

SUN MICROSYSTEMS, INC.  
Form 10-Q  
May 08, 2008  
Table of Contents

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 30, 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: 0-15086

**SUN MICROSYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-2805249**  
(I.R.S. Employer  
Identification No.)

**4150 Network Circle, Santa Clara, CA 95054**  
(Address of principal executive offices with zip code)

**(650) 960-1300**  
(Registrant's telephone number, including area code)

**N/A**  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

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.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 2008
Common Stock - \$0.001 par value	781,783,680

**Table of Contents**

**INDEX**

**PART I FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements:</u>	3
	<u>Condensed Consolidated Statements of Operations</u>	3
	<u>Condensed Consolidated Balance Sheets</u>	4
	<u>Condensed Consolidated Statements of Cash Flows</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
	<u>Report of Independent Registered Public Accounting Firm</u>	20
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 4.	<u>Controls and Procedures</u>	35

**PART II OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	36
Item 1A.	<u>Risk Factors</u>	36
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 6.	<u>Exhibits</u>	38

<b><u>SIGNATURES</u></b>	39
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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****SUN MICROSYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)****(in millions, except per share amounts)**

	Three Months Ended		Nine Months Ended	
	March 30, 2008	April 1, 2007	March 30, 2008	April 1, 2007
Net revenues:				
Products	\$ 2,003	2,060	\$ 6,232	6,279
Services	1,263	1,223	3,868	3,759
Total net revenues	3,266	3,283	10,100	10,038
Cost of sales:				
Cost of sales-products <sup>(1)</sup>	1,106	1,148	3,296	3,499
Cost of sales-services <sup>(1)</sup>	692	674	2,022	2,086
Total cost of sales	1,798	1,822	5,318	5,585
Gross margin	1,468	1,461	4,782	4,453
Operating expenses:				
Research and development <sup>(1)</sup>	457	514	1,366	1,494
Selling, general and administrative <sup>(1)</sup>	989	957	2,923	2,893
Restructuring charges and related impairment of long-lived assets	14	35	159	82
Purchased in-process research and development	24		25	
Total operating expenses	1,484	1,506	4,473	4,469
Operating income (loss)	(16)	(45)	309	(16)
Gain on equity investments, net		5	22	5
Interest and other income, net	34	104	145	209
Income before income taxes	18	64	476	198
Provision (benefit) for income taxes	52	(3)	161	54
Net income (loss)	\$ (34)	\$ 67	\$ 315	\$ 144
Net income (loss) per common share-basic	\$ (0.04)	\$ 0.08 <sup>(2)</sup>	\$ 0.38	\$ 0.16 <sup>(2)</sup>
Net income (loss) per common share-diluted	\$ (0.04)	\$ 0.07 <sup>(2)</sup>	\$ 0.38	\$ 0.16 <sup>(2)</sup>
Shares used in the calculation of net income per common share-basic	785	887 <sup>(2)</sup>	821	881 <sup>(2)</sup>
Shares used in the calculation of net income per common share-diluted	785	915 <sup>(2)</sup>	837	900 <sup>(2)</sup>

(1) Includes stock based compensation as follows:

Cost of sales - products	\$ 3	\$ 3	\$ 8	\$ 10
Cost of sales - services	\$ 10	\$ 8	\$ 28	\$ 24
Research and development	\$ 17	\$ 15	\$ 47	\$ 49
Selling, general and administrative	\$ 27	\$ 24	\$ 74	\$ 83

(2) Amounts have been restated to reflect the one-for-four reverse stock split effective November 12, 2007.  
See accompanying notes.

**Table of Contents****SUN MICROSYSTEMS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(in millions, except for par value)

	March 30, 2008 (unaudited)	June 30, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,363	\$ 3,620
Short-term marketable debt securities	664	962
Accounts receivable (net of bad debt reserves of \$63 and \$81) <sup>(1)</sup>	2,405	2,964
Inventories	735	524
Deferred and prepaid tax assets	223	200
Prepaid expenses and other current assets, net	1,106	1,058
<b>Total current assets</b>	<b>7,496</b>	<b>9,328</b>
Property, plant and equipment (net of accumulated depreciation of \$3,364 and 3,573) <sup>(1)</sup>	1,584	1,533
Long-term marketable debt securities	774	1,360
Goodwill	3,288	2,514
Acquisition-related intangible assets, net	611	633
Other non-current assets, net	509	470
	<b>\$ 14,262</b>	<b>\$ 15,838</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,306	\$ 1,381
Accrued payroll-related liabilities	724	842
Accrued liabilities and other	1,128	961
Deferred revenues	1,979	2,047
Warranty reserve	204	220
<b>Total current liabilities</b>	<b>5,341</b>	<b>5,451</b>
Long-term debt	1,275	1,264
Long-term deferred revenues	627	659
Other non-current obligations	1,229	1,285
Stockholders' equity		
Preferred stock (\$0.001 par value, 10 shares authorized; no shares issued and outstanding)		
Common stock and additional paid-in-capital (\$0.001 par value <sup>(2)</sup> , 1,800 <sup>(2)</sup> shares authorized; issued and outstanding: 901 shares and 901 <sup>(2)</sup> shares) <sup>(1)</sup>	7,275	6,987
Treasury stock, at cost: (119 shares and 17 <sup>(2)</sup> shares) <sup>(1)</sup>	(2,381)	(311)
Retained earnings	404	189
Accumulated other comprehensive income	492	314
<b>Stockholders' equity</b>	<b>5,790</b>	<b>7,179</b>
	<b>\$ 14,262</b>	<b>\$ 15,838</b>

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- (1) As of March 30, 2008 and June 30, 2007, respectively.
- (2) Amounts have been restated to reflect the one-for-four reverse stock split effective November 12, 2007.  
See accompanying notes.

