2017

ANNUAL REPORT

A Comprehensive Financial Year in Review

When Disaster Strikes,

THE COPART CAT TEAM RESPONDS

For years, Copart has helped various communities rebuild in the face of natural disaster, and continues to respond to the call time after time. When hurricanes, hail storms, tornadoes or floods hit, Copart's Special Operations Catastrophe Response Team (CAT Team) is ready to deploy.

When Hurricane Harvey and Hurricane Irma devastated the Gulf Coast of Texas and Florida, the Special Ops Team immediately hit the ground running to help relieve the affected communities.

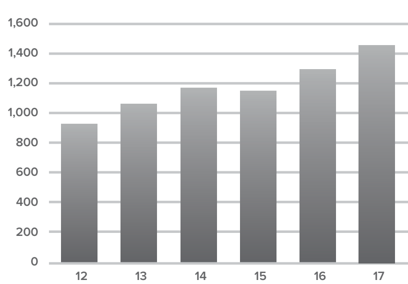
Pictured Above: Copart intakes vehicles affected by the flood devastation at Royal Purple Speedway in Baytown, TX.

2017 HIGHLIGHTS

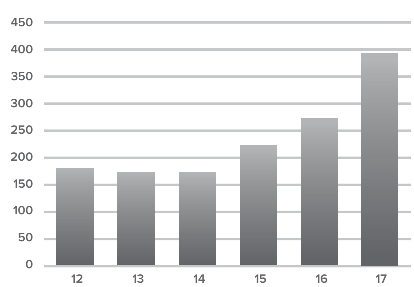
(In thousands, except per share amounts)

	As of July 31,					
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
OPERATING RESULTS ($)						
Revenue	924,191	1,046,386	1,163,489	1,146,079	1,268,449	**1,447,981**
Operating Income	286,353	282,992	274,934	344,401	406,470	**461,299**
EBITDA	334,520	339,720	357,764	393,294	455,045	**537,664**
Income Before Taxes	278,056	276,872	270,035	332,069	395,865	**440,100**
Net Income	182,119	180,025	178,687	219,783	270,360	**394,261**
Basic Net Income Per Common Share	0.71	0.72	0.71	0.87	1.18	**1.72**
Basic Weighted Average Shares	256,240	249,824	251,387	251,829	228,846	**228,686**
Diluted Net Income Per Common Share	0.69	0.69	0.68	0.84	1.11	**1.66**
Diluted Weighted Average Shares	262,856	259,562	262,459	262,851	244,295	**237,019**
BALANCE SHEET DATA ($)						
Cash and Cash Equivalents	140,112	63,631	158,668	456,012	155,849	**210,100**
Working Capital	134,908	67,893	168,007	521,456	220,523	**285,108**
Total Assets	1,155,648	1,333,316	1,506,121	1,798,660	1,649,820	**1,982,501**
Total Debt	442,472	371,292	302,218	644,514	640,492	**633,038**
Stockholders' Equity	561,117	762,401	1,003,499	964,464	774,456	**1,098,600**

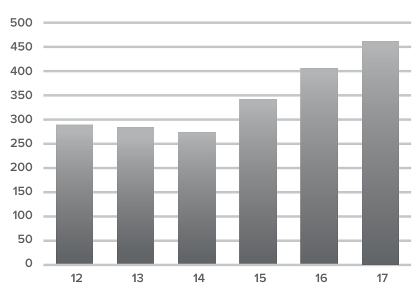
REVENUE (in millions)



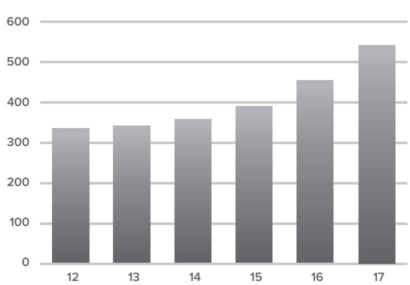
NET INCOME (in millions)



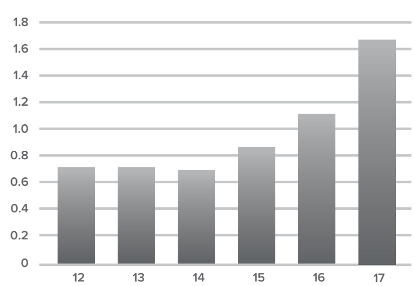
OPERATING INCOME (in millions)



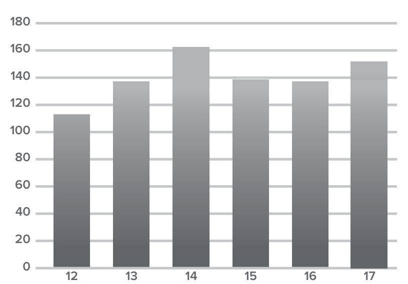
EBITDA (in millions)



DILUTED EPS (in dollars)



G&A EXPENSES (in millions)



DEAR STOCKHOLDERS

Copart's Fiscal Year 2017 (FY2017) has given us much to celebrate. We commemorated our 35th anniversary as a company by reflecting on our journey from a humble start as a single-location sealed-bid auction house to our position today as the preeminent global online vehicle marketplace and logistics network serving customers across four continents. We raised a pint to our team in the United Kingdom to celebrate our 10-year anniversary overseas. And across the company, our extraordinary people provided excellent service to our customers in yet another demanding, high-growth year. And as always at Copart, we celebrate our people and our successes, but we focus our energy moving forward. In FY2017, we continued to invest aggressively in our future growth – executing our 20/20/20 initiative to expand capacity substantially, launching new technology to enhance our customer and member experiences, and deploying people and resources in new markets like Germany.

Our industry experienced another year of strong growth. We continued to benefit from a stable economy, reasonable fuel prices, robust driving activity, and rising total loss frequency caused both by older cars which are more prone to total loss given their lower intact values, as well as by newer cars which are increasingly expensive to repair given emerging technologies. We believe these trends to be persistent ones, particularly the increased utilization of new vehicle technology such as perimeter cameras and sensors, radar and LIDAR, and composite and aluminum materials for safety and fuel efficiency, which will in turn drive increased repair costs and higher total loss frequency.

Rising demand for our services of course requires increasing capacity. Over our 35 years in business, we have consistently prioritized land acquisition and development. We believe that owning large parcels of land in major metropolitan markets across our network is instrumental to our value proposition to our customers.

In the past five years alone, our physical inventory has approximately doubled. We opened 12 new yards in FY2017. Excluding acquisitions, our capital expenditures in FY2017 were three times our 10-year average, a reflection of our commitment to capacity growth and technology. We now operate in over 200 yards worldwide with more than 9,000 acres under our control.

We experienced 5 catastrophic events in FY2017, and a number of other severe weather events that fell just shy of our CAT thresholds. These events create a strain on resources – land, people, logistics, and technology. We take great pride in serving our customers best when circumstances have reached the worst, and in FY2017 our CAT Team did just that. We also took steps to better prepare ourselves and our customers against catastrophic weather events in the future, including the acquisition and development of catastrophic "mega-yards," 100+ acre facilities positioned strategically in storm-intensive areas. And of course, just after our fiscal year end, our nation faced the devastation wrought by Hurricanes Harvey and Irma. We are working tirelessly to serve our customers and to aid in the recovery of the communities in which we live and work.

In FY2017, we continued to invest in our member network as well. As a reflection of the value we deliver to our members, our Premier members—who pay an annual fee for certain additional benefits—have more than doubled in the past five years, while our international Premier members have nearly tripled over that same time frame. Our online bidding platform, coupled with our strong data and image hosting capabilities, enables members from all over the world to bid on a level playing field for our vehicles, with members from over 100 countries purchasing vehicles from our US auctions this year. In fact, for the typical Copart auction at a US facility, 50 of every 100 vehicles are sold outside of the

state in which the auction is held, of which 20 are sold outside the US altogether. Although our vehicle towing, storage, and titling operations are local in nature, our auction platform is truly global, accessing a buyer base all over the world. The global scope of our business enables us to deliver superior product availability to our members, and superior realized values to our customers.

We view technology as central to what we do. In addition to land, our technology portfolio – including internal operational modules for dispatch, titling, inventory management and the like, as well as customer and member-facing applications – enables us to provide excellent service and scale our business profitably. For example, we have invested substantially in our member applications, doubling the share of vehicles purchased from a mobile device in just two years. We also opened the Copart India Technology Center, where we can access world class talent to provide round-the-clock support to our technology efforts.

As noted above, 2017 also marked our 10-year anniversary in the United Kingdom. Despite major geopolitical disruptions such as the Brexit event just before the beginning of fiscal 2017, we grew our business and our earnings to record levels, while again reinvesting in future growth. We knew ten years ago that we were embarking on a new adventure – a UK market with its own customers, a different principal-oriented manner of salvaging cars and a different regulatory backdrop. Today, our international business – led by our UK operations – is successful and profitable, and a critical aspect of our identity.

Germany represents the next geographic frontier for us, as the gateway to the rest of Western Europe. We have proven that the traditional Copart model as deployed in the US and in the UK yields better economic outcomes than the alternatives commonly available in Germany.

Historically, the Copart model has not been available in Western Europe, but through our robust investment in our auction offering as well as our systems platform, we believe that we can finally offer a commercially compelling solution to insurance companies.

We acquired two businesses in FY2017 – National Powersports Auctions and Bright Excavation – that at first glance appear to be strategic extensions beyond our core. The reality is more complex. In NPA, we invested in a compelling industry-leading auction business with an exceptional leadership team and strong market position, but also a set of capabilities that will enhance Copart's value proposition to our insurance customers. In Bright Excavation, we acquired valuable construction assets that we will fully utilize for years to come, but much more importantly, a strong team who will enable us to more efficiently manage our land development efforts, which comprise the majority of our capital expenditures.

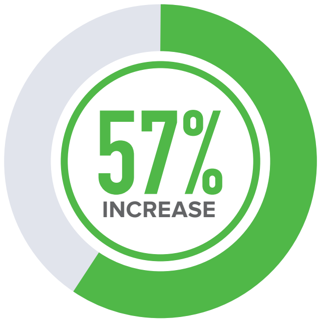
2017 was a remarkable year of growth for Copart. We worked hard to serve our customers today, and we invested aggressively to enable us to do so tomorrow. The byproduct of these efforts was another record financial year as well with all-time high revenues and income. Onwards to 2018 and beyond.

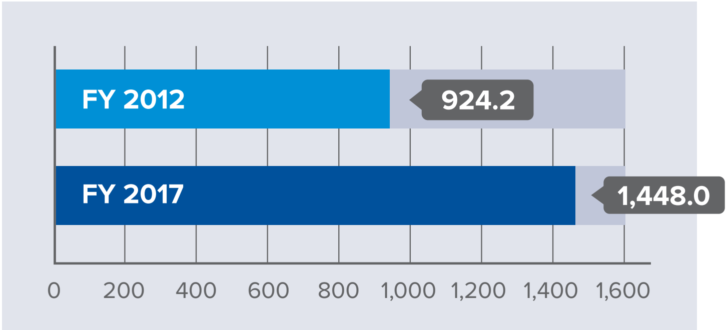
Sincerely,

A. Jayson Adair
Chief Executive Officer

STRONG FINANCIAL PERFORMANCE

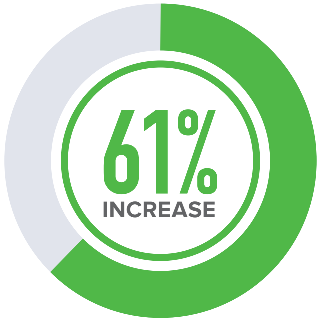
REVENUE

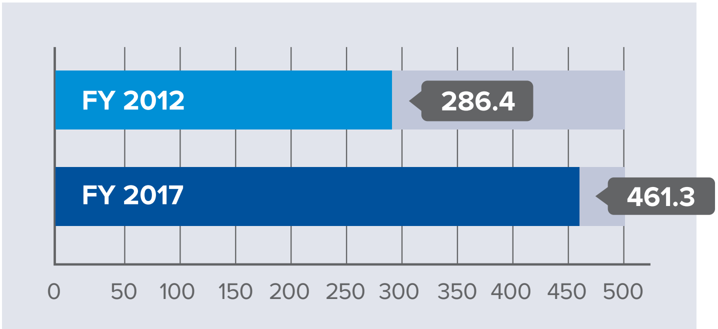




(in millions)

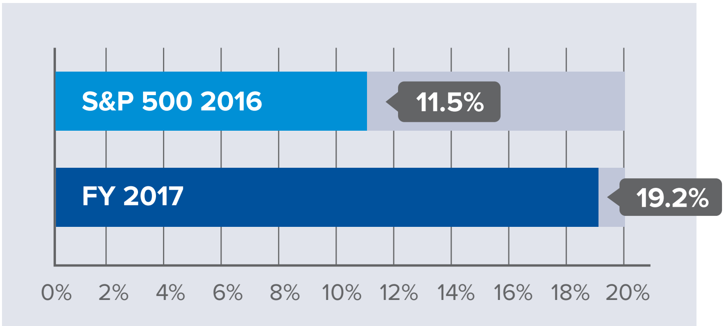
OPERATING INCOME





(in millions)

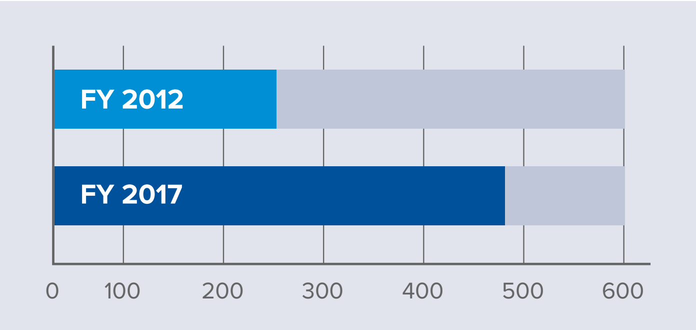
RETURN ON INVESTED CAPITAL (ROIC)



Sourced from S&P Capital IQ

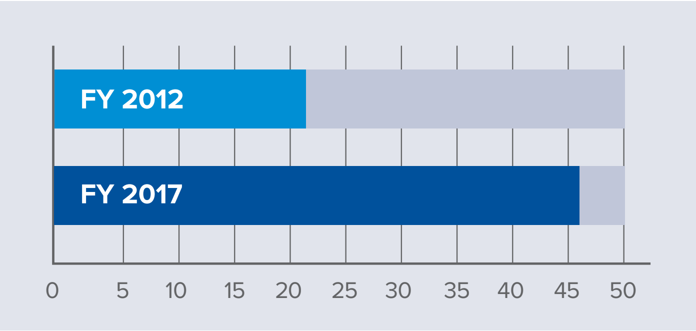
DRIVING COPART'S ONGOING GROWTH

INVENTORY



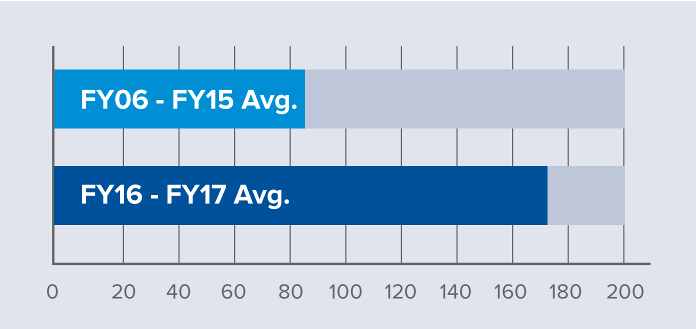
(in thousands)

PREMIER MEMBERS



(in thousands)

INVESTMENTS (EX-ACQUISITIONS)



(in millions)

GLOBAL LEADER IN ONLINE AUCTIONS

With more than 200 locations worldwide, Copart's innovative technology and online auction platform links buyers and sellers around the world.


any
India
Middle East

COPART CELEBRATES 35 YEARS 1982 - 2017

Celebrating 35 Years of Service, Commitment and Innovation

1982
First location opens in Vallejo, California.

1982-1993
Copart opens 11 locations in Northern California, Texas and the Pacific Northwest.

1994
Copart goes Public.

1996
Copart.com launches.

1998-2001
First to accept proxy bids for online bidding, first to put images online, and first to launch hybrid auction model.

2003
Copart expands to 100 locations, opens its first yard in Canada, and is the first to launch completely online auction model.

2007
Copart expands to the United Kingdom.

2008
Copart opens website to the public.

2009
Copart becomes NASCAR Sponsor.

2010
Member base grows to more than 400,000.

2012
Copart expands international presence to UAE, Brazil and Germany.

2013
Copart has 750,000 Members in over 170 countries and launches industry's FIRST iPad App.

2015
Copart expands international presence to Bahrain and the Sultanate of Oman.

2016
Copart opens first retail-auction-entertainment experience with CrashedToys of Dallas.

2017
Copart opens the company's landmark 200th location in California–the state where it all began.

2017
Copart celebrates 35 years of service, commitment and innovation.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended July 31, 2017

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: 000-23255

COPART, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-2867490** (I.R.S. Employer Identification Number)
14185 Dallas Parkway, Suite 300, Dallas, Texas (Address of principal executive offices)	**75254** (Zip Code)

Registrant's telephone number, including area code

(972) 391-5000

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

Title of Each Class	Name of each exchange on which registered
Common Stock, $0.0001 par value	The NASDAQ Global Select Market

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

Large accelerated filer	☒		Accelerated filer	☐
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐
			Emerging growth company	☐

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

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

The aggregate market value of the voting and non-voting Common Stock held by non-affiliates of the registrant as of January 31, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) was $5,644,908,664 based upon the closing sales price reported for such date on the NASDAQ Global Select Market. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

As of September 26, 2017, 230,773,342 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our definitive Proxy Statement for the 2017 Annual Meeting of Stockholders, also referred to in this Annual Report on Form 10-K as our Proxy Statement, which will be filed with the Securities and Exchange Commission, or SEC, pursuant to Regulation 14A within 120 days after the registrant's fiscal year end of July 31, 2017, have been incorporated by reference in Part III hereof. Except with respect to the information specifically incorporated by reference, the Proxy Statement is not deemed to be filed as a part hereof.

Copart, Inc.

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For the Fiscal Year Ended July 31, 2017

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PART I

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the fiscal year ended July 31, 2017, or this Form 10-K, including the information incorporated by reference herein, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements other than statements of historical facts are statements that could be deemed forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "intend," " forecast," "anticipate," "believe," "estimate," "predict," "potential," "continue" or the negative of these terms or other comparable terminology. The forward-looking statements contained in this Form 10-K involve known and unknown risks, uncertainties and situations that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These forward-looking statements are made in reliance upon the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These factors include those listed in Part I, Item 1A under the caption entitled "Risk Factors" in this Form 10-K and those discussed elsewhere in this Form 10-K. Unless the context otherwise requires, references in this Form 10-K to "Copart," the "Company," "we," "us," or "our" refer to Copart, Inc. We encourage investors to review these factors carefully together with the other matters referred to herein, as well as in the other documents we file with the Securities and Exchange Commission (the SEC). We may from time to time make additional written and oral forward-looking statements, including statements contained in our filings with the SEC. We do not undertake to update any forward-looking statement that may be made from time to time by or on behalf of us.

Although we believe that, based on information currently available to us and our 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.

Item 1. *Business*

Corporate Information

We were incorporated in California in 1982, became a public company in 1994 and reincorporated into Delaware in January 2012. Our principal executive offices are located at 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254 and our telephone number at that address is (972) 391-5000. Our website is *www.copart.com*. The contents of our website are not incorporated by reference into this Form 10-K. We provide free of charge through a link on our website access to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as amendments to those reports, as soon as reasonably practical after the reports are electronically filed with, or furnished to, the SEC.

Copart™, VB^{2}™, BID4U™, CI & Design™, Cars with Heart™, 1-800 CAR BUYER™, VB3™ and CrashedToys.com™ are trademarks of Copart, Inc. This Form 10-K also includes other trademarks of Copart and of other companies.

Overview

We are a leading provider of online auctions and vehicle remarketing services with operations in the United States (U.S.), Canada, the United Kingdom (U.K.), the Republic of Ireland, Brazil, Germany, the United Arab Emirates (U.A.E.), Oman, Bahrain, India, and Spain.

We provide vehicle sellers with a full range of services to process and sell vehicles primarily over the Internet through our Virtual Bidding Third Generation Internet auction-style sales technology, which we refer to as VB3. Vehicle sellers consist primarily of insurance companies, but also include banks, finance companies, charities, fleet operators, dealers and vehicles sourced directly from individual owners. We sell the vehicles principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters and, at certain locations, to the general public. The majority of the vehicles sold on behalf of insurance companies are either damaged vehicles deemed a total loss or not economically repairable by the insurance companies, or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. We offer vehicle sellers a full range of services that expedite each stage of the vehicle sales process, minimize administrative and processing costs, and maximize the ultimate sales price.

In the U.S., Canada, the Republic of Ireland, Brazil, the U.A.E., Oman, Bahrain, India, and Spain, we sell vehicles primarily as an agent and derive revenue primarily from fees paid by vehicle sellers and vehicle buyers, as well as related fees for services, such as towing and storage. In the U.K., we operate both as an agent and on a principal basis, in some cases purchasing salvage vehicles outright from the insurance companies and reselling the vehicles for our own account. In Germany and Spain, we also derive revenue from sales listing fees for listing vehicles on behalf of many insurance companies.

We converted all of our U.S. and Canada sales to our Virtual Bidding Second Generation (VB^2) during fiscal 2004 and we converted our U.K. sales to VB^2 during fiscal 2008. VB^2 opened our sales process to registered buyers (whom we refer to as "members") anywhere in the world with access to the Internet. This technology and model employ a two-step bidding process. The first step is an open preliminary bidding feature that allows a member to enter bids either at a bidding station at the storage facility or over the Internet during the preview period. To improve the effectiveness of bidding, the VB^2 system lets members see the current high bids on the vehicles they want to purchase. The preliminary bidding step is an open bid format similar to eBay®. Members enter the maximum price they are willing to pay for a vehicle and VB^2's BID4U feature will incrementally bid on the vehicle on their behalf during all phases of the auction. Preliminary bidding ends at a specified time prior to the start of a second bidding step, an Internet-only virtual auction. This second step allows bidders the opportunity to bid against each other and the high preliminary bidder. The bidders enter bids via the Internet in real time while 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.

We believe the implementation of VB^2 increased the pool of available buyers for each sale, which resulted in added competition and an increase in the amount buyers are willing to pay for vehicles. We also believe that it improved the efficiency of our operations by eliminating the expense and capital requirements associated with live auctions. In August 2013, we launched our Virtual Bidding Third Generation (VB3), an Internet auction-style sales technology that was built on VB^2. VB3 adds several enhancements which focuses on expanding auction attendance and increasing bidding volume. To attract new members and grow our membership base, VB3 allows non-registered members to view auctions via our website and our mobile applications. In addition, VB3 includes a completely redesigned auction interface, enabling members to fit multiple auction windows on their screen, while simultaneously viewing more vehicle photos and information at the time of live Internet bidding.

