling them for our own account. Accordingly, the purchase price of the vehicle, which was approximately \$116.3 million and \$9.7 million in fiscal 2008 and 2007, respectively, is reflected in our yard operating expenses. Because the UK operates primarily on the principle basis, its gross margin percentage is significantly lower than the gross margin percentage of the US. Approximately 70% of the vehicles processed in the UK during the year were purchased cars.

The following sets forth information on gross margin, defined as revenue less yard operation expenses, and percentage of gross margin by geographic region (in thousands, except percentages):

| | 2008 | Percentage of Gross Margin | 2007 | Percentage of Gross Margin |
|----------------|------------|----------------------------------|------------|----------------------------------|
| North America | \$ 304,511 | 51.0% | \$ 262,402 | 48.1% |
| United Kingdom | 17,748 | 9.4% | 4,380 | 29.6% |
| | \$ 322,259 | 41.1% | \$ 266,782 | 47.6% |

General and Administrative. General and administrative expenses from continuing operations were approximately \$84.3 million for fiscal 2008, an increase of approximately \$20.7 million, or 32.5%, over fiscal 2007. Included in general and administrative expenses is depreciation and amortization of \$10.6 million, an increase of \$4.9 million over fiscal 2007. There were two primary drivers for the growth in general and administrative expenses. The first was the additional management, finance, technology, systems and administrative resources required in both the US and in the UK to support the UK operations. The second is the growth in the number of programmers, systems administrators and systems resources required to accelerate the development and deployment of the enhancements to VB² and to our seller support software and interfaces. General and administrative expenses decreased slightly to 10.7% of revenues during

fiscal 2008, as compared to 11.3% of revenues during fiscal 2007. General and administrative expenses include amortization expense relating to intangible assets acquired as part of the UK acquisitions.

Other Income. Total other income was approximately \$11.7 million during fiscal 2008, a decrease of approximately \$2.5 million from fiscal 2007. The decrease is due primarily to a \$6.0 million decrease in interest income due to lower interest rates and a lower average cash and investment balance offset by \$2.2 million in losses from an equity investment in Lanelogic Corporation (Lanelogic) last year. Other income, which consists primarily of rental income and gain on the sales of assets, increased approximately \$1.3 million.

Income Taxes. Our effective income tax rates for fiscal 2008 and 2007 were approximately 37.1% and 37.3%, respectively.

Net Income. Due to the foregoing factors, we realized net income of approximately \$156.9 million for fiscal 2008, compared to net income of approximately \$136.3 million for fiscal 2007.

Fiscal 2007 Compared to Fiscal 2006

Revenues

The following sets forth information on customer revenue by geographic region based on the location of the selling entity (in thousands, except percentages):

| | 2007 | Percentage of Revenue | 2006 | Percentage of Revenue |
|----------------|------------|-----------------------------|------------|-----------------------------|
| North America | \$ 545,861 | 97% | \$ 528,571 | 100% |
| United Kingdom | 14,819 | 3% | | |
| | \$ 560,680 | 100% | \$ 528,571 | 100% |

Revenues from continuing operations were approximately \$560.7 million during fiscal 2007, an increase of approximately \$32.1 million, or 6% over fiscal 2006. Revenue growth from same store sales in North America, those opened before August 1, 2006, was approximately \$15.1 million. Revenue growth from new facilities in North America, those opened after August 1, 2006, including facilities in or near Baltimore, Maryland; Woodburn, Oregon; and Punta Gorda, Florida was approximately \$2.2 million. Of the increase in revenues in fiscal 2007 as compared to fiscal 2006, \$14.8 million was attributable to revenues generated in the UK from June 14, 2007, the date of our first acquisition in the UK.

Yard Operation Expenses. Yard operation expenses from continuing operations were approximately \$293.9 million during fiscal 2007, a decrease of approximately \$4.1 million, or 1.4%, over fiscal 2006. Included in yard expenses is depreciation expense of \$30.7 million, an increase of \$3.8 million over fiscal 2006. Yard operation expenses decreased to 52.4% of revenues during fiscal 2007, as compared to 56.4% of revenues during fiscal 2006. The decreases in yard expenses, excluding depreciation, were primarily attributable to the decrease in incremental abnormal costs incurred as a result of Hurricanes Katrina and Rita during fiscal 2006. These additional inventory-type costs were approximately \$14.1 million during fiscal 2006 as compared to \$0.5 million during the fiscal 2007, and were charged to yard operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 151. These costs include the additional subhauling, payroll, equipment and facilities expenses directly related to the operating conditions created by the hurricanes. These costs do not include normal expenses associated with the increased unit volume created by the hurricanes, which are deferred until the sale of the units and are recognized as vehicle pooling costs on the balance sheet. As of July 31, 2007, all of the incremental salvage vehicles received as a result of the hurricanes Katrina and Rita have been sold.

In addition, yard operation expenses include costs attributable to the UK of \$10.4 million. The UK operates primarily on a principal basis and, accordingly has a lower gross margin percentage.

The following sets forth information on gross margin, defined as revenue less yard operation expenses, and percentage of gross margin by geographic region (in thousands, except percentages):

| | 2007 | Percentage of Gross Margin | 2006 | Percentage of Gross Margin |
|----------------|------------|----------------------------------|------------|----------------------------------|
| North America | \$ 262,402 | 48.1% | \$ 230,548 | 43.6% |
| United Kingdom | 4,380 | 29.6% | | |
| | \$ 266,782 | 47.6% | \$ 230,548 | 43.6% |

General and Administrative. General and administrative expenses from continuing operations were approximately \$63.6 million for fiscal 2007, an increase of approximately \$4.7 million, or 7.9%, over fiscal 2006. Included in general and administrative expenses is depreciation and amortization of \$5.7 million an increase of \$1.2 million over fiscal 2006. Also included are general and administrative costs attributable to the UK operations. Other increases were due to increased payroll costs, professional services and general corporate expansion. These increases were offset by decreased operating lease costs on computer equipment leases, which were bought out during the year and a reduction in legal costs. General and administrative expenses increased slightly to 11.3% of revenues during fiscal 2007, as compared to 11.2% of revenues during fiscal 2006. General and administrative expenses include amortization expense relating to the Universal acquisition.

Other Income. Total other income was approximately \$14.3 million during fiscal 2007, an increase of approximately \$11.3 million from fiscal 2006. The increase is due primarily to a \$5.5 million increase in interest income due to higher interest rates and a higher average cash and investments balance and a decrease of \$4.6 million in losses from an equity investment in Lanelogic Corporation (Lanelogic). Other income, which consists primarily of rental income and gain on the sales of assets, increased approximately \$1.2 million.

Income Taxes. Our effective income tax rates for fiscal 2007 and 2006 were approximately 37.3% and 35.4%, respectively. The increase in the effective tax rate is primarily the result of fiscal 2006 including a non-recurring \$1.8 million out-of-period reduction, to deferred tax liabilities and income tax expense originating primarily in 2001 and prior years.

Discontinued Operations. Discontinued operations declined \$15.7 million from fiscal 2007 to fiscal 2006 as we discontinued our MAG operations and disposed of or converted all the related assets during fiscal 2006. There were no such disposals in fiscal 2007.

Net Income. Due to the foregoing factors, we realized net income of approximately \$136.3 million for fiscal 2007, compared to net income of approximately \$96.9 million for fiscal 2006.

Liquidity and Capital Resources

Historically, we have financed our growth through cash generated from operations, public offerings of common stock, the equity issued in conjunction with certain acquisitions and debt financing. Cash and cash equivalents combined with short-term investments decreased by approximately \$171.3 million from July 31, 2007 to July 31, 2008, primarily as a result of cash used for the acquisitions of Century Salvage, AG Watson and Simpson Bros., purchases of property and equipment and repurchases of common stock which was offset by cash generated from continuing operations. During the winter months, most of our facilities process 10% to 30% more vehicles than at other times of the year. This increased seasonal volume requires the increased use of our cash to pay out advances and handling costs of the additional business. Our primary source of cash generated by operations is from the collection of sellers' fees, buyers' fees and reimbursable advances from the proceeds of sold vehicles.

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As of July 31, 2008, we had working capital of approximately \$84.5 million, including cash, and cash equivalents of approximately \$39.0 million. Cash and cash equivalents consisted primarily of funds invested in money market accounts, which bear interest at a variable rate.

We believe that our currently available cash and cash equivalents, cash generated from operations and borrowing availability under our bank credit facility will be sufficient to satisfy our operating and working capital requirements for at least the next 12 months. However, if we experience significant growth in the future, we may be required to raise additional cash through the issuance of new debt or additional equity.

Operating Activities

Net cash provided by operating activities increased by approximately \$12.0 million to \$194.1 million during fiscal 2008 when compared to fiscal 2007, due to the increase in net income which was offset in part by the timing of routine changes in working capital items. The increase in net income is primarily the result of increased revenue in fiscal 2008.

Net cash provided by operating activities increased by approximately \$40.8 million to \$182.1 million during fiscal 2007 when compared to fiscal 2006, due to the increase in net income which was offset in part to the timing of routine changes in working capital items. The increase in net income is primarily the result of increased revenue in fiscal 2007 and the loss on discontinued operations in the amount of \$17.9 million in fiscal 2006, which did not recur in fiscal 2007.

Net cash provided by operating activities increased by approximately \$6.0 million to \$141.9 million during fiscal 2006 when compared to fiscal 2005. During fiscal 2006 we consumed cash through the growth in accounts receivable and vehicle pooling costs and we generated cash through the growth in deferred revenue. The movements in these accounts are driven primarily by the significant growth in vehicles held for sale which was impacted by hurricanes Katrina and Rita. The decrease in net income is primarily a result of the loss on discontinued operations in the amount of \$17.9 million, which was offset in part by increased revenue.

Investing Activities

During the fiscal years ended July 31, 2008, 2007 and 2006, we purchased approximately \$154.4 million, \$921.8 million and \$717.1 million, respectively of short-term investments, which were offset by the sale of \$257.0 million, \$967.9 million, \$568.4 million, respectively of short-term investments. We historically invested our cash in auction rate notes with ratings of AAA. Prior to October 31, 2007, the end of the first quarter of fiscal 2008, we converted our entire balance of short-term investments to cash and cash equivalents.

Capital expenditures related to continuing operations (excluding those associated with property and equipment attributable to acquisitions) were approximately \$113.4 million, \$76.8 million and \$97.0 million for fiscal 2008, 2007 and 2006, respectively. Our capital expenditures are primarily related to opening and improving facilities and acquiring yard equipment.

During the fiscal year ended July 31, 2008, we used approximately \$38.2 million in cash for the acquisitions of Century Salvage Sales Limited; Simpson Bros. (York), Ltd; AG Watson Auto Salvage and Motor Spares (Scotland) Limited; and Bob Lowe's Salvage Pool . During the fiscal year ended July 31, 2007, we used approximately \$120.0 million in cash for the acquisition of Universal which includes the following seven locations in the UK: Sandy, Sandtoft, Sandwich, Westbury, Chester, Denny, and Wootton. During the fiscal year ended July 31, 2006, we used cash for the acquisition of facilities in or near Billings, Montana; Fruitland, Maryland; Altoona, Pennsylvania; Chambersburg, Pennsylvania; York Haven, Pennsylvania; Greenwood, Nebraska and Grand Island, Nebraska, which had an aggregate cash cost of approximately \$23.0 million.

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During the year ended July 31, 2006, we invested approximately \$9.0 million for a 50% equity interest in Lanelogic, a Delaware limited liability corporation (Lanelogic). We have no further contractual funding commitment. Based on our 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, our 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 of fiscal 2007, our 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. We 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. We 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 we are now a stockholder.

On August 15, 2007, subsequent to the end of our fiscal year, our 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 we have a less than controlling interest. The guaranty was approved by our Audit Committee. We have concluded that the personal guaranty does not cause a change in the accounting of Lanelogic as an equity method investment. Dealer Services Corporation cancelled the personal guarantee prior to July 31, 2008.