**Table of Contents****SUN MICROSYSTEMS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(unaudited, in millions)

	March 30, 2008	Nine Months Ended		April 1, 2007
<b>Cash flows from operating activities:</b>				
Net income	\$ 315			\$ 144
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization of acquisition-related intangible assets	224			239
Depreciation and amortization	354			388
Stock-based compensation expense	157			166
Purchased in-process research and development	25			
Gain on investments and other, net	(54)			
Impairment of long-lived assets				16
Deferred taxes	8			(20)
Changes in operating assets and liabilities:				
Accounts receivable, net	603			265
Inventories	(205)			(51)
Prepaid and other assets	(105)			(104)
Accounts payable	(114)			(222)
Other liabilities	31			(427)
<b>Net cash provided by operating activities</b>	<b>1,239</b>			<b>394</b>
<b>Cash flows from investing activities:</b>				
Decrease (increase) in restricted cash	22			(4)
Purchases of marketable debt securities	(1,292)			(2,465)
Proceeds from sales of marketable debt securities	1,404			1,041
Proceeds from maturities of marketable debt securities	764			523
Proceeds from sales of equity investments, net	25			8
Purchases of property, plant and equipment, net	(297)			(73)
Payments for acquisitions, net of cash acquired	(923)			(10)
<b>Net cash used in investing activities</b>	<b>(297)</b>			<b>(980)</b>
<b>Cash flows from financing activities:</b>				
Purchase of common stock call options				(228)
Sale of common stock warrant				145
Proceeds from exercise of options and ESPP purchases	121			176
Proceeds from issuance of convertible notes, net				
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	



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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

### *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 suppliers. 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 supplier relationships, we are able to build new supplier relationships and pursue additional supply agreements in existing and new markets.

8

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*Expand Our Service Offerings to Suppliers and Buyers*

Over the past several years, we have expanded our available service offerings to vehicle suppliers and buyers. The primary focus of these new remarketing service offerings is to maximize returns to our suppliers and maximize product value to our buyers. Recent service enhancements include, for our suppliers, real-time access to sales data over the Internet and, for our buyers, the implementation of VB2 real-time bidding at all of our North American facilities, permitting buyers at any location worldwide to participate in the sales at all of our yards in North America. We plan to continue to refine and expand our remarketing services, including offering software that can assist our suppliers in expediting claims and salvage management tools that help suppliers 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 salvage 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 131 facilities located in the United States, Canada and the United Kingdom as of July 31, 2007. We are able to offer integrated services to our vehicle suppliers, which allows us to respond to the needs of our suppliers and buyers with maximum efficiency. Our coverage provides our suppliers 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 salvage 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 salvage 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 salvage purchases;
- 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 salvage vehicle storage facilities. Since becoming a public company in 1994, we have completed the acquisition of 74 salvage 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 suppliers. We work with new suppliers 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 suppliers with online access to data and reports regarding their salvage vehicles being processed at any of our facilities. This technology allows vehicle suppliers 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 suppliers. 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 suppliers a full range of vehicle remarketing services, which expedite each stage of the salvage vehicle sales process, maximizing proceeds and minimizing costs. Not all service offerings are available in all markets.

### ***Online Supplier Access***

Through Copart Access, our Internet-based service for vehicle suppliers, we enable suppliers 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 suppliers in the vehicle claims evaluation process by providing online salvage value estimates, which helps suppliers determine whether to repair a particular vehicle or deem it a total loss.

### ***Estimating Services***

We offer vehicle suppliers in the UK estimating services for vehicles taken to our sites. Estimating services provide our insurance company suppliers repair estimates which allows 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 assigned to inventory.

### ***End-of-Life Vehicle Processing***

In the UK, Universal is 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 live virtual auction-style 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 suppliers' vehicles within 24 hours. Our national network and transportation capabilities provides cost and time savings to our vehicle suppliers 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 primarily utilizing our employees and our fleet of over 100 vehicles.

***Vehicle Inspection Stations***

We offer certain of our major insurance company suppliers 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 suppliers 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 suppliers with on-demand reports online, via fax or e-mail that summarize data on salvage vehicles that we process for the particular supplier. These reports track our vehicle suppliers' gross and net returns on each vehicle, service charges, and other data that enable our vehicle suppliers to more easily administer and monitor the salvage vehicle disposition process. In addition, we have developed a database containing over 240 fields of real-time and historical information accessible by our insurance customers 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. This allows us to expedite the processing of vehicle title paperwork.

***Flexible Vehicle Processing Programs***

At the election of the vehicle supplier, 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 suppliers. Under PIP, we agree to sell all of the salvage vehicles of a vehicle supplier 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 on salvage vehicles. We provide the vehicle supplier, at our expense, with transport of the vehicle to our nearest facility, storage for up to 90 days 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 salvage vehicles, thereby increasing the return on salvage vehicles to both vehicle suppliers 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 supplier 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 of salvage vehicles in the vehicle dismantling, rebuilding, repair, resale and exporting businesses. 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 second generation technology combines two bidding processes. An open Preliminary Bidding feature allows a buyer to enter bids either at a bidding station at the storage facility during the three 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 sales format. Buyers enter the maximum price they are willing to pay for a vehicle and our BID4U feature will incrementally bid the vehicle on their behalf. Preliminary bidding ends one hour prior to the start of an Internet-only virtual sale. BID4U will represent the high preliminary bidder at the Internet-only virtual sale. This feature allows bidders the opportunity to bid against each other and the high preliminary bidder. The bidders enter bids via the Internet in a real time format. 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.

#### ***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 supplier is identified for a specific part requirement, buyers have the option

to call, fax, or e-mail the dismantler/supplier. We believe that CoPartfinder provides an incentive for vehicle dismantlers to purchase their salvage vehicles through our sales process.