For fiscal 2017, sales of U.S. vehicles, on a unit basis, to members registered outside the state where the vehicle was located accounted for 49.8% of total vehicles sold; 29.7% of vehicles were sold to out of state members within the U.S. and 20.1% were sold to International members, based on the address submitted during registration.

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

- providing coverage that facilitates seller access to buyers around the world, reducing towing and third-party storage expenses, offering a local presence for vehicle inspection stations, and providing prompt response to catastrophes and natural disasters by specially-trained teams;
- providing a comprehensive range of services that includes merchandising, efficient title processing, timely pick-up and delivery of vehicles, and Internet sales;
- establishing and efficiently integrating new facilities and acquisitions;
- increasing the number of bidders that can participate at each sale through the ease and convenience of Internet bidding;

- applying technology to enhance operating efficiency through Internet bidding, web-based order processing, salvage value quotes, electronic communication with members and sellers, and vehicle imaging; and

- providing a venue for insurance customers through our Virtual Insured Exchange (VIX) product to contingently sell a vehicle through our auction process to assess true market value, equipping our insurance customers with market data in its negotiations with owners who wish to retain their damaged vehicles.

Historically, we believe our business has grown as a result of (i) acquisitions, (ii) increases in overall volume in the salvage car market, (iii) growth in market share, (iv) increases in the amount of revenue generated per sales transaction resulting from increases in the gross selling price and the addition of value-added services for both members and sellers, and (v) growth in non-insurance company sellers. For fiscal 2017, our revenues were $1.4 billion and our operating income was $461.3 million.

In fiscal 2015, we opened facilities in Manama, Bahrain; Muscat, Oman; and Moncton, Canada.

In fiscal 2016, we opened facilities in Sonepat, India; Castledermot, Republic of Ireland; Algete, Spain; Dallas, Wilmer and Temple, Texas; Colorado Springs and Denver, Colorado; and Cartersville, Georgia.

In fiscal 2017, we opened facilities in Bad Fallingbostel, Germany; Newbury, U.K.; Betim, Minas Gerais, Brazil; Brighton and Littleton, Colorado; Sun Valley and Wilmington, California; Apopka and Okeechobee, Florida; Casper, Wyoming; Alorton, Illinois; Ogden, Utah; acquired the assets of an excavation company, which engages in earthwork, soil stabilization, equipment hauling and erosion control commercial contractor services; and acquired Cycle Express, LLC, which conducts business primarily as National Powersport Auctions (NPA), a leading non-salvage auction platform for motorcycles, snowmobiles, watercraft and other powersports vehicles. NPA currently operates facilities in Atlanta, Georgia; Cincinnati, Ohio; Dallas, Texas; Philadelphia, Pennsylvania; and San Diego, California.

Our revenues consist of sales transaction fees charged to vehicle sellers and vehicle buyers, transportation revenue, purchased vehicle revenues, and other remarketing services. Revenues from sellers are generally generated either on a fixed fee contract basis, where we collect a fixed amount for selling each vehicle regardless of the selling price of the vehicle or under our Percentage Incentive Program, which we refer to as PIP, where our fees are generally based on a predetermined percentage of the vehicle sales price. Under the consignment or fixed fee program, we generally charge an additional fee for title processing and special preparation. We may also charge additional fees for the cost of transporting the vehicle to or from our facility, storage of the vehicle, and other incidental costs. Under the consignment program or fixed fee program, only the fees associated with vehicle processing are recorded in revenue, not the actual sales price (gross proceeds). Sales transaction fees also include fees charged to vehicle buyers for purchasing vehicles, storage, loading, and annual registration. Transportation revenue includes charges to sellers for towing vehicles under certain contracts and 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 is primarily generated in the U.K.

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 sold under purchase contracts. Costs associated with general and administrative expenses consist primarily of executive management, accounting, data processing, sales personnel, human resources, professional fees, information technology, and marketing expenses.

Industry Overview

The auction and vehicle remarketing services industry provides a venue for sellers to dispose of or liquidate vehicles to a broad domestic and international buyer pool. Sellers generally auction or sell their vehicles on a consignment basis either for a fixed fee or a percentage of the sales price. On occasion, companies in our industry will purchase vehicles from the largest segment of sellers, insurance companies, and resell the vehicles for their own account. The vehicles are usually purchased at a price based on the vehicles' estimated pre-accident cash value and the extent of damage. Vehicle remarketers typically operate from multiple facilities where vehicles are processed, viewed, stored and delivered to the buyer. While most companies in this industry remarket vehicles through a physical auction or a hybrid internet and physical auction, we sell virtually all of our vehicles on our Internet selling platform VB3, thus eliminating the requirement for buyers to travel to an auction location to participate in the sales process.

Although there are other sellers of vehicles, such as banks, finance companies, charities, fleet operators, dealers and vehicles sourced directly from individual owners, our primary sellers of vehicles are insurance companies.

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

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

Automobile manufacturers continuously incorporate new standard features, including unibody construction utilizing exotic metals, passenger safety cages with surrounding crumple zones to absorb impacts, plastic and ceramic components, airbags, adaptive headlights, computer systems, advanced cameras, collision warning systems, and navigation systems. We believe that one effect of these additional features is that newer vehicles involved in accidents are costlier to repair and, accordingly, more likely to be deemed a total loss for insurance purposes.

We believe the primary factors that insurance companies consider when selecting an auction and vehicle remarketing services company include:

- the anticipated percentage return on salvage (i.e., gross salvage proceeds, minus vehicle handling and selling expenses, divided by the PAV);
- the services provided by the company and the degree to which such services reduce their administrative costs and expenses;
- the price the company charges for its services;
- geographic coverage;
- the ability to respond to natural disasters;
- the ability to provide analytical data to the seller; and
- in the U.K., in certain situations, the actual amount paid for the vehicle.

In the U.K., some insurance companies tender periodic contracts for the purchase of salvaged vehicles. Under these circumstances, insurance companies will generally award the contract to the company that is willing to pay the highest price for the vehicles.

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

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

Generally, sellers of non-salvage vehicles will arrange to deliver the vehicle to one of our locations. At that time, the vehicle information will be uploaded to our system and made available for buyers to review online. The vehicle is then sold at auction on VB3 typically within seven days. Proceeds are then collected from the member, seller fees are subtracted and the remainder is remitted to the seller.

Operating and Growth Strategy

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

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

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

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

Pursue Global, National and Regional Vehicle Supply Agreements

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

Expand Our Service Offerings to Sellers and Members

Over the past several years, we have expanded our available service offerings to vehicle sellers and members. The primary focus of these new service offerings is to maximize returns to our sellers and maximize product value to our members. This includes, for our sellers, real-time access to sales data over the Internet, national coverage, the ability to respond on a national scale and, for our members, the implementation of VB3 real-time bidding at substantially all of our facilities, permitting members at any location worldwide to participate in the sales at our yards. We plan to continue to refine and expand our services, including offering software that can assist our sellers in expediting claims and salvage management tools that help sellers integrate their systems with ours.

Our Competitive Advantages

We believe that the following attributes and the services that we offer position us to take advantage of many opportunities in the online vehicle auction and services industry:

Geographic 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 facilities located in the U.S., Canada, the U.K., the U.A.E., Oman, Bahrain, Brazil, Germany, the Republic of Ireland, Spain and India. In Germany and Spain, we also provide online vehicle remarketing services. We are able to offer integrated services to our vehicle sellers, which allow us to respond to the needs of our sellers and members with maximum efficiency. Our coverage provides our sellers with key advantages, including:

- attractiveness and efficiency to buyers, leading to enhanced selling prices for vehicles;
- 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 products and services.

Value-Added Services

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

- Internet bidding, Internet proxy bidding, and virtual sales powered by VB3, which enhance the competitive bidding process;
- mobile applications, which allow members to search, bid, create watch lists, join auctions and bid in numerous languages from anywhere;
- online payment capabilities via our ePay product, credit cards and dealer financing programs;
- e-mail notifications available in numerous languages to potential buyers of vehicles that match desired characteristics;
- sophisticated vehicle processing at storage sites, including 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 over the Internet;
- specialty sales, which allow buyers the opportunity to focus on such select types of vehicles as motorcycles, heavy equipment, boats, recreational vehicles and rental cars;
- 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;
- second chance bidding, which allows the second highest bidder the opportunity to purchase the vehicle for the seller's current minimum bid after the high bidder fails to consummate the purchase; and
- Night Cap sales, which provides an additional opportunity for bidding on vehicles that have not previously achieved their minimum bid.

Proven Ability to Acquire and Integrate Acquisitions

We have a proven track record of successfully acquiring and integrating facilities. Since becoming a public company in 1994, we have completed acquisitions of facilities in the U.S., Canada, the U.K., the U.A.E., Brazil, Germany, and Spain. As part of our acquisition and integration strategy, we seek to:

- expand our global presence;
- strengthen our networks and access new markets;
- utilize our existing corporate and technology infrastructure over a larger base of operations; and
- introduce our comprehensive services and operational expertise.

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

Technology to Enhance and Expand Our Business

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

Our Business Segments

Our U.S. and International regions are considered two separate operating segments and are disclosed as two reportable segments. The segments represent geographic areas and reflect how the chief operating decision maker allocates resources and measures results, including total revenues, operating income and income before income taxes. The segments continue to share similar business models, services and economic characteristics. Our revenues for the year ended July 31, 2017 were distributed as follows: U.S. 82.4% and International 17.6%. Geographic information as well as comparative segment revenues and related financial information pertaining to the U.S. and International segments for the years ended July 31, 2017, 2016 and 2015 are presented in the tables in *Note 14 — Segments and Other Geographic Reporting*, to the Notes to Consolidated Financial Statements, which are included under in Part II, Item 8 of this 10-K.

Our Service Offerings

We offer vehicle sellers a full range of vehicle services, which expedite each stage of the vehicle sales process, maximizing proceeds and minimizing costs. Not all service offerings are available in all markets. Additionally, in some cases a service offering may be applicable only to a particular subsidiary or operating segment. Our service offerings include the following:

Online Seller Access

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

Salvage Estimation Services

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

Estimating Services

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

End-of-Life Vehicle Processing

In the U.K., we are an authorized treatment facility for the disposal of end-of-life vehicles.

Virtual Insured Exchange (VIX)

We provide a venue for insurance customers through our Virtual Insured Exchange (VIX) product to contingently sell a vehicle through our auction process to assess true market value, equipping our insurance customers with market data in its negotiations with owners who wish to retain their damaged vehicles.

Transportation Services

We maintain contracts with third-party vehicle transport companies, which enable us to pick up most of our sellers' vehicles within 24 hours. Our national network and transportation capabilities provide cost and time savings to our vehicle sellers and ensure on-time vehicle pick up and prompt response to catastrophes and natural disasters in the U.S. and Canada. In the U.K., we perform transportation services through a combination of our fleet of over 200 vehicles and third-party vehicle transport companies.

Vehicle Inspection Stations

We offer some of our major insurance company sellers office and yard space to house vehicle inspection stations on-site at our facilities. We have over 80 vehicle inspection stations at our facilities. An on-site vehicle inspection station provides our insurance company sellers with a central location to inspect potential total loss vehicles, which reduces storage charges that otherwise may be incurred at the initial storage or repair facility.

On-Demand Reporting

We provide vehicle sellers with real time data for vehicles that we process for the particular seller. This includes vehicle sellers' gross and net returns on each vehicle, service charges, and other data that enable our vehicle sellers to more easily administer and monitor the vehicle disposition process. In addition, we have developed a database containing over 300 fields of real-time and historical information accessible by our sellers allowing for their generation of custom ad hoc reports and customer specific analysis.

DMV Processing

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

Flexible Vehicle Processing Programs

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

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

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

Purchase Program. Under the purchase program, we purchase vehicles from a vehicle seller at a formula price, based on a percentage of the vehicles' estimated pre-accident value (PAV), otherwise known as actual cash value (ACV), and sell the vehicles for our own account. Currently, the purchase program is offered primarily in the U.K.

Buy It Now, Make An Offer

We offer an option to our members to purchase specific pre-qualified vehicles immediately at a set price before the live auction process. This enables us to provide a fast, easy, transparent and comprehensive buying option on these pre-qualified vehicles. Additionally, members have the option of submitting an offer amount on certain selected vehicles. If an offer is accepted, the member can purchase the vehicle before the live auction process.

Member Network

We maintain a database of thousands of members in the vehicle dismantling, rebuilding, repair licensee, used vehicle dealer and export industries, as well as the general public, as we sell directly to the general public at certain locations. Our database includes each member's vehicle preference and purchasing history. This data enables us to notify prospective buyers throughout the world via e-mail of vehicles available for bidding that match their vehicle preferences. Listings of 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 utilizing VB3. VB3 opens our sales process to members and to individuals who have not registered to view auctions via our website and our mobile application, anywhere in the world where Internet access is available. The VB3 technology and model employs a two-step bidding process. The first step is an open preliminary bidding feature that allows a member to enter bids either at a bidding station at the storage facility during the preview days, or over the Internet. To improve the effectiveness of bidding, the VB3 system lets a member see the current high bid on the vehicle they want to purchase. The preliminary bidding step is an open bid format similar to eBay®. Members enter the maximum price they are willing to pay for a vehicle and VB3's BID4U feature will incrementally bid the vehicle on their behalf during all steps of the auction. Preliminary bidding ends at a specified time prior to the start of a second bidding step, an Internet-only virtual auction. This second step allows bidders the opportunity to bid against each other and the highest preliminary bidder. The bidders enter bids via the Internet in real time, and then BID4U submits bids for the highest preliminary bidder, up to their maximum bid. When bidding stops, a countdown is initiated. If no bids are received during the countdown, the vehicle sells to the highest bidder.

Copart Dealer Services

We provide franchise and independent dealers with a convenient method to sell their trade-ins through any of our facilities. We have a dedicated group of employees in the U.S. that target these dealers and work with them throughout the sales process.

CashForCars.com

We provide the general public with a fast and convenient method to sell their vehicles. Anyone can call 1-800-Cash-For-Cars or go to CashForCars.com and arrange to obtain a valid offer to purchase their vehicle. Upon acceptance of our offer to purchase their vehicle, we give them a check for their vehicle and then sell the vehicle on our own behalf.

National Powersport Auctions

In the U.S., we provide non-salvage powersport vehicle remarketing services through live and online auction platforms to dealers, financial institutions and OEMs through our subsidiary National Powersport Auctions, or NPA. NPA, also offers comprehensive data services including the NPA Value Guide™, which we believe is the industry's most accurate wholesale valuation tool. NPA has facilities in San Diego, California; Philadelphia, Pennsylvania; Dallas, Texas; Cincinnati, Ohio; and Atlanta, Georgia.

U-Pull-It

In the U.K., we have two facilities from which the public can purchase parts from salvaged and end-of-life vehicles. In general, the buyer is responsible for detaching the parts from the vehicle and any associated hauling or transportation of the parts after detachment. After the valuable parts have been removed by the buyer, the remaining parts and car body are sold for their scrap value.

Sales

We process vehicles from hundreds of different vehicle sellers. No single customer accounted for more than 10% of our revenues for fiscal 2017, 2016 and 2015. We obtained 84% of the total number of vehicles processed during fiscal 2017 from insurance company sellers. We obtained 83% of the total number of vehicles processed during fiscal 2016 and 2015, from insurance company sellers. Our arrangements with our sellers are typically subject to cancellation by either party upon 30 to 90 days' notice.

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

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

During the last three years, a majority of our revenue was generated within the U.S. and a majority of our long-lived assets are located within the U.S. Please see *Note 14 — Segments and Other Geographic Reporting* in our Notes to Consolidated Financial Statements for information regarding the geographic location of our sales and our long-lived assets.

Members

We maintain a database of thousands of registered members in the vehicle dismantling and recycling, rebuilding, used vehicle dealer and export industries. We believe that we have established a broad international and domestic buyer base by providing members with a variety of programs and services. To become a registered member, a person or business must complete a basic application either online or through our mobile applications. Before any member may purchase a vehicle, they must provide copies of current government issued photo identification. Additionally, business members must provide current business information, including copies of licenses, which may include vehicle dismantler, dealer, resale, repair or export licenses, and as needed, completed sales tax exemption certificates. Registration entitles a member to transact business at any of our sales, subject to local licensing and permitting requirements. In certain venues, we may sell to the general public either directly or members may transact business at any of our sales via a registered broker who meets local licensing and permitting requirements. A member 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 will not result in a completed sale. We market to members online and via e-mail notifications, sales notices, telemarketing, direct mail, in-location marketing, search engines, social media, radio, television, trade publications and participation in trade show events.

Competition

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

Management Information Systems

Our primary yard management information system consists of an IBM AS/400 mainframe computer system which runs our proprietary software developed to process salvage sales vehicles throughout the auction process. This system is integrated with the Internet to enable buyers to view salvage vehicles and bid on them. It can also be integrated with the seller's system and enables the sellers to monitor their vehicles and analyze the progression of vehicles through the auction process. Our auction-style service product, VB3, 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.

We have invested in production data centers that are designed to continuously operate to support the business, even in the event of an emergency. The data centers' electrical and mechanical systems are continually monitored. The data centers are located in areas generally considered to be free of frequent weather-related disasters and earthquakes. We operate fully redundant infrastructure to ensure ongoing operations, even in the event of physical damage to one of our data centers.

We have developed a proprietary system to enable us to address our international expansion needs. This proprietary system is designed to provide multi-language and multi-currency capabilities. We began using our new internally developed proprietary system with our expansion into Spain and India in fiscal 2016 and Germany in fiscal 2017. We intend to continue development of this system and implement it in certain additional international locations in the future.

Employees

As of July 31, 2017, we had 5,323 full-time employees, of whom 819 were engaged in general and administrative functions and 4,504 were engaged in yard operations. We are not currently subject to any collective bargaining agreements and believe our relationships with our employees are good. Employees per geographic region are as follows:

United States	4,012
International	1,311
Total employees	5,323

Environmental Matters

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 U.K., we provide vehicle depollution 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 facilities which we may acquire in the future, 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 consolidated results of operations and financial position.

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 foreign 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.

Intellectual Property and Proprietary Rights

In June 2003, we filed a provisional U.S. patent application on VB^2 in the United States. This provisional patent application was followed by a U.S. utility application filed in July 2003. The patent was issued by the United States Patent and Trademark Office on January 1, 2008. Generally, patents issued in the U.S. 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 also rely on a combination of trade secret, copyright and trademark laws, as well as contractual agreements to safeguard our proprietary rights in technology and products. In seeking to limit access to sensitive information to the greatest practical extent, we routinely enter into confidentiality and assignment of invention agreements with each of our employees and consultants and nondisclosure agreements with our key customers and vendors.

Seasonality

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

Item 1A. *Risk Factors*

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below before making an investment decision. Our business could be harmed if any of these risks, as well as other risks not currently known to us or that we currently deem immaterial, materialize. 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 schedules, and other filings with the SEC.

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

No single customer accounted for more than 10% of our consolidated revenue for fiscal 2017. Historically, a limited number of vehicle sellers have collectively accounted for a substantial portion of our revenues. Seller arrangements are either written or oral agreements typically subject to cancellation by either party upon 30 to 90 days' notice. Vehicle sellers have terminated agreements with us in the past in particular markets, which has affected revenues in those markets. There can be no assurance that our existing agreements will not be canceled. Furthermore, there can be no assurance that we will be able to enter into future agreements with vehicle sellers or that we will be able to retain our existing supply of salvage vehicles. A reduction in vehicles from a significant vehicle seller or any material changes in the terms of an arrangement with a significant vehicle seller could have a material adverse effect on our consolidated results of operations and financial position. In addition, a failure to increase our sources of vehicle supply could adversely affect our earnings and revenue growth rates.

Our expansion into markets outside the U.S., including expansions in Europe, Brazil, the Middle East, and India expose us to risks arising from operating in international markets. Any failure to successfully integrate businesses acquired outside the U.S. into our operations could have an adverse effect on our consolidated results of operations, financial position or cash flows.

We first expanded our operations outside the U.S. in fiscal 2003 with an acquisition in Canada. Subsequently, in fiscal 2008 we made a significant acquisition in the U.K., followed by acquisitions in the U.A.E., Brazil, Germany, and Spain in fiscal 2013, expansions into Bahrain and Oman in fiscal 2015, and expansion into the Republic of Ireland and India in fiscal 2016. In addition, we continue to evaluate acquisitions and other opportunities outside of the U.S. Acquisitions or other strategies to expand our operations outside of the U.S. 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 have and may continue to incur substantial expenses establishing new yards or operations in international markets. Among other things, we plan to ultimately deploy our proprietary auction technologies at all of our foreign operations 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 and financial and administrative functions, may not proceed as anticipated and could result in unanticipated costs or expenses such as capital expenditures that could have an adverse effect on our future operating results. We cannot provide any assurance that we will achieve our business and financial objectives in connection with these acquisitions or our strategic decision to expand our operations internationally.

As we continue to expand our business internationally, we will need to develop policies and procedures to manage our business on a global scale. Operationally, acquired businesses typically depend on key seller relationships, and our failure to maintain those relationships would have an adverse effect on our consolidated results of operations and could have an adverse effect on our future operating results.

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

- the difficulty of managing and staffing foreign offices;
- the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- the need to localize our product offerings, particularly the need to implement our online auction platform in foreign countries;
- the need to comply with complex foreign and U.S. laws and regulations that apply to our international operations;
- tariffs and trade barriers and other regulatory or contractual limitations on our ability to operate in certain foreign markets;
- exposure to foreign currency exchange rate risk, which may have an adverse impact on our revenues and revenue growth rates;
- adapting to different business cultures and market structures, particularly where we seek to implement our auction model in markets where insurers have historically not played a substantial role in the disposition of salvage vehicles; and
- repatriation of funds currently held in foreign jurisdictions to the U.S. may result in higher effective tax rates.

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.

On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the European Union, commonly referred to as "Brexit." In February 2017, the British Parliament voted in favor of allowing the British government to begin negotiating the terms of the U.K.'s withdrawal from the European Union and discussions with the European Union began in March 2017. The ultimate effects of Brexit on us are difficult to predict, but adverse consequences concerning Brexit or the European Union could include deterioration in global economic conditions, instability in global financial markets, political uncertainty, volatility in currency exchange rates, or adverse changes in the cross-border agreements currently in place, any of which could have an adverse impact on our financial results in the future. The ultimate effects of Brexit on us will also depend on the terms of agreements, if any, that the U.K. and the European Union make to retain access to each other's respective markets either during a transitional period or more permanently.