Financing Activities

In fiscal 2008, 2007 and 2006, we generated approximately \$12.7 million, \$10.9 million and \$5.4 million, respectively, through the exercise of stock options.

In fiscal 2008, 2007 and 2006, we generated approximately \$1.7 million, \$1.5 million and \$1.6 million, respectively, through the issuance of shares under the employee stock purchase program.

In fiscal 2008, 2007 and 2006, we generated approximately \$8.2 million, \$4.7 million and \$4.2 million, respectively, through changes in our book overdraft.

In February 2003, our Board of Directors authorized us to repurchase up to 9.0 million shares of our common stock. In October 2007, our Board of Directors approved a 20 million share increase in our stock repurchase program bringing the total current number of shares authorized for repurchase to 29 million shares. 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. Subject to applicable securities laws, such repurchases will be made at such times and in such amounts as we deem appropriate and may be discontinued at any time. For the year ended July 31, 2008, we repurchased 6,615,764 shares at a weighted average price of \$40.70. For the year ended July 31, 2007, we repurchased 2,995,405 shares at a weighted average price of \$29.91. For the year ended July 31, 2006, we repurchased 366,000 shares at a weighted average price of \$24.24. From February 2003 through July 31, 2008, we repurchased a total of 13,649,469 shares at a weighted average price of \$29.21.

Contractual Obligations

The following table summarizes our significant contractual obligations and commercial commitments as of July 31, 2008 (in thousands):

| Contractual Obligations | Payments Due By Period | | | | | Other |
|-------------------------------|------------------------|------------------|-----------|-----------|-------------------|--------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years | |
| Operating leases(1) | \$ 101,674 | \$ 20,001 | \$ 47,280 | \$ 17,356 | \$ 17,037 | |
| Capital leases(1) | 2,183 | 577 | 1,316 | 290 | | |
| Tax liabilities(2) | 12,219 | | | | | 12,219 |
| Total contractual obligations | \$ 116,076 | \$ 20,578 | \$ 48,596 | \$ 17,646 | \$ 17,037 | 12,219 |

| Commercial Commitments(3) | Amount of Commitment Expiration Per Period | | | | | Other |
|---------------------------|--|------------------|-----------|-----------|-------------------|-------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years | |
| Letters of credit | \$ 7,914 | \$ 7,914 | | | | |

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- (1) Contractual obligations consist of future non-cancelable minimum lease payments under capital and operating leases, used in the normal course of business.
- (2) Tax liabilities include the long-term liabilities in the consolidated balance sheet for unrecognized tax positions. At this time we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes.
- (3) Commercial commitments consists primarily of letters of credit provided for insurance programs and certain business transactions.

Credit Facilities

On March 6, 2008, we entered into an unsecured credit agreement with Bank of America, N.A. (the Credit Agreement) providing for a \$200 million revolving credit facility (the Credit Facility), including a \$100 million foreign currency borrowing sublimit and a \$50 million letter of credit sublimit. Amounts borrowed under the Credit Facility may be used for repurchases of stock, capital expenditures, working capital and other general corporate purposes. The Credit Facility matures and all outstanding borrowings are due on the fifth anniversary of the Credit Agreement (the Maturity Date), with annual reductions in availability of \$25 million on each of the first three anniversaries of the Credit Agreement. Amounts borrowed under the Credit Facility may be repaid and reborrowed until the Maturity Date and bear interest, at our option, at either Eurocurrency Rate plus 0.5% to 0.875%, depending of the leverage ratio, as defined in the Credit Agreement, at the end of the previous quarter or at the US Prime Rate. A default interest rate applies on all obligations during an event of default under the Credit Facility at a rate per annum equal to 2.0% above the otherwise applicable interest rate. The Credit Facility requires us to pay a commitment fee on the unused portion of the Credit Facility. The commitment fee ranges from 0.075% to 0.15% depending on the leverage ratio as of the end on the previous quarter. The Credit Facility contains customary representations and warranties and places certain business operating restrictions on us relating to, among other things, indebtedness, liens and other encumbrances, investments, mergers and acquisitions, asset sales, and dividends, distributions and redemptions of capital stock. In addition, the Credit Agreement provides for a maximum total leverage ratio and a minimum interest coverage ratio. The Credit Facility contains events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, cross-defaults to certain other indebtedness, bankruptcy and insolvency defaults, material judgments, invalidity of the loan documents and events constituting a change of control. The Credit

Facility is guaranteed by some of our domestic subsidiaries. As of July 31, 2008, we did not have an outstanding balance under the Credit Facility.

As part of our acquisition of Universal on June 14, 2007, we acquired 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, 2008, plus .75% and is collateralized by real property. At July 31, 2008 there were no amounts borrowed under these facilities.

Off-Balance Sheet Arrangements

As of July 31, 2008, we did not have any off-balance sheet arrangements (as defined in item 303(a)(4)(ii) of Regulation S-K).

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to vehicle pooling costs, allowance for doubtful accounts, goodwill, income taxes, long-lived assets and self insured liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management has discussed the selection of critical accounting policies and estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting policies and estimates in this Form 10-K. Our significant accounting policies are described in Note 1 to our consolidated financial statements for fiscal 2008. The following is a summary of the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

We provide a portfolio of services to our sellers and buyers that facilitate the sale and delivery of a vehicle from seller to buyer. These services include the ability to use our Internet sales technology and vehicle delivery, loading, title processing, preparation and storage. We evaluate multiple-element arrangements relative to our buyer and seller agreements in accordance with Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21), which addresses accounting for multiple-element arrangements, and Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB 104), which addresses revenue recognition for units of accounting.

The services we provide to the seller of a vehicle involve disposing of a vehicle on the seller's behalf and under most of our current North American contracts, collecting the proceeds from the buyer. We are not entitled to any such seller fees until we have collected the sales proceeds from the buyer for the seller and, accordingly, we recognize revenue for seller services after service delivery and cash collection.

Vehicle sales, where we purchase and remarket vehicles on our own behalf are recognized in accordance with SAB 104 on the sale date, which is typically the point of high bid acceptance.

Upon high bid acceptance, a legal binding contract is formed with the buyer, and we record the gross sales price as revenue.

In certain cases, seller fees are not contingent upon collection of the seller proceeds from the buyer. However, we determined that we are not able to separate the services into separate units of accounting because we do not have fair value for undelivered items. As a result, we do not recognize seller fees until the final seller service has been delivered, which generally occurs upon collection of the sales proceeds from the buyer for the seller.

We provide a number of services to the buyer of the vehicle, charging a separate fee for each service. Each of these services has been assessed under the criteria of EITF 00-21 to determine whether we have met the requirements to separate them into units of accounting within a multi-element arrangement. We have concluded that the sale and the post-sale services are separate units of accounting. The fees for sale services are recognized upon completion of the sale, and the fees for the post-sale services are recognized upon successful completion of those services using the residual method.

We also charge buyers an annual registration fee for the right to participate in our vehicle sales program, which is recognized ratably over the term of the arrangement, and relist and late-payment fees, which are recognized upon receipt of payment by the buyer. No provision for returns has been established, as all sales are final with no right of return, although we provide for bad debt expense in the case of non-performance by our buyers or sellers.

Vehicle Pooling Costs

We defer in vehicle pooling costs certain yard operation expenses associated with vehicles consigned to and received by us, but not sold as of the balance sheet date. We quantify the deferred costs using a calculation that includes the number of vehicles at our facilities at the beginning and end of the period, the number of vehicles sold during the period and an allocation of certain yard operation expenses of the period. The primary expenses allocated and deferred are certain facility costs, labor, transportation, and vehicle processing. If our allocation factors change, then yard operation expenses could increase or decrease correspondingly in the future. These costs are expensed as vehicles are sold in the subsequent periods on an average cost basis.

We apply the provisions of Statement of Financial Accounting Standards (SFAS), No. 151, *Inventory Costs* (SFAS 151) to our vehicle pooling costs. SFAS 151 requires that items such as idle facility expense, excessive spoilage, double freight and rehandling costs be recognized as current-period charges regardless of whether they meet the criteria of "so abnormal" as provided in Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*. In addition, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of production facilities.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts in order to provide for estimated losses resulting from disputed amounts billed to sellers or buyers and the inability of our sellers or buyers to make required payments. If billing disputes exceed expectations and/or if the financial condition of our sellers or buyers were to deteriorate, additional allowances may be required.

Valuation of Goodwill

We evaluate the impairment of goodwill of our salvage sales operating segment, annually (or on an interim basis if certain indicators are present) by comparing the fair value of the operating segment to its carrying value. Future adverse changes in market conditions or poor operating results

of the operating segment could result in an inability to recover the carrying value of the investment, thereby requiring impairment charges in the future.

Income Taxes and Deferred Tax Assets

We are subject to income taxes in the US, Canada and UK. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes. Effective August 1, 2008, we adopted Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes*. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest.

In addition, we are subject to the continuous examination of our income tax returns by various taxing authorities including the Internal Revenue Service and US states. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

Long-lived Asset Valuation, including Intangible Assets

We evaluate long-lived assets, including property and equipment and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the use of the asset. If the estimated undiscounted cash flows change in the future, we may be required to reduce the carrying amount of an asset.

Stock-Based Compensation

We account for our stock-based awards to employees and non-employees using the fair value method as required by SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)). SFAS No. 123(R) requires that the compensation cost related to share-based payment transactions, measured based on the fair value of the equity or liability instruments issued, be recognized in the financial statements. Determining the fair value of options using the Black-Scholes model, or other currently accepted option valuation models, requires highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated fair value on the grant date. If actual results are not consistent with our assumptions and judgments used in estimating the key assumptions, we may be required to record additional compensation or income tax expense, which could have a material impact on financial position and results of operations.

Retained Insurance Liabilities

We are partially self-insured for certain losses related to medical, general liability, workers' compensation and auto liability. Our liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial estimates. While we believe these estimates are reasonable based on the information currently available, if actual trends, including the severity of claims and medical cost inflation, differ from our estimates, our financial position, results of operations or cash flows could be impacted.

Recently Issued Accounting Standards

For a description of the new accounting standards that affect us, refer to Note 1 to the Consolidated Financial Statements included in this Form 10-K.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Our principal exposures to financial market risk are interest rate and foreign currency risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio of marketable securities. As of July 31, 2008, our cash and cash equivalents consisted primarily of funds invested in money market accounts, which bear interest at a variable rate. As the interest rates on a material portion of our cash and cash equivalents are variable, a change in interest rates earned on our investment portfolio would impact interest income along with cash flows, but would not materially impact the fair market value of the related underlying instruments.

Our exposure to foreign currency transactions gains and losses arises from the translation of the assets and liabilities of our Canadian and UK subsidiaries to US dollars during consolidation. We do not hedge our exposure to the Canadian dollar or the British pound. We do not use derivative financial instruments for speculative or trading purposes.

Item 8. *Financial Statements and Supplementary Data*

The response to this item is submitted as a separate section of this Form 10-K in Item 15. See Part IV, Item 15(a) for an index to the financial statements and supplementary financial information.

Item 9. *Changes in and Disagreements With Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, or "Disclosure Controls," as of the end of the period covered by this Form 10-K. This evaluation, or "Controls Evaluation," was performed under the supervision and with the participation of management, including our Chairman of the Board, Chief Executive Officer and Director (our CEO) and our Senior Vice President and Chief Financial Officer (our CFO). Disclosure Controls are controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the US SEC's rules and forms. Disclosure Controls include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our Disclosure Controls include some, but not all, components of our internal

control over financial reporting. Our internal control over financial reporting was also separately evaluated as of the end of the period covered by this Form 10-K in connection with "Management's Report on Internal Control Over Financial Reporting" which is set forth below.

Based upon the Controls Evaluation, our CEO and CFO have concluded that as of the end of the period covered by this Form 10-K, our Disclosure Controls were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified by the SEC.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining internal control over financial reporting (as such item is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Management assessed our internal control over financial reporting as of July 31, 2008, the end of our fiscal year. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed by our Finance department.

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. We reviewed the results of management's assessment with the Audit Committee of our Board of Directors.