## **Supply Arrangements and Supplier Marketing**

We obtain salvage vehicles from hundreds of different vehicle suppliers. State Farm Insurance Company accounted for 11%, 14% and 12% of our revenues for fiscal years 2007, 2006 and 2005, respectively. Of the total number of vehicles that we processed in fiscal years 2007, 2006 and 2005, we obtained approximately 83%, 83% and 79%, respectively, from insurance company suppliers. Our arrangements with our suppliers 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 suppliers. The agreements are customized to each vehicle supplier'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 supplier in a designated geographic area.

We market our services to vehicle suppliers through an in-house sales force that utilizes a variety of sales techniques, including targeted mailing of our sales literature, telemarketing, follow-up personal sales calls, and participation in trade shows and vehicle and insurance industry conventions. Based upon our historical data on salvage vehicles and vehicle information supplied by vehicle suppliers, our marketing personnel will provide vehicle suppliers with detailed analysis of the net return on salvage vehicles and a proposal setting forth ways in which we believe that we can improve net returns on salvage vehicles and reduce administrative costs and expenses.

## **Buyers**

We maintain a database of thousands of registered buyers of salvage vehicles in the vehicle dismantling, rebuilding, repair, resale and export businesses. We believe that we have established a broad international and domestic buyer base by providing buyers of salvage vehicles 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 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 for the supply of salvage vehicles and for the buyers of those 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 suppliers 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.; Manheim Auctions and SADISCO. The largest national dismantlers include Greenleaf and LKQ Corporation. These national dismantlers, 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 sales companies entirely, including us. In the UK, our principal competitors are privately held independent salvage companies.

## 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 North American salvage 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.

The management information systems employed in the UK are a combination of proprietary and licensed software and are independent and separate from those in North America.

## Employees

As of July 31, 2007, we had 2,536 full-time employees, of whom approximately 381 were engaged in general and administrative functions and approximately 2,155 were engaged in yard operations. As of July 31, 2007, we had 2,198 and 338 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 TECQ 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. This sampling is anticipated to be performed in September or October, 2007. 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 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 September 16, 2005, Richard M. Gray filed suit against Copart of Connecticut, Inc. and A. Safrin, in the State Court for the County of Chatham, State of Georgia, alleging a class action for unreasonable amounts claimed for storage liens by us, and related claims. Relief sought includes class certification, damages, fees, costs and expenses. Our motion for summary judgment was heard on January 31, 2007 and was denied. We believe the claim is without merit, and are defending the lawsuit vigorously.

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

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

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.

### **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 Canada, Australia, China, the European Union, Mexico and Japan. 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.

**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 suppliers of salvage vehicles. The loss of one or more of these major suppliers 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 suppliers have accounted for a substantial portion of our revenues. In fiscal 2007, vehicles supplied by our largest supplier accounted for approximately 11% of our revenues. Supplier arrangements are either written or oral agreements typically subject to cancellation by either party upon 30 to 90 days notice. Vehicle suppliers 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 suppliers or that we will be able to retain our existing supply of salvage vehicles. A reduction in vehicles from a significant vehicle supplier or any material changes in the terms of an arrangement with a substantial vehicle supplier 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 United Kingdom acquisition of Universal Salvage plc on June 14, 2007 and our subsequent acquisition of Century Salvage Sales Limited on August 1, 2007 will 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 United Kingdom 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 announced the acquisition of Universal Salvage plc, or Universal, our first acquisition in the UK. Subsequently, in August 2007, we announced the acquisition of Century Salvage Sales Limited, or Century, also in the UK. We may 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 no experience operating our business outside North America, which presents numerous strategic, operating, 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. We may also incur substantial expenses establishing new yards or operations in the UK or Europe. Among other things, we intend to eventually deploy our VB2 vehicle remarketing technologies at all of our operations in the UK, where appropriate, 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 no 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 and Century have depended on key customer and supplier 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.

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 acquisition, because of its size and, also, because the UK operates primarily on the principal model versus the agency model employed in the US, will have a significant impact on the comparability of revenues, margins and margin percentages in future periods. Further operating on a principal basis will have a negative impact on our future consolidated gross margins.

**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. This exposes us to inventory risks including:**

- loss from theft or damage;
- loss from devaluation; and
- loss from obsolescence.

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

In fiscal 2004, we converted all our North American salvage sales from a live auction process to an entirely Internet-based auction-style model based on technology developed internally by us. The conversion represents a significant change in the way we conduct business and 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 United States, the Netherlands, and Europe, 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 North America salvage 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 our salvage yards beginning in the third quarter of fiscal 2004. 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 salvage yards could adversely affect our relationships with insurance companies or other suppliers of salvage vehicles.**

Capacity at our salvage yards 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 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 salvage yards 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 suppliers of salvage 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 suppliers 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.**

Significant 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 suppliers of salvage 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 suppliers, 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 suppliers, particularly in the UK, the absence of long-term contractual commitments between us and our suppliers 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 suppliers. 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 salvage vehicle remarketing 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 suppliers 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 salvage vehicle 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 other salvage vehicle facilities and the development of new salvage vehicle 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 salvage 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 suppliers;
- identify and acquire or lease suitable premises on competitive terms;
- secure adequate capital; and
- maintain the supply of vehicles from vehicle suppliers.

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;
- availability of subhauleders at competitive rates;
- acceptance of buyers and sellers of our Internet-based model deploying VB2, a proprietary Internet auction-style sales technology, including in the UK market where we still sell salvage vehicles using live auctions;
- 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 salvage storage facilities.