In addition, certain acquisitions in the U.K. may be reviewed by the Competition and Markets Authority (U.K. Regulator). If an inquiry is made by the U.K. Regulator, we may be required to demonstrate that our acquisitions will not result, or be expected to result, in a substantial lessening of competition in the U.K. market. Although we believe that there will not be a substantial lessening of competition in the U.K. market, based on our analysis of the relevant U.K. markets, there can be no assurance that the U.K. Regulator will agree with us if it decides to make an inquiry. If the U.K. Regulator determines that by our acquisitions of certain assets, there is or likely will be a substantial lessening of competition in the U.K. market, we could be required to divest some portion of our U.K. assets. In the event of a divestiture order by the U.K. Regulator, the assets disposed may be sold for substantially less than their carrying value. Accordingly, any divestiture could have a material adverse effect on our operating results in the period of the divestiture.

Our operations and acquisitions in certain foreign areas expose us to political, regulatory, economic, and reputational risks.

Although we have implemented policies, procedures and training designed to ensure compliance with anti-bribery laws, trade controls and economic sanctions, and similar regulations, our employees or agents may take actions in violation of our policies. We may incur costs or other penalties in the event that any such violations occur, which could have an adverse effect on our business and reputation.

In some cases, the enforcement practices of governmental regulators in certain foreign areas and the procedural and substantive rights and remedies available to us may vary significantly from those in the United States, which could have an adverse effect on our business.

In addition, some of our recent acquisitions have required us to integrate non-U.S. companies which had not, until our acquisition, been subject to U.S. law. In many countries outside of the United States, particularly in those with developing economies, it may be common for persons to engage in business practices prohibited by laws and regulations applicable to us, such as the U.S. Foreign Corrupt Practices Act (FCPA), U.K. Bribery Act, Brazil Clean Companies Act, India's Prevention of Corruption Act, 1988 or similar local anti-bribery laws. These laws generally prohibit companies and their employees or agents from making improper payments to government officials for the purpose of obtaining or retaining business. Failure by us and our subsidiaries to comply with these laws could subject us to civil and criminal penalties that could have a material adverse effect on our consolidated operating results and financial position.

We face risks associated with the implementation of our salvage auction model in markets that may not operate on the same terms as the U.S. market. For example, certain markets operate on a principal rather than agent basis, which may have an adverse impact on our gross margin percentages and expose us to inventory risks that we do not experience in the U.S.

Some of our target markets outside the U.S. operate in a manner substantially different than our historic market in the U.S. For example, new markets may operate either wholly or partially on the principal model, in which the vehicle is purchased then resold for our own account, rather than the agency model employed in the U.S., in which we generally act as a sales agent for the legal owner of vehicles. Further, operating on a principal basis exposes us to inventory risks, including losses from theft, damage, and obsolescence. In addition, our business in the U.S., Canada, and the U.K. has been established and grown based largely on our ability to build relationships with insurance carriers. In other markets, insurers have traditionally been less involved in the disposition of salvage vehicles. As we expand into markets outside the U.S., Canada, and the U.K., we cannot predict whether markets will readily adapt to our strategy of online auctions of automobiles sourced principally through vehicle insurers. Any failure of new markets to adopt our business model could adversely affect our consolidated results of operations and financial position.

Acquisitions typically will increase our sales and profitability although, given the typical size of our acquisitions to date, most acquisitions will not individually have a material impact on our consolidated results of operations and financial position. We may not always be able to introduce our processes and selling platform to acquired companies due to different operating models in international jurisdictions or other facts. As a result, the associated benefits of acquisitions may be delayed for years in some international situations. During this period, the acquisitions may operate at a loss and certain acquisitions, while profitable, may operate at a margin percentage that is below our overall operating margin percentage and, accordingly, have an adverse impact on our consolidated results of operations and financial position. Hence, the conversion periods vary from weeks to years and cannot be predicted.

We have transitioned various functionality of our previously planned third-party enterprise operating system to an internally developed proprietary system, and we may experience difficulties operating our business as we work to develop and design this system.

During fiscal 2014, we terminated a contract with KPIT (formerly known as Sparta Consulting, Inc.), whereby KPIT was engaged to design and implement an SAP-based replacement for our existing business operating software that, among other things, would address our international expansion needs. Following a review of KPIT's work performed to date, and an assessment of the cost to complete, deployment risk, and other factors, we ceased development of KPIT's software and internally developed a proprietary solution in its place. The ongoing design, development, and implementation of our enterprise operating systems carry certain risks, including the risk of significant design or deployment errors causing disruptions, delays or deficiencies, which may make our website and services unavailable. This type of interruption could prevent us from processing vehicles for our sellers and may prevent us from selling vehicles through our Internet bidding platform, VB3, which would adversely affect our consolidated results of operations and financial position. In addition, the transition to our new internally developed proprietary system will require us to commit substantial financial, operational and technical resources before the volume of business increases, without assurance that the volume of business will increase. We began using our new internally developed proprietary system with our expansion into Spain and India in fiscal 2016 and Germany in fiscal 2017.

We may also implement additional or enhanced information systems in the future to accommodate our growth and to provide additional capabilities and functionality. The implementation of new systems and enhancements is frequently disruptive to the underlying business of an enterprise and can be time-consuming and expensive, increase management responsibilities and divert management attention. Any disruptions relating to our system enhancements or any problems with the implementation, particularly any disruptions impacting our operations or our ability to accurately report our financial performance on a timely basis during the implementation period, could materially and adversely affect our business. Even if we do not encounter these material and adverse effects, the implementation of these enhancements may be much more costly than we anticipated. If we are unable to successfully implement the information systems enhancements as planned, our financial position, results of operations and cash flows could be negatively impacted.

Our success depends on maintaining the integrity of our systems and infrastructure. As our operations continue to grow in both size and scope, domestically and internationally, we must continue to provide reliable, real-time access to our systems by our customers through improving and upgrading our systems and infrastructure for enhanced products, services, features and functionality. Any failure to maintain the integrity of our systems and infrastructure may result in loss of customers due to among other things, slow delivery times, unreliable service levels or insufficient capacity, which could have a material adverse effect on our business, consolidated financial position and results of operations.

The impairment of capitalized development costs could adversely affect our consolidated results of operations and financial condition.

We capitalize certain costs associated with the development of new software products, new software for internal use and major software enhancements to existing software. These costs are amortized over the estimated useful life of the software beginning with its introduction or roll-out. If, at any time, it is determined that capitalized software provides a reduced economic benefit, the unamortized portion of the capitalized development costs will be expensed, in part or in full, as an impairment, which may have a material impact on our consolidated results of operations and financial position. For example, during fiscal 2017, we recognized a $19.4 million charge primarily related to fully impairing costs previously capitalized in connection with the development of business operating software.

Any failure to maintain security and prevent unauthorized access to electronic and other confidential information could disrupt our business and materially and adversely affect our reputation, consolidated results of operations and financial condition.

Information security risks for online commerce companies have significantly increased in recent years because of, in addition to other factors, the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, and other external parties. These threats may derive from fraud or malice on the part of third parties or current or former employees. In addition, human error or accidental technological failure could make us vulnerable to cyber-attacks, including the introduction of malicious computer viruses or code into our system, phishing attacks, or other information technology data security incidents.

Our operations rely on the secure processing, transmission and storage of confidential, proprietary and other information in our computer systems and networks. Our customers and other parties in the payments value chain rely on our digital technologies, computer and e-mail systems, software and networks to conduct their operations. In addition, to access our products and services, our customers and cardholders increasingly use personal smartphones, tablet PCs and other mobile devices that may be beyond our control.

Cyber-attacks or other cyber security incidents could materially and adversely affect our reputation, operating results, or financial condition by, among other things, making our auction platform inoperable for a period of time, damaging our reputation with buyers, sellers, and insurance companies as a result of the unauthorized disclosure of confidential information (including account data information), or resulting in governmental investigations, litigation, liability, fines, or penalties against us. If such attacks are not detected immediately, their effect could be compounded. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of these cyber risks, our insurance coverage may be insufficient to cover all losses and would not remedy damage to our reputation.

We have in the past identified attempts by unauthorized third parties to access our systems and disrupt our online auctions. These attempts have caused minor service interruptions, which were promptly addressed and resolved, and our online service was restored to normal business. For example, in April 2015, we identified that unauthorized third parties had gained access to data provided to us by our members that is considered to be personal information in certain jurisdictions. We immediately investigated, including the engagement of an external expert security firm, and made the required notifications to members whose information may have been accessed and to regulatory agencies.

We are constantly evaluating and implementing new technologies and processes to manage risks relating to cyber-attacks and system and network disruptions, including but not limited to usage errors by our employees, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. We have further enhanced our security protocols based on the investigation we conducted in response to the security incident. Nevertheless, we cannot provide assurances that our efforts to address prior data security incidents and mitigate against the risk of future data security incidents or system failures will be successful. The techniques used by criminals to obtain unauthorized access to sensitive data change frequently and are often not recognized immediately. We may be unable to anticipate these techniques or implement adequate preventative measures and believe that cyber-attacks and threats against us have occurred in the past and are likely to continue in the future. If our systems are compromised again in the future, become inoperable for extended periods of time, or cease to function properly, we may have to make a significant investment to fix or replace them, and our ability to provide many of our electronic and online solutions to our customers may be impaired. In addition, as cyber-threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Any of the risks described above could materially and adversely affect our consolidated financial position and results of operations.

Our business is exposed to risks associated with online commerce security and credit card fraud.

Consumer concerns over the security of transactions conducted on the Internet or the privacy of users may inhibit the growth of the Internet and online commerce. To securely transmit confidential information such as customer credit card numbers, we rely on encryption and authentication technology. Unanticipated events or developments could result in a compromise or breach of the systems we use to protect customer transaction data. Furthermore, our servers may also be vulnerable to viruses transmitted via the Internet and other points of access. While we proactively check for intrusions into our infrastructure, a new or undetected virus could cause a service disruption.

We maintain an information security program and our processing systems incorporate multiple levels of protection in order to address or otherwise mitigate these risks. Despite these mitigation efforts, there can be no assurance that we will be immune to these risks and not suffer losses in the future. Under current credit card practices, we may be held liable for fraudulent credit card transactions and other payment disputes with customers. As such, we have implemented certain anti-fraud measures, including credit card verification procedures. However, a failure to adequately prevent fraudulent credit card transactions could adversely affect our consolidated financial position and results of operations.

Our security measures may also be breached due to employee error, malfeasance, insufficiency, or defective design. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our data or our users' or customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our products and services that could have an adverse effect on our consolidated financial position and results of operations.

Our business is subject to a variety of domestic and international laws and other obligations regarding privacy and data protection.

We are subject to federal, state and international laws, directives, and regulations relating to the collection, use, retention, disclosure, security and transfer of personal data. These laws, directives, and regulations, and their interpretation and enforcement continue to evolve and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing privacy and data protection requirements may cause us to incur substantial costs or require us to change our business practices. For example, in October 2015, a European court decision invalidated the U.S.-EU Safe Harbor framework which allowed us and other companies to meet certain European legal requirements for the transfer of personal data from the European Economic Area to the U.S. We may find it necessary or desirable to modify our data handling practices as a result of this court decision, and it may serve as a basis for our personal data handling practices to be challenged or otherwise adversely impact our business. Noncompliance with our legal obligations relating to privacy and data protection could result in penalties, legal proceedings by governmental entities or others, and significant legal and financial exposure and could affect our ability to retain and attract customers. Any of the risks described above could adversely affect our consolidated financial position and results of operations.

Implementation of our online auction model in new markets may not result in the same synergies and benefits that we achieved when we implemented the model in the U.S., Canada, and the U.K.

We believe that the implementation of our proprietary auction technologies across our operations over the last decade had a favorable impact on our results of operations by increasing the size and geographic scope of our buyer base, increasing the average selling price for vehicles sold through our sales, and lowering expenses associated with vehicle sales.

We implemented our online system across all of our U.S., Canada, and U.K. salvage yards beginning in fiscal 2004 and 2008, respectively, and experienced increases in revenues and average selling prices, as well as improved operating efficiencies in those markets. In considering new markets, we consider the potential synergies from the implementation of our model based in large part on our experience in the U.S., Canada, and the U.K. However, we cannot predict whether these synergies will also be realized in new markets.

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

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

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

We seek to increase our sales and profitability through the acquisition of additional facilities and the development of new facilities. For example, in fiscal 2015, we opened new facilities in Bahrain, Oman, and Moncton, Canada. In fiscal 2016, we opened new facilities in Castledermot, Republic of Ireland; Sonepat, India; Algete, Spain; and six new facilities in the U.S. In fiscal 2017, we opened a new facility in Bad Fallingbostel, Germany, a new facility in Betim, Minas Gerais, Brazil, nine new facilities in the U.S and acquired Cycle Express, LLC, which conducts business primarily as National Powersport Auctions (NPA), a leading non-salvage auction platform for motorcycles, snowmobiles, watercraft and other powersports vehicles. NPA currently operates facilities in Atlanta, Georgia; Cincinnati, Ohio; Dallas, Texas; Philadelphia, Pennsylvania; and San Diego, California. Acquisitions are difficult to identify and complete for a number of reasons, including competition among prospective buyers, the availability of affordable financing in the capital markets and the need to satisfy applicable closing conditions and obtain antitrust and other regulatory approvals on acceptable terms. 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;
- create new vehicle storage facilities that meet our current revenue and profitability requirements; or
- obtain necessary regulatory approvals under applicable antitrust and competition laws.

In addition, certain of the acquisition agreements by which we have acquired companies require the former owners to indemnify us against certain liabilities related to the operation of the company before we acquired it. In most of these agreements, however, the liability of the former owners is limited and certain former owners may be unable to meet their indemnification responsibilities. We cannot assure that these indemnification provisions will protect us fully or at all, and as a result we may face unexpected liabilities that adversely affect our financial statements. Any failure to continue to successfully identify and complete acquisitions and develop new facilities could have a material adverse effect on our consolidated results of operations and financial position.

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

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

- hire, train and manage additional qualified personnel;
- establish new relationships or expand existing relationships with vehicle sellers;
- identify and acquire or lease suitable premises on competitive terms;
- secure adequate capital; and
- maintain the supply of vehicles from vehicle sellers.

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

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;
- fluctuations in commodity prices, particularly the per ton price of crushed car bodies;
- the impact of foreign exchange gain and loss as a result of international operations;
- our ability to successfully integrate our newly acquired operations in international markets and any additional markets we may enter;
- the availability of salvage vehicles;
- variations in vehicle accident rates;
- member 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;
- the 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;
- changes in the current levels of out of state and foreign demand for salvage vehicles;
- the introduction of a similar Internet product by a competitor; and
- the ability to obtain necessary permits to operate.

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

Our 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 position, or results of operations.

Our intellectual property rights include patents relating to our auction technologies, as well as trademarks, trade secrets, copyrights and other intellectual property rights. In addition, we may enter into agreements with third parties regarding the license or other use of our intellectual property. 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 consolidated results of operations and financial position.

We also may not be able to acquire or maintain appropriate domain names in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights.

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 auction-style sales technologies across our business and ceased conducting live auctions. Recent U.S. Supreme Court precedent potentially restricts patentability of software inventions by affirming that patent claims merely requiring application of an abstract idea on standard computers utilizing generic computer functions are patent ineligible, which may impact our ability to enforce our issued patent and obtain new patents. As we face increasing competition, the possibility of intellectual property rights claims against us increases. 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.

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

We rely primarily upon independent subhaulers to pick up and deliver vehicles to and from our storage facilities in the U.S., Canada, Brazil, U.A.E., Oman, Bahrain, Germany, the Republic of Ireland, India, and Spain. We also utilize, to a lesser extent, independent subhaulers in the U.K. 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.

In addition to using independent subhaulers, in the U.K. we utilize a fleet of company trucks to pick up and deliver vehicles from our U.K. storage facilities. In connection therewith, 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 and if our estimates of the cost of future claims differ from actual trends, our results of operations could be harmed.

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. Further, we utilize independent actuaries to assist us in establishing the proper amount of reserves for anticipated payouts associated with these self-insured exposures. 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.

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

Our executive officers, directors and their affiliates beneficially own, in the aggregate, 15.9% of our common stock as of July 31, 2017. If they were to act together, these stockholders would have significant influence over most matters requiring approval by stockholders, including the election of directors, any amendments to our certificate of incorporation and certain significant corporate transactions, including potential merger or acquisition transactions. In addition, without the consent of these stockholders, we could be delayed or prevented from entering into transactions that could be beneficial to us or our other investors. These stockholders may take these actions even if they are opposed by our other investors.

We have certain provisions in our certificate of incorporation and bylaws which may have an anti-takeover effect or that may delay, defer or prevent acquisition bids for us that a stockholder might consider favorable and limit attempts by our stockholders to replace or remove our current management.

Our board of directors is authorized to create and issue from time to time, without stockholder approval, up to an aggregate of 5,000,000 shares of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval, and which may include rights superior to the rights of the holders of common stock. In addition, our bylaws establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and cause us to take other corporate actions the stockholders desire.

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 Chairman; A. Jayson Adair, our Chief Executive Officer; and Vincent W. Mitz, our President, or if one or more of these executives decide 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.

Cash investments are subject to risks.

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

Rapid technological changes may render our technology obsolete or decrease the competitiveness of our services.

To remain competitive, we must continue to enhance and improve the functionality and features of our websites and software. The Internet and the online commerce industry are rapidly changing. In particular, the online commerce industry is characterized by increasingly complex systems and infrastructures. If competitors introduce new services embodying new technologies or if new industry standards and practices emerge, our existing websites and proprietary technology and systems may become obsolete. Our future success will depend on our ability to:

- enhance our existing services;
- develop and license new services and technologies that address the increasingly sophisticated and varied needs of our current and prospective customers; and
- respond to technological advances and emerging industry standards and practices in a cost-effective and timely basis.

Developing our websites and other proprietary technology entails significant technical and business risks. We may use new technologies ineffectively or we may fail to adapt our websites, transaction-processing systems and network infrastructure to customer requirements or emerging industry standards. If we face material delays in introducing new services, products and enhancements, our customers and suppliers may forego the use of our services and use those of our competitors.

New member programs could impact our operating results.

We have or will initiate programs to open our auctions to the general public. These programs include the Registered Broker program through which the public can purchase vehicles through a registered member and the Market Maker program through which registered members can open Copart storefronts with Internet kiosks enabling the general public to search our inventory and purchase vehicles. Initiating programs that allow access to our online auctions to the general public will involve material expenditures and we cannot predict what future benefit, if any, will be derived.

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

Mild weather conditions tend to result in a decrease in the available supply of salvage vehicles because traffic accidents decrease and fewer automobiles are damaged. Accordingly, mild weather can have an adverse effect on our salvage vehicle inventories, which would be expected to have an adverse effect on our revenue and operating results and related growth rates.

Conversely, our inventories will tend to increase in poor weather such as a harsh winter or as a result of adverse weather-related conditions such as flooding. During periods of mild weather conditions, our ability to increase our revenues and improve our operating results and related growth will be increasingly dependent on our ability to obtain additional vehicle sellers and to compete more effectively in the market, each of which is subject to the other risks and uncertainties described in these sections. In addition, extreme weather conditions, although they increase the available supply of salvage cars, can have an adverse effect on our operating results. For example, during fiscal 2006 and fiscal 2013, we recognized substantial additional costs associated with Hurricanes Katrina, Rita and Sandy. Weather events have had, in certain quarters, an adverse effect on our operating results, in part because of yard capacity constraints in the impacted areas of the U.S. These additional costs were characterized as “abnormal” under ASC 330, *Inventory,* 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.

Macroeconomic factors such as high fuel prices, declines in commodity prices, declines in used car prices, and vehicle-related technological advances may have an adverse effect on our revenues and operating results, as well as our earnings growth rates.

Macroeconomic factors that affect oil prices and the automobile and commodity markets can have adverse effects on our revenues, revenue growth rates (if any), and operating results. 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, whether due to, among other things, a reduction in miles driven per car, vehicle-related technological advances such as accident avoidance systems and, to the extent widely adopted, the advent of autonomous vehicles, could have a material impact on revenue growth. In addition, under our Percentage Incentive Program contracts, which we refer to as 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 may not be able to pass on to our vehicle sellers. A material increase in tow rates could have a material impact on our operating results. Volatility in fuel, commodity, and used car prices could have a material adverse effect on our revenues and revenue growth rates in future periods.

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

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

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 but not limited to those governing vehicle registration, the environment, zoning and land use. Failure to comply with present or future regulations or changes in interpretations of existing regulations may result in impairment of our operations and the imposition of penalties and other liabilities. At various times, we may be involved in disputes with local governmental officials regarding the development and/or operation of our business facilities. We believe that we are in compliance in all material respects with applicable regulatory requirements. We may be subject to similar types of regulations by federal, national, international, provincial, state and local governmental agencies in new markets. In addition, new regulatory requirements or changes in existing requirements may delay or increase the cost of opening new facilities, may limit our base of salvage vehicle buyers and may decrease demand for our vehicles.

Changes in laws or the interpretation of laws, including foreign laws and regulations, affecting the import and export of vehicles may have an adverse effect on our business and financial condition.

Our Internet-based auction-style model has allowed us to offer our products and services to international markets and has increased our international buyer base. As a result, foreign importers of vehicles now represent a significant part of our total buyer base. As a result our foreign buyers may be subject to a variety of foreign laws and regulations, including the imposition of import duties by foreign countries. Changes in laws and regulations that restrict the importation of vehicles into foreign countries may reduce the demand for vehicles and impact our ability to maintain or increase our international buyer base. In addition, we and our vehicle buyers must work with foreign customs agencies and other non-U.S. governmental officials, who are responsible for the interpretation of these laws. Any inability to obtain requisite approvals or agreements from such authorities could adversely impact the ability of our buyers to import vehicles into foreign countries. In addition, any disputes or disagreements with foreign agencies or officials over import duties or similar matters, including disagreements over the value assigned to imported vehicles, could adversely affect our costs and the ability and costs of our buyers to import vehicles into foreign countries. For example, in March 2008, a decree issued by the president of Mexico became effective that placed restrictions on the types of vehicles that can be imported into Mexico from the U.S. The adoption of similar laws or regulations in other jurisdictions that have the effect of reducing or curtailing our activities abroad, any failure to comply with non-U.S. laws or regulatory interpretations, or any legal or regulatory interpretations that significantly increase our costs or the costs of our buyers could have a material adverse effect on our consolidated results of operations and financial position by reducing the demand for our products and services and our ability to compete in non-U.S. markets.

The operation of our storage facilities poses certain environmental risks, which could adversely affect our consolidated 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 some cases, we may acquire land with existing environmental issues, including landfills as an example. 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 U.K., we provide vehicle depollution 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 facilities which we may acquire in the future, 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 consolidated results of operations and financial position.