Our independent registered public accounting firm, Ernst & Young LLP, independently assessed the effectiveness of our internal control over financial reporting as of July 31, 2008. Ernst & Young LLP has issued an attestation report which appears on the following page of this Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Copart, Inc.

We have audited Copart, Inc.'s internal control over financial reporting as of July 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Copart, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, Copart, Inc. maintained, in all material respects, effective internal control over financial reporting as of July 31, 2008 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Copart, Inc. as of July 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended July 31, 2008 of Copart, Inc. and our report dated September 25, 2008 expressed an unqualified opinion thereon.

/s/

ERNST & YOUNG LLP

Sacramento, California
September 25, 2008

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Copart have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act), during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Certain information required by Part III is omitted from this Form 10-K because we intend to file a definitive proxy statement for our 2008 Annual Meeting of Shareholders (the Proxy Statement) not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information to be included therein is incorporated herein by reference.

Item 10. Directors, Executive Officers of the Registrant and Corporate Governance

Information concerning the Board of Directors of the Company, the members of the Company's Audit Committee, the Company's Audit Committee Financial Expert, and compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the sections entitled "Election of Directors and Director Biographies," "Board of Directors Information" and "General Compliance with Section 16(a) Beneficial Ownership Reporting Requirements" in the Company's Proxy Statement.

Pursuant to General Instruction G(3) of Form 10-K, the information required by this item regarding our executive officers is included under the caption "Executive Officers of the Registrant" in Part I of this Form 10-K.

The information required by this item with respect to material changes to the procedures by which our shareholders may recommend nominees to our Board of Directors is incorporated herein by reference from the information provided under the heading "The Nominating and Governance Committee" of our Proxy Statement.

Code of Ethics

We have adopted the Copart, Inc. Code of Ethics for Principal Executive and Senior Financial Officers (Code of Ethics). The Code of Ethics applies to our principal executive officer, our principal financial officer, our principal accounting officer or controller, and persons performing similar functions and responsibilities who shall be identified by our Audit Committee from time to time.

The Code of Ethics is available at our website, located at <http://www.copart.com>. It may be found at our website as follows:

1. From our main web page, click on "Investor Relations."
2. Next, click on "Corporate Governance."
3. Finally, click on "Code of Ethics for Principal Executive and Senior Financial Officers."

We intend to satisfy disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the Code of Ethics by posting such information on our website, at the address and location specified above, or as otherwise required by the Nasdaq Global Market.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference from the Proxy Statement under the heading "Executive Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by this item is incorporated herein by reference from the Proxy Statement under the headings "Security Ownership" and "Equity Compensation Plan Information."

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item is incorporated herein by reference from the Proxy Statement under the heading "Related Party Transactions."

Item 14. *Principal Accountant Fees and Services*

The information required by this item is incorporated herein by reference from the section captioned "Proposal Two Ratification of Independent Registered Public Accounting Firm" in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this Form 10-K:

| | Page |
|--|-------------|
| (a) 1. Financial Statements: Index to Consolidated Financial Statements | |
| Report of Independent Registered Public Accounting Firm | 59 |
| Consolidated Balance Sheets at July 31, 2008 and 2007 | 60 |
| Consolidated Statements of Income for the three years ended July 31, 2008, 2007 and 2006 | 61 |
| Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended July 31, 2008, 2007 and 2006 | 62 |
| Consolidated Statements of Cash Flows for the years ended July 31, 2008, 2007 and 2006 | 63 |
| Notes to Consolidated Financial Statements | 64 |
| 2. Financial Statement Schedules: All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto. | |
| 3. Exhibits: The following Exhibits are filed as part of, or incorporated by reference into this report. | |

| Number | Description |
|---------------|---|
| 3.1 | Amended and Restated Articles of Incorporation of the registrant(4) |
| 3.1b | Certificate of Amendment of Articles of Incorporation(4) |
| 3.2 | Bylaws of the registrant, as amended(3) |
| 3.2b | Certificate of Amendment of Bylaws(12) |
| 3.3 | Certificate of Determination of Rights, Preferences and Privileges of Series A Participating Preferred Stock of Copart, Inc.(8) |
| 3.4 | Certificate of Amendment of Bylaws(10) |
| 4.1 | Preferred Stock Rights Agreement, dated as of March 6, 2003, between the Company and Equiserve Trust Company, N.A., including the Certificate of Determination, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B, and C, respectively.(8) |
| 10.1* | Copart, Inc. 1992 Stock Option Plan, as amended(2) |
| 10.2* | 1994 Employee Stock Purchase Plan (as amended December 8, 2003) with form of Subscription Agreement(11) |
| 10.3* | 1994 Director Option Plan, with form of Subscription Agreement(11) |
| 10.4* | Copart, Inc. 2001 Stock Option Plan(6) |
| 10.5 | Form of Indemnification Agreement, signed by Executive Officers and Directors and the registrant(7) |
| 10.6 | General lease dated as of December 29, 1997 between Robert Arthur Gomes and Robert Paul Gomes and Copart of Connecticut, Inc.(7) |
| 10.7 | Standard Industrial/Commercial single-tenant lease-net dated as of December 23, 1998 between Wickland Oil Martinez and the registrant(7) |

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| | |
|--------|--|
| 10.8 | Lease agreement dated as of September 14, 2001 between Woodmich L.L.C. and the registrant(7) |
| 10.10 | Aircraft lease dated as of April 11, 2002 between Fleet Capital Corporation and the registrant(7) |
| 10.11 | Amendment No. 1 dated November 1, 2004, to Stock Option Agreement dated as of October 6, 2003 between the registrant and Marvin L. Schmidt(13) |
| 10.12* | Copart Inc. 2007 Equity Incentive Plan(15) |
| 10.13 | Form of Performance Share Award Agreement(15) |
| 10.14 | Form of Restricted Stock Unit Award Agreement(15) |
| 10.15 | Form Restricted Stock Award Agreement(15) |
| 10.16 | Form of Stock Option Award Agreement(15) |
| 10.17 | Credit Agreement, dated as of March 6, 2008, by and between Copart, Inc. and Bank of America, N.A.(16) |
| 14.01 | Code of Ethics for Principal Executive and Senior Financial Officers (adopted September 30, 2003)(9) |
| 14.02 | Copart, Inc. Code of Business Conduct (as amended June 5, 2007)(14) |
| 21.1 | List of subsidiaries of registrant** |
| 23.1 | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm** |
| 24.1 | Power of Attorney (included on page 58) |
| 31.1 | Certification of Willis J. Johnson, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002** |
| 31.2 | Certification of William E. Franklin, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002** |
| 32.1 | Certification of Willis J. Johnson, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002** |
| 32.2 | Certification of William E. Franklin, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002** |

-
- (1) Incorporated by reference from exhibit to registrant's Registration Statement on Form S-1, originally filed on January 19, 1994, as amended (File No. 33-74250).
- (2) Incorporated by reference from exhibit to registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on December 31, 1999.
- (3) Incorporated by reference from exhibit to registrant's Form 10-K for its fiscal year ended July 31, 1995, filed with the Securities and Exchange Commission on October 21, 1995.
- (4) Incorporated by reference from exhibit to registrant's Form 10-K for its fiscal year ended July 31, 2000, filed with the Securities and Exchange Commission on October 26, 2000.
- (5) Incorporated by reference from exhibit to registrant's Form 10-Q for the quarter ended January 31, 2001, filed with the Securities and Exchange Commission on March 16, 2001.
- (6) Incorporated by reference from exhibit to registrant's Form 10-Q for the quarter ended January 31, 2002, filed with the Securities and Exchange Commission on March 18, 2002.
- (7) Incorporated by reference from exhibit to registrant's Form 10-K for its fiscal year ended July 31, 2002, filed with the Securities and Exchange Commission on October 29, 2002.

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- (8) Incorporated by reference from exhibit to registrant's Form 8-A12/G filed with the Securities and Exchange Commission on March 11, 2003.
- (9) Incorporated by reference from exhibit to registrant's Form 10 K for its fiscal year ended July 31, 2003, filed with the Securities and Exchange Commission on October 17, 2003.
- (10) Incorporated by reference from exhibit to registrant's Form 10-Q for the quarter ended October 31, 2003, filed with the Securities and Exchange Commission on December 15, 2003.
- (11) Incorporated by reference from exhibit to registrant's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on February 6, 2004.
- (12) Incorporated by reference from exhibit to registrant's Form 10-K for its fiscal year ended July 31, 2004, filed with the Securities and Exchange Commission on October 14, 2004.
- (13) Incorporated by reference from exhibit to registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2004.
- (14) Incorporated by reference from exhibit to registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 8, 2007.
- (15) Incorporated by reference from exhibit to registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 12, 2007.
- (16) Incorporated by reference from exhibit to registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2008.
- * Denotes a compensation plan in which an executive officer participates
- ** Filed herewith
- (b) Exhibits. See response to Item 15(a)(3) above.
- (c) Financial Statement Schedule. See response to Item 15(a)(2) above.

SIGNATURES

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

Registrant

COPART, INC.

By: /s/ WILLIS J. JOHNSON

Willis J. Johnson
Chief Executive Officer

September 29, 2008

COPART, INC.

By: /s/ WILLIAM E. FRANKLIN

William E. Franklin
Chief Financial Officer

September 29, 2008

POWER OF ATTORNEY

KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Willis J. Johnson and William E. Franklin, and each of them, as his true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

| Signature | Capacity in Which Signed | Date |
|---|---|--------------------|
| <u>/s/ WILLIS J. JOHNSON</u> Willis J. Johnson | Chief Executive Officer (Principal Executive Officer and Director) | September 29, 2008 |
| <u>/s/ WILLIAM E. FRANKLIN</u> William E. Franklin | Senior Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer) | September 29, 2008 |
| <u>/s/ A. JAYSON ADAIR</u> A. Jayson Adair | President and Director | September 29, 2008 |
| <u>/s/ JAMES E. MEEKS</u> James E. Meeks | Director | September 29, 2008 |
| <u>/s/ STEVEN D. COHAN</u> Steven D. Cohan | Director | September 29, 2008 |
| <u>/s/ DANIEL ENGLANDER</u> Daniel Englander | Director | September 29, 2008 |
| <u>/s/ BARRY ROSENSTEIN</u> Barry Rosenstein | Director | September 29, 2008 |
| <u>/s/ THOMAS W. SMITH</u> Thomas W. Smith | Director | September 29, 2008 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Copart, Inc.

We have audited the accompanying consolidated balance sheets of Copart, Inc. as of July 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended July 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Copart, Inc. at July 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2008, in conformity with US generally accepted accounting principles.

As discussed in Note 1 to the Consolidated Financial Statements, effective August 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Copart, Inc.'s internal control over financial reporting as of July 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 25, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Sacramento, California
September 25, 2008

COPART, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

| | July 31, 2008 | July 31, 2007 |
|---|------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 38,954 | \$ 107,621 |
| Short-term investments | | 102,625 |
| Accounts receivable, net | 111,705 | 109,895 |
| Vehicle pooling costs | 30,787 | 28,842 |
| Inventories | 5,334 | 5,999 |
| Income taxes receivable | 19,041 | 3,208 |
| Prepaid expenses and other assets | 6,932 | 5,518 |
| Total current assets | 212,753 | 363,708 |
| Restricted cash and investments | | 9,148 |
| Property and equipment, net | 510,340 | 420,664 |
| Intangibles, net | 21,901 | 27,442 |
| Goodwill | 177,164 | 161,645 |
| Deferred income taxes | 2,319 | 7,785 |
| Land purchase options and other assets | 31,770 | 24,208 |
| Total assets | \$ 956,247 | \$ 1,014,600 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 88,883 | \$ 85,082 |
| Book overdraft | 17,502 | 9,256 |
| Deferred revenue | 14,518 | 13,897 |
| Income taxes payable | 4,005 | 3,930 |
| Deferred income taxes | 2,768 | 3,219 |
| Other current liabilities | 576 | 474 |
| Total current liabilities | 128,252 | 115,858 |
| Deferred income taxes | 14,044 | 13,998 |
| Income taxes payable | 12,219 | |
| Other liabilities | 2,736 | 3,878 |
| Total liabilities | 157,251 | 133,734 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock, no par value 180,000,000 shares authorized; 83,274,995 and 88,333,677 shares issued and outstanding at July 31, 2008 and 2007, respectively | 316,673 | 206,126 |
| Accumulated other comprehensive income | 833 | 4,447 |
| Retained earnings | 481,490 | 670,293 |
| Total shareholders' equity | 798,996 | 880,866 |
| Total liabilities and shareholders' equity | \$ 956,247 | \$ 1,014,600 |

See accompanying notes to consolidated financial statements.