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 across our North American salvage operations has increased the relative importance of intellectual property rights to our business. Our intellectual property rights include pending patent applications for VB2 as well as trademarks, trade secrets, copyrights and other intellectual property rights. We are in the process of prosecuting an initial patent application relating to VB2 and cannot predict whether a patent will actually issue from that application. Even if a patent is issued, the scope of the protection gained may be insufficient or any issued patent could subsequently be deemed invalid or unenforceable. In addition, we are increasingly entering 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 affect 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.

**The operation of our storage facilities poses certain environmental risks, which could adversely affect 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. 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 use a fleet of company owned trucks 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 20% of our common stock as of July 31, 2007. 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.

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

Our executive officers and their ages as of July 31, 2007 were as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Willis J. Johnson	60	Chairman of the Board, Chief Executive Officer and Director
A. Jayson Adair	37	President and Director
James E. Meeks	57	Executive Vice President, Chief Operating Officer and Director
William E. Franklin	51	Senior Vice President and Chief Financial Officer
Paul A. Styer	51	Senior Vice President, General Counsel and Secretary
Vincent W. Mitz	44	Senior Vice President of Marketing
David L. Bauer	46	Senior Vice President of Information Technology and Chief Information Officer
Russell D. Lowy	48	Senior Vice President of Operations
Thomas E. Wylie	56	Senior Vice President of Human Resources
Robert H. Vannuccini	40	Vice President of National Accounts
Simon E. Rote	35	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.

**James E. Meeks has served as our Vice President and Chief Operating Officer since September 1992 when he joined us concurrent with our purchase of South Bay Salvage Pool, our San Martin operation. Mr. Meeks has served as our Executive Vice President and director since October 1996 and as Senior Vice President since April 1995. From April 1986 to September 1992, Mr. Meeks, together with his family, owned and operated the San Martin operation. Mr. Meeks was also an officer, director and part owner of Cas & Meeks, Inc., a towing and subhauling service company, which he operated from 1991 to March 2001. Mr. Meeks has over 30 years of experience in the vehicle dismantling business. Effective December 31, 2007, Mr. Meeks will retire. Effective August 1, 2007, Mr. Meeks relinquished his operational responsibilities as Chief Operating Officer but will remain with the Company in an advisory capacity until his retirement. Mr. Meeks will also continue as a member of our Board of Directors.**



**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 California State Bar Association.

**Vincent W. Mitz** has served as our Senior Vice President of Marketing since May 1995. 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. On August 1, 2007, Mr. Mitz relinquished the title and responsibilities of Senior Vice President of Marketing and assumed the title and responsibilities of Executive Vice President.

**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 Senior Vice President of Operations since July 2002. 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. On August 1, 2007, Mr. Lowy relinquished the title of Senior Vice President of Operations and assumed the title and responsibilities of Chief Operating Officer.

**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.

**Robert H. Vannuccini** was promoted to Senior Vice President of Marketing on August 1, 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.

**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 131 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, 2007, we owned or leased 7 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.

32

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**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 September 16, 2005, Richard M. Gray filed suit against Copart of Connecticut, Inc. and A. Safrin, in the State Court of the County of Chatham, State of Georgia, alleging a class action for unreasonable amounts claimed for storage liens by us, and related claims. Relief sought includes class certification, damages, fees, costs and expenses. Our motion for summary judgment was heard on January 31, 2007 and was denied. We believe the claim is without merit, and are defending the lawsuit vigorously.

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

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

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 2007 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, 2007, there were 88,333,677 shares outstanding. Our common stock has been quoted on the Nasdaq under the symbol "CPRT" since March 17, 1994. As of July 31, 2007, we had 1,561 shareholders of record.

<b>Fiscal Year 2007</b>	<b>High</b>	<b>Low</b>
Fourth Quarter	31.42	28.11
Third Quarter	30.45	27.36
Second Quarter	31.42	28.52
First Quarter	30.39	26.31
<b>Fiscal Year 2006</b>	<b>High</b>	<b>Low</b>
Fourth Quarter	27.92	23.51
Third Quarter	27.86	24.70
Second Quarter	25.80	21.14
First Quarter	25.50	22.00

**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.

**Stock Repurchase**

In February 2003, our Board of Directors authorized us to repurchase up to 9.0 million shares of our common stock. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the share repurchase program. The repurchases will be made at such times and in such amounts as we deem appropriate and may be discontinued at any time. 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. For the year ended July 31, 2005, we did not repurchase any shares. The total

number of shares repurchased under the program as of July 31, 2007 is 7,033,705 million, leaving 1,966,295 million available under the repurchase program.

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

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Maximum Number of Shares That May Yet Be Purchased Under the Program</b>
<i>Fiscal 2007</i>				
First Quarter				
Second Quarter				
Third Quarter				
Fourth Quarter	2,995,405	\$ 29.91	7,033,705	1,966,295
<i>Fiscal 2006</i>				
First Quarter				
Second Quarter	366,000	\$ 24.24	4,038,300	4,961,700
Third Quarter				
Fourth Quarter				

### Issuances of Unregistered Securities

There were no issuances of unregistered securities in the quarter ended July 31, 2007.

## 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.*

### **COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\***

**Among Copart, Inc., The NASDAQ Composite Index**

**And A Peer Group**

**Item 6. Selected Financial Data**

The following selected operating and balance sheet data, as of and for the years ended July 31, 2007, 2006, and 2005 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, 2004 and 2003 have been derived from audited and unaudited consolidated financial statements of the Company, respectively. 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.