Adverse U.S. and international economic conditions may negatively affect our business, operating results, or financial condition.

The capital and credit markets have historically experienced extreme volatility and disruption, which has in the past and may in the future lead to economic downturns in the U.S. and abroad. As a result of any economic downturn, the number of miles driven may decrease, which may lead to fewer accident claims, a reduction of vehicle repairs, and fewer salvage vehicles. Increases in unemployment, as a result of any economic downturn, may lead to an increase in the number of uninsured motorists. Uninsured motorists are responsible for disposition of their vehicle if involved in an accident. Disposition generally is either the repair or disposal of the vehicle. In the situation where the owner of the wrecked vehicle, and not an insurance company, is responsible for its disposition, we believe it is more likely that vehicle will be repaired or, if disposed, disposed through channels other than us. Adverse credit markets may also affect the ability of members to secure financing to purchase salvaged vehicles which may adversely affect demand. In addition, if the banking system or the financial markets deteriorate or are volatile, our credit facility or our ability to obtain additional debt or equity financing may be affected. These adverse economic conditions and events may have a negative effect on our business, consolidated results of operations and financial position.

If we determine that our goodwill has become impaired, we could incur significant charges that would have a material adverse effect on our consolidated results of operations.

Goodwill represents the excess of cost over the fair market value of assets acquired in business combinations. As of July 31, 2017, the amount of goodwill on our consolidated balance sheet subject to future impairment testing was $340.2 million.

Pursuant to ASC 350, *Intangibles—Goodwill and Other*, we are required to annually test goodwill to determine if impairment has occurred, either through a quantitative or qualitative analysis. Additionally, interim reviews must be performed whenever events or changes in circumstances indicate that impairment may have occurred. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill and the implied fair value of the goodwill in the period the determination is made. The annual goodwill impairment analysis, which was performed qualitatively in the fourth quarter of fiscal 2017, considered all relevant factors specific to our reporting units, including macroeconomic conditions; industry and market considerations; overall financial performance and relevant entity-specific events. Changes in these factors, or changes in actual performance could affect the fair value of goodwill, which may result in an impairment charge. For example, deterioration in worldwide economic conditions could affect these assumptions and lead us to determine that goodwill impairment is required. We cannot accurately predict the amount or timing of any impairment of assets. We considered the above factors noting none involved significant uncertainty. In addition, the industry in which we operate improved over the observable period, and our calculated fair value exceeded carrying value for each reporting unit by a substantial amount in our prior year quantitative analysis, indicating no material risk as of July 31, 2017, with respect to potential goodwill impairments. Should the value of our goodwill become impaired, it could have a material adverse effect on our consolidated results of operations and could result in our incurring net losses in future periods.

Changes in federal, state and local, or foreign tax laws, changing interpretations of existing tax laws, or adverse determinations by tax authorities could increase our tax burden or otherwise adversely affect our financial condition or results of operations.

We are subject to taxation at the federal, state, provincial, and local levels in the United States, the United Kingdom, and various other countries and jurisdictions in which we operate, including income taxes, sales taxes, value-added (VAT) taxes, and similar taxes and assessments. The laws and regulations related to tax matters are extremely complex and subject to varying interpretations. Although we believe our tax positions are reasonable, we are subject to audit by the Internal Revenue Service in the United States, HM Revenue and Customs in the United Kingdom, state tax authorities in the states in which we operate, and other similar tax authorities in international jurisdictions. As previously disclosed, we have been subject to challenge by the Georgia Department of Revenue with respect to sales taxes and could face similar audits or challenges from applicable federal, state, or foreign tax authorities in the future. While we believe we comply with all applicable tax laws, rules, and regulations in the relevant jurisdictions, tax authorities may elect to audit us and determine that we owe additional taxes, which could result in a significant increase in our liabilities for taxes, interest, and penalties in excess of our accrued liabilities.

New tax legislative initiatives may be proposed from time to time, such as proposals for comprehensive tax reform in the United States, which may impact our effective tax rate and which could adversely affect our tax positions or tax liabilities. Our future effective tax rate could be adversely affected by, among other things, changes in the composition of earnings in jurisdictions with differing tax rates, changes in statutory rates and other legislative changes, changes in interpretations of existing tax laws, or changes in determinations regarding the jurisdictions in which we are subject to tax. From time to time, U.S. federal, state and local, and foreign governments make substantive changes to tax rules and their application, which could result in materially higher taxes than would be incurred under existing tax law and which could adversely affect our financial condition or results of operations.

New accounting pronouncements or new interpretations of existing standards could require us to make adjustments to accounting policies that could adversely affect the consolidated financial statements.

The Financial Accounting Standards Board, the Public Company Accounting Oversight Board, and the SEC, from time to time issue new pronouncements or new interpretations of existing accounting standards that require changes to our accounting policies and procedures. To date, we do not believe any new pronouncements or interpretations have had a material adverse effect on our consolidated results of operations and financial position, but future pronouncements or interpretations could require a change or changes in our policies or procedures.

Fluctuations in foreign currency exchange rates could result in declines in our reported revenues and earnings.

Our reported revenues and earnings are subject to fluctuations in currency exchange rates. We do not engage in foreign currency hedging arrangements; consequently, foreign currency fluctuations may adversely affect our revenues and earnings. Should we choose to engage in hedging activities in the future we cannot be assured our hedges will be effective or that the costs of the hedges will exceed their benefits. Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies, primarily the British pound, Canadian dollar, U.A.E. dirham, Bahraini dinar, Omani rial, Brazilian real, Indian rupee, Chinese renminbi, and European Union Euro could adversely affect our consolidated results of operations and financial position.

On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the European Union, commonly referred to as “Brexit.” In February 2017, the British Parliament voted in favor of allowing the British government to begin negotiating the terms of the U.K.’s withdrawal from the European Union and discussions with the European Union began in March 2017. Adverse consequences concerning Brexit or the European Union could include deterioration in global economic conditions, instability in global financial markets, political uncertainty, volatility in currency exchange rates, or adverse changes in the cross-border agreements currently in place, any of which could have an adverse impact on our financial results in the future.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

Our corporate headquarters are located in Dallas, Texas. This facility consists of approximately 96,000 square feet of office space under a lease which expires in fiscal 2024. In the U.S., we own or lease facilities in every state except North Dakota, South Dakota, and Vermont. In Canada, we own or lease facilities in the provinces of Ontario, Quebec, Alberta, Nova Scotia and New Brunswick. In the U.K., we own or lease 17 operating facilities. In Brazil, we own or lease eight operating facilities. In the Republic of Ireland, we own one operating facility. In the U.A.E., Oman, Bahrain, and India, we lease one operating facility in each country. In Germany and Spain, we operate online platforms and own one operating facility in each country. We believe that our existing facilities are adequate to meet current requirements and that suitable additional or substitute space will be available as needed to accommodate any expansion of operations and additional offices on commercially acceptable terms.

Item 3. *Legal Proceedings*

Legal Proceedings

We are subject to threats of litigation and are involved in actual litigation and damage claims arising in the ordinary course of business, such as actions related to injuries, property damage, contract disputes, and handling or disposal of vehicles. The material pending legal proceedings to which we are party, or of which our property is subject, include the following matters.

On November 1, 2013, we filed suit against Sparta Consulting, Inc. (now known as KPIT) in the 44th Judicial District Court of Dallas County, Texas, alleging fraud, fraudulent inducement, and/or promissory fraud, negligent misrepresentation, unfair business practices pursuant to California Business and Professions Code § 17200, breach of contract, declaratory judgment, and attorney's fees. We seek compensatory and exemplary damages, disgorgement of amounts paid, attorney's fees, pre- and post-judgment interest, costs of suit, and a judicial declaration of the parties' rights, duties, and obligations under the Implementation Services Agreement dated October 6, 2011. The suit arises out of our September 17, 2013 decision to terminate the Implementation Services Agreement, under which KPIT was to design, implement, and deliver a customized replacement enterprise resource planning system for us. On January 2, 2014, KPIT removed this suit to the United States District Court for the Northern District of Texas. On August 11, 2014, the Northern District of Texas transferred the suit to the United States District Court for the Eastern District of California for convenience. On January 8, 2014, KPIT filed suit against us in the United States District Court for the Eastern District of California, alleging breach of contract, promissory estoppel, breach of the implied covenant of good faith and fair dealing, account stated, quantum meruit, unjust enrichment, and declaratory relief. KPIT seeks compensatory and exemplary damages, prejudgment interest, costs of suit, and a judicial declaration of the parties' rights, duties, and obligations under the Implementation Services Agreement. On June 8, 2016, we amended our complaint to include claims that KPIT stole certain intellectual property owned by us and acted negligently in its provision of services. We are pursuing our claim for damages, and defending against KPIT's claim for damages. We and KPIT filed competing motions for summary judgment in January 2017. The Court issued its ruling on the motions on September 25, 2017. The order granted some of the relief sought by us, and some of the relief sought by KPIT. Our core claims remain in the case after the ruling, including our claims for fraud, fraudulent inducement, breach of contract, professional negligence, trade secret misappropriation, unfair competition, unjust enrichment, and computer hacking. KPIT's claims are now limited to breach of contract, breach of the implied covenant of good faith and fair dealing, and declaratory relief.

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

Governmental Proceedings

The Georgia Department of Revenue, or DOR, conducted a sales and use tax audit of our operations in Georgia for the period from January 1, 2007 through June 30, 2011. As a result of their initial audit, the DOR issued a notice of proposed assessment for uncollected sales taxes in which it asserted that we failed to collect and remit sales taxes totaling $73.8 million, including penalties and interest.

Subsequently, we engaged a Georgia law firm and outside tax advisors to review the conduct of our business operations in Georgia, the notice of proposed assessment, and the DOR's policy position. In particular, our outside legal counsel provided us with an opinion that the sales for resale to non-U.S. registered resellers should not be subject to Georgia sales and use tax. In rendering its opinion, our counsel noted that non-U.S. registered resellers are unable to comply strictly with technical requirements for a Georgia certificate of exemption but concluded that our sales for resale to non-U.S. registered resellers should not be subject to Georgia sales and use tax notwithstanding this technical inability to comply. Following our receipt of the notice of proposed assessment, we and our counsel engaged in active discussions with the DOR to resolve the matter.

On August 4, 2015, the DOR issued an official Assessment and Demand for Payment (the "Assessment") for $96.1 million for sales taxes, penalties, and interest that the DOR alleged we owe to the State of Georgia. We filed an appeal of this Assessment from the DOR with the Georgia Tax Tribunal on September 3, 2015. On August 5, 2016, the DOR filed a response in which it denied all allegations noted in our appeal of the Assessment.

During an extended remand period, it was determined that grounds exist for a substantial reduction in the Official Assessment, on the basis that (i) the transactions and resulting tax at issue were erroneously double-counted by the DOR in the audit sales transaction work papers on which the Assessment was based; and (ii) we were ultimately able to provide documentation showing that most of the remaining transactions were sales at wholesale, therefore qualifying for the sale for resale exemption from Georgia Sales and Use Tax. After these reductions, the remaining amount of principal Georgia Sales and Use Tax still in dispute between the parties is $2.6 million, plus applicable interest. A Consent Order to this effect was entered by the Georgia Tax Tribunal on May 22, 2017. Since the date of entry of the Consent Order, we and the DOR have exchanged discovery requests and initial discovery responses. We expect that discovery will be completed in the fall of 2017. We and the DOR will then present the case to the Tax Tribunal for final disposition.

Based on the opinion from our outside law firm, advice from our outside tax advisors, and our best estimate of a probable outcome, we believe that we have adequately provided for the payment of any assessment in our consolidated financial statements. We believe we have strong defenses to the remaining tax liability set forth above and intend to continue to defend this matter. There can be no assurance that this matter will be resolved in our favor or that we will not ultimately be required to make a substantial payment to the DOR. We understand that litigating and defending the matter in Georgia could be expensive and time-consuming and result in substantial management distraction. If the matter were to be resolved in a manner adverse to us, it could have a material adverse effect on our consolidated results of operations and financial position.

Item 4. *Mine Safety Disclosure*

Not applicable.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder 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, 2017, there were 230,488,296 shares outstanding. Our common stock has been quoted on the NASDAQ Global Select Market under the symbol "CPRT" since March 17, 1994. As of September 26, 2017, we had 946 stockholders of record. On July 31, 2017, the last reported sale price of our common stock on the NASDAQ Global Select Market was $31.49 per share.

	2017		2016	
	High	Low	High	Low
Fourth Quarter	$ 31.95	$ 29.18	$ 25.66	$ 21.25
Third Quarter	$ 31.20	$ 27.83	$ 21.42	$ 16.56
Second Quarter	$ 28.81	$ 25.40	$ 19.84	$ 16.51
First Quarter	$ 27.23	$ 24.87	$ 18.37	$ 16.45

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. The Credit Agreement to which we are a party contains customary affirmative and negative covenants, including covenants that limit or restrict us and our subsidiaries' ability to, among other things, pay dividends, subject to certain exceptions. For further detail see Notes to Consolidated Financial Statements, *Note 8 — Long-Term Debt* and *Note 11 — Stockholders' Equity* and under the subheadings "*Credit Agreement*" and "*Note Purchase Agreement*" in the Liquidity and Capital Resources sections of this Annual Report on Form 10-K.

Repurchase of Our Common Stock

On September 22, 2011, our Board of Directors approved an 80 million share increase in the stock repurchase program, bringing the total current authorization to 196 million shares. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the stock repurchase program. Subject to applicable securities laws, such repurchases will be made at such times and in such amounts as we deem appropriate and may be discontinued at any time. For fiscal 2017, we did not repurchase any shares of our common stock under the program. For fiscal 2016, we repurchased 5,877,038 shares of our common stock at a weighted average price of $20.065 per share totaling $117.9 million. For fiscal 2015, we repurchased 463,000 shares of our common stock at a weighted average price of $18.01 per share totaling $8.3 million. As of July 31, 2017, the total number of shares repurchased under the program was 106,913,602, and 89,086,398 shares were available for repurchase under our program.

On July 9, 2015, we completed a modified "Dutch Auction" tender offer, or tender offer, to purchase up to 27,777,776 shares of our common stock at a purchase price not greater than $18.00 nor less than $17.375 per share. In connection with the tender offer, we accepted for payment an aggregate of 12,508,122 shares of our common stock at a purchase price of $18.00 per share for a total value of $225.1 million. Additionally, on December 30, 2015, we completed a modified "Dutch Auction" tender offer, or tender offer, to purchase up to 14,634,146 shares of our common stock at a price not greater than $20.50 nor less than $19.00 per share. In connection with the tender offer, we accepted for payment an aggregate of 16,666,666 shares of our common stock at a purchase price of $19.50 per share for a total value of $325.0 million. Our directors and executive officers did not participate in the tender offers. The shares purchased as a result of the tender offers were not part of our stock repurchase program.

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

Period	Total Number of Shares	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet be Purchased Under the Program[1]
Fiscal 2015				
First Quarter	—	$ —	—	95,426,436
Second Quarter	—	$ —	—	95,426,436
Third Quarter	—	$ —	—	95,426,436
Fourth Quarter[2]	12,971,122	$ 18.00	463,000	94,963,436
Fiscal 2016				
First Quarter	—	$ —	—	94,963,436
Second Quarter[3]	16,666,666	$ 19.50	—	94,963,436
Third Quarter	5,877,038	$ 20.07	5,877,038	89,086,398
Fourth Quarter	—	$ —	—	89,086,398
Fiscal 2017				
First Quarter	—	$ —	—	89,086,398
Second Quarter	—	$ —	—	89,086,398
Third Quarter	—	$ —	—	89,086,398
May 1, 2017 through May 31, 2017	—	$ —	—	89,086,398
June 1, 2017 through June 30, 2017	—	$ —	—	89,086,398
July 1, 2017 through July 31, 2017	—	$ —	—	89,086,398

(1) The Company's stock repurchase program was announced on February 20, 2003. On September 22, 2011, the Company's board of directors approved an 80 million share increase in the Company's stock repurchase program, bringing the total current authorization to 196 million shares. The repurchase 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 stock repurchase program. Subject to applicable securities laws, such repurchases will be made at such times and in such amounts as the Company deems appropriate and may be discontinued at any time.

(2) Consists of 12,508,122 shares repurchased in connection with the tender offer at a purchase price of $18.00 per share and 463,000 shares repurchased through our publicly announced stock repurchase program.

(3) 16,666,666 shares were repurchased by the Company through its modified "Dutch Auction" tender offer under which the Company was to purchase up to 14,634,146 shares of its common stock at a price not greater than $20.50 nor less than $19.00 per share. The tender offer was announced on November 23, 2015 and was completed on December 30, 2015.

During fiscal 2017, 2016 and 2015, certain executive officers and employees exercised stock options through cashless exercises. A portion of the options exercised were net settled in satisfaction of the exercise price and federal and state minimum statutory tax withholding requirements. The Company remitted $134.6 million, $15.0 million and $3.8 million for the years ended July 31, 2017, 2016 and 2015, respectively, to the proper taxing authorities in satisfaction of the employees' minimum statutory withholding requirements.

The exercised stock options, utilizing a cashless exercise, are summarized in the following table:

Period	Options Exercised	Weighted Average Exercise Price	Shares Net Settled for Exercise	Shares Withheld for Taxes[(1)]	Net Shares to Employees	Weighted Average Share Price for Withholding	Employee Stock Based Tax Withholding (in 000s)
FY 2015—Q1	402,666	$ 9.80	249,242	70,832	82,592	$ 15.83	$ 1,121
FY 2015—Q3	279,380	10.14	152,042	41,312	86,026	18.64	770
FY 2015—Q4	400,000	6.01	133,204	104,316	162,480	18.04	1,882
FY 2016—Q4	2,260,000	9.32	821,296	586,304	852,400	25.65	15,039
FY 2017—Q1	18,000,000	7.70	5,408,972	5,255,322	7,335,706	25.62	134,615

(1) Shares withheld for taxes are treated as a repurchase of shares for accounting purposes but do not count against our stock repurchase program.

Issuances of Unregistered Securities

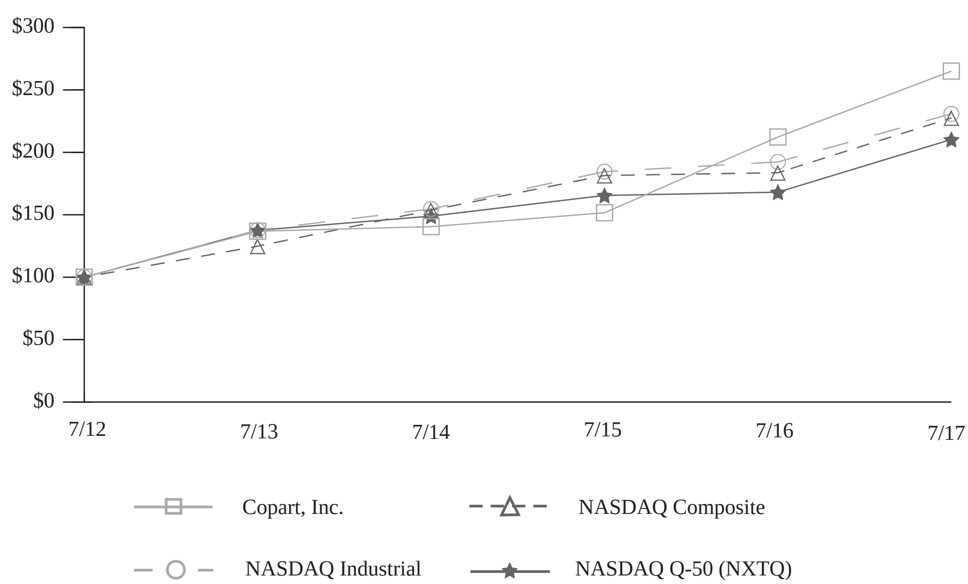
There were no issuances of unregistered securities in the year ended July 31, 2017.

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 incorporate this information by reference.

The following is a line graph comparing the cumulative total return to stockholders of our common stock at July 31, 2017 since July 31, 2012, to the cumulative total return over such period of (i) the NASDAQ Composite Index, (ii) the NASDAQ Industrial Index, and (iii) the NASDAQ Q-50 (NXTQ).

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Copart, Inc., the NASDAQ Composite Index,
the NASDAQ Industrial Index, and the NASDAQ Q-50 (NXTQ)



	Fiscal Year Ended July 31,					
	2012	2013	2014	2015	2016	2017
Copart, Inc.	$ 100.00	$ 136.83	$ 140.49	$ 151.64	$ 212.29	$ 265.07
NASDAQ Composite	$ 100.00	$ 124.83	$ 153.69	$ 181.45	$ 183.70	$ 227.57
NASDAQ Industrial	$ 100.00	$ 137.68	$ 154.66	$ 184.57	$ 192.33	$ 230.88
NASDAQ Q-50 (NXTQ)	$ 100.00	$ 137.58	$ 148.90	$ 165.49	$ 168.11	$ 210.32

* Assumes that $100.00 was invested on July 31, 2012 in our common stock, in the NASDAQ Composite Index, the NASDAQ Industrial Index and the NASDAQ Q-50 (NXTQ), and that all dividends were reinvested. No dividends have been declared on our common stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

Item 6. *Selected Financial Data*

The following selected consolidated financial data should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7. of this 10-K, and "Financial Statements and Supplementary Data" in Part II, Item 8 of this 10-K. Our historical results of operations are not necessarily indicative of results of operations to be expected for any future period.