COPART, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

| | Years Ended July 31, | | |
|--|----------------------|------------|------------|
| | 2008 | 2007 | 2006 |
| Revenues | \$ 784,848 | \$ 560,680 | \$ 528,571 |
| Operating costs and expenses: | | | |
| Yard operations | 462,589 | 293,898 | 298,023 |
| General and administrative | 84,342 | 63,637 | 58,986 |
| Total operating expenses | 546,931 | 357,535 | 357,009 |
| Operating income | 237,917 | 203,145 | 171,562 |
| Other income (expense): | | | |
| Interest expense | (209) | (83) | (72) |
| Interest income | 7,761 | 13,727 | 8,182 |
| Other income, net | 4,181 | 2,848 | 1,634 |
| Equity in losses of unconsolidated entity | | (2,216) | (6,784) |
| Total other income | 11,733 | 14,276 | 2,960 |
| Income from continuing operations before income taxes | 249,650 | 217,421 | 174,522 |
| Income taxes | 92,718 | 81,083 | 61,862 |
| Income from continuing operations | 156,932 | 136,338 | 112,660 |
| Discontinued operations: | | | |
| Loss from discontinued operations, net of income tax effects | | | (15,713) |
| Net income | \$ 156,932 | \$ 136,338 | \$ 96,947 |
| Earnings per share - basic | | | |
| Income from continuing operations | \$ 1.80 | \$ 1.50 | \$ 1.24 |
| Loss from discontinued operations | | | (0.17) |
| Basic net income per share | \$ 1.80 | \$ 1.50 | \$ 1.07 |
| Weighted average common shares outstanding | 87,412 | 90,651 | 90,372 |
| Earnings per share - diluted | | | |
| Income from continuing operations | \$ 1.75 | \$ 1.46 | \$ 1.21 |
| Loss from discontinued operations | | | (0.17) |
| Diluted net income per share | \$ 1.75 | \$ 1.46 | \$ 1.04 |
| Diluted weighted average common shares outstanding | 89,858 | 93,455 | 92,925 |

See accompanying notes to consolidated financial statements.

COPART, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in thousands, except share amounts)

| | Common Stock | | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Shareholders' Equity |
|---|-----------------------|------------|--|----------------------|-------------------------|
| | Outstanding Shares | Amount | | | |
| Balances at July 31, 2005 | 90,337,643 | \$ 272,017 | \$ 354 | \$ 437,008 | \$ 709,379 |
| Net income | | | | 96,947 | 96,947 |
| Currency translation adjustment | | | (391) | | (391) |
| Comprehensive income | | | | | 96,556 |
| Exercise of stock options, net of repurchased shares | 389,800 | 5,421 | | | 5,421 |
| Employee share-based compensation and related tax benefit | | 5,847 | | | 5,847 |
| Shares issued for Employee Stock Purchase Plan | 83,765 | 1,640 | | | 1,640 |
| Shares repurchased | (366,000) | (8,873) | | | (8,873) |
| Balances at July 31, 2006 | 90,445,208 | 276,052 | (37) | 533,955 | 809,970 |
| Net income | | | | 136,338 | 136,338 |
| Currency translation adjustment | | | 4,484 | | 4,484 |
| Comprehensive income | | | | | 140,822 |
| Exercise of stock options, net of repurchased shares | 817,140 | 10,867 | | | 10,867 |
| Employee share-based compensation and related tax benefit | | 7,244 | | | 7,244 |
| Shares issued for Employee Stock Purchase Plan | 66,734 | 1,542 | | | 1,542 |
| Shares repurchased | (2,995,405) | (89,579) | | | (89,579) |
| Balances at July 31, 2007 | 88,333,677 | 206,126 | 4,447 | 670,293 | 880,866 |
| Net income | | | | 156,932 | 156,932 |
| Currency translation adjustment | | | (3,614) | | (3,614) |
| Comprehensive income | | | | | 153,318 |
| Exercise of stock options, net of repurchased shares | 1,500,632 | 12,675 | | | 12,675 |
| Employee share-based compensation and related tax benefit | | 23,298 | | | 23,298 |
| Shares issued for Employee Stock Purchase Plan | 56,450 | 1,711 | | | 1,711 |
| Share repurchase adjustment (Note 1) | | 95,449 | | (95,449) | |
| Shares repurchased | (6,615,764) | (22,586) | | (246,665) | (269,251) |
| Adoption of FIN 48 | | | | (3,621) | (3,621) |

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| | | | | | | |
|----------------------------------|------------|-----------|----|-----|------------|------------|
| Balances at July 31, 2008 | 83,274,995 | \$316,673 | \$ | 833 | \$ 481,490 | \$ 798,996 |
|----------------------------------|------------|-----------|----|-----|------------|------------|

See accompanying notes to consolidated financial statements.

COPART, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | Years Ended July 31, | | |
|--|----------------------|------------|-----------|
| | 2008 | 2007 | 2006 |
| Cash flows from operating activities: | | | |
| Net income | \$ 156,932 | \$ 136,338 | \$ 96,947 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Loss from discontinued operations | | | 17,950 |
| Depreciation and amortization | 42,804 | 37,089 | 31,456 |
| Allowance for doubtful accounts | 349 | 416 | 548 |
| Deferred rent | (505) | 161 | 242 |
| Share-based compensation | 6,356 | 3,424 | 3,530 |
| Loss on sale of property and equipment | 123 | 219 | 655 |
| Deferred income taxes | 5,690 | (8,948) | (4,120) |
| Equity in loss of unconsolidated entity | | 2,216 | 6,784 |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | | |
| Accounts receivable | 270 | (2,416) | (10,865) |
| Vehicle pooling costs | (784) | 1,104 | (1,840) |
| Inventories | 1,489 | 1,361 | (419) |
| Prepaid expenses and other current assets | (991) | 1,388 | 1,463 |
| Land purchase options and other assets | (7,795) | 695 | 948 |
| Accounts payable and accrued liabilities | 1,208 | 8,648 | 3,631 |
| Deferred revenue | 619 | (1,799) | 2,918 |
| Income taxes receivable | (21,674) | (875) | (2,064) |
| Income taxes payable | 9,972 | 3,032 | (7,248) |
| Net cash provided by operating activities from continuing operations | 194,063 | 182,053 | 140,516 |
| Net cash provided by operating activities from discontinued operations | | | 688 |
| Net cash provided by operating activities | 194,063 | 182,053 | 141,204 |
| Cash flows from investing activities: | | | |
| Purchases of short-term investments | (154,360) | (921,750) | (717,120) |
| Sales of short-term investments | 256,985 | 967,850 | 568,395 |
| Restricted cash and purchases of short-term investments | 9,148 | (9,148) | |
| Issuance of long term notes receivable | | (2,250) | |
| Purchases of property and equipment | (113,364) | (76,847) | (97,036) |
| Proceeds from sale of property and equipment | 7,220 | 26,598 | 9,556 |
| Purchase of assets and liabilities in connection with acquisitions, net of cash acquired | (38,229) | (120,014) | (22,976) |
| Investment in unconsolidated entity | | | (8,892) |
| Net cash used in by investing activities from continuing operations | (32,600) | (135,561) | (268,073) |
| Net cash provided by investing activities from discontinued operations | | | 158 |
| Net cash used in investing activities | (32,600) | (135,561) | (267,915) |
| Cash flows from financing activities: | | | |
| Proceeds from the exercise of stock options | 12,675 | 10,865 | 5,421 |
| Proceeds from the issuance of Employee Stock Purchase Plan shares | 1,711 | 1,542 | 1,640 |
| Repurchases of common stock | (269,251) | (89,579) | (8,873) |
| Excess tax benefit from share-based payment arrangements | 16,942 | 3,820 | 2,317 |
| Change in book overdraft | 8,246 | 4,721 | 4,180 |
| Principal payments on notes payable | | (2,033) | |

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| | | | |
|--|-----------|------------|------------|
| Net cash (used in) provided by financing activities from continuing operations | (229,677) | (70,664) | 4,685 |
| Net cash provided by financing activities from discontinued operations | | | |
| Net cash (used in) provided by financing activities | (229,677) | (70,664) | 4,685 |
| Effect of foreign currency translation | (453) | 668 | (492) |
| Net decrease in cash and cash equivalents | (68,667) | (23,504) | (122,518) |
| Cash and cash equivalents at beginning of period | 107,621 | 131,125 | 253,643 |
| Cash and cash equivalents at end of period | \$ 38,954 | \$ 107,621 | \$ 131,125 |
| Supplemental disclosure of cash flow information: | | | |
| Interest paid | \$ 117 | \$ 16 | \$ |
| Cash paid for income taxes | \$ 85,010 | \$ 84,247 | \$ 71,542 |
| Non-cash notes receivable from sales of discontinued operations | \$ | \$ | \$ 10,389 |

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

Basis of Presentation and Description of Business

Copart, Inc. was incorporated under the laws of the State of California in 1982. The consolidated financial statements of Copart, Inc. (the Company) include the accounts of the parent company and its wholly owned subsidiaries, including its foreign wholly owned subsidiaries Copart Canada, Inc. (Copart Canada) and Copart, UK (Copart UK). Significant intercompany transactions and balances have been eliminated in consolidation. Copart Canada was incorporated in January 2003 and Copart UK was incorporated in June 2007. Investments in companies in which the Company exercises significant influence, but the Company does not control (generally 20% to 50% ownership interest), are accounted for under the equity method of accounting. The Company provides vehicle sellers with a full range of services to process and sell vehicles over the Internet through the Company's Virtual Bidding Second Generation (VB²) Internet auction-style sales technology. The Company sells principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters and, at certain locations, we sell directly to the general public. The majority of vehicles sold on behalf of insurance companies are either damaged vehicles deemed a total loss or not economically repairable by the insurance companies or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. The Company offers vehicle sellers a full range of remarketing services that expedite each stage of the salvage vehicle sales process and minimize administrative and processing costs and maximize the ultimate sales price.

Use of Estimates

The preparation of financial statements in conformity with US generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, vehicle pooling costs, self-insured reserves, allowance for doubtful accounts, income taxes, revenue recognition, share-based compensation, long-lived asset impairment calculations and contingencies. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of the Company is the US dollar. The Canadian dollar and the British pound are the functional currencies of the Company's subsidiaries, Copart Canada, and Copart UK, respectively, as they are the primary currencies within the economic environment in which each subsidiary operates. Assets and liabilities of the respective subsidiary's operations are translated into US dollars at period-end exchange rates, and revenues and expenses are translated into US dollars at average exchange rates in effect during each reporting period. Adjustments resulting from the translation of each subsidiary's financial statements are reported in other comprehensive income.

Fair Value of Financial Instruments

The amounts recorded for financial instruments in the Company's consolidated financial statements, which include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate their fair values as of July 31, 2008 and 2007 due to the short-term nature of those instruments.

(1) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Company provides a portfolio of services to its sellers and buyers that facilitate the sale and delivery of a vehicle from seller to buyer. These vehicle remarketing services include the ability to use its Internet sales technology and vehicle delivery, loading, title processing, preparation and storage. The Company evaluates multiple-element arrangements relative to the Company's buyer and seller agreements in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21), which addresses accounting for multiple-element arrangements, and Staff Accounting Bulletin No. 104 *Revenue Recognition* (SAB104), which addresses revenue recognition for units of accounting.