	<b>Fiscal Year Ending July 31,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<b>(In 000s except per share and other data)</b>				
<b>Operating Data</b>					
Revenues	\$ 560,680	\$ 528,571	\$ 447,731	\$ 391,014	\$ 335,407
Operating Income	203,145	171,562	156,436	124,461	90,638
Income from continuing operations before income taxes	217,421	174,522	164,595	129,921	93,994
Income tax expense	(81,083 )	(61,862 )	(62,772 )	(50,929 )	(36,877 )
Income from continuing operations	136,338	112,660	101,823	78,992	57,117
Income (loss) from discontinued operations, net of income tax effects		(15,713 )	293	228	105
Net income	136,338	96,947	102,116	79,220	57,222
<b>Basic per share amounts:</b>					
Income from continuing operations	\$ 1.50	\$ 1.24	\$ 1.13	\$ 0.89	\$ 0.63
Discontinued operations	\$	\$ (0.17 )	\$	\$	\$
Net income per share	\$ 1.50	\$ 1.07	\$ 1.13	\$ 0.89	\$ 0.63
Weighted average shares	90,651	90,372	90,162	89,457	91,408
<b>Diluted per share amounts:</b>					
Income from continuing operations	\$ 1.46	\$ 1.21	\$ 1.10	\$ 0.87	\$ 0.62
Discontinued operations	\$	\$ (0.17 )	\$	\$	\$
Net income per share	\$ 1.46	\$ 1.04	\$ 1.10	\$ 0.87	\$ 0.62
Weighted average shares	93,455	92,925	92,984	91,537	93,018
<b>Balance Sheet Data</b>					
Cash, cash equivalents and short-term investments	\$ 200,990	\$ 275,315	\$ 252,548	\$ 178,320	\$ 116,746
Working capital	\$ 247,850	\$ 328,017	\$ 293,696	\$ 228,535	\$ 166,746
Total assets	\$ 1,005,344	\$ 894,705	\$ 793,528	\$ 673,023	\$ 587,100
Total debt	\$ 2,793	\$	\$	\$ 16	\$ 107
Shareholders' equity	\$ 880,866	\$ 809,970	\$ 709,379	\$ 602,263	\$ 525,640
<b>Other Data</b>					
Number of storage facilities	131	122	117	107	102

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

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

*This annual report on 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). 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 report 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 factors include those listed in Part I, Item 1A. Risk Factors beginning on page 19 of this annual report on Form 10-K and those discussed elsewhere in this annual report on 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 Securities and Exchange Commission (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 suppliers, primarily insurance companies, 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. In the United Kingdom, or UK, we sell salvage vehicles through a combination of live auctions and Internet bidding. We sell principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters. Salvage vehicles 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 suppliers 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 suppliers and vehicle buyers as well as related fees for services such as towing and storage. In the United Kingdom, we operate primarily on a principal basis,



purchasing the salvage vehicle outright from the insurance companies and reselling the vehicle for our own account to buyers through a combination of live auctions and Internet sales.

Our revenues consist of salvage fees charged to vehicle suppliers and vehicle buyers, transportation revenue and purchased vehicle revenues. Consignment revenues from suppliers 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). Salvage fees also include fees charged to vehicle buyers for purchasing vehicles, storage and annual registration. Transportation revenue includes charges to suppliers 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 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, we converted all of our North American vehicle remarketing facilities 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 action 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 sixteen vehicle storage facilities and established fourteen new facilities since the beginning of fiscal 2005. 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 suppliers, 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 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. In fiscal 2005 we acquired new facilities in or near Lexington, Kentucky and Columbia, Missouri and opened new facilities in Strongsville, Ohio; Ocala, Florida; Knoxville, Tennessee; Loganville, Georgia; Spokane, Washington; Tallahassee, Florida and Hialeah, Florida. We believe that these acquisitions and openings strengthen our coverage as we have 131 facilities located in North America and the United Kingdom and are able to provide national coverage for our suppliers.

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 marks our first acquisition outside North America and includes 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 salvage vehicle storage facilities in key markets, (ii) pursuing national and regional vehicle supply agreements, (iii) expanding our service offerings to suppliers 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 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 \$560,680 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, 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 acquisition.

**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 gross margin percentage by geographic region (in thousands, except percentages):

	2007		2006	
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 of \$5.7 million an increase of \$1.2 million over fiscal 2006. Also included are \$2.2 million in general and administrative costs, other than depreciation attributable to the UK operations. Finally the remaining increase was 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. Of the increase in general and administrative expense, \$3.0 million was attributable to general and administrative expenses incurred in the UK. General and administrative expenses in the UK include amortization expense relating to the Universal acquisition.

The following sets forth information on general and administrative expenses and shown as a percentage of revenue by geographic region (in thousands except percentages):

	2007		2006	
		Percentage of Revenue		Percentage of Revenue
North America	\$ 60,645	11.1 %	\$ 58,986	11.2 %
United Kingdom	2,992	20.2 %		
	\$ 63,637	11.3 %	\$ 58,986	11.2 %

**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.

*Fiscal 2006 Compared to Fiscal 2005*

**Revenues.** Revenues from continuing operations were approximately \$528.6 million during fiscal 2006, an increase of approximately \$80.8 million, or 18.1%, over fiscal 2005. The increase was due primarily to increased vehicle unit volume driven by the additional salvage vehicles associated with hurricanes Katrina and Rita, growth in vehicles processed at existing yards and vehicles processed from new yards opened or acquired in fiscal 2006. Existing facilities contributed approximately \$71.3 million of the revenue growth and new facilities in or near Honolulu, Hawaii; Greenwood, Nebraska; Grand Island, Nebraska; York Haven, Pennsylvania; Chambersburg, Pennsylvania; Altoona, Pennsylvania; Fruitland, Maryland; Lansing, Michigan and Billings, Montana contributed approximately \$9.5 million of new revenue growth.