	Fiscal Year Ended July 31,				
(In thousands, except per share)	2017(1)	2016(1)	2015(1)	2014(1)	2013(1)
Operating Data					
Revenues	$ 1,447,981	$ 1,268,449	$ 1,146,079	$ 1,163,489	$ 1,046,386
Operating income	461,299	406,470	344,401	274,934	282,992
Income before income taxes	440,100	395,865	332,069	270,035	276,872
Income taxes	45,839	125,505	112,286	91,348	96,847
Net income	$ 394,261	$ 270,360	$ 219,783	$ 178,687	$ 180,025
Basic net income per common share	$ 1.72	$ 1.18	$ 0.87	$ 0.71	$ 0.72
Weighted average common shares outstanding	228,686	228,846	251,829	251,387	249,824
Diluted net income per common share	$ 1.66	$ 1.11	$ 0.84	$ 0.68	$ 0.69
Diluted weighted average common shares outstanding	237,019	244,295	262,851	262,459	259,562
Balance Sheet Data					
Cash and cash equivalents	$ 210,100	$ 155,849	$ 456,012	$ 158,668	$ 63,631
Working capital	285,108	220,523	521,456	168,007	67,893
Total assets	1,982,501	1,649,820	1,798,660	1,506,121	1,333,316
Total debt	633,038	640,492	644,514	302,218	371,292
Stockholders' equity	1,098,600	774,456	964,464	1,003,499	762,401

(1) Shares and earnings per share data were revised from previously reported amounts due to a two-for-one common stock split effected in the form of a stock dividend. See Notes to Consolidated Financial Statements, Note *1 — Summary of Significant Accounting Policies.*

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the fiscal year ended July 31, 2017, or this Form 10-K, including the information incorporated by reference herein, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements other than statements of historical facts are statements that could be deemed forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "intend," " forecast," "anticipate," "believe," "estimate," "predict," "potential," "continue" or the negative of these terms or other comparable terminology. The forward-looking statements contained in this Form 10-K involve known and unknown risks, uncertainties and situations that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These forward-looking statements are made in reliance upon the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These factors include those listed in Part I, Item 1A under the caption entitled "Risk Factors" in this Form 10-K and those discussed elsewhere in this Form 10-K. Unless the context otherwise requires, references in this Form 10-K to "Copart," the "Company," "we," "us," or "our" refer to Copart, Inc. We encourage investors to review these factors carefully together with the other matters referred to herein, as well as in the other documents we file with the Securities and Exchange Commission (the SEC). We may from time to time make additional written and oral forward-looking statements, including statements contained in our filings with the SEC. We do not undertake to update any forward-looking statement that may be made from time to time by or on behalf of us.

All references to numbered Notes are to specific Notes to our Consolidated Financial Statements included in this Annual Report on Form 10-K and which descriptions are incorporated into the applicable response by reference. Capitalized terms used, but not defined, in this Management's Discussion and Analysis of Financial Condition and Results of Operation ("MD&A") have the same meanings as in such Notes.

Overview

We are a leading provider of online auctions and vehicle remarketing services with operations in the United States (U.S.), Canada, the United Kingdom (U.K.), the Republic of Ireland, Brazil, Germany, the United Arab Emirates (U.A.E.), Oman, Bahrain, India, and Spain.

We provide vehicle sellers with a full range of services to process and sell vehicles primarily over the Internet through our Virtual Bidding Third Generation Internet auction-style sales technology, which we refer to as VB3. Vehicle sellers consist primarily of insurance companies, but also include banks, finance companies, charities, fleet operators, dealers and vehicles sourced directly from individual owners. We sell the vehicles principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters and, at certain locations, to the general public. The majority of the vehicles sold on behalf of insurance companies are either damaged vehicles deemed a total loss or not economically repairable by the insurance companies, or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. We offer vehicle sellers a full range of services that expedite each stage of the vehicle sales process, minimize administrative and processing costs, and maximize the ultimate sales price.

In the U.S., Canada, the Republic of Ireland, Brazil, the U.A.E., Oman, Bahrain, India, and Spain, we sell vehicles primarily as an agent and derive revenue primarily from fees paid by vehicle sellers and vehicle buyers as well as related fees for services, such as towing and storage. In the U.K., we operate both as an agent and on a principal basis, purchasing the salvage vehicles outright from the insurance companies and reselling the vehicles for our own account. In Germany and Spain, we also derive revenue from sales listing fees for listing vehicles on behalf of many insurance companies.

We monitor and analyze a number of key financial performance indicators in order to manage our business and evaluate our financial and operating performance. Such indicators include:

Service and Vehicle Sales Revenue: Our revenue consists of sales transaction fees charged to vehicle sellers and vehicle buyers, transportation revenue, purchased vehicle revenue, and other remarketing services. Revenues from sellers are generally generated either on a fixed fee contract basis, where our fees are fixed based on the sale of each vehicle regardless of the selling price of the vehicle or under our Percentage Incentive Program, which we refer to as PIP, where our fees are generally based on a predetermined percentage of the vehicle sales price. Under the consignment or fixed fee program, we generally charge an additional fee for title processing and special preparation. We may also charge additional fees for the cost of transporting the vehicle to our facility, storage of the vehicle, and other incidental costs not included in the consignment fee. Under the consignment program, only the fees associated with vehicle processing are recorded in revenue, not the actual sales price (gross proceeds). Sales transaction fees also include fees charged to vehicle buyers for purchasing vehicles, storage, loading, and annual registration. Transportation revenue includes charges to sellers for towing vehicles under certain contracts and 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 is primarily generated in the U.K. We have certain contracts with insurance companies in which we act as a principal, purchasing vehicles and reselling them for our own account. We also purchase vehicles in the open market, primarily from individuals, and resell them for our own account.

Our revenue is impacted by several factors, including total loss frequency and the average vehicle auction selling price, as a significant amount of our service revenue is associated in some manner to the ultimate selling price of the vehicle. Vehicle auction selling prices are driven primarily by: (i) changes in commodity prices, particularly the per ton price for crushed car bodies, as we believe this has an impact on the ultimate selling price of vehicles sold for scrap and vehicles sold for dismantling; (ii) used car pricing, which we also believe has an impact on total loss frequency; (iii) the mix of cars sold; and (iv) changes in the U.S. dollar exchange rate to foreign currencies, which we believe has an impact on auction participation by international buyers. We cannot specifically quantify the financial impact that commodity pricing, used car pricing, and product sales mix has on the selling price of vehicles, our service revenues or financial results. Total loss frequency is the percentage of cars involved in accidents which insurance companies salvage rather than repair and is driven by the relationship between repairs costs, used car values, and auction returns. Over the last several years, we believe there has been an increase in overall growth in the salvage market driven by an increase in total loss frequency. The increase in total loss frequency may have been driven by the decline in used car values relative to repair costs, which we believe are generally trending upward. Conversely, increases in used car prices, such as occurred during the most recent recession, may decrease total loss frequency and adversely affect our growth rate. Used car values are determined by many factors, including used car supply, which is tied directly to new car sales, and the average age of cars on the road. The average age of cars on the road continued to increase, growing from 9.6 years in 2002 to 11.6 years in 2016. The factors that influence repair costs, used car pricing, and auction returns are many and varied and we cannot predict their movements. Accordingly, we cannot predict future trends in total loss frequency.

Operating Costs and Expenses: Yard operations expenses 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 sold under the purchase contracts. General and administrative expenses consist primarily of executive management, accounting, data processing, sales personnel, human resources, professional fees, research and development, and marketing expenses.

Other Income and Expense: Other income primarily includes income from the rental of certain real property, foreign exchange rate gains and losses, and gains and losses from the disposal of assets, which will fluctuate based on the nature of these activities each period. Other expense consists primarily of interest expense on long-term debt. See Notes to Consolidated Financial Statements, *Note 8 — Long-Term Debt.*

Liquidity and Cash Flows: Our primary source of working capital is cash operating results and debt financing. The primary source of our liquidity is our cash and cash equivalents and Revolving Loan Facility. The primary factors affecting cash operating results are: (i) seasonality; (ii) market wins and losses; (iii) supplier mix; (iv) accident frequency; (v) total loss frequency; (vi) increased volume from our existing suppliers; (vii) commodity pricing; (viii) used car pricing; (ix) foreign currency exchange rates; (x) product mix; (xi) contract mix to the extent applicable; and (xii) our capital expenditures. These factors are further discussed in the Results of Operations and Risk Factors sections of this Annual Report on Form 10-K.

Potential internal sources of additional working capital are the sale of assets or the issuance of shares through option exercises and shares issued under our Employee Stock Purchase Plan. A potential external source of additional working capital is the issuance of additional debt with new lenders and equity. However, we cannot predict if these sources will be available in the future or on commercially acceptable terms.

Acquisitions and New Operations

As part of our overall expansion strategy of offering integrated services to vehicle sellers, we anticipate acquiring and developing facilities in new regions, as well as the regions currently served by our facilities. We believe that these acquisitions and openings will strengthen our coverage, as we have facilities located in the U.S., Canada, the U.K., Brazil, the U.A.E., Oman, Bahrain, Germany, Spain, the Republic of Ireland and India with the intention of providing national coverage for our sellers. All of these acquisitions have been accounted for using the purchase method of accounting.

The following table sets forth facilities that we have acquired or opened and began operations from August 1, 2014 through July 31, 2017:

Locations	Acquisition or Greenfield	Date	Geographic Service Area
Dallas, Texas	Greenfield	March 2016	United States
Wilmer, Texas (Dallas)	Greenfield	April 2016	United States
Temple, Texas	Greenfield	April 2016	United States
Colorado Springs, Colorado	Greenfield	May 2016	United States
Denver, Colorado	Greenfield	July 2016	United States
Cartersville, Georgia	Greenfield	July 2016	United States
Brighton, Colorado (Denver)	Greenfield	August 2016	United States
Sun Valley, California (Los Angeles)	Greenfield	November 2016	United States
Casper, Wyoming	Greenfield	January 2017	United States
Littleton, Colorado (Denver)	Greenfield	January 2017	United States
Apopka, Florida (Orlando)	Greenfield	January 2017	United States
Alorton, Illinois (St. Louis)	Greenfield	February 2017	United States
Okeechobee, Florida	Greenfield	March 2017	United States
Ogden, Utah (Salt Lake City)	Greenfield	March 2017	United States
Wilmington, California (Long Beach)	Greenfield	March 2017	United States
Cycle Express, LLC[(1)]	Acquisition	June 2017	United States
Manama, Bahrain	Greenfield	May 2015	Bahrain
Muscat, Oman	Greenfield	June 2015	Oman
Moncton, New Brunswick	Greenfield	July 2015	Canada
Sonepat, India (New Delhi)	Greenfield	October 2015	India
Castledermot, Republic of Ireland	Greenfield	April 2016	Republic of Ireland
Algete, Spain (Madrid)	Greenfield	July 2016	Spain
Bad Fallingbostel, Germany (Hanover)	Greenfield	September 2016	Germany
Newbury, United Kingdom	Greenfield	September 2016	United Kingdom
Betim, Minas Gerais	Greenfield	April 2017	Brazil

(1) Cycle Express, LLC conducts business primarily as National Powersport Auctions (NPA), a leading non-salvage auction platform for motorcycles, snowmobiles, watercraft and other powersports vehicles. NPA currently operates facilities in Atlanta, Georgia; Cincinnati, Ohio; Dallas, Texas; Philadelphia, Pennsylvania; and San Diego, California.

The period-to-period comparability of our consolidated operating results and financial position is affected by business acquisitions, new openings, weather and product introductions during such periods. In particular, we have certain contracts inherited through our U.K. acquisitions that require us to act as a principal, purchasing vehicles from the insurance companies and reselling them for our own account. It has been our practice and remains our intention, where possible, to migrate these contracts to the agency model in future periods. Changes in the amount of revenue derived in a period from principal transactions relative to total revenue will impact revenue growth and margin percentages.

In addition to growth through business acquisitions, we seek to increase revenues and profitability by, among other things, (i) acquiring and developing additional vehicle storage facilities in key markets; (ii) pursuing national and regional vehicle seller agreements; (iii) increasing our service offerings to sellers and members; and (iv) expanding the application of VB3 into new markets. In addition, we implement our pricing structure and auction procedures, and attempt to introduce 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 shows certain data from our consolidated statements of income expressed as a percentage of total service revenues and vehicle sales for fiscal 2017, 2016 and 2015:

	Year Ended July 31,		
(In percentages)	**2017**	**2016**	**2015**
Service revenues and vehicle sales:			
Service revenues	89%	87%	86%
Vehicle sales	11%	13%	14%
Total service revenues and vehicle sales	100%	100%	100%
Operating expenses:			
Yard operations	47%	46%	46%
Cost of vehicle sales	9%	11%	12%
General and administrative	11%	11%	12%
Impairment of long-lived assets	1%	—%	—%
Total operating expenses	68%	68%	70%
Operating income	32%	32%	30%
Other (expense) income	(2)%	(1)%	(1)%
Income before income taxes	30%	31%	29%
Income taxes	3%	10%	10%
Net income	27%	21%	19%

Comparison of Fiscal Years ended July 31, 2017, 2016 and 2015

The following table presents a comparison of service revenues for fiscal 2017, 2016 and 2015:

	Year Ended July 31,			2017 vs. 2016		2016 vs. 2015	
(In thousands)	**2017**	**2016**	**2015**	**Change**	**% Change**	**Change**	**% Change**
Service revenues							
United States	$ 1,128,990	$ 958,558	$ 848,149	$ 170,432	17.8%	$ 110,409	13.0%
International	157,262	145,821	137,214	11,441	7.8%	8,607	6.3%
Total service revenues	$ 1,286,252	$ 1,104,379	$ 985,363	$ 181,873	16.5%	$ 119,016	12.1%

Service Revenues. The increase in service revenues for fiscal 2017 of $181.9 million, or 16.5% as compared to fiscal 2016 came from (i) an increase in the U.S. of $170.4 million and (ii) an increase in International of $11.4 million. The increase in the U.S. was driven primarily by increased volume and a marginal increase in revenue per car due to higher average auction selling prices, which we believe was due to higher commodity prices. The increase in volume in the U.S. was derived from (i) growth in the number of units sold from new and expanded contracts with insurance companies, and (ii) growth from existing suppliers, driven by what we believe was an increase in salvage frequency. Excluding a detrimental impact of $16.4 million due to changes in foreign currency exchange rates, primarily from changes in the British pound to U.S. dollar exchange rate, the increase in International of $27.8 million was driven primarily by increased volume and an increase in revenue per car.

The increase in service revenues for fiscal 2016 of $119.0 million, or 12.1% as compared to fiscal 2015 came from (i) growth in the U.S. of $110.4 million and (ii) growth in International of $8.6 million. The growth in the U.S. was driven primarily by increased volume, partially offset by lower average auction selling prices, which we believe was due to lower commodity prices. The increase in volume in the U.S. was derived from (i) growth from existing suppliers, driven by what we believe was an increase in salvage frequency, and (ii) growth in the number of units sold from new and expanded contracts with insurance companies. Excluding a detrimental impact of $11.8 million due to changes in foreign currency exchange rates, primarily from changes in the British pound and the Brazilian real to U.S. dollar exchange rates, the growth in International of $20.4 million was driven primarily by increased volume in the U.K. as we increased our market share and a marginal increase in revenue per car.

The following table presents a comparison of vehicle sales for fiscal 2017, 2016 and 2015:

	Year Ended July 31,			2017 vs. 2016		2016 vs. 2015	
(In thousands)	**2017**	**2016**	**2015**	**Change**	**% Change**	**Change**	**% Change**
Vehicle sales							
United States	$ 64,198	$ 57,478	$ 54,730	$ 6,720	11.7%	$ 2,748	5.0%
International	97,531	106,592	105,986	(9,061)	(8.5)%	606	0.6%
Total vehicle sales	$ 161,729	$ 164,070	$ 160,716	$ (2,341)	(1.4)%	$ 3,354	2.1%

Vehicle Sales. The decrease in vehicle sales for fiscal 2017 of $2.3 million, or 1.4% as compared to fiscal 2016 came from (i) a decrease in International of $9.1 million, partially offset by (ii) an increase in the U.S. of $6.7 million. Excluding a $13.9 million detrimental impact due to changes in foreign currency exchange rates, primarily from the change in the British pound to U.S. dollar exchange rate, the growth in International of $4.8 million was primarily the result of increased volume. The increase in the U.S. was primarily the result of higher average auction selling prices, which we believe was due to higher commodity prices and a change in the mix of vehicles sold, partially offset by a shift in volume for certain sellers from principal to agency business.

The increase in vehicle sales for fiscal 2016 of $3.4 million, or 2.1% as compared to fiscal 2015 came from (i) an increase in the U.S. of $2.7 million and (ii) an increase in International of $0.6 million. The growth in the U.S. was primarily the result of increased volume, partially offset by lower average auction selling prices, which we believe was due to lower commodity prices and a change in the mix of vehicles sold. The growth in International was primarily the result of increased volume, partially offset by a $7.0 million detrimental impact due to changes in foreign currency exchange rates, primarily from the change in the British pound to U.S. dollar exchange rate, and lower average selling prices driven by increased open market purchase activity from the general public.

The following table presents a comparison of yard operations expense for fiscal 2017, 2016 and 2015:

(In thousands)	Year Ended July 31, 2017	2016	2015	2017 vs. 2016 Change	% Change	2016 vs. 2015 Change	% Change
Yard operations expenses							
United States	$ 585,587	$ 494,146	$ 440,517	$ 91,441	18.5%	$ 53,629	12.2%
International	92,814	88,758	85,774	4,056	4.6%	2,984	3.5%
Total yard operations expenses	$ 678,401	$ 582,904	$ 526,291	$ 95,497	16.4%	$ 56,613	10.8%
Yard operations expenses, excluding depreciation and amortization							
United States	$ 553,329	$ 468,528	$ 413,985	$ 84,801	18.1%	$ 54,543	13.2%
International	85,117	80,718	77,389	4,399	5.4%	3,329	4.3%
Yard depreciation and amortization							
United States	$ 32,258	$ 25,618	$ 26,532	$ 6,640	25.9%	$ (914)	(3.4)%
International	7,697	8,040	8,385	(343)	(4.3)%	(345)	(4.1)%

Yard Operations Expenses. The increase in yard operations expenses for fiscal 2017 of $95.5 million, or 16.4% as compared to fiscal 2016 resulted from (i) an increase in the U.S. of $91.4 million, primarily from growth in volume and a marginal increase in the cost to process each car; and (ii) an increase in International of $4.1 million related primarily to growth in volume; partially offset by the beneficial impact of $9.1 million due to changes in foreign currency exchange rates, primarily from changes in the British pound to U.S. dollar exchange rate. Included in yard operations expenses were depreciation and amortization expenses. The increase in yard operations depreciation and amortization expenses resulted primarily from depreciating new and expanded facilities and certain technology assets placed into service in the U.S.

The increase in yard operations expenses for fiscal 2016 of $56.6 million, or 10.8% as compared to fiscal 2015 was the result of (i) an increase in the U.S. of $53.6 million, primarily from growth in volume and a marginal increase in the cost to process each car; and (ii) an increase in International of $3.0 million related primarily to growth in volume in the U.K., partially offset by the beneficial impact of $7.0 million due to changes in foreign currency exchange rates, primarily from changes in the British pound and the Brazilian real to U.S. dollar exchange rates. Included in yard operations expenses were depreciation and amortization expenses. The decrease in yard operations depreciation and amortization expenses resulted primarily from certain assets becoming fully depreciated in the U.S.

The following table presents a comparison of cost of vehicle sales for fiscal 2017, 2016 and 2015:

(In thousands)	Year Ended July 31, 2017	2016	2015	2017 vs. 2016 Change	% Change	2016 vs. 2015 Change	% Change
Cost of vehicle sales							
United States	$ 61,484	$ 55,866	$ 52,232	$ 5,618	10.1%	$ 3,634	7.0%
International	76,068	85,093	84,180	(9,025)	(10.6)%	913	1.1%
Total cost of vehicle sales	$ 137,552	$ 140,959	$ 136,412	$ (3,407)	(2.4)%	$ 4,547	3.3%

Cost of Vehicle Sales. The decrease in cost of vehicle sales for fiscal 2017 of $3.4 million, or 2.4% as compared to fiscal 2016 was the result of (i) a decrease in International of $9.0 million; partially offset by (ii) an increase in the U.S. of $5.6 million. Excluding the beneficial impact of $10.4 million due to changes in foreign currency exchange rates, primarily from changes in the British pound to U.S. dollar exchange rate, the increase in International of $1.4 million was primarily the result of increased volume. The increase in the U.S. was primarily the result of higher average purchase prices, which we believe is due to higher commodity prices and a change in the mix of vehicles sold; partially offset by a shift in volume for certain sellers from principal to agency business.

The decrease in cost of vehicle sales for fiscal 2016 of $4.5 million, or 3.3% as compared to fiscal 2015 was the result of (i) an increase in the U.S. of $3.6 million and (ii) an increase in International of $0.9 million. The increase in the U.S. was primarily the result of increased volume, partially offset by lower average purchase prices, which we believe was due to lower commodity prices and a change in the mix of vehicles sold. The increase in International was primarily the result of increased volume, partially offset by the beneficial impact of $5.6 million due to changes in foreign currency exchange rates, primarily from changes in the British pound and the Brazilian real to U.S. dollar exchange rates, and lower average purchases prices driven by increased open market purchase activity from the general public.

The following table presents a comparison of general and administrative expenses for fiscal 2017, 2016 and 2015:

	Year Ended July 31,			2017 vs. 2016		2016 vs. 2015	
(In thousands)	**2017**	**2016**	**2015**	**Change**	**% Change**	**Change**	**% Change**
General and administrative expenses							
United States	$ 130,392	$ 118,315	$ 120,140	$ 12,077	10.2%	$ (1,825)	(1.5)%
International	20,972	19,801	18,835	1,171	5.9%	966	5.1%
Total general and administrative expenses	$ 151,364	$ 138,116	$ 138,975	$ 13,248	9.6%	$ (859)	(0.6)%
General and administrative expenses, excluding depreciation and amortization							
United States	$ 115,143	$ 104,850	$ 110,433	$ 10,293	9.8%	$ (5,583)	(5.1)%
International	19,176	18,349	16,886	827	4.5%	1,463	8.7%
General and administrative depreciation and amortization							
United States	$ 15,249	$ 13,465	$ 9,707	$ 1,784	13.2%	$ 3,758	38.7%
International	1,796	1,452	1,949	344	23.7%	(497)	(25.5)%

General and Administrative Expenses. The increase in general and administrative expenses for fiscal 2017 of $13.2 million, or 9.6% as compared to fiscal 2016 came primarily from an increase in the U.S. of $12.1 million, and an increase in International of $1.2 million. Excluding depreciation and amortization, the increase in the U.S. of $10.3 million resulted primarily from the impact of payroll taxes from the exercise of employee stock options, an increase in professional services expenses, acquisition-related expenses, and charges related to sales tax and franchise tax adjustments. The increase in depreciation and amortization expenses for fiscal 2017 as compared to fiscal 2016 came primarily from depreciating certain technology assets placed into service in the U.S. See Notes to Consolidated Financial Statements, *Note 2 — Acquisitions.*

The decrease in general and administrative expenses for fiscal 2016 of $0.9 million, or 0.6% as compared to fiscal 2015 came primarily from a decrease in the U.S. of $1.8 million, partially offset by an increase in International of $1.0 million as we continue to expand in these markets. The decrease in the U.S. of $5.6 million, excluding depreciation and amortization, resulted from decreased expenditures on technology development; partially offset by the overall growth in labor costs and professional services associated with domestic expansion and increased stock-based payment compensation. The increase in depreciation and amortization expenses came primarily from depreciating certain technology assets placed into service in the U.S.