The remarketing services the Company provides to the seller of a vehicle involve disposing of a vehicle on the seller's behalf and under most of the Company's current North American contracts, collecting the proceeds from the buyer. The Company is not entitled to any seller fees until the Company has collected the sales proceeds from the buyer for the seller and, accordingly, the Company recognizes revenue for seller services after service delivery and cash collection.

In certain cases, seller fees are not contingent upon collection of the seller proceeds from the buyer. However, the Company has determined that it is not able to separate the services into separate units of accounting because the Company does not have fair value for undelivered items. As a result, the Company does not recognize seller fees until the final seller service has been delivered, which occurs upon collection of the sales proceeds from the buyer for the seller.

Vehicle sales, where the Company purchases and remarkets vehicles on its own behalf are recognized in accordance with SAB 104 on the sale date, which is typically the point of high bid acceptance. Upon high bid acceptance, a legal binding contract is formed with the buyer, and the Company records the gross sales price as revenue.

The Company provides a number of services to the buyer of the vehicle, charging a separate fee for each service. Each of these services has been assessed under the criteria of EITF 00-21 to determine whether the Company has met the requirements to separate them into units of accounting within a multi-element arrangement. The Company has concluded that the sale service and the post-sale services are separate units of accounting. The fees for the auction service are recognized upon completion of the sale, and the fees for the post-sale services are recognized upon successful completion of those services using the residual method.

The Company also charges buyers an annual registration fee for the right to participate in its vehicle sales program, which is recognized ratably over the term of the arrangement, and relist and late-payment fees, which are recognized upon receipt of payment by the buyer. No provision for returns has been established, as all sales are final with no right of return, although the Company provides for bad debt expense in the case of non-performance by its sellers.

Yard Operations

Yard operations consist primarily of operating personnel (which includes yard management, clerical and yard employees), rent, contract vehicle towing, insurance, fuel and equipment maintenance and repair.

General and Administrative Expenses

General and administrative expenses consist primarily of executive, accounting and data processing, sales personnel, professional services, system maintenance and enhancements and marketing expenses.

(1) Summary of Significant Accounting Policies (Continued)

Advertising

All advertising costs are expensed as incurred and are included in general and administrative expenses on the Consolidated Statements of Income. Advertising expenses were \$1.7 million, \$0.7 million and \$1.8 million in fiscal 2008, 2007 and 2006, respectively.

Other income

Other income consists primarily of interest income, gain and losses from the disposal of fixed assets, rental income and losses in an unconsolidated equity investment.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company adopted the provisions of Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48), as of August 1, 2007. For benefits to be realized, a tax position must be more likely than not to be sustained upon examination. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

As a result of the Company's adoption of FIN 48, the Company recognized a \$3.6 million cumulative decrease to retained earnings. The Company also recognized a liability for unrecognized tax benefits of \$13.3 million, of which \$9.1 million (net of tax) would reduce the Company's effective tax rate if recognized in future periods. The interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. As of August 1, 2007, the Company had \$2.6 million of accrued interest and penalties included in unrecognized tax benefits.

Net Income Per Share

Basic net income per share amounts were computed by dividing consolidated net income by the weighted average number of common shares outstanding during the period. Diluted net income per share amounts were computed by dividing consolidated net income by the weighted average number of common shares outstanding plus dilutive potential common shares calculated for stock options outstanding during the period using the treasury stock method.

Cash, Cash Equivalents and Short-Term Investments

The Company considers all highly liquid investments purchased with original maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents include cash held in checking and money market accounts. Short-term investments consist primarily of AAA-rated auction rate securities with readily determinable fair market values and with original maturities in excess of three months. Auction rate securities are principally variable rate securities tied to short-term interest rates. Auction rate securities have interest rate resets through a modified Dutch auction, at predetermined short-term intervals, usually every 7, 28 or 35 days. They trade at par and are callable at par on any interest payment date at the option of the issuer. Interest paid

(1) Summary of Significant Accounting Policies (Continued)

during a given period is based upon the interest rate determined during the prior auction. Although these instruments are issued and rated as long-term securities, they are priced and traded as short-term securities because of the liquidity provided through the interest rate reset. As of July 31, 2008, the Company had no short-term investments.

The Company has classified its entire investment portfolio as available-for-sale. The Company views its available-for-sale securities as available for use in its current operations. The Company has classified auction rate securities as short-term, even though the stated maturity may be one year or more beyond the current balance sheet date. Available-for-sale securities are reported at fair value, with unrealized gains and losses reported as a component of Shareholders' Equity and Comprehensive Income. Unrealized losses are charged against income when a decline in the fair market value of an individual security is determined to be other than temporary. Realized gains and losses on investments are included in interest income.

Book Overdraft

As a result of maintaining a consolidated cash management system, the company utilizes controlled disbursement bank accounts. These accounts are funded as checks are presented for payment, not when checks are issued. The resulting book overdraft position is included in current liabilities.

Inventory

Inventories of purchased vehicles are stated at the lower of cost or estimated realizable value. Cost includes our cost of acquiring ownership of the vehicle. The cost of vehicles sold are charged to yard operations as sold.

Vehicle Pooling Costs

The Company defers in vehicle pooling costs certain yard and fleet expenses associated with vehicles consigned to and received by the Company but not sold as of the balance sheet date. The Company quantifies the deferred costs using a calculation that includes the number of vehicles at its facilities at the beginning and end of the period, the number of vehicles sold during the period and an allocation of certain yard operation costs of the period. The primary expenses allocated and deferred are certain facility costs, labor, transportation, and vehicle processing. If the allocation factors change, then yard and fleet expenses could increase or decrease correspondingly in the future. These costs are expensed as vehicles are sold in the subsequent periods on an average cost basis.

The operating results for the year ended July 31, 2006 were adversely affected by incremental costs, characterized as "abnormal" in Statement of Financial Accounting Standards (SFAS) No. 151, *Inventory Costs*, incurred as a result of hurricanes Katrina and Rita. These additional inventory-type costs, characterized as "abnormal" and charged to yard operations costs, were approximately \$0.5 million and \$14.1 million for the years ended July 31, 2007 and 2006, respectively. These costs included the additional subhauling, payroll, equipment and facilities expenses directly related to the operating conditions created by the hurricanes.

These costs did not include normal expenses associated with the increased unit volume created by the hurricanes, which are deferred until the sale of the units and are recognized as vehicle pooling costs on the balance sheet. As of July 31, 2007, all of the incremental salvage vehicles received as a result of the hurricanes had been sold.

(1) Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable, which consist primarily of advance charges due from insurance companies and the gross sales price of the vehicle due from buyers, are recorded when billed, advanced or accrued and represent claims against third parties that will be settled in cash.

Concentration of Credit Risk

Financial instruments, which subject the Company to potential credit risk, consist of its cash and cash equivalents, short-term investments and accounts receivable. The Company adheres to its investment policy when placing investments. The investment policy has established guidelines to limit the Company's exposure to credit expense by placing investments with high credit quality financial institutions, diversifying its investment portfolio, limiting investments in any one issuer or pooled fund and placing investments with maturities that maintain safety and liquidity. The Company places its cash and cash equivalents with high credit quality financial institutions. Deposits with these financial institutions may exceed the amount of insurance provided; however, these deposits typically are redeemable upon demand and, therefore, the Company believes that the financial risks associated with these financial instruments are minimal.

The Company performs ongoing credit evaluations of its customers, and generally does not require collateral on its accounts receivable. The Company estimates its allowances for doubtful accounts based on historical collection trends, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past-due account balances are written off when the Company's internal collection efforts have been unsuccessful in collecting the amount due. The Company does not have off-balance sheet credit exposure related to its customers and to date, the Company has not experienced significant credit related losses.

In fiscal 2008, 2007 and 2006, State Farm Insurance accounted for 10%, 11% and 14%, respectively of the Company's revenues. At July 31, 2008 and 2007, State Farm Insurance accounted for 11% of accounts receivable. No other single customer accounted for more than 10% of our revenues for any period presented and at July 31, 2008 and 2007, no other single customer accounted for more than 10% of the Company's trade receivables.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful lives of the respective improvements, which is between 5 and 10 years. Significant improvements, which substantially extend the useful lives of assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of: 3 to 7 years for transportation and other equipment; 3 to 10 years for office furniture and equipment; and 15 to 40 years or the lease term, whichever is shorter, for buildings and improvements.

Impairment of Long-Lived Assets

The Company evaluates long-lived assets, including property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, a long-lived asset is initially measured at the lower of its carrying amount or fair value. An impairment loss is recognized when the estimated undiscounted future cash flows

(1) Summary of Significant Accounting Policies (Continued)

expected to be generated from the use of the asset are less than the carrying amount of the asset. The impairment loss is then calculated by comparing the carrying amount with its fair value, which is usually estimated using discounted cash flows expected to be generated from the use of the asset.

Goodwill and Other Identifiable Intangible Assets

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized but is tested for potential impairment, at a minimum on an annual basis, or when indications of potential impairment exist. The Company performed its annual impairment test for goodwill during the fourth quarter utilizing a market value approach. The impairment test for identifiable intangible assets not subject to amortization is also performed annually or when impairment indicators exist, and consists of a comparison of the fair value of the intangible asset with its carrying amount. Identifiable intangible assets that are subject to amortization are evaluated for impairment using a process similar to that used to evaluate other long-lived assets.

Retained Insurance Liabilities

The Company is partially self-insured for certain losses related to medical, general liability, workers' compensation and auto liability. The Company's liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial estimates. While the Company believes these estimates are reasonable based on the information currently available, if actual trends, including the severity of claims and medical cost inflation, differ from the Company's estimates, the Company's financial position, results of operations or cash flows could be impacted.

Share-Based Compensation

Effective August 1, 2005, the Company adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment*, (SFAS No. 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees, consultants and directors based on estimated fair value. The Company adopted SFAS No. 123(R) using the modified-prospective transition method. Under this transition method, share-based compensation cost recognized in the fiscal years ended July 31, 2008, 2007 and 2006 includes share-based compensation expense for all share-based payment awards granted prior to, but not yet vested as of August 1, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 *Accounting for Stock-Based Compensation*, and share-based compensation expense for all share-based payment awards granted subsequent to August 1, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). SFAS No. 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized in expense over the requisite service periods. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the input assumptions can materially affect their fair value estimate, it is the Company's opinion that the existing models do not necessarily provide a reliable single measure of the fair value of the employee stock options.

(1) Summary of Significant Accounting Policies (Continued)

The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model utilizing the following assumptions:

| | July 31, 2008 | July 31, 2007 | July 31, 2006 |
|---|------------------|------------------|------------------|
| Expected life (in years) | 4.7 - 6.7 | 4.7 - 6.7 | 4.9 - 6.5 |
| Risk-free interest rate | 3.4 - 4.4% | 4.6 - 4.9% | 4.2 - 5.0% |
| Estimated volatility factor | 31 - 32% | 31 - 32% | 36 - 42% |
| Expected dividends | 0% | 0% | 0% |
| Weighted-average fair value at grant date | \$ 13.81 | \$ 10.17 | \$ 10.74 |

Expected life The Company's expected life represents the period that the Company's share-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the share-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its share-based awards.

Estimated volatility factor The Company uses the trading history and implied volatility of its common stock in determining an estimated volatility factor when using the Black-Scholes option-pricing formula to determine the fair value of options granted.

Expected dividend The Company has not declared dividends. Therefore, the Company uses a zero value for the expected dividend value factor when using the Black-Scholes option-pricing formula to determine the fair value of options granted.

Risk-free interest rate The Company bases the risk-free interest rate used in the Black-Scholes option-pricing formula on the implied yield currently available on US Treasury zero-coupon issues with the same or substantially equivalent remaining term.

Estimated forfeitures When estimating forfeitures, the Company considers voluntary and involuntary termination behavior as well as analysis of actual option forfeitures.