**Yard Operation Expenses.** Yard operation expenses from continuing operations were approximately \$298.0 million during fiscal 2006, an increase of approximately \$52.4 million, or 21.3%, over fiscal 2005. Included in yard expenses is depreciation expense of \$26.9 million, an increase of \$0.3 million over fiscal 2005. Yard operation expenses increased to 56.4% of revenues during fiscal 2006, as compared to 54.9% of revenues during fiscal 2005. The increases in yard expenses were primarily attributable to the cost of handling increased volume, a general increase in subhauling costs and the incremental abnormal costs incurred as a result of hurricanes Katrina and Rita. These additional inventory-type costs were approximately \$14.1 million in fiscal 2006 and were charged to yard operations in accordance with SFAS 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. At the end of fiscal 2006, approximately 28% of the incremental salvage vehicles received as a result of the hurricanes remained unsold and in inventory and were subsequently disposed of in fiscal 2007. The processing of the hurricane vehicles has had and may continue to have a negative impact on gross and operating margin percentages.

**General and Administrative.** General and administrative expenses from continuing operations were approximately \$59.0 million during fiscal 2006, an increase of approximately \$13.4 million, or 29.3%, over

fiscal 2005. The increase was primarily due to increases in telecommunication costs, information technology payroll costs, costs relating to Sarbanes-Oxley compliance, SFAS 123(R) stock compensation costs and outside legal expense associated with a patent litigation matter that was settled during fiscal 2006 and other pending litigation and general corporate expansion. General and administrative expenses increased to 11.2% of revenues during fiscal 2006, as compared to 10.2% of revenues during fiscal 2005. The increase in general and administrative expenses as a percentage of total revenues reflects in part changes in the nature of our business. In particular, the introduction of VB2 resulted in a reduction in certain yard operation expenses relating to conducting live auctions but increased our general and administrative expenses as we continued to make technology infrastructure investments and hire additional personnel to enhance and maintain VB2 and other products for use in our auctions.

**Other income.** Total other income was approximately \$3.0 million during fiscal 2006, a decrease of approximately \$5.2 million, from fiscal 2005. The decrease was due primarily to a \$6.8 million loss recognized from an equity investment in an unconsolidated privately-held entity. This loss was offset by an increase in interest income of approximately \$3.3 million due to higher interest rates and a higher average cash and investments balance. Other income, which consists primarily of rental income and gain on the sales of non-fleet assets, decreased approximately \$1.7 million, resulting from losses on disposals of fixed assets.

**Income Taxes.** Our effective combined federal, state and local income tax rates for fiscal 2006 and 2005 was approximately 35.4% and 38.1%, respectively. The decrease in effective tax rate is primarily the result of recording a non-recurring \$1.8 million out-of-period reduction to deferred tax liabilities and income tax expense originating primarily in 2001 and adjustments to our state tax reserves based on the favorable outcome of an audit.

**Discontinued Operations.** During the second quarter of fiscal 2006, we adopted a formal plan to discontinue the operations of our public auction business 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 as of the second quarter of 2006. We used a combination of valuation techniques, which included consideration of market-based approaches and an income approach, in determining the fair value of our applicable reporting unit in the interim impairment test of goodwill.

In fiscal 2006, 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. We also determined that the value of the remaining MAG covenants not to compete were impaired and recorded an

impairment expense 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, we sold the business and related assets of one of the MAG locations for approximately \$0.1 million. During the third quarter of fiscal 2006, we sold the business and related assets including the real estate of one of the MAG locations. We received a \$12 million promissory note from the buyer as purchase consideration. 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 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. We 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. We 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, we sold the business and related assets excluding the real estate of another MAG location. We received a \$1.2 million promissory note and \$0.2 million in cash from the buyer as purchase consideration. We 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.

**Net Income.** Due to the foregoing factors, we realized net income of approximately \$96.9 million for fiscal 2006, compared to net income of approximately \$102.1 million for fiscal 2005.

## **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 \$74.3 million from July 31, 2006 to July 31, 2007, primarily as a result of cash used for the acquisition of Universal, 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.

As of July 31, 2007, we had working capital of approximately \$247.9 million, including cash, cash equivalents and short-term investments of approximately \$201.0 million. During the course of the year, we invest substantially all of our cash balances in AAA rated auction rate securities. Auction rate securities are principally variable rate securities tied to short-term interest rates with maturities on the face of the securities in excess of 90 days. 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 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.

We believe that our currently available cash, cash equivalents and short-term investments and cash generated from operations 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 \$40.1 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.

Net cash provided by operating activities increased by approximately \$20.9 million to \$136.0 million during fiscal 2005 when compared to fiscal 2004, primarily due to the increase in net income, which was offset in part to the timing of routine changes in working capital items.

#### ***Investing Activities***

During the fiscal years ended July 31, 2007, 2006 and 2005, we purchased approximately \$921.8 million, \$717.1 million and \$755.4 million, respectively of short-term investments, which were offset by the sale of \$967.9 million, \$568.4 million, \$928.0 million, respectively of short-term investments. We typically invest our cash in auction rate notes with ratings of AAA.

Capital expenditures related to continuing operations (excluding those associated with property and equipment attributable to acquisitions) were approximately \$76.8 million, \$97.0 million and \$66.2 million for fiscal 2007, 2006 and 2005, respectively. Our capital expenditures are primarily related to opening and improving facilities and acquiring yard equipment.



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. During the fiscal year ended July 31, 2005, we used cash for the acquisition of operations in Lexington, Kentucky and Columbia, Missouri, which had an aggregate cash cost of approximately \$4.5 million.

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 have 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.

#### ***Financing Activities***

In fiscal 2007, 2006 and 2005, we generated approximately \$10.9 million, \$5.4 million and \$1.8 million, respectively, through the exercise of stock options.

In fiscal 2007, 2006 and 2005, we generated approximately \$1.5 million, \$1.6 million and \$1.4 million, respectively, through the issuance of shares under the employee stock purchase program.