The following table summarizes impairment, total other expenses and income taxes for fiscal 2017, 2016 and 2015:

	Year Ended July 31,			2017 vs. 2016		2016 vs. 2015	
(In thousands)	**2017**	**2016**	**2015**	**Change**	**% Change**	**Change**	**% Change**
Impairment	$ 19,365	$ —	$ —	19,365	100.0%	—	—%
Total other expenses	(21,199)	(10,605)	(12,332)	(10,594)	(99.9)%	1,727	14.0%
Income taxes	45,839	125,505	112,286	(79,666)	(63.5)%	13,219	11.8%

Impairment. During fiscal 2017, we recognized a $19.4 million charge primarily related to fully impairing costs previously capitalized in connection with the development of business operating software.

Other (Expense) Income. The increase in total other expense for fiscal 2017 of $10.6 million, or 99.9% as compared to fiscal 2016 was primarily due to a decrease in currency gains in International, primarily due to the change in the British pound to U.S. dollar exchange rate and a change in the mix of currencies held in cash and cash equivalents.

The decrease in total other expense for fiscal 2016 of $1.7 million, or 14.0% as compared to fiscal 2015 was primarily due to increased currency gains in International, primarily in the U.K. of $8.3 million, partially offset by an increase in interest expense of $5.5 million as a result of the additional long-term debt issued in December 2014, March 2016 and July 2016. See Notes to Consolidated Financial Statements, *Note 8 — Long-Term Debt.*

Income Taxes. Our effective income tax rates were 10.4%, 31.7%, and 33.8% for fiscal 2017, 2016 and 2015, respectively. The decrease in the effective income tax rate for fiscal 2017 as compared to fiscal 2016 was primarily the result of recognizing excess tax benefits from the exercise of employee stock options of $107.6 million in fiscal 2017 as compared to $14.7 million in fiscal 2016, and the geographical allocation of our taxable income.

During the year ended July 31, 2016, we adopted ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which impacted the accounting for share-based payments, including income tax consequences. As a result of the adoption, we recognized excess tax benefits of $14.7 million as a reduction to tax expense in the consolidated statements of income, as though ASU 2016-09 had been in effect since the beginning of fiscal 2016, instead of reflected in stockholders' equity. The decrease in the effective income tax rate for fiscal 2016 as compared to fiscal 2015 was driven by the geographical allocation of our taxable income and the adoption of ASU 2016-09.

Liquidity and Capital Resources

The following table presents a comparison of key components of our liquidity and capital resources for fiscal 2017, 2016 and 2015, excluding additional funds available to us through our Revolving Loan Facility:

	July 31,			2017 vs. 2016		2016 vs. 2015	
(In thousands)	**2017**	**2016**	**2015**	**Change**	**% Change**	**Change**	**% Change**
Cash and cash equivalents	$ 210,100	$ 155,849	$ 456,012	$ 54,251	34.8%	$ (300,163)	(65.8)%
Working capital	285,108	220,523	521,456	64,585	29.3%	(300,933)	(57.7)%

	Year Ended July 31,			2017 vs. 2016		2016 vs. 2015	
(In thousands)	**2017**	**2016**	**2015**	**Change**	**% Change**	**Change**	**% Change**
Operating cash flows	$ 492,058	$ 332,498	$ 265,076	$ 159,560	48.0%	$ 67,422	25.4%
Investing cash flows	(335,791)	(172,876)	(81,915)	(162,915)	(94.2)%	(90,961)	(111.0)%
Financing cash flows	(106,975)	(448,496)	120,362	341,521	76.1%	(568,858)	(472.6)%
Capital expenditures, including acquisitions	$ (172,178)	$ (173,917)	$ (79,153)	$ 1,739	1.0%	$ (94,764)	(119.7)%
Acquisitions, net of cash acquired	(160,812)	—	—	(160,812)	(100.0)%	—	—%
Net (repayments) proceeds on revolving loan facility	(7,000)	238,000	—	(245,000)	(102.9)%	238,000	100.0%
Principal payments on long-term debt	—	(337,500)	(350,000)	337,500	100.0%	(12,500)	(3.6)%

Cash and cash equivalents and working capital increased at July 31, 2017 as compared July 31, 2016 primarily due to cash generated from operations, a decrease in repurchases of common stock, and proceeds from the exercise of stock options, partially offset by payments for employee stock-based tax withholdings, cash used for acquisitions, and net repayments on our Revolving Loan Facility. Cash equivalents consisted of bank deposits, domestic certificates of deposit, and funds invested in money market accounts, which bear interest at variable rates. Cash and cash equivalents decreased at July 31, 2016 as compared to July 31, 2015 primarily due to repurchases of common stock as part of our tender offer and stock repurchase program, capital expenditures, and payments on long-term debt, partially offset by cash generated from operations and proceeds from our Revolving Loan Facility. Working capital increased at July 31, 2016 as compared to July 31, 2015 primarily due to cash generated from operations and proceeds from our Revolving Loan Facility, partially offset by repurchases of common stock as part of our tender offer and stock repurchase program, capital expenditures, payments on long-term debt and changes in operating assets.

Historically, we have financed our growth through cash generated from operations, public offerings of common stock, equity issued in conjunction with certain acquisitions and debt financing. Our primary source of cash generated by operations is from the collection of sellers' fees, members' fees and reimbursable advances from the proceeds of vehicle sales. 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 program, we are considering a variety of alternative potential uses for our remaining cash balances and our cash flows from operations. These alternative potential uses include additional stock repurchases, repayments of long-term debt, the payment of dividends, and acquisitions. For further detail, see Notes to Consolidated Financial Statements, *Note 8 — Long-Term Debt* and *Note 11 — Stockholders' Equity* and under the subheadings "*Credit Agreement*" and "*Note Purchase Agreement*" below.

Our business is seasonal as inclement weather during the winter months increases the frequency of accidents and consequently, the number of cars involved in accidents which the insurance companies salvage rather than repair. During the winter months, most of our facilities process 10% to 30% more vehicles than at other times of the year. This increased volume requires the increased use of our cash to pay out advances and handling costs of the additional business.

We believe that our currently available cash and cash equivalents and cash generated from operations will be sufficient to satisfy our operating and working capital requirements for at least the next 12 months. We expect to acquire or develop additional locations and expand some of our current facilities in the foreseeable future. We may be required to raise additional cash through drawdowns on our Revolving Loan Facility or issuance of additional equity to fund this expansion. Although the timing and magnitude of growth through expansion and acquisitions are not predictable, the opening of new greenfield yards is contingent upon our ability to locate property that (i) is in an area in which we have a need for more capacity; (ii) has adequate size given the capacity needs; (iii) has the appropriate shape and topography for our operations; (iv) is reasonably close to a major road or highway; and (v) most importantly, has the appropriate zoning for our business. Costs to develop a new yard can range from $1.0 to $30.0 million, depending on size, location and developmental infrastructure requirements.

As of July 31, 2017, $167.5 million of the $210.1 million of cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not require repatriation to fund our U.S. operations.

Net cash used in operating activities increased for fiscal 2017 as compared to fiscal 2016 due to improved cash operating results from an increase in service revenues, partially offset by an increase in yard operations and general and administrative expenses, an impairment of previously capitalized software development assets, and changes in operating assets and liabilities. The change in operating assets and liabilities was primarily the result of a decrease in accounts payable of $44.1 million, an increase in income taxes receivable of $25.0 million, an increase in accounts receivable of $15.7 million, and a decrease in other assets of $3.1 million.

Net cash used in operating activities increased for fiscal 2016 as compared to fiscal 2015 due to improved cash operating results from an increase in service revenues, partially offset by an increase in yard operations expenses, an increase in interest expense, and changes in operating assets and liabilities. The change in operating assets and liabilities was primarily the result of an increase in accounts payable of $52.3 million, a decrease in accounts receivable of $33.8 million, a decrease in income taxes receivable of $11.8 million and a decrease in other assets of $6.0 million.

Net cash used in investing activities increased for fiscal 2017 as compared to fiscal 2016 due primarily to acquisitions, partially offset by a decline in capital expenditures. We acquired Cycle Express, LLC, which conducts business primarily as National Powersport Auctions (NPA), a leading non-salvage auction platform for motorcycles, snowmobiles, watercraft and other powersports vehicles. NPA currently operates facilities in Atlanta, Georgia; Cincinnati, Ohio; Dallas, Texas; Philadelphia, Pennsylvania; and San Diego, California. See Notes to Consolidated Financial Statements, *Note 2 — Acquisitions.* Our capital expenditures are primarily related to lease buyouts of certain facilities, opening and improving facilities, software development, and acquiring yard equipment. We continue to expand and invest in new and existing facilities and standardize the appearance of existing locations. We have no material non-cancelable commitments for future capital expenditures as of July 31, 2017. Included in capital expenditures were capitalized software development costs for new software for internal use and major software enhancements to existing software. Capitalized software development costs were $7.1 million, $14.1 million and $8.8 million for fiscal 2017, 2016 and 2015, respectively. If, at any time it is determined that capitalized software provides a reduced economic benefit, the unamortized portion of the capitalized development costs will be impaired. Additionally, during fiscal 2017, we recognized a $19.4 million charge primarily related to fully impairing costs previously capitalized in connection with the development of business operating software. See Notes to Consolidated Financial Statements, *Capitalized Software Costs* in *Note 1 — Summary of Significant Accounting Policies.*

Net cash used in investing activities increased for fiscal 2016 as compared to fiscal 2015 due primarily to increases in capital expenditures. Our capital expenditures were primarily related to lease buyouts of certain facilities, opening and improving facilities, software development, and acquiring yard equipment. Included in capital expenditures were capitalized software development costs for new software for internal use and major software enhancements to existing software.

Net cash used in financing activities decreased in fiscal 2017 as compared to fiscal 2016 primarily due a decrease in repurchases of our common stock as part of our tender offers and stock repurchase program as discussed in further detail under the subheading "*Stock Repurchases*", and an increase in proceeds from the exercise of stock options, partially offset by payments for employee stock-based tax withholdings. For further detail, see Notes to Consolidated Financial Statements, *Note 11 — Stockholders' Equity.*

Net cash used in financing activities increased in fiscal 2016 as compared to fiscal 2015 primarily due to the repurchases of our common stock as part of our stock repurchase program and our tender offer as discussed in further detail under the subheading "*Stock Repurchases*", and a decrease in proceeds from the issuance of long-term debt. For further detail, see Notes to Consolidated Financial Statements, *Note 8 — Long-Term Debt* and *Note 11 — Stockholders' Equity* and under the subheadings "*Credit Agreement*" and "*Note Purchase Agreement*".

Stock Repurchases

On September 22, 2011, our Board of Directors approved an 80 million share increase in the stock repurchase program, bringing the total current authorization to 196 million shares. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the stock repurchase program. Subject to applicable securities laws, such repurchases will be made at such times and in such amounts as we deem appropriate and may be discontinued at any time. For fiscal 2017, we did not repurchase any shares of our common stock under the program. For fiscal 2016, we repurchased 5,877,038 shares of our common stock at a weighted average price of $20.065 per share totaling $117.9 million. For fiscal 2015, we repurchased 463,000 shares of our common stock at a weighted average price of $18.01 per share totaling $8.3 million. As of July 31, 2017, the total number of shares repurchased under the program was 106,913,602 and 89,086,398 shares were available for repurchase under our program.

On July 9, 2015, we completed a modified "Dutch Auction" tender offer, or tender offer, to purchase up to 27,777,776 shares of our common stock at a purchase price not greater than $18.00 nor less than $17.375 per share. In connection with the tender offer, we accepted for payment an aggregate of 12,508,122 shares of our common stock at a purchase price of $18.00 per share for a total value of $225.1 million. Additionally, on December 30, 2015, we completed a modified "Dutch Auction" tender offer, or tender offer, to purchase up to 14,634,146 shares of our common stock at a price not greater than $20.50 nor less than $19.00 per share. In connection with the tender offer, we accepted for payment an aggregate of 16,666,666 shares of our common stock at a purchase price of $19.50 per share for a total value of $325.0 million. Our directors and executive officers did not participate in the tender offers. The shares purchased as a result of the tender offers were not part of our stock repurchase program.

During fiscal 2017, 2016 and 2015, certain executive officers and employees exercised stock options through cashless exercises. A portion of the options exercised were net settled in satisfaction of the exercise price and federal and state minimum statutory tax withholding requirements. We remitted $134.6 million, $15.0 million and $3.8 million for the years ended July 31, 2017, 2016 and 2015, respectively, to the proper taxing authorities in satisfaction of the employees' minimum statutory withholding requirements.

The exercised stock options, utilizing a cashless exercise, are summarized in the following table:

Period	Options Exercised	Weighted Average Exercise Price	Shares Net Settled for Exercise	Shares Withheld for Taxes[1]	Net Shares to Employees	Weighted Average Share Price for Withholding	Employee Stock Based Tax Withholding (in 000s)
FY 2015—Q1	402,666	$ 9.80	249,242	70,832	82,592	$ 15.83	$ 1,121
FY 2015—Q3	279,380	10.14	152,042	41,312	86,026	18.64	770
FY 2015—Q4	400,000	6.01	133,204	104,316	162,480	18.04	1,882
FY 2016—Q4	2,260,000	9.32	821,296	586,304	852,400	25.65	15,039
FY 2017—Q1	18,000,000	7.70	5,408,972	5,255,322	7,335,706	25.62	134,615

(1) Shares withheld for taxes are treated as a repurchase of shares for accounting purposes but do not count against our stock repurchase program.

Contractual Obligations

We lease certain domestic and foreign facilities, and certain equipment under non-cancelable operating leases. In addition to the minimum future lease commitments presented, the leases generally require us to pay property taxes, insurance, maintenance and repair costs which are not included in the table because we have determined these items are not material. The following table summarizes our significant contractual obligations and commercial commitments as of July 31, 2017:

(In thousands) Contractual Obligations	Payments Due by Fiscal Year					
	Less than 1 year	1–3 Years	3–5 Years	More than 5 Years	Other	Total
Long-term debt, revolving loan facility, including current portion[1]	$ 81,000	$ 150,000	$ —	$ 400,000	$ —	$ 631,000
Interest payments on long-term debt, revolving loan facility, including current portion[1]	20,662	40,410	37,020	82,221	—	180,313
Operating leases[2]	28,126	40,649	24,556	59,436	—	152,767
Capital leases[2]	1,153	996	13	—	—	2,162
Tax liabilities[3]	—	—	—	—	24,573	24,573
Total contractual obligations	$ 130,941	$ 232,055	$ 61,589	$ 541,657	$ 24,573	$ 990,815

Commercial Commitments[4]	Amount of Commitment Expiration Per Period					
	Less than 1 year	1–3 Years	3–5 Years	More than 5 Years	Other	Total
Letters of Credit	$ 15,764	$ —	$ —	$ —	$ —	$ 15,764

(1) Revolving loan facility payments of $81.0 million and $150.0 million and related interest payments reflect management's intent for the use of the Revolving Loan Facility, which may change on a quarter by quarter basis.

(2) Contractual obligations consist of future non-cancelable minimum lease payments under capital and operating leases, used in the normal course of business.

(3) Tax liabilities include the long-term liabilities in the consolidated balance sheet for unrecognized tax positions. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes.

(4) Commercial commitments consist primarily of letters of credit provided for insurance programs and certain business transactions.

Credit Agreement

On December 3, 2014, we entered into a Credit Agreement (as amended from time to time, the "Credit Amendment") with Wells Fargo Bank, National Association, as administrative agent, and Bank of America, N.A., as syndication agent. The Credit Agreement provided for (a) a secured revolving loan facility in an aggregate principal amount of up to $300.0 million (the "Revolving Loan Facility"), and (b) a secured term loan facility in an aggregate principal amount of $300.0 million (the "Term Loan"), which was fully drawn at closing. The Term Loan amortized $18.8 million per quarter.

On March 15, 2016, we entered into a First Amendment to Credit Agreement (the "Amendment to Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent and Bank of America, N.A. The Amendment to Credit Agreement amended certain terms of the Credit Agreement, dated as of December 3, 2014. The Amendment to Credit Agreement provided for (a) an increase in the secured revolving credit commitments by $50.0 million, bringing the aggregate principal amount of the revolving credit commitments under the Credit Agreement to $350.0 million, (b) a new secured term loan (the "Incremental Term Loan") in the aggregate principal amount of $93.8 million having a maturity date of March 15, 2021, and (c) an extension of the termination date of the Revolving Loan Facility and the maturity date of the Term Loan from December 3, 2019 to March 15, 2021. The Amendment to Credit Agreement extended the amortization period for the Term Loan, and decreased the quarterly amortization payments for that loan to $7.5 million per quarter. The Amendment to Credit Agreement additionally reduced the pricing levels under the Credit Agreement to a range of 0.15% to 0.30% in the case of the commitment fee, 1.125% to 2.0% in the case of the applicable margin for LIBOR loans, and 0.125% to 1.0% in the case of the applicable margin for base rate loans, based on our consolidated total net leverage ratio during the preceding fiscal quarter. We borrowed the entire $93.8 million principal amount of the Incremental Term Loan concurrent with the closing of the Amendment to Credit Agreement.

On July 21, 2016, we entered into a Second Amendment to Credit Agreement (the "Second Amendment to Credit Agreement") with Wells Fargo Bank, National Association, SunTrust Bank, and Bank of America, N.A., as administrative agent (as successor in interest to Wells Fargo Bank). The Second Amendment to Credit Agreement amends certain terms of the Credit Agreement, dated as of December 3, 2014 as amended by the Amendment to Credit Agreement, dated as of March 15, 2016. The Second Amendment to Credit Agreement provides for, among other things, (a) an increase in the secured revolving credit commitments by $500.0 million, bringing the aggregate principal amount of the revolving credit commitments under the Credit Agreement to $850.0 million, (b) the repayment of existing term loans outstanding under the Credit Agreement, (c) an extension of the termination date of the revolving credit facility under the Credit Agreement from March 15, 2021 to July 21, 2021, and (d) increased covenant flexibility.

Concurrent with the closing of the Second Amendment to Credit Agreement, we prepaid in full the outstanding $242.5 million principal amount of the Term Loan and Incremental Term Loan under the Credit Agreement without premium or penalty. The Second Amendment to Credit Agreement reduced the pricing levels under the Credit Agreement to a range of 0.125% to 0.20% in the case of the commitment fee, 1.00% to 1.75% in the case of the applicable margin for LIBOR loans, and 0.0% to 0.75% in the case of the applicable margin for base rate loans, in each case depending on our consolidated total net leverage ratio. The principal purposes of these financing transactions were to increase the size and availability under our Revolving Loan Facility and to provide additional long-term financing. The proceeds are being used for general corporate purposes, including working capital and capital expenditures, potential share repurchases, acquisitions, or other investments relating to our expansion strategies in domestic and international markets.

The Revolving Loan Facility under the Credit Agreement bears interest, at our election, at either (a) the Base Rate, which is defined as a fluctuating rate per annum equal to the greatest of (i) the Prime Rate in effect on such day; (ii) the Federal Funds Rate in effect on such date plus 0.50%; or (iii) an adjusted LIBOR rate determined on the basis of a one-month interest period plus 1.0%, in each case plus an applicable margin ranging from 0.0% to 0.75% based on our consolidated total net leverage ratio during the preceding fiscal quarter; or (b) an adjusted LIBOR rate plus an applicable margin ranging from 1.00% to 1.75% depending on our consolidated total net leverage ratio during the preceding fiscal quarter. Interest is due and payable quarterly, in arrears, for loans bearing interest at the Base Rate, and at the end of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted

LIBOR rate. The interest rate as of July 31, 2017 on our Revolving Loan Facility was the one month LIBOR rate of 1.23% plus an applicable margin of 1.00%. The carrying amount of the Credit Agreement is comprised of borrowings under which interest accrues under a fluctuating interest rate structure. Accordingly, the carrying value approximates fair value at July 31, 2017, and was classified within Level II of the fair value hierarchy.

Amounts borrowed under the Revolving Loan Facility may be repaid and reborrowed until the maturity date of July 21, 2021. We are obligated to pay a commitment fee on the unused portion of the Revolving Loan Facility. The commitment fee rate ranges from 0.125% to 0.20%, depending on our consolidated total net leverage ratio during the preceding fiscal quarter, on the average daily unused portion of the revolving credit commitment under the Credit Agreement. We had $231.0 million and $238.0 million of outstanding borrowings under the Revolving Loan Facility as of July 31, 2017 and July 31, 2016, respectively.

Our obligations under the Credit Agreement are guaranteed by certain of our domestic subsidiaries meeting materiality thresholds set forth in the Credit Agreement. Such obligations, including the guaranties, are secured by substantially all of our assets and the assets of the subsidiary guarantors pursuant to a Security Agreement, dated December 3, 2014, among us, the subsidiary guarantors from time to time party thereto, and Wells Fargo Bank, National Association, as collateral agent.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict us and our subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends, or make distributions on and repurchase stock, in each case subject to certain exceptions. We are also required to maintain compliance, measured at the end of each fiscal quarter, with a consolidated total net leverage ratio and a consolidated interest coverage ratio. The Credit Agreement contains no restrictions on the payment of dividends and other restricted payments, as defined, as long as (1) the consolidated total net leverage ratio, as defined, both before and after giving effect to any such dividend or restricted payment on a pro forma basis, is less than 3.25:1, in an unlimited amount, (2) if clause (1) is not available, so long as the consolidated total net leverage ratio both before and after giving effect to any such dividend on a pro forma basis is less than 3.50:1, in an aggregate amount not to exceed the available amount, as defined, and (3) if clauses (1) and (2) are not available, in an aggregate amount not to exceed $50.0 million; provided, that, minimum liquidity, as defined, shall be not less than $75.0 million both before and after giving effect to any such dividend or restricted payment. As of July 31, 2017, the consolidated total net leverage ratio was 0.83:1. Minimum liquidity as of July 31, 2017 was $803.2 million. Accordingly, we do not believe that the provisions of the Credit Agreement represent a significant restriction to our ability to pay dividends or to the successful future operations of the business. We have not paid a cash dividend since becoming a public company in 1994. We were in compliance with all covenants related to the Credit Agreement as of July 31, 2017.

Note Purchase Agreement

On December 3, 2014, we entered into a Note Purchase Agreement and sold to certain purchasers (collectively, the "Purchasers") $400.0 million in aggregate principal amount of senior secured notes (the "Senior Notes") consisting of (i) $100.0 million aggregate principal amount of 4.07% Senior Notes, Series A, due December 3, 2024; (ii) $100.0 million aggregate principal amount of 4.19% Senior Notes, Series B, due December 3, 2026; (iii) $100.0 million aggregate principal amount of 4.25% Senior Notes, Series C, due December 3, 2027; and (iv) $100.0 million aggregate principal amount of 4.35% Senior Notes, Series D, due December 3, 2029. Interest is due and payable quarterly, in arrears, on each of the Senior Notes. Proceeds from the Note Purchase Agreement are being used for general corporate purposes.