Net cash proceeds from the exercise of stock options were approximately \$12.7 million, \$10.9 million and \$5.4 million for the years ended July 31, 2008, 2007, and 2006, respectively. The Company realized an income tax benefit of approximately \$16.9 million, \$3.8 million, and \$2.3 million from stock option exercises during the years ended July 31, 2008, 2007, and 2006, respectively. In accordance with SFAS 123(R), the Company presents excess tax benefits from disqualifying dispositions of the exercise of incentive stock options, vested prior to August 1, 2005, if any, as financing cash flows rather than operating cash flows.

Comprehensive Income

Comprehensive income includes all changes in shareholders' equity during a period from non-shareholder sources.

Segment Reporting

The Company operates in a single segment providing vehicle sellers, primarily insurance companies, with a full range of services to process and sell salvage vehicles over the Internet through its Virtual Bidding Second Generation (VB²) Internet auction-style sales technology (refer to Note 14).

(1) Summary of Significant Accounting Policies (Continued)

Reclassifications

For the year ended July 31, 2008, the Company recorded a \$95 million reclassification between its common stock and retained earnings accounts in accordance with Accounting Principles Board Opinion No. 6, *Status of Accounting Research Bulletins*.

The Company recorded a \$17.5 million and \$9.3 million reclassification on the consolidated balance sheets for the years ending July 31, 2008 and 2007, respectively. The Company recorded an \$8.2 million, \$4.7 million and \$4.2 million reclassification on the consolidated statements of cash flows for the years ending July 31, 2008, 2007 and 2006, respectively. These reclassifications were made to reflect the correction in accounting for book overdraft. The reclassifications had no impact on the Company's consolidated statements of income or consolidated statements of shareholders' equity and comprehensive income.

Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the potential impact on its consolidated results of operations and financial position.

In February 2008, the FASB issued FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities to fiscal periods beginning after November 15, 2008. As a result, the Company has delayed application of SFAS 157 to its nonfinancial assets and nonfinancial liabilities, which include assets and liabilities acquired in connection with a business combination, goodwill and intangible assets. The Company is currently evaluating the impact of SFAS 157 for nonfinancial assets and liabilities on its consolidated results of operations and financial position.

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* (SFAS 159). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred: for example, debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company in the first quarter of fiscal 2009. The Company is currently determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, which SFAS 159 will have on its consolidated results of operations and financial position.

In December 2007, the EITF issued Issue No. 07-1, *Accounting for Collaborative Arrangements* (EITF 07-1). EITF 07-1 is effective for financial statements issued for fiscal years beginning after

(1) Summary of Significant Accounting Policies (Continued)

December 15, 2008, and interim periods within those fiscal years, and shall be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date. EITF 07-1 requires that transactions with third parties (i.e., revenue generated and costs incurred by the partners) should be reported in the appropriate line item in each company's financial statement pursuant to the guidance in EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*. EITF 07-1 also includes enhanced disclosure requirements regarding the nature and purpose of the arrangement, rights and obligations under the arrangement, accounting policy, amount and income statement classification of collaboration transactions between the parties. The Company is currently evaluating the impact that EITF 07-1 will have on its consolidated results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, (SFAS 141(R)) which provides revised guidance on the accounting for acquisitions of businesses. This standard changes the current guidance to require that all acquired assets, liabilities, minority interest and certain contingencies be measured at fair value, and certain other acquisition-related costs be expensed rather than capitalized. SFAS 141(R) will apply to acquisitions that are effective after December 31, 2008, and application of the standard to acquisitions prior to that date is not permitted. In the event of an acquisition, the Company will need to evaluate whether or not SFAS 141(R) will have a material impact on its consolidated results of operations and financial position.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, (SFAS 160) which provides guidance on the presentation of minority interests in the financial statements. This standard requires that minority interest be presented as a component of equity rather than as a "mezzanine" item between liabilities and equity, and also requires that minority interests be presented as a separate caption in the income statement. This standard also requires all transactions with minority interest holders, including the issuance and repurchase of minority interests, be accounted for as equity transactions unless a change in control of the subsidiary occurs. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company does not believe SFAS 160 will have a material impact on its consolidated results of operations and financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires enhanced disclosure related to derivatives and hedging activities and thereby seeks to improve the transparency of financial reporting. Under SFAS 161, entities are required to provide enhanced disclosures relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under SFAS 133 for all financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the potential impact on its consolidated results of operations and financial position.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. During fiscal 2009, the Company will be evaluating the impact of the pending adoption of FSP FAS 142-3 on its fiscal year 2010 consolidated results of operations and financial condition.

(2) Acquisitions*Fiscal 2008 Transactions*

In April 2008, the Company completed the acquisition of Simpson Bros. (York) Holdings Limited, a UK limited liability company (Simpson), which operates one location in York, England. Simpson's primary business activity was the dismantling of automobiles and the sales of salvaged auto parts. In February 2008, the Company completed the purchase of AG Watson Auto Salvage & Motors Spares (Scotland) Limited (AG Watson) which operates two salvage locations in Scotland and two salvage locations in northern England. In August 2007, the Company completed the acquisition of Century Salvage Sales Limited (Century), a vehicle salvage disposal company with three facilities located in the UK. In April 2008, the Company acquired Bob Lowe Salvage Pool, Inc. Bob Lowe Salvage Pool, Inc. operated one salvage location near Sikeston, Missouri. These acquisitions were completed because of their strategic fit and have been accounted for using the purchase method in accordance with SFAS No. 141, *Business Combinations*, which has resulted in the recognition of goodwill in the Company's consolidated financial statements. This goodwill arises because the purchase price for the acquisitions reflect a number of factors including future earnings and cash flow potential; the multiple to earnings, cash flow and other factors at which similar businesses have been purchased by other acquirers; the competitive nature of the process by which the Company acquired the businesses; and because of the complementary strategic fit and resulting synergies they bring to existing operations. In accordance with SFAS 141, the assets acquired and liabilities assumed have been recorded at their estimated fair values. The consideration paid for these acquisitions consisted of approximately \$38.2 million in cash, net of cash acquired. The acquired net assets consisted principally of accounts receivable, inventories and vehicle pooling costs, property and equipment, goodwill, accounts payable, deferred tax liabilities, taxes payable, 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. The excess of the purchase price over the fair market value of the net identifiable assets acquired of \$13.9 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 \$0.6 million for covenants not to compete relating to these acquisitions, which are being amortized over five years.

The accompanying consolidated financial statements reflect a combined preliminary allocation of the purchase price for these acquisitions, which is summarized as follows (in thousands):

| | |
|--------------------------------------|------------------|
| Tangible assets: | |
| Cash | \$ 18,417 |
| Accounts receivable | 2,951 |
| Inventories and vehicle pooling cost | 2,579 |
| Property and equipment | 21,968 |
| Other tangible assets | 437 |
| Total tangible assets | 46,352 |
| Total intangible assets | 4,848 |
| Goodwill | 13,903 |
| Liabilities assumed: | |
| Accounts payable | (3,093) |
| Deferred tax liability | (2,964) |
| Taxes payable | (2,400) |
| Total liabilities assumed | (8,457) |
| Net assets acquired | \$ 56,646 |

(2) Acquisitions (Continued)***Pro-forma Financial Information***

Pro forma financial information for the fiscal 2008 acquisitions does not result in a significant change from actual results.

Fiscal 2007 Transactions

In June 2007, the Company completed the acquisition of Universal Salvage plc (Universal) (the Acquisition). Universal, based in the UK, operates seven salvage yards in the UK and is a leading service provider to the motor insurance and automotive industries. Universal specializes in the disposal of accident-damaged, End-of-Life and fee-based non-salvage vehicles. The Acquisition was completed because of its strategic fit with the North American business. The Acquisition has been accounted for using the purchase method in accordance with SFAS No. 141, which has resulted in the recognition of goodwill in the Company's consolidated financial statements. This goodwill arises because the purchase price for Universal reflects a number of factors including its future earnings and cash flow potential; the multiple to earnings, cash flow and other factors at which similar businesses have been purchased by other acquirers, the competitive nature of the process by which the Company acquired the business; and because of the complementary strategic fit and resulting synergies it brings to existing operations.

In accordance with SFAS No. 141, Universals' net assets acquired and liabilities assumed have been recorded at their fair value. The aggregate purchase price of \$120.0 million based on currency exchange rates on June 14, 2007 was funded from the Company's available cash resources. In addition, the Company assumed liabilities of \$35.8 million, which included outstanding indebtedness of Universal totaling approximately \$4.5 million.

The accompanying consolidated financial statements reflect the final allocation of the purchase price, which is summarized as follows (in thousands):

| | |
|--------------------------------------|-------------------|
| Tangible assets: | |
| Cash | \$ 16 |
| Accounts receivable | 9,834 |
| Inventories and vehicle pooling cost | 7,914 |
| Property and equipment | 65,178 |
| Total tangible assets | 82,942 |
| Total intangible assets | |
| Goodwill | 22,192 |
| | 50,693 |
| Liabilities assumed: | |
| Accounts payable | (16,058) |
| Current maturities of long-term debt | (2,231) |
| Long-term debt | (2,296) |
| Deferred tax liability | (14,912) |
| Other | (316) |
| Total liabilities assumed | (35,813) |
| Net assets acquired | \$ 120,014 |

The Company has allocated approximately \$22.2 million to identifiable intangible assets. The intangible assets include finite lived supply contracts, tradenames, software, licenses and databases, which are being amortized over their estimated useful lives, ranging from one to ten

(2) Acquisitions (Continued)

years. Goodwill of \$50.7 million recognized in the Acquisition is not expected to be deductible for tax purposes.

The Company has included the operating results of Universal in its consolidated financial statements from the date of acquisition.

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 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.

Pro forma financial information for the fiscal 2006 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.

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 a second MAG location. 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, 2008 and 2007. 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.

(3) Discontinued Operations and Goodwill Impairment (Continued)

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

| | Years Ended July 31, | | |
|---------------------------------------|----------------------|------|-------------|
| | 2008 | 2007 | 2006 |
| Revenues | \$ | \$ | \$ 6,351 |
| Loss before income taxes | | | (17,950) |
| Income tax expense | | | 2,237 |
| Net loss from discontinued operations | \$ | \$ | \$ (15,713) |

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, | |
|--------------------------------|----------|------------|
| | 2008 | 2007 |
| Available-for-sale securities: | | |
| Auction rate securities | \$ | \$ 102,625 |
| | \$ | \$ 102,625 |

(5) Accounts Receivable, Net

Accounts receivable consists of the following (in thousands):

| | July 31, | |
|--------------------------------------|------------|------------|
| | 2008 | 2007 |
| Advance charges receivable | \$ 74,319 | \$ 72,628 |
| Trade accounts receivable | 39,492 | 37,891 |
| Other receivables | 494 | 1,627 |
| | 114,305 | 112,146 |
| Less allowance for doubtful accounts | (2,600) | (2,251) |
| | \$ 111,705 | \$ 109,895 |

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.

(5) Accounts Receivable, Net (Continued)

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, 2008 | \$ 2,251 | \$ 1,174 | \$ (825) | \$ 2,600 |
| July 31, 2007 | \$ 1,820 | \$ 2,097 | \$ (1,666) | \$ 2,251 |
| July 31, 2006 | \$ 1,272 | \$ 1,555 | \$ (1,007) | \$ 1,820 |

(6) Property and Equipment, Net

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

| | July 31, | |
|--|------------|------------|
| | 2008 | 2007 |
| Transportation and other equipment | \$ 61,349 | \$ 23,847 |
| Office furniture and equipment | 48,269 | 44,534 |
| Land | 261,320 | 218,144 |
| Buildings and leasehold improvements | 333,154 | 296,860 |
| | 704,092 | 583,385 |
| Less accumulated depreciation and amortization | (193,752) | (162,721) |
| | \$ 510,340 | \$ 420,664 |

Depreciation expense on property and equipment was approximately \$37.2 million, \$35.0 million and \$30.8 million for the fiscal years ended July 31, 2008, 2007 and 2006 respectively.