In February 2003, our Board of Directors authorized us to repurchase up to 9.0 million shares of our common stock. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the share

repurchase program. The repurchases will be made at such times and in such amounts as we deem appropriate and may be discontinued at any time. 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. No shares were repurchased in fiscal 2005. We accounted for the repurchase of our common stock in the years ended July 31, 2007 and 2006 by reducing common stock by \$89.6 million and \$8.9 million, respectively. During the period from February 2003 through July 31, 2007, we repurchased a total of 7,033,705 shares at a weighted average price of \$18.41.

### **Contractual Obligations**

The following table summarizes our significant contractual obligations and commercial commitments as of July 31, 2007 (in thousands):

#### **Payments Due By Period**

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More than 5 Years</b>
Operating leases(1)	\$ 118,365	\$ 20,330	\$ 34,206	\$ 25,931	\$ 37,898
Capital leases(1)	3,588	635	1,270	898	785
Pending acquisition of Century Salvage(2)	9,148	9,148			
Total contractual obligations	\$ 131,101	\$ 30,113	\$ 35,476	\$ 26,829	\$ 38,683

#### **Amount of Commitment Expiration Per Period**

<b>Commercial Commitments(3)</b>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More than 5 Years</b>
Letters of credit	\$ 11,763	\$ 11,559	\$ 204		

- (1) Contractual obligations consist of future non-cancelable minimum lease payments under capital and operating leases, used in the normal course of business.
- (2) On July 20, 2007, we entered into a definitive agreement to acquire Century Salvage Sales Limited, a vehicle salvage disposal company with three facilities located in the United Kingdom. The transaction closed on August 1, 2007.
- (3) Commercial commitments include primarily letters of credit provided for insurance programs and certain business transactions.

### ***Credit Facilities***

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

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

### **Off-Balance Sheet Arrangements**

As of July 31, 2007, 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 annual report on Form 10-K. Our significant accounting policies are described in Note 1 to our consolidated financial statements for fiscal 2007. 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 and 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 suppliers or buyers and the inability of our suppliers or buyers to make required payments. If billing disputes exceed expectations and/or if the financial condition of our suppliers 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 required to estimate income tax provisions and amounts ultimately payable or recoverable in numerous jurisdictions. Such estimates involve significant interpretations of regulations and are inherently very complex. Resolution of income tax treatments in individual jurisdictions may not be known for many years after completion of any fiscal year.

We evaluate the realizability of our deferred tax assets on an ongoing basis. U.S. generally accepted accounting principles require the assessment of our performance and other relevant factors when determining the need for a valuation allowance with respect to these deferred tax assets. Our ability to realize deferred tax assets is dependent on the Company's ability to generate future taxable income. Accordingly, we have established a valuation allowance when, in certain taxable jurisdictions, the utilization of the tax asset is uncertain. Additional timing differences, future earning trends and/or tax strategies may occur which could warrant a need for establishing an additional valuation allowance or a reserve.

### **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 a 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) 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, 2007, our cash, cash equivalents and short-term investments consisted primarily of funds invested in money market accounts, which bear interest at a variable rate and AAA rated auction rate securities, which also bear interest at a variable rate. Due to the average maturity and nature of the Company's investment portfolio, we believe a sudden change in interest rates would not have a material effect on the value of our investment portfolio. As the interest rates on a material portion of our cash, cash equivalents and short-term investments 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 risks relates to our operations in Canada and the UK. 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 annual report on 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 annual report on 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 annual report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the U.S. 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 annual report on 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 annual report on 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, 2007, 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). We have excluded one acquisition, Universal Salvage, or Universal, which we made in June 2007 from the scope of management's evaluation, as the late timing of this acquisition made it impracticable to conduct a meaningful evaluation of the acquired business' internal control over financial reporting before the end of the fiscal year. Universal constituted \$162.0 million and \$124.7 million of total and net assets, respectively, as of July 31, 2007 and \$14.8 million and \$1.0 million of revenues and net income, respectively, for the year then ended. Notwithstanding the exclusion of Universal from our assessment, there was no material change to our internal control over financial reporting due to the acquisition pursuant to Rule 15d-15 of the Exchange Act. Our assessment on internal control over financial reporting for fiscal year 2008 will include Universal. 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, 2007. Ernst & Young LLP has issued an attestation report which appears on the following page of this annual report on 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, 2007, 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.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Universal Salvage, which is included in the July 31, 2007 consolidated financial statements of Copart, Inc. and constituted \$162.0 million and \$124.7 million of total and net assets, respectively, as of July 31, 2007 and \$14.8 million and \$1.0 million of revenues and net income, respectively.

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for the year then ended. Our audit of internal control over financial reporting of Copart, Inc. also did not include an evaluation of the internal control over financial reporting of Universal Salvage.

In our opinion, Copart, Inc. maintained, in all material respects, effective internal control over financial reporting as of July 31, 2007 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, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the two years in the period ended July 31, 2007 of Copart, Inc. and our report dated September 25, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Sacramento, California  
September 25, 2007

56

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## **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, Inc. 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 2007 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 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 annual report on 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 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.