On July 21, 2016, we entered into Amendment No. 1 to Note Purchase Agreement (the "First Amendment to Note Purchase Agreement") which amended certain terms of the Note Purchase Agreement, including providing for increased flexibility substantially consistent with the changes included in the Second Amendment to Credit Agreement, including among other things increased covenant flexibility.

We may prepay the Senior Notes, in whole or in part, at any time, subject to certain conditions, including minimum amounts and payment of a make-whole amount equal to the discounted value of the remaining scheduled interest payments under the Senior Notes.

Our obligations under the Note Purchase Agreement are guaranteed by certain of our domestic subsidiaries meeting materiality thresholds set forth in the Note Purchase Agreement. Such obligations, including the guaranties, are secured by substantially all of our assets and the assets of the subsidiary guarantors. Our obligations and our subsidiary guarantors under the Note Purchase Agreement will be treated on a pari passu basis with the obligations of those entities under the Credit Agreement as well as any additional debt that we may obtain.

The Note Purchase Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict us and our subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends, or make distributions and repurchase stock, in each case subject to certain exceptions. We are also required to maintain compliance, measured at the end of each fiscal quarter, with a consolidated total net leverage ratio and a consolidated interest coverage ratio. The Note Purchase Agreement contains no restrictions on the payment of dividends and other restricted payments, as defined, as long as (1) the consolidated total net leverage ratio, as defined, both before and after giving effect to any such dividend or restricted payment on a pro forma basis, is less than 3.25:1, in an unlimited amount, (2) if clause (1) is not available, so long as the consolidated total net leverage ratio both before and after giving effect to any such dividend on a pro forma basis is less than 3.50:1, in an aggregate amount not to exceed the available amount, as defined, and (3) if clauses (1) and (2) are not available, in an aggregate amount not to exceed $50.0 million; provided, that, minimum liquidity, as defined, shall be not less than $75.0 million both before and after giving effect to any such dividend or restricted payment. As of July 31, 2017, the consolidated total net leverage ratio was 0.83:1. Minimum liquidity as of July 31, 2017 was $803.2 million. Accordingly, we do not believe that the provisions of the Note Purchase Agreement represent a significant restriction to our ability to pay dividends or to the successful future operations of the business. We have not paid a cash dividend since becoming a public company in 1994. We are in compliance with all covenants related to the Note Purchase Agreement as of July 31, 2017.

Related to the execution of the Credit Agreement, First Amendment to Credit Agreement, Second Amendment to Credit Agreement, and the Note Purchase Agreement, we incurred $3.4 million in costs, of which $2.0 million was capitalized as debt issuance fees and $1.4 million was recorded as a reduction of the long-term debt proceeds as a debt discount. During the year ended July 31, 2016, we recognized an expense of $0.6 million for prior capitalized costs into interest expense relating to the Second Amendment to Credit Agreement and payoff of the outstanding Term Loans. Both the debt issuance fees and debt discount are amortized to interest expense over the term of the respective debt instruments and are classified as reductions of the outstanding liability.

Off-Balance Sheet Arrangements

As of July 31, 2017, we had no off-balance sheet arrangements pursuant to Item 303(a)(4) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended.

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 costs related to vehicle pooling, self-insured reserves, allowance for doubtful accounts, income taxes, revenue recognition, stock-based payment compensation, purchase price allocations, long-lived asset impairment calculations and contingencies. 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 the Notes to Consolidated Financial Statements, *Note 1 — Summary of Significant Accounting Policies*. The following is a summary of the more significant judgments and estimates included in our critical accounting policies used in the preparation of our consolidated financial statements. We discuss, where appropriate, sensitivity to change based on other outcomes reasonably likely to occur.

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes in Part I., Item I., "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 member and seller agreements.

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 contracts, collecting the proceeds from the member. Pre-sale services, including towing, title processing, preparation and storage, as well as sale fees and other enhancement service fees meet the criteria for separate units of accounting. The revenue associated with each service is recognized upon completion of the respective service, net of applicable rebates or allowances. For certain sellers who are charged a proportionate fee based on high bid of the vehicle, the revenue associated with the pre-sale services is recognized upon completion of the sale when the total arrangement is fixed and determinable. The selling price of each service is determined based on management's best estimate and is allotted based on the relative selling price method.

Vehicle sales, where vehicles are purchased and remarketed on our own behalf, are recognized on the sale date, which is typically the point of high bid acceptance. Upon high bid acceptance, a legally binding contract is formed with the member, and we record the gross sales price as revenue.

We also 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 to determine whether we have met the requirements to separate them into units of accounting within a multiple-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. The fees for the post-sale services are recognized upon successful completion of those services using the relative selling price method.

We also charge members 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 member. 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 members or sellers.

We allocate arrangement consideration based on the relative estimated selling prices of the separate units of accounting containing multiple deliverables. Estimated selling prices are determined using management's best estimate. Significant inputs in our estimates of the selling price of separate units of accounting include market and pricing trends, pricing customization and practices, and profit objectives for the services.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual and interim periods within those annual reporting periods beginning after December 15, 2017. ASU 2014-09 allows adoption with either retrospective application to each period presented, or retrospective application with the cumulative effect recognized as of the date of initial application. ASU 2014-09 will be effective for us beginning with the first quarter of fiscal year 2019, the three months ended October 31, 2018. We are currently evaluating the impact of implementing ASU 2014-09 on the consolidated financial statements, as well as evaluating the transition alternatives.

While we are continuing to assess all potential impacts of ASU 2014-09, we currently believe the most significant impact relates to our performance obligations through the determination of distinct and separately identifiable services, which may be different from our current separate units of accounting under ASU 2009-13. Additionally, changes in revenue recognition requirements regarding our performance obligations within our service contracts could potentially result in either the earlier recognition of revenue and associated costs for certain performance obligations or the deferral of a significant portion of revenue and associated costs for a vehicle until the sale is substantially complete. Due to the variety and complexity of our contracts, the actual revenue recognition treatment required under ASU 2014-09 may be dependent on contract-specific terms and vary in some instances.

Fair Value of Financial Instruments

We record our financial assets and liabilities at fair value in accordance with the framework for measuring fair value in U.S. GAAP. In accordance with ASC 820, *Fair Value Measurements and Disclosures*, as amended by Accounting Standards Update 2011-04, we consider fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. This framework establishes a fair value hierarchy that prioritizes the inputs used to measure fair value:

Level I	Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.
Level II	Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. Interest rate hedges are valued at exit prices obtained from the counter-party.
Level III	Inputs that are generally unobservable. These inputs may be used with internally developed methodologies that result in management's best estimate.

The amounts recorded for financial instruments in our consolidated financial statements, which included cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values for fiscal 2017 and 2016 due to the short-term nature of those instruments, and are classified within Level II of the fair value hierarchy. Cash equivalents are classified within Level II of the fair value hierarchy because they are valued using quoted market prices of the underlying investments. See Notes to Consolidated Financial Statements, *Note 8 — Long-Term Debt* for additional fair value disclosures.

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, 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 subsequent periods on an average cost basis. Given the fixed cost nature of our business, there is not a direct correlation for an increase in expenses or units processed on vehicle pooling costs.

We apply the provisions of accounting guidance for subsequent measurement of inventory to our vehicle pooling costs. The provision requires that items such as idle facility expense, double freight and rehandling costs be recognized as current period charges, regardless of whether they meet the criteria of "abnormal" as provided in the guidance. In addition, the guidance requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of production facilities.

Long-lived Asset Valuation, Including Intangible Assets

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

Capitalized Software Costs

We capitalize system development costs and website development costs related to our enterprise computing services during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, generally three years. Management evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. Total gross capitalized software as of July 31, 2017 and 2016 was $38.5 million and $49.4 million, respectively. Accumulated amortization expense related to software as of July 31, 2017 and 2016 totaled $25.7 million and $20.9 million, respectively. During the year ended July 31, 2016, we retired fully amortized capitalized software of $29.8 million, which were no longer being utilized. Additionally, during fiscal 2017, we recognized a $19.4 million charge primarily related to fully impairing costs previously capitalized in connection with the development of business operating software.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts in order to provide for estimated losses resulting from disputed amounts billed to sellers or members and the inability of our sellers or members to make required payments. If billing disputes exceed expectations and/or if the financial condition of our sellers or members were to deteriorate, additional allowances may be required. The allowance is calculated by taking both seller and buyer accounts receivables written off during the previous 12 month period as a percentage of the total accounts receivable balance. A one percentage point adverse change to the write-off percentage would have resulted in an increase to the allowance for doubtful accounts balance of $2.6 million.

Valuation of Goodwill

We evaluate the impairment of goodwill for our reporting units annually or on an interim basis if certain indicators are present, either through a quantitative or qualitative analysis. We have historically evaluated goodwill for impairment annually as of the end of the fourth quarter, or when an indicator of impairment exists. During the year ended July 31, 2017, we voluntarily changed the date of our annual goodwill impairment assessment for our reporting units from the end of fiscal fourth quarter, July 31, to the beginning of fiscal fourth quarter, May 1. This voluntary change in the annual goodwill assessment date is a change in accounting principle, which we believe is preferable as it more closely aligns the timing of the annual goodwill impairment assessment date with the most current information from our planning and forecasting process and also provides us with additional time to complete the annual assessment in advance of our year-end reporting. This change in the annual assessment date does not delay, accelerate, or avoid an impairment charge. This change was not applied retrospectively as it was impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change has been applied prospectively.

The annual goodwill impairment analysis, which was performed qualitatively during the fourth quarter of fiscal 2017, considered all relevant factors specific to our reporting units, including macroeconomic conditions; industry and market considerations; overall financial performance and relevant entity-specific events. Management considered the above factors noting none involved significant uncertainty. In addition, the industry in which we operate improved over the observable period, and our calculated fair value exceeded carrying value for each reporting unit by a substantial amount in our prior year quantitative analysis, indicating no material risk as of July 31, 2017, with respect to potential goodwill impairments.

Income Taxes and Deferred Tax Assets

We account for income tax exposures as required under ASC 740, *Income Taxes.* We are subject to income taxes in the U.S., Canada, the U.K., Brazil, Spain, Germany, and other emerging markets around the world. In arriving at a provision of income taxes, we first calculate taxes payable in accordance with the prevailing tax laws in the jurisdictions in which we operate. Then we analyze the timing differences between the financial reporting and tax basis of our assets and liabilities, such as various accruals, depreciation and amortization. The tax effects of the timing difference are presented as deferred tax assets and liabilities in the consolidated balance sheets. We assess the probability that the deferred tax assets will be realized based on our ability to generate future taxable income. In the event that it is more likely than not, the full benefit would not be realized from deferred tax assets, we record a valuation allowance to reduce the carrying value of the deferred tax assets to the amount expected to be realized. As of July 31, 2017, we have $6.5 million of valuation allowance arising from both our U.S. and International operations. To the extent we establish a valuation allowance or change the amount of valuation allowance in a period, we reflect the change with a corresponding increase or decrease in our income tax provision in the consolidated statements of income.

Historically, our income tax provision has been sufficient to cover our actual income tax liabilities among the jurisdictions in which we operate. Nonetheless, our future effective tax rate could still be adversely affected by several factors, including (i) the geographical allocation of our future earnings; (ii) the change in tax laws or our interpretation of tax laws; (iii) the changes in governing regulations and accounting principles; (iv) the changes in the valuation of our deferred tax assets and liabilities; and (v) the outcome of the income tax examinations. We routinely assess the possibilities of material changes resulting from the aforementioned factors to determine the adequacy of our income tax provision. The repatriation of our accumulated foreign earnings could also affect our effective tax rate, nevertheless, we intend to indefinitely reinvest these earnings in our foreign operations and do not anticipate the need for any of our foreign subsidiaries' cash in the U.S. operations. Accordingly, we do not provide for U.S. federal income and foreign withholding tax on these earnings.

Based on our results for the year ended July 31, 2017, a one percentage adverse change in our provision for income taxes as a percentage of income before taxes would have resulted in an increase in the income tax expense of $4.4 million.

We recognize and measure uncertain tax positions in accordance with ASC740, *Income Taxes,* pursuant to which we only recognize the tax benefit from an uncertain tax position if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. ASC740 further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions be recognized in earnings in the quarter in which such change occurs. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

We file annual income tax returns in multiple taxing jurisdictions. A number of years may elapse before an uncertain tax position is audited by the relevant tax authorities and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our reserves for income taxes reflect the most likely outcome. We adjust these reserves, as well as the related interest, where appropriate in light of changing facts and circumstances. Settlement of any particular position could require the use of cash.

Stock-based Payment Compensation

We account for our stock-based awards to employees and non-employees using the fair value method. Compensation cost related to stock-based payment transactions are recognized based on the fair value of the equity or liability instruments issued. Determining the fair value of options using the Black-Scholes Merton option pricing 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 measurement 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 our consolidated results of operations and financial position. During the year ended July 31, 2016, we adopted ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which impacted the accounting for share-based payments, including income tax consequences. As a result of the adoption, we recognized excess tax benefits of $14.7 million as a reduction to tax expense in the consolidated statements of income, as though ASU 2016-09 had been in effect since the beginning of fiscal 2016, instead of reflected in stockholders' equity.

Foreign Currency Translation

We record foreign currency translation adjustments from the process of translating the functional currency of the financial statements of our foreign subsidiaries into the U.S. dollar reporting currency. The Canadian dollar, British pound, U.A.E. dirham, Bahraini dinar, Omani rial, Brazilian real, Indian rupee, Chinese renminbi, and European Union Euro are the functional currencies of our foreign subsidiaries as they are the primary currencies within the economic environment in which each subsidiary operates. The original equity investment in the respective subsidiaries is translated at historical rates. Assets and liabilities of the respective subsidiary's operations are translated into U.S. dollars at period-end exchange rates, and revenues and expenses are translated into U.S. dollars at average exchange rates in effect during each reporting period. Adjustments resulting from the translation of each subsidiary's financial statements are reported in other comprehensive income.

Retained Insurance Liabilities

We are partially self-insured for certain losses related to medical, general liability, workers' compensation and auto liability. Our insurance policies are subject to a $250,000 deductible per claim, with the exception of our medical policy which has a $500,000 stop loss per person. Our liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date, including an estimate for reported and unreported claims. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial estimates. The primary estimates used in the actuarial analysis include total payroll and revenue. Historically, our estimates have not materially fluctuated from actual results. 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 consolidated results of operations, financial position or cash flows could be impacted. The process of determining our insurance reserves requires estimates with various assumptions, each of which can positively or negatively impact those balances. The total amount reserved for all policies was $5.3 million as of July 31, 2017. If the total number of participants in the medical plan changed by 10%, we estimate that our annual medical expense would change by $2.0 million and our accrual for medical expenses would change by $0.2 million. If our total payroll changed by 10%, we estimate that our annual workers' compensation expense and our accrual for workers' compensation expenses would change by less than $0.2 million. A 10% change in revenue would change our insurance premium for the general liability and umbrella policy by an insignificant amount.

Accounting for Acquisitions

We recognize and measure identifiable assets acquired and liabilities assumed in acquired entities in accordance with ASC 805, *Business Combinations.* The accounting for acquisitions involves significant judgments and estimates, including the fair value of certain forms of consideration, the fair value of acquired intangible assets, which involve projections of future revenues, cash flows and terminal value, which are then either discounted at an estimated discount rate or measured at an estimated royalty rate, and the fair value of other acquired assets and assumed liabilities, including potential contingencies and the useful lives of the assets. The projections are developed using internal forecasts, available industry and market data and estimates of long-term growth rates of our business. Historical experience is additionally utilized, in which historical or current costs have approximated fair value for certain assets acquired.

Segment Reporting

Our U.S. and International regions are considered two separate operating segments and are disclosed as two reportable segments. The segments represent geographic areas and reflect how the chief operating decision maker allocates resources and measures results, including total revenues, operating income and income before income taxes. The segments continue to share similar business models, services and economic characteristics. Our revenues for the year ended July 31, 2017 were distributed as follows: U.S. 82.4% and International 17.6%. Geographic information as well as comparative segment revenues and related financial information pertaining to the U.S. and International segments for the years ended July 31, 2017, 2016 and 2015 are presented in the tables in Note *14 — Segments and Other Geographic Reporting*, to the Notes to Consolidated Financial Statements, which are included under in Part II, Item 8 of this 10-K.

Recently Issued Accounting Standards

For a description of the new accounting standards that affect us, refer to the Notes to Consolidated Financial Statements, *Note 1 — Summary of Significant Accounting Policies.*

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

Our principal exposures to financial market risk are interest rate risk, foreign currency risk and translation risk. We do not hold or issue financial instruments for trading purposes.

Interest Income Risk

The primary objective of our investment activities is to preserve principal while secondarily maximizing yields without significantly increasing risk. To achieve this objective in the current uncertain global financial markets, all cash and cash equivalents were held in bank deposits and money market funds as of July 31, 2017. As the interest rates on a material portion of our cash and cash equivalents are variable, a change in interest rates earned on our investment portfolio would impact interest income along with cash flows but would not materially impact the fair market value of the related underlying instruments. As of July 31, 2017, we held no direct investments in auction rate securities, collateralized debt obligations, structured investment vehicles or mortgaged-backed securities. Based on the average cash balance held for fiscal 2017, a hypothetical 10% adverse change in our interest yield would not have materially affected our operating results.

Interest Expense Risk

Our total borrowings under the Revolving Loan Facility under the Credit Agreement were $231.0 million as of July 31, 2017. The Revolving Loan Facility under the Credit Agreement bears interest, at our election, at either (a) the Base Rate, which is defined as a fluctuating rate per annum equal to the greatest of (i) the Prime Rate in effect on such day; (ii) the Federal Funds Rate in effect on such date plus 0.50%; or (iii) an adjusted LIBOR rate determined on the basis of a one-month interest period plus 1.0%, in each case plus an applicable margin ranging from 0.0% to 0.75% based on our consolidated total net leverage ratio during the preceding fiscal quarter; or (b) an adjusted LIBOR rate plus an applicable margin ranging from 1.00% to 1.75% depending on our consolidated total net leverage ratio during the preceding fiscal quarter. Interest is due and payable quarterly, in arrears, for loans bearing interest at the Base Rate, and at the end of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. If interest rates were to increase by 10%, our interest expense would increase by $2.4 million.

Foreign Currency and Translation Exposure

Fluctuations in foreign currencies create volatility in our reported results of operations because we are required to consolidate the results of operations of our foreign currency denominated subsidiaries. International net revenues are typically denominated in the local currency of each country and result from transactions by our operations in Canada, the U.K., the U.A.E., Brazil, Spain, Germany, and India. These operations also incur a majority of their expenses in the local currency, the Canadian dollar, British pound, U.A.E. dirham, Bahraini dinar, Omani rial, Brazilian real, Euro and Indian rupee. Our international operations are subject to risks associated with foreign exchange rate volatility, which could have a material and adverse impact on our future results. A hypothetical 10% adverse change in the value of the U.S. dollar relative to the Canadian dollar, British pound, U.A.E. dirham, Bahraini dinar, Omani rial, Brazilian real, Euro and Indian rupee would have resulted in a decrease in operating income of $6.8 million for fiscal 2017.

On June 23, 2016, the U.K. held a referendum in which voters approved an exit from the European Union, commonly referred to as "Brexit." As a result of the referendum, it is expected that the British government will begin negotiating the terms of the U.K.'s withdrawal from the European Union and the U.K.'s future relationships with European Union member states. Adverse consequences concerning Brexit or the European Union could include deterioration in global economic conditions, instability in global financial markets, political uncertainty, volatility in currency exchange rates, or adverse changes in the cross-border agreements currently in place, any of which could have an adverse impact on our financial results in the future.

Fluctuations in foreign currencies also create volatility in our consolidated financial position, because we are required to remeasure substantially all assets and liabilities held by our foreign subsidiaries at the current exchange rate at the close of the accounting period. At July 31, 2017, the cumulative effect of foreign exchange rate fluctuations on our consolidated financial position was a net translation loss of $100.7 million. This loss was recognized as an adjustment to stockholders' equity through accumulated other comprehensive income. A hypothetical 10% adverse change in the value of the U.S. dollar relative to the Canadian dollar, British pound, U.A.E. dirham, Bahraini dinar, Omani rial, Brazilian real, Indian rupee, Chinese renminbi, and European Union Euro would not have materially affected our consolidated financial position.

We do not hedge our exposure to translation risks arising from fluctuations in foreign currency exchange rates.

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 consolidated 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 (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), 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 Chief Executive Officer (CEO) and our Chief Financial Officer (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, is recorded, processed, summarized and reported within the time periods specified in the 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.

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 Securities and Exchange Commission.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f)) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of consolidated 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 consolidated 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 consolidated financial statements.

Management assessed our internal control over financial reporting for the fiscal year ended July 31, 2017. Management based its assessment on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). 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 consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles. The certifications of our principal executive officer and principal financial officer attached as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K include, in paragraph 4 of such certifications, information concerning our disclosure controls and procedures and internal controls over financial reporting. 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, 2017. 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 Stockholders of Copart, Inc.

We have audited Copart, Inc.'s internal control over financial reporting as of July 31, 2017, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Copart, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Copart, Inc. maintained, in all material respects, effective internal control over financial reporting as of July 31, 2017, 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, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended July 31, 2017 of Copart, Inc. and our report dated September 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas
September 27, 2017

Limitations on the Effectiveness of Controls

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

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting 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 Annual Report on Form 10-K because we intend to file a definitive proxy statement for our 2017 Annual Meeting of Stockholders (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 required by this item is incorporated by reference to the sections entitled "Proposal Number One — Election of Directors," "Corporate Governance and Board of Directors" and "Related Person Transactions and Section 16(a) Beneficial Ownership Compliance" in 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.

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

Item 11. *Executive Compensation*

The information required by this item is incorporated herein by reference from the Proxy Statement (to be filed with the Securities and Exchange Commission within 120 days of our July 31, 2017 fiscal year end) under the heading "Executive Compensation," "Compensation of Directors," and "Corporate Governance and Board of Directors."

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

The information required by this item is incorporated herein by reference from the Proxy Statement (to be filed with the Securities and Exchange Commission within 120 days of our July 31, 2017 fiscal year end) under the headings "Security Ownership" and "Executive Compensation," subheading "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 (to be filed with the Securities and Exchange Commission within 120 days of our July 31, 2017 fiscal year end) under the heading "Related Person Transactions and Section 16(a) Beneficial Ownership Compliance," "Corporate Governance and Board of Directors," and "Proposal Number One — Election of Directors."

Item 14. *Principal Accounting Fees and Services*

The information required by this item is incorporated herein by reference from the section captioned "Proposal Number Four — Ratification of Appointment of Independent Registered Public Accounting Firm" in the Proxy Statement (to be filed with the Securities and Exchange Commission within 120 days of our July 31, 2017 fiscal year end).