(7) Goodwill

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

| | |
|---|------------|
| 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 |
| Goodwill relating to acquisitions during the period (refer Note 2) | 13,903 |
| Purchase price allocation adjustments | 1,616 |
| Balance as of July 31, 2008 | \$ 177,164 |

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 2008 and 2007. 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, 2008, the cumulative 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, 2008 | | Weighted Average Remaining Useful Life (in years) |
|------------------------------|-----------------------------|-----------------------------|---|
| | Gross carrying Amount | Accumulated amortization | |
| Amortized intangible assets: | | | |
| Covenants not to compete | \$ 10,697 | \$ (9,347) | 2 |
| Supply contracts | 25,239 | (5,539) | 5 |
| Software | 840 | (173) | 1 |
| Licenses and databases | 388 | (204) | 1 |
| | \$ 37,164 | \$ (15,263) | |

| | 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) | |

Aggregate amortization expense on intangible assets was approximately \$5.8 million, \$1.4 million and \$0.7 million for the fiscal years ended July 31, 2008, 2007, and 2006, respectively. Intangible amortization expense for the next five fiscal years based upon July 31, 2008 intangible assets is expected to be as follows (in thousands):

| | |
|------|---------|
| 2009 | \$4,867 |
| 2010 | 4,778 |
| 2011 | 4,499 |
| 2012 | 4,045 |
| 2013 | 3,505 |

(9) Accounts Payable and Accrued Liabilities

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

| | July 31, | |
|---|-----------|-----------|
| | 2008 | 2007 |
| Trade accounts payable | \$ 13,193 | \$ 13,392 |
| Accounts payable to insurance companies | 37,294 | 39,421 |
| Accrued insurance | 5,172 | 4,312 |
| Accrued compensation and benefits | 18,012 | 16,824 |
| Other accrued liabilities | 15,212 | 11,133 |
| | \$ 88,883 | \$ 85,082 |

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 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 March 6, 2008, the Company entered into an unsecured credit agreement with Bank of America, N.A. (the Credit Agreement) providing for a \$200 million revolving credit facility (the Credit Facility), including a \$100 million foreign currency borrowing sublimit and a \$50 million letter of credit sublimit. Amounts borrowed under the Credit Facility may be used for repurchases of stock, capital expenditures, working capital and other general corporate purposes. The Credit Facility matures and all outstanding borrowings are due on the fifth anniversary of the Credit Agreement (the Maturity Date), with annual reductions in availability of \$25 million on each of the first three anniversaries of the Credit Agreement. Amounts borrowed under the Credit Facility may be repaid and reborrowed until the Maturity Date and bear interest, at the Company's option, at either Eurocurrency Rate plus 0.5% to 0.875%, depending of the leverage ratio, as defined in the Credit Agreement, at the end of the previous quarter or at the US Prime Rate. A default interest rate applies on all obligations during an event of default under the Credit Facility at a rate per annum equal to 2.0% above the otherwise applicable interest rate. The Credit Facility requires the Company to pay a commitment fee on the unused portion of the Credit Facility. The commitment fee ranges from 0.075% to 0.15% depending on the leverage ratio as of the end of the previous quarter. The Credit Facility contains customary representations and warranties and places certain business operating restrictions on the Company relating to, among other things, indebtedness, liens and other encumbrances, investments, mergers and acquisitions, asset sales, and dividends, distributions and redemptions of capital stock. In addition, the Credit Agreement provides for a maximum total leverage ratio and a minimum interest coverage ratio. The Credit Facility contains events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, cross-defaults to certain other indebtedness, bankruptcy and insolvency defaults, material judgments, invalidity of the loan documents and events constituting a change of control. The Credit Facility is guaranteed by the Company's material domestic subsidiaries. As of July 31, 2008, there was no outstanding balance under the Credit Facility.

As part of our acquisition of Universal on June 14, 2007, the Company acquired 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) Long-Term Debt (Continued)

\$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, 2008, plus .75% and is collateralized by real property. At July 31, 2008, 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 83,274,995 shares were issued and outstanding at July 31, 2008. As of July 31, 2008 and 2007, the Company has reserved 4,253,053 and 1,337,337 shares of common stock, respectively, for the issuance of options granted under the Company's stock option plans and 926,175 and 982,626 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 were issued or outstanding at July 31, 2008.

Stock Repurchase

In October 2007, the Company's Board of Directors approved a 20 million share increase in its stock repurchase program bringing the total current number of shares authorized for repurchase to 29 million shares. 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. Subject to applicable securities laws, such 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, 2008, the Company repurchased 6,615,764 shares at a weighted average price of \$40.70. For the year ended July 31, 2007, the Company 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. The total number of shares repurchased under the program as of July 31, 2008 was 13,649,469, leaving 15,350,531 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 2008, 2007 and 2006 was 56,450, 66,734 and 83,765, respectively. As of July 31, 2008, 1,573,825 shares of common stock have been issued pursuant to the ESPP and 926,175 shares remain available for purchase under the ESPP.

(11) Shareholders' Equity (Continued)*Stock Options*

In December 2007, the Company adopted the Copart, Inc. 2007 Equity Incentive Plan (Plan), presently covering an aggregate of 4.0 million shares of the Company's common stock. The Plan provides for the grant of incentive stock options, restricted stock, restricted stock units and other equity-based awards 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 2001 Stock Option Plan. At July 31, 2008, 3,956,819 shares were available for future grant under the Plan.

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

| | Years Ended July 31, | | |
|----------------------------|-----------------------------|-------------|-------------|
| | 2008 | 2007 | 2006 |
| Yard operations | \$ 1,058 | \$ 910 | \$ 700 |
| General and administrative | 5,293 | 2,572 | 1,600 |

There were no compensation costs capitalized as part of the cost of an asset as of July 31, 2008 and 2007.

A summary of the status of the Company's non-vested shares as of July 31, 2008 and changes during fiscal 2008 is as follows:

| | Number of Shares (000's) | Weighted- average Grant- date Fair Value |
|---|---|---|
| Non-vested shares at July 31, 2007 | 1,076 | \$ 8.54 |
| Grants of options | 1,074 | \$ 13.81 |
| Vested | (504) | \$ 7.16 |
| Forfeitures or expirations | (42) | \$ 8.93 |
| Non-vested shares at July 31, 2008 | 1,604 | \$ 12.49 |

Option activity for the year ended July 31, 2008 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, 2007 | 5,226 | \$ 13.20 | | |
| Grants of options | 1,074 | \$ 34.34 | | |
| Exercises | (1,467) | \$ 8.17 | | |
| Forfeitures or expirations | (42) | \$ 20.05 | | |
| Outstanding at July 31, 2008 | 4,791 | \$ 19.41 | 5.26 | \$ 117,116 |
| Exercisable at July 31, 2008 | 3,187 | \$ 13.67 | 3.64 | \$ 96,196 |
| Vested and expected to vest at July 31, 2008 | 4,505 | \$ 19.31 | 5.23 | \$ 110,617 |

(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, 2008 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, 2008. The aggregate intrinsic value of options exercised was approximately \$52.4 million, \$12.1 million and \$4.9 million in the fiscal years ended July 31, 2008, 2007 and 2006, 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, 2008, 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 \$15.5 million, net of estimated forfeitures. This cost will be amortized on a straight-line basis over a weighted average term of 3.31 years and will be adjusted for subsequent changes in estimated forfeitures. The fair value of options vested in fiscal 2008, 2007 and 2006 is \$3.6 million, \$4.4 million and \$2.2 million, respectively.

A summary of stock options outstanding and exercisable at July 31, 2008 follows:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---|---|---------------------------------|---|---------------------------------|
| | Number Outstanding at July 31, 2008 (in 000s) | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable at July 31, 2008 (in 000s) | Weighted-Average Exercise Price |
| \$4.46 - \$8.80 | 944 | 2.14 | \$ 6.04 | 932 | \$ 6.01 |
| \$9.03 - \$14.75 | 879 | 2.92 | \$ 11.16 | 876 | \$ 11.16 |
| \$16.70 - \$23.73 | 963 | 4.33 | \$ 17.92 | 876 | \$ 17.74 |
| \$24.03 - \$40.44 | 2,005 | 8.21 | \$ 30.05 | 503 | \$ 25.17 |
| | 4,791 | 5.26 | \$ 19.41 | 3,187 | \$ 13.67 |

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.

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 shareholders 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.

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(12) Income Taxes

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

| | Years ended July 31 | | |
|----------------------------------|---------------------|-------------------|-------------------|
| | 2008 | 2007 | 2006 |
| US | \$ 247,719 | \$ 215,538 | \$ 174,636 |
| Non US | 1,931 | 1,883 | (114) |
| Total income before taxes | \$ 249,650 | \$ 217,421 | \$ 174,522 |

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

| | Years Ended July 31, | | |
|-----------------|----------------------|-----------|-----------|
| | 2008 | 2007 | 2006 |
| Federal: | | | |
| Current | \$ 80,554 | \$ 79,760 | \$ 62,754 |
| Deferred | 4,683 | (6,202) | (4,264) |
| | 85,237 | 73,558 | 58,490 |
| State: | | | |
| Current | 6,906 | 7,430 | 3,895 |
| Deferred | 215 | (418) | (523) |
| | 7,121 | 7,012 | 3,372 |
| Foreign: | | | |
| Current | 313 | 2,331 | |
| Deferred | 47 | (1,818) | |
| | 360 | 513 | |
| | \$ 92,718 | \$ 81,083 | \$ 61,862 |

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

| | Years Ended July 31, | | |
|---|----------------------|--------------|--------------|
| | 2008 | 2007 | 2006 |
| Federal statutory rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal income tax benefit | 2.9 | 3.3 | 1.9 |
| Compensation and fringe benefits | 0.2 | 0.2 | 0.3 |
| Other differences | (1.0) | (1.2) | (1.8) |
| Effective tax rate | 37.1% | 37.3% | 35.4% |

(12) Income Taxes (Continued)

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

| | Years Ended July 31, | |
|--------------------------------------|-----------------------------|-------------|
| | 2008 | 2007 |
| Deferred tax assets: | | |
| Allowance for doubtful accounts | \$ 923 | \$ 847 |
| Accrued compensation and benefits | 4,610 | 2,149 |
| State taxes | 1,211 | 1,868 |
| Accrued other | 1,634 | 1,831 |
| Deferred revenue | 2,124 | 1,847 |
| Property and equipment | 7,676 | 13,466 |
| State net operating losses | 660 | 819 |
| Foreign net operating loss | | 351 |
| | | |
| Total gross deferred tax assets | 18,838 | 23,178 |
| Less valuation allowance | (584) | (959) |
| | | |
| Net deferred tax assets | 18,254 | 22,219 |
| Deferred tax liabilities: | | |
| Vehicle pooling costs | (9,856) | (9,715) |
| Prepaid insurance | (619) | (617) |
| Intangibles and goodwill | (22,272) | (21,319) |
| | | |
| Total gross deferred tax liabilities | (32,747) | (31,651) |
| | | |
| Net deferred tax liability | \$ (14,493) | \$ (9,432) |

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

| | July 31, | |
|--|-----------------|-------------|
| | 2008 | 2007 |
| North America current liabilities | \$ 2,768 | \$ 3,219 |
| North America non-current liabilities (assets) | (2,319) | (7,785) |
| UK non-current liabilities | 14,044 | 13,998 |
| | | |
| Net deferred tax liability | \$ 14,493 | \$ 9,432 |

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 valuation allowance for the years ended July 31, 2008 and 2007 was approximately \$0.6 million and \$1.0 million, respectively, which is a net decrease of \$0.4 million.

The Company adopted FIN 48 as of August 1, 2007. The cumulative effect of adopting FIN 48 was a decrease to the Company's retained earnings of approximately \$3.6 million. The total unrecognized tax benefits as of the date of adoption was \$13.3 million. At July 31, 2008, the Company had an unrecognized tax benefit of \$12.2 million of which \$8 million, if recognized, would favorably affect the effective income tax rate in future periods. It is possible that the amount of

(12) Income Taxes (Continued)

unrecognized tax benefits will change in the next twelve months; however an estimate of the range of the possible change cannot be made at this time.