#### **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 Certain 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 Auditors in the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

	Page
(a) 1. <b>Financial Statements: Index to Consolidated Financial Statements</b>	
<u>Reports of Independent Registered Public Accounting Firms</u>	65
<u>Consolidated Balance Sheets at July 31, 2007 and 2006</u>	67
<u>Consolidated Statements of Income for the three years ended July 31, 2007, 2006 and 2005</u>	68
<u>Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended July 31, 2007, 2006 and 2005</u>	69
<u>Consolidated Statements of Cash Flows for the years ended July 31, 2007, 2006 and 2005</u>	70
<u>Notes to Consolidated Financial Statements</u>	71
2. <b>Financial Statement Schedules:</b> All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.	
3. <b>Exhibits: The following Exhibits are filed as part of, or incorporated by reference into this report.</b>	

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)
60	

10.7	Standard Industrial/Commercial single-tenant lease-net dated as of December 23, 1998 between Wickland Oil Martinez and the registrant(7)
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	Credit Agreement among the registrant and Wells Fargo Bank, National Association, U.S. Bank, National Association and Fleet National Bank and Wells Fargo Bank, National Association, as Administrative Agent and Lead Arranger and Fleet National Bank, as Syndication Agent, dated February 23, 2001(5)
10.12	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)
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(9)
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
23.2	Consent of KPMG LLP, Independent Registered Public Accounting Firm
24.1	Power of Attorney (included on page 64)
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

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- (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.
- (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.

\* Denotes a compensation plan in which an executive officer participates

(b) Exhibits. See response to Item 15(a)(3) above.

(c) Financial Statement Schedule. See response to Item 15(a)(2) above.

62

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**SIGNATURES**

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

Registrant  
COPART, INC.  
By:

/s/ WILLIS J. JOHNSON  
Willis J. Johnson  
*Chief Executive Officer*

September 28, 2007

COPART, INC.  
By:

/s/ WILLIAM E. FRANKLIN  
William E. Franklin  
*Chief Financial Officer*

September 28, 2007

**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, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Capacity in Which Signed</b>	<b>Date</b>
/s/ WILLIS J. JOHNSON Willis J. Johnson	Chief Executive Officer (Principal Executive Officer and Director)	September 28, 2007
/s/ WILLIAM E. FRANKLIN William E. Franklin	Senior Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	September 28, 2007
/s/ A. JAYSON ADAIR A. Jayson Adair	President and Director	September 28, 2007
/s/ JAMES E. MEEKS James E. Meeks	Executive Vice President, Chief Operating Officer and Director	September 28, 2007
/s/ STEVEN D. COHAN Steven D. Cohan	Director	September 28, 2007
/S/ DANIEL ENGLANDER Daniel Englander	Director	September 28, 2007
/s/ BARRY ROSENSTEIN Barry Rosenstein	Director	September 28, 2007
/s/ THOMAS W. SMITH Thomas W. Smith	Director	September 28, 2007

**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, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the two years in the period ended July 31, 2007. 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, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the two years in the period ended July 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the Consolidated Financial Statements, effective August 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Copart, Inc.'s internal control over financial reporting as of July 31, 2007, 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, 2007 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Sacramento, California  
September 25, 2007

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Copart, Inc.

We have audited the accompanying consolidated statements of income, shareholders' equity and comprehensive income, and cash flows of Copart, Inc. and subsidiaries for the year ended July 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of Copart, Inc. and subsidiaries for the year ended July 31, 2005, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

San Francisco, California

October 14, 2005, except as to footnote 3 as it relates to the year ended July 31, 2005, which is as of October 30, 2006

66

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**COPART, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share amounts)

	July 31, 2007	July 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 98,365	\$ 126,590
Short-term investments	102,625	148,725
Accounts receivable, net	109,895	99,959
Vehicle pooling costs	28,842	28,177
Inventories	5,999	971
Income taxes receivable	3,208	2,064
Prepaid expenses and other assets	5,518	4,864
Total current assets	354,452	411,350
Restricted cash and investments	9,148	
Property and equipment, net	420,664	341,943
Intangibles, net	27,442	1,874
Goodwill	161,645	112,291
Deferred income taxes	7,785	5,137
Land purchase options and other assets	24,208	22,110
Total assets	\$ 1,005,344	\$ 894,705
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 85,082	\$ 60,770
Deferred revenue	13,897	15,372
Income taxes payable	3,930	
Deferred income taxes	3,219	7,191
Other current liabilities	474	
Total current liabilities	106,602	83,333
Deferred income taxes	13,998	
Other liabilities	3,878	1,402
Total liabilities	124,478	84,735
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value 180,000,000 shares authorized; 88,333,677 and 90,445,208 shares issued and outstanding at July 31, 2007 and 2006, respectively	206,126	276,052
Accumulated other comprehensive income (loss)	4,447	(37)
Retained earnings	670,293	533,955
Total shareholders' equity	880,866	809,970
Total liabilities and shareholders' equity	\$ 1,005,344	\$ 894,705

**COPART, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share amounts)

	<b>Years Ended July 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Revenues	\$ 560,680	\$ 528,571	\$ 447,731
Operating costs and expenses:			
Yard operations	293,898	298,023	245,666
General and administrative	63,637	58,986	45,629
Total operating expenses	357,535	357,009	291,295
Operating income	203,145	171,562	156,436
Other income (expense):			
Interest expense	(83 )	(72 )	(62 )
Interest income	13,727	8,182	4,908
Other income, net	2,848	1,634	3,313
Equity in losses of unconsolidated entity	(2,216 )	(6,784 )	
Total other income	14,276	2,960	8,159
Income from continuing operations before income taxes	217,421	174,522	164,595
Income taxes	81,083	61,862	62,772
Income from continuing operations	136,338	112,660	101,823
Discontinued operations:			
Income (loss) from discontinued operations, net of income tax effects		(15,713 )	293
Net income	\$ 136,338	\$ 96,947	\$ 102,116
Earnings per share - basic			
Income from continuing operations	\$ 1.50	\$ 1.24	\$ 1.13
Income (loss) from discontinued operations		(0.17 )	
Basic net income per share	\$ 1.50	\$ 1.07	\$ 1.13
Weighted average common shares outstanding	90,651	90,372	90,162
Earnings per share - diluted			
Income from continuing operations	\$ 1.46	\$ 1.21	\$ 1.10
Income (loss) from discontinued operations		(0.17 )	
Diluted net income per share	\$ 1.46	\$	