The following table summarizes the activities related to the Company's unrecognized tax benefits (in thousands):

| | |
|---|-----------|
| Balance as of August 1, 2007 | \$ 13,300 |
| Increases related to current year tax positions | 1,800 |
| Prior year tax positions: | |
| Decreases | (200) |
| Cash settlement | (200) |
| Lapse of statute of limitations | (2,500) |
| | |
| Balance at July 31, 2008 | \$ 12,200 |

It is the Company's continuing practice to recognize interest and penalties related to income tax matters in income tax expense. As of July 31, 2008, the Company had accrued interest related to the unrecognized tax benefits of \$2.6 million.

The Company is currently under audit by the IRS for fiscal year 2006, and by states such as New York and Connecticut for fiscal years 2004, 2005 and 2006. The Company is no longer subject to US federal and state income tax examination for fiscal years prior to 2005, with the exception of New York and Connecticut.

In fiscal 2008, 2007 and 2006, the Company recognized a tax benefit of approximately \$16.9 million, \$3.8 million and \$2.3 million, respectively, upon the exercise of certain stock options which is reflected in shareholders' equity.

The Company has not provided US federal income and foreign withholding taxes from undistributed earnings of its foreign operations, because it plans to permanently reinvest the earnings of its foreign operations as of July 31, 2008. At July 31, 2008, the unrecognized deferred tax liability for these earnings was approximately \$2.6 million. If these earnings were distributed, foreign tax credits may become available under current law to reduce or eliminate the resultant US income tax liability.

(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, | | |
|--|----------------------|--------|--------|
| | 2008 | 2007 | 2006 |
| Weighted average common shares outstanding | 87,412 | 90,651 | 90,372 |
| Effect of dilutive securities-stock options | 2,446 | 2,804 | 2,553 |
| | | | |
| Diluted weighted average common shares outstanding | 89,858 | 93,455 | 92,925 |

There were no adjustments to net income required in calculating diluted net income per share. Options to purchase approximately 40,000, 110,000 and 42,000 shares of our common stock at an average price of \$40.44, \$29.76 and \$27.22 per share were outstanding at July 31, 2008, 2007 and 2006, 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 sellers with a full range of remarketing services to process and sell vehicles 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, *Disclosures About Segments of an Enterprise and Related Information*. Revenues are based upon the geographic location of the selling facility and are summarized in the following table (in thousands):

| | Years Ended July 31, | | |
|----------------|----------------------|------------|------------|
| | 2008 | 2007 | 2006 |
| United States | \$ 591,600 | \$ 541,801 | \$ 526,456 |
| Canada | 5,365 | 4,060 | 2,115 |
| North America | 596,965 | 545,861 | 528,571 |
| United Kingdom | 187,883 | 14,819 | |
| | \$ 784,848 | \$ 560,680 | \$ 528,571 |

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

| | July 31, | |
|----------------|------------|------------|
| | 2008 | 2007 |
| United States | \$ 568,459 | \$ 512,346 |
| Canada | 5,581 | 5,661 |
| North America | 574,040 | 518,007 |
| United Kingdom | 169,454 | 132,885 |
| | \$ 743,494 | \$ 650,892 |

(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*.

(15) Commitments and Contingencies (Continued)

At July 31, 2008, 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 |
|-----------------------|---------------------|
| 2009 | \$ 19,999 |
| 2010 | 18,332 |
| 2011 | 16,254 |
| 2012 | 12,694 |
| 2013 | 8,819 |
| Thereafter | 25,576 |
| | \$ 101,674 |

Facilities rental expense for the fiscal years ended July 31, 2008, 2007 and 2006 aggregated approximately \$16.9 million, \$16.7 million and \$18.0 million, respectively. Yard operations equipment rental expense for the fiscal years ended July 31, 2008, 2007 and 2006 aggregated approximately \$3.8 million, \$4.6 million and \$4.4 million, respectively.

Commitments***Letters of Credit***

The Company had outstanding letters of credit of \$7.9 million at July 31, 2008. 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 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 August 23, 2007, the Company filed: (i) a Motion to Dismiss Claims for Improper Venue, (ii) a Motion to Dismiss for Failure to Join Persons Needed for Just Adjudication, (iii) a Motion To Dismiss for Lack of Diversity Jurisdiction, (iv) a Motion to Dismiss Load Out Fee Class Action for Failure to State Claim

(15) Commitments and Contingencies (Continued)

and (v) a Motion to Dismiss Load Out Fee Class Action for Lack of Diversity Jurisdiction. On February 22, 2008, the court granted the motions to dismiss with regard to all claims, leaving only the antitrust claim pending. On July 15, 2008, the federal antitrust claims were dismissed with prejudice. No material claims remain.

On November 20, 2007, Car Auction & Reinsurance Solutions, Inc. (CARS) filed suit against Copart in the Superior Court in the County of New Castle, Delaware. CARS is seeking \$4.7 million in damages, punitive damages, and prejudgment interest related to allegations involving breach of contract and misrepresentation. The Company believes the claim is without merit and is defending the lawsuit vigorously.

On November 30, 2007, Tracy Utterback Suggs filed suit against Copart in Harris County, Texas District Court. The complaint alleges breach of contract and negligence for allowing Suggs' vehicle to be destroyed. The plaintiff claims that the vehicle in question was the key piece of evidence in support of an anticipated design defect products liability case against American Honda and that the Company is responsible for the spoliation of that evidence. On May 28, 2008, the parties reached a settlement in principle at mediation. The settlement does not result in any material contribution on the part of the Company because Copart's insurance company agreed to fund the settlement, under a reservation of rights. All portions of the settlement requiring court approval have been approved. The lawsuit remains open pending the final funding of the settlement by the insurance company. The Company is aware, however, that the insurance company intends to claim that the Company is responsible for a \$2 million self-insured retention. The company cannot determine that a loss is probable, and it cannot reasonably estimate the amount of a loss regarding this claim, if a claim is made. The Company intends to vigorously defend any claim made by the insurance company.

On April 18, 2007, Heather Trafton, as personal representative of the estate of Larry Trafton, filed a wrongful death suit against Carlos Sigas Star Auto and Copart in the Circuit Court of the Thirteenth Judicial Circuit of Florida in the County of Hillsborough, Florida. The plaintiff alleges that Manuel Vega, a driver for the independent tow company Carlos Sigas Star Auto, caused the death of decedent, motorcyclist Larry Trafton, by running a red light and colliding with Mr. Trafton at an intersection. Although neither Mr. Sigas nor Mr. Vega are employees of Copart, the plaintiff alleges that the Company is responsible for the wrongful death of Mr. Trafton. On or about February 6, 2008, the Company received the plaintiff's initial monetary demand in the amount of \$6 million. On September 16, 2008, the parties reached a settlement in principle at mediation. The settlement does not result in any material contribution on the part of the Company. The settlement remains subject to the parties entering into formal settlement agreements, and it must also be approved by the court. However, the Company believes the ultimate outcome will not have a material impact on its consolidated financial position, results of operations or cash flows.

On July 14, 2008, the Company filed a lawsuit against Auto Auction Services Corp. (AASC) in US District Court, Northern District of California. The principal parties are Copart as plaintiff and AASC as defendant. The complaint identifies, but did not name as defendants, various co-conspirators, including Manheim Auctions, Inc. and ADESA, Inc. The complaint primarily alleges that AASC and its co-conspirators engaged in a group boycott and concerted refusal to deal with Copart for the purpose of excluding Copart from effectively providing vehicle auction services to fleet operators, fleet management companies, national or regional banks, finance companies, and leasing companies, all in violation of federal and California antitrust and unfair competition laws. The Company is seeking injunctive relief and unspecified monetary damages.

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

(15) Commitments and Contingencies (Continued)

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.

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 water quality standards. In February 2008, the TCEQ provided comments to the Company's proposal for surface water sampling. In March 2008, the Company's environmental engineer submitted to the TCEQ an addendum to the surface water sampling plan, which was approved by the TCEQ in June 2008. Sampling is anticipated to be performed in September or October, 2008. 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

(15) Commitments and Contingencies (Continued)

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 Form 10-K, with the members of its 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 its 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 \$0.3 million, \$0.4 million and \$0.5 million for the fiscal years ended July 31, 2008, 2007 and 2006, respectively, 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 for the fiscal years ended July 31, 2008, 2007 and 2006.

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 its Board of Directors, with Mr. Grosfeld abstaining.

On February 15, 2008 the Company exercised its option to purchase land that had been leased from the estate of James P. Meeks, the deceased father of James E. Meeks who is the former Executive Vice President and Chief Operating Officer of the Company and a current member of its Board of Directors. The purchase price was established through two appraisals and the transaction was approved by the Audit Committee of the Company's Board of Directors.

On June 5, 2008, the Company entered into an agreement with Willis J. Johnson, its Chief Executive Officer and a member of the Board of Directors, pursuant to which the Company acquired 600,000 shares of its common stock at a price of \$47.55 per share, or an aggregate purchase price of \$28,530,000. The settlement date for the acquisition of the common stock was on or about June 12, 2008, and the purchase was made pursuant to the Company's existing stock repurchase program. The per share purchase price for the common stock to be acquired was based on the closing price of the Company's common stock on June 5, 2008 (as reported by The NASDAQ Stock Market), less \$0.25 per share. The repurchase was approved by the disinterested members of the Board of Directors and the Audit Committee of the Board of Directors.

(17) Related Party Transactions (Continued)

On July 2, 2008, the Company entered into an agreement with Willis J. Johnson, its Chief Executive Officer and a member of the Board of Directors, pursuant to which the Company acquired 1,500,000 shares of its common stock at a price of \$40.00 per share, or an aggregate purchase price of \$60,000,000. The settlement date for the acquisition of the common stock was July 11, 2008, and the purchase was made pursuant to the Company's existing stock repurchase program. The per share purchase price for the common stock to be acquired was based on the closing price of the Company's common stock on July 1, 2008 (as reported by The NASDAQ Stock Market), less 5.5% or \$2.35 per share. The members of the Board of Directors had independent discussions among themselves and agreed in principle to the terms of the repurchase on July 1, 2008. On July 2, 2008, this repurchase was formally approved by the members of the Company's Board of Directors and the Audit Committee of the Company's Board of Directors.

There were no amounts due or from related parties at July 31, 2008 and 2007.

(18) Employee Benefit Plan

The Company sponsors a 401(k) defined contribution plan covering its eligible employees. The plan is available to all US 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, \$0.4 million and \$0.3 million for the fiscal years ended July 31, 2008, 2007 and 2006, 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 paid approximately \$9.0 million for non-controlling 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.

The Company has discontinued recording its share of the losses of Lanelogic because it has no commitment to provide further funding.

On August 15, 2007, 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

(19) Investment in Unconsolidated Entity (Continued)

corporation in which Copart has a 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. Dealer Services Corporation cancelled the personal guarantee prior to July 31, 2008.

(20) Noncash Financing and Investing Activities

In fiscal 2008, 2007 and 2006, the Company received 2,319, 6,597 and 4,378 shares of common stock, respectively as payment for the exercise of 9,962, 18,462 and 8,678 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 2008 | Fiscal Quarter | | | |
|-----------------------------------|----------------|------------|------------|------------|
| | First | Second | Third | Fourth |
| Revenues | \$ 183,957 | \$ 173,459 | \$ 221,150 | \$ 206,282 |
| Operating income | \$ 56,627 | \$ 47,235 | \$ 68,684 | \$ 65,372 |
| Income from continuing operations | \$ 60,166 | \$ 50,589 | \$ 70,874 | \$ 68,022 |
| Net income | \$ 37,610 | \$ 32,026 | \$ 46,477 | \$ 40,820 |
| Basic net income per share | \$ 0.42 | \$ 0.36 | \$ 0.53 | \$ 0.48 |
| Diluted net income per share | \$ 0.41 | \$ 0.35 | \$ 0.52 | \$ 0.47 |

| 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 net income per share | \$ 0.34 | \$ 0.33 | \$ 0.43 | \$ 0.41 |
| Diluted net income per share | \$ 0.32 | \$ 0.32 | \$ 0.41 | \$ 0.40 |

(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.

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