PART IV

Item 15. *Exhibits, Financial Statement Schedules*

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

(a) Financial statements:

Our consolidated financial statements at July 31, 2017 and 2016 and for each of the three years in the period ended July 31, 2017 and the notes thereto, together with the report of the independent registered public accounting firm on those consolidated financial statements are hereby filed as part of this annual report on Form 10-K.

(b) Financial statement schedules:

No financial statement schedules are presented since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

(c) Exhibits:

Exhibits are filed as part of this Report and are hereby incorporated by reference. Refer to Exhibit Index included herein.

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/ A. JAYSON ADAIR

A. Jayson Adair
Chief Executive Officer
(Principal Executive Officer and Director)

Date: September 27, 2017

COPART, INC.

By: /s/ JEFFREY LIAW

Jeffrey Liaw, Chief Financial Officer (Principle Financial and Accounting Officer and duly Authorized Officer)

Date: September 27, 2017

POWER OF ATTORNEY

KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints A. Jayson Adair and Jeffrey Liaw, 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.

Signature	Capacity in Which Signed	Date
/s/ A. JAYSON ADAIR A. Jayson Adair	Chief Executive Officer (Principal Executive Officer and Director)	September 27, 2017
/s/ JEFFREY LIAW Jeffrey Liaw	Chief Financial Officer (Principal Financial and Accounting Officer)	September 27, 2017
/s/ WILLIS J. JOHNSON Willis J. Johnson	Chairman of the Board	September 27, 2017
/s/ VINCENT W. MITZ Vincent W. Mitz	President and Director	September 27, 2017
/s/ JAMES E. MEEKS James E. Meeks	Director	September 27, 2017
/s/ STEVEN D. COHAN Steven D. Cohan	Director	September 27, 2017
/s/ DANIEL ENGLANDER Daniel Englander	Director	September 27, 2017
/s/ THOMAS N. TRYFOROS Thomas N. Tryforos	Director	September 27, 2017
/s/ MATT BLUNT Matt Blunt	Director	September 27, 2017

Copart, Inc.

Index to Consolidated Financial Statements

and Financial Statement Schedule

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Copart, Inc.

We have audited the accompanying consolidated balance sheets of Copart, Inc. as of July 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended July 31, 2017. 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, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended July 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Copart, Inc.'s internal control over financial reporting as of July 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated September 27, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Dallas, Texas
September 27, 2017

COPART, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	July 31, 2017	July 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 210,100	$ 155,849
Accounts receivable, net	311,846	266,270
Vehicle pooling costs	31,118	28,599
Inventories	10,163	10,388
Income taxes receivable	6,418	18,751
Deferred income taxes	—	1,444
Prepaid expenses and other assets	17,616	18,005
Total current assets	587,261	499,306
Property and equipment, net	944,056	816,791
Intangibles, net	75,938	11,761
Goodwill	340,243	260,198
Deferred income taxes	1,287	23,506
Other assets	33,716	38,258
Total assets	$ 1,982,501	$ 1,649,820
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 208,415	$ 192,379
Deferred revenue	5,019	4,628
Deferred income taxes	92	—
Income taxes payable	6,472	5,625
Current portion of revolving loan facility and capital lease obligations	82,155	76,151
Total current liabilities	302,153	278,783
Deferred income taxes	3,192	3,816
Income taxes payable	24,573	25,641
Long-term debt, revolving loan facility, and capital lease obligations, net of discount	550,883	564,341
Other liabilities	3,100	2,783
Total liabilities	883,901	875,364
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: $0.0001 par value—5,000,000 shares authorized; none issued	—	—
Common stock: $0.0001 par value—400,000,000 shares authorized; 230,488,296 and 220,244,120 shares issued and outstanding, respectively	23	22
Additional paid-in capital	453,349	392,434
Accumulated other comprehensive loss	(100,676)	(109,194)
Retained earnings	745,370	491,194
Noncontrolling interest	534	—
Total stockholders' equity	1,098,600	774,456
Total liabilities and stockholders' equity	$ 1,982,501	$ 1,649,820

The accompanying notes are an integral part of these consolidated financial statements.

COPART, INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Year Ended July 31,		
	2017	2016	2015
Service revenues and vehicle sales:			
Service revenues	$ 1,286,252	$ 1,104,379	$ 985,363
Vehicle sales	161,729	164,070	160,716
Total service revenues and vehicle sales	1,447,981	1,268,449	1,146,079
Operating expenses:			
Yard operations	678,401	582,904	526,291
Cost of vehicle sales	137,552	140,959	136,412
General and administrative	151,364	138,116	138,975
Impairment of long-lived assets	19,365	—	—
Total operating expenses	986,682	861,979	801,678
Operating income	461,299	406,470	344,401
Other (expense) income:			
Interest expense	(23,779)	(23,606)	(18,121)
Interest income	1,406	1,449	817
Other income, net	1,174	11,552	4,972
Total other expense	(21,199)	(10,605)	(12,332)
Income before income tax expense	440,100	395,865	332,069
Income tax expense	45,839	125,505	112,286
Net income	394,261	270,360	219,783
Net income attributable to noncontrolling interest	34	—	—
Net income attributable to Copart, Inc.	$ 394,227	$ 270,360	$ 219,783
Basic net income per common share	$ 1.72	$ 1.18	$ 0.87
Weighted average common shares outstanding	228,686	228,846	251,829
Diluted net income per common share	$ 1.66	$ 1.11	$ 0.84
Diluted weighted average common shares outstanding	237,019	244,295	262,851

The accompanying notes are an integral part of these consolidated financial statements.

COPART, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Year Ended July 31,		
	2017	2016	2015
Comprehensive income, net of tax:			
Net income	$ 394,261	$ 270,360	$ 219,783
Other comprehensive income:			
Unrealized gain on interest rate swaps, net (a)	—	603	1,926
Reclassification adjustment of interest rate swaps, net (b)	—	(320)	(1,141)
Foreign currency translation adjustments	8,518	(40,684)	(49,518)
Comprehensive income	402,779	229,959	171,050
Comprehensive income attributable to noncontrolling interest	34	—	—
Comprehensive income attributable to Copart, Inc.	$ 402,745	$ 229,959	$ 171,050

(a) Net of tax effect of $(342) and $(1,026) for the years ended July 31, 2016 and 2015, respectively.

(b) Net of tax effect of $178 and $582 for the years ended July 31, 2016 and 2015, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

COPART, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands, except share amounts)

	Common Stock						
	Outstanding Shares	Amount	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Stockholders' Equity
Balances at July 31, 2014	252,286,732	$ 26	$ 404,529	$ (20,060)	$ 619,004	$ —	$ 1,003,499
Net income	—	—	—	—	219,783	—	219,783
Currency translation adjustment	—	—	—	(49,518)	—	—	(49,518)
Interest rate swaps, net of tax effects	—	—	—	785	—	—	785
Exercise of stock options, net of repurchased shares	795,040	—	2,193	—	(1,509)	—	684
Employee stock-based payment compensation and related tax benefit	—	—	19,636	—	—	—	19,636
Shares issued for Employee Stock Purchase Plan	202,030	—	3,079	—	—	—	3,079
Shares repurchased	(12,971,122)	(2)	(21,641)	—	(211,841)	—	(233,484)
Balances at July 31, 2015	240,312,680	24	407,796	(68,793)	625,437	—	964,464
Net income	—	—	—	—	270,360	—	270,360
Currency translation adjustment	—	—	—	(40,684)	—	—	(40,684)
Interest rate swaps, net of tax effects	—	—	—	283	—	—	283
Exercise of stock options, net of repurchased shares	2,258,880	—	(372)	—	(742)	—	(1,114)
Employee stock-based payment compensation and related tax benefit	—	—	20,631	—	—	—	20,631
Shares issued for Employee Stock Purchase Plan	216,264	—	3,369	—	—	—	3,369
Shares repurchased	(22,543,704)	(2)	(38,990)	—	(403,861)	—	(442,853)
Balances at July 31, 2016	220,244,120	22	392,434	(109,194)	491,194	—	774,456
Net income	—	—	—	—	394,227	34	394,261
Currency translation adjustment	—	—	—	8,518	—	—	8,518
Acquisition of noncontrolling interest	—	—	—	—	—	500	500
Exercise of stock options, net of repurchased shares	10,053,463	1	35,805	—	(140,051)	—	(104,245)
Employee stock-based payment compensation	—	—	20,840	—	—	—	20,840
Shares issued for Employee Stock Purchase Plan	190,713	—	4,270	—	—	—	4,270
Balances at July 31, 2017	230,488,296	$ 23	$ 453,349	$ (100,676)	$ 745,370	$ 534	$ 1,098,600

The accompanying notes are an integral part of these consolidated financial statements.

COPART, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended July 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	$ 394,261	$ 270,360	$ 219,783
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, including debt cost	57,441	49,643	48,893
Allowance for doubtful accounts	187	1,175	(578)
Impairment of long-lived assets	19,365	—	—
Equity in losses of unconsolidated affiliates	671	895	—
Stock-based payment compensation	20,840	20,864	18,154
Excess tax benefit from stock-based payment compensation	—	—	(2,971)
Loss (gain) on sale of property and equipment	184	(54)	(918)
Deferred income taxes	19,901	5,740	4,365
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(38,542)	(54,213)	(20,417)
Vehicle pooling costs	(1,915)	(4,137)	(891)
Inventories	1,294	(2,509)	(1,731)
Prepaid expenses and other current assets	1,760	(738)	69
Other assets	1,085	4,164	10,125
Accounts payable and accrued liabilities	4,269	48,347	(3,926)
Deferred revenue	392	983	(438)
Income taxes receivable	12,343	(12,649)	(806)
Income taxes payable	(333)	2,788	(1,971)
Other liabilities	(1,145)	1,839	(1,666)
Net cash provided by operating activities	492,058	332,498	265,076
Cash flows from investing activities:			
Purchases of property and equipment	(172,178)	(173,917)	(79,153)
Proceeds from sale of property and equipment	660	562	1,521
Proceeds from sale of assets held for sale	105	100	217
Investment in unconsolidated affiliate	(3,566)	—	(4,500)
Purchases of assets and liabilities in connection with acquisitions, net of cash acquired	(160,812)	—	—
Purchases of marketable securities	—	(21,119)	—
Proceeds from sale of marketable securities	—	21,498	—
Net cash used in investing activities	(335,791)	(172,876)	(81,915)
Cash flows from financing activities:			
Proceeds from the exercise of stock options	31,188	13,240	3,634
Excess tax benefit from stock-based payment compensation	—	—	2,971
Proceeds from the issuance of Employee Stock Purchase Plan shares	4,270	3,369	3,079
Repurchases of common stock	—	(442,855)	(233,484)
Payments for employee stock-based tax withholdings	(135,433)	(15,039)	(3,822)
Proceeds from the issuance of long-term debt, net of discount	—	93,468	698,939
Net (repayments) proceeds on revolving loan facility	(7,000)	238,000	—
Debt offering costs	—	(1,179)	(955)
Principal payments on long-term debt	—	(337,500)	(350,000)
Net cash (used in) provided by financing activities	(106,975)	(448,496)	120,362
Effect of foreign currency translation	4,959	(11,289)	(6,179)
Net increase (decrease) in cash and cash equivalents	54,251	(300,163)	297,344
Cash and cash equivalents at beginning of period	155,849	456,012	158,668
Cash and cash equivalents at end of period	$ 210,100	$ 155,849	$ 456,012
Supplemental disclosure of cash flow information:			
Interest paid	$ 23,221	$ 23,606	$ 18,121
Income taxes paid, net of refunds	$ 14,011	$ 127,981	$ 109,925

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 — Summary of Significant Accounting Policies

Basis of Presentation and Description of Business

Copart, Inc. was incorporated under the laws of the State of California in 1982. In January 2012, the Company changed the state in which it is incorporated (the "Reincorporation"), and is now incorporated under the laws of the State of Delaware. All references to "we," "us," "our," or "the Company" herein refer to the California corporation prior to the date of the Reincorporation, and to the Delaware corporation on and after the date of the Reincorporation.

On March 23, 2017, the Company's Board of Directors approved a two-for-one common stock split effected in the form of a stock dividend. The additional shares resulting from the stock split were distributed after the closing of trading on April 10, 2017 to stockholders of record on April 3, 2017. The stock dividend increased the number of shares of common stock outstanding and all share and per share amounts have been adjusted for the stock dividend, as of the date earliest presented in these financial statements. Certain prior year amounts have been adjusted to conform to current year presentation.

The consolidated financial statements of the Company include the accounts of the parent company and its wholly-owned subsidiaries, including its foreign wholly-owned subsidiaries. The Company also has a 59.5% voting interest in a company, which was acquired as part of the Cycle Express, LLC acquisition ("majority-owned subsidiary"), which provides various repossession services for the powersports auction industry. Noncontrolling interest consists of a 40.5% outside voting interest in the majority-owned subsidiary. Net income or loss of the majority-owned subsidiary is allocated to the members' interests in accordance with the operating agreement. The accounts and balances of the majority-owned subsidiary have been consolidated with those of the Company. Significant intercompany transactions and balances have been eliminated in consolidation.

The Company provides vehicle sellers with a full range of services to process and sell vehicles over the Internet through the Company's Virtual Bidding Third Generation (VB3) Internet auction-style sales technology. Sellers are primarily insurance companies but also include banks, finance companies, charities, fleet operators, dealers and vehicles sourced directly from individual owners. The Company sells principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters; however, at certain locations, the Company sells directly to the general public. The majority of vehicles sold on behalf of insurance companies are either damaged vehicles deemed a total loss or not economically repairable by the insurance companies or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. The Company offers vehicle sellers a full range of services that expedite each stage of the vehicle sales process, minimize administrative and processing costs and maximize the ultimate sales price. In the United States (U.S.), Canada, the Republic of Ireland, Brazil, the United Arab Emirates (U.A.E.), Oman, Bahrain, India, and Spain, the Company sells vehicles primarily as an agent and derives revenue primarily from fees paid by vehicle sellers and vehicle buyers as well as related fees for services, such as towing and storage. In the United Kingdom (U.K.), the Company operates both as an agent and on a principal basis, purchasing the salvage vehicles outright from the insurance company and reselling the vehicles for its own account. In Germany and Spain, the Company also derives revenue from sales listing fees for listing vehicles on behalf of insurance companies.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates include but are not limited to, vehicle pooling costs; self-insured reserves; allowance for doubtful accounts; income taxes; revenue recognition; stock-based payment compensation; purchase price allocations; long-lived asset and goodwill impairment calculations; and contingencies. Actual results could differ from these estimates.

Revenue Recognition

The Company provides a portfolio of services to its sellers and buyers that facilitate the sale and delivery of a vehicle from seller to buyer. These services include the ability to use the Company's Internet sales technology and vehicle delivery, loading, title processing, preparation and storage. The Company evaluates multiple-element arrangements relative to its member and seller agreements.

The services provided to the seller of a vehicle involve disposing of a vehicle on the seller's behalf and, under most of the Company's current contracts, collecting the proceeds from the member. The Company applies Accounting Standard Update 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* (ASU 2009-13) for revenue recognition. Pre-sale services, including towing, title processing, preparation and storage, as well as sale fees and other enhancement services meet the criteria for separate units of accounting. Revenue associated with each service is recognized upon completion of the respective service, net of applicable rebates or allowances. For certain sellers who are charged a proportionate fee based on the high bid of the vehicle, the revenue associated with the pre-sale services is recognized upon completion of the sale when the total arrangement is fixed and determinable. The estimated selling price of each service is determined based on management's best estimate and allotted based on the relative selling price method.

Vehicle sales, where vehicles are purchased and remarketed on the Company's own behalf, are recognized on the sale date, which is typically the point of high bid acceptance. Upon high bid acceptance, a legally binding contract is formed with the member, and the gross sales price is recorded as revenue.

The Company also provides a number of services to the buyer of the vehicle, charging a separate fee for each service. Each of these services has been assessed to determine whether the requirements have been met to separate them into units of accounting within a multiple-element arrangement. The Company has 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 relative selling price method.

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

The Company allocates arrangement consideration based upon management's best estimate of the selling price of the separate units of accounting contained within arrangements including multiple deliverables. Significant inputs in the Company's estimates of the selling price of separate units of accounting include market and pricing trends, pricing customization and practices, and profit objectives for the services.

Vehicle Pooling Costs

The Company defers in vehicle pooling costs certain yard operation expenses associated with vehicles consigned to and received by the Company, but not sold as of the end of the period. The Company quantifies the deferred costs using a calculation that includes the number of vehicles at its facilities at the beginning and end of the period, the number of vehicles sold during the period and an allocation of certain yard operation costs of the period. The primary expenses allocated and deferred are certain facility costs, labor, transportation, and vehicle processing. If the allocation factors change, then yard operation expenses could increase or decrease correspondingly in the future. These costs are expensed as vehicles are sold in subsequent periods on an average cost basis. Given the fixed cost nature of the Company's business, there are no direct correlations for increases in expenses or units processed on vehicle pooling costs.

The Company applies the provisions of accounting guidance for subsequent measurement of inventory to its vehicle pooling costs. The provision requires that items such as idle facility expenses, double freight and rehandling costs be recognized as current period charges regardless of whether they meet the criteria of "abnormal" as provided in the guidance. In addition, the guidance requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of production facilities.

Foreign Currency Translation

The Company records foreign currency translation adjustments from the process of translating the functional currency of the financial statements of its foreign subsidiaries into the U.S. dollar reporting currency. The Canadian dollar, British pound, U.A.E. dirham, Bahraini dinar, Omani rial, Brazilian real, Indian rupee, Chinese renminbi and European Union Euro are the functional currencies of the Company's foreign subsidiaries as they are the primary currencies within the economic environment in which each subsidiary operates. The original equity investment in the respective subsidiaries is translated at historical rates. Assets and liabilities of the respective subsidiary's operations are translated into U.S. dollars at period-end exchange rates, and revenues and expenses are translated into U.S. dollars at average exchange rates in effect during each reporting period. Adjustments resulting from the translation of each subsidiary's financial statements are reported in other comprehensive income.

The cumulative effects of foreign currency exchange rate fluctuations were as follows (in thousands):

Cumulative loss on foreign currency translation as of July 31, 2015	$	(68,510)
Loss on foreign currency translation		(40,684)
Cumulative loss on foreign currency translation as of July 31, 2016	$	(109,194)
Gain on foreign currency translation		8,518
Cumulative loss on foreign currency translation as of July 31, 2017	$	(100,676)

Fair Value of Financial Instruments

The Company records its financial assets and liabilities at fair value in accordance with the framework for measuring fair value in U.S. GAAP. In accordance with ASC 820, *Fair Value Measurements and Disclosures*, as amended by Accounting Standards Update 2011-04, the Company considers fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. This framework establishes a fair value hierarchy that prioritizes the inputs used to measure fair value:

Level I Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.

Level II Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly.

Level III Inputs that are generally unobservable. These inputs may be used with internally developed methodologies that result in management's best estimate.

The amounts recorded for financial instruments in the Company's consolidated financial statements, which included cash, accounts receivable, accounts payable, accrued liabilities and Revolving Loan Facility approximated their fair values as of July 31, 2017 and 2016, due to the short-term nature of those instruments, and are classified within Level II of the fair value hierarchy. Cash equivalents are classified within Level II of the fair value hierarchy because they are valued using quoted market prices of the underlying investments. See *Note 8 — Long-Term Debt, Note 10 – Fair Value Measures*, and Note *10 – Fair Value Measures.*

Cost of Vehicle Sales

Cost of vehicle sales includes the purchase price of vehicles sold for the Company's own account.

Yard Operations

Yard operations consists primarily of operating personnel (which includes yard management, clerical and yard employees), rent, contract vehicle towing, insurance, fuel and equipment maintenance and repair. The Company recognizes the costs of pre-sale services, including towing, title processing, and preparation and storage within yard operation expenses at the time the related services are provided.

General and Administrative Expenses

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

Advertising

All advertising costs are expensed as incurred and are included in general and administrative expenses on the consolidated statements of income. Advertising expenses were $5.6 million, $6.8 million, and $4.9 million for the years ended July 31, 2017, 2016 and 2015, respectively.

Other (Expense) Income

Other (expense) income consists primarily of interest expense, interest income, gains and losses from the disposal of fixed assets, rental income, earnings from unconsolidated affiliates, and currency related gains and losses.

Income Taxes and Deferred Tax Assets

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, their respective tax basis, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Excess tax benefits and deficiencies related to exercises of stock options are recognized as expense or benefit in the income statement as discrete items in the reporting period in which they occur.

In accordance with the provisions of ASC 740, Income Taxes, a two-step approach is applied to the recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained in an audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax position as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company recognizes interest and penalties related to uncertain tax positions in the provision for income taxes on its consolidated statements of income.

Net Income Per Share

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

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents include cash held in checking, domestic certificates of deposit, and money market accounts. The Company periodically invests its excess cash in money market funds and U.S. Treasury Bills. The Company's cash and cash equivalents are placed with high credit quality financial institutions.

Marketable Securities

Marketable securities consist of marketable equity securities and are classified as available-for-sale and stated at fair value. The cost basis of the marketable securities is based on the specific identification method. Unrealized gains or losses relating to available-for-sale securities are recorded in accumulated other comprehensive income, net of income taxes. Reclassification adjustments out of accumulated other comprehensive income resulting from realized gains or losses from the sale of available-for-sale securities are included in other income. During the year ended July 31, 2016, the Company sold all of its marketable securities. The cost basis of the marketable securities was $21.1 million and proceeds from the sale of the marketable securities were $21.5 million resulting in a realized gain of $0.4 million recorded in other income.

Inventory

Inventories of purchased vehicles are stated at the lower of cost or estimated realizable value. Cost includes the Company's cost of acquiring ownership of the vehicle. The cost of vehicles sold is charged to cost of vehicle sales as sold on a specific identification basis.

Accounts Receivable

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

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts in order to provide for estimated losses resulting from disputed amounts billed to sellers or members and the inability of sellers or members to make required payments. If billing disputes exceed expectations and/or if the financial condition of sellers or members were to deteriorate, additional allowances may be required. The allowance is calculated by considering both seller and member accounts receivables written off during the previous twelve-month period as a percentage of the total accounts receivable balance.

Concentration of Credit Risk

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

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

No single customer accounted for more than 10% of total revenues for the years ended July 31, 2017, 2016 and 2015. As of July 31, 2017, no customer accounted for more than 10% of the Company's accounts receivable. As of July 31, 2016, one customer accounted for more than 10% of the Company's accounts receivable.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful lives of the respective improvements, which is between five and ten years. Significant improvements which substantially extend the useful lives of assets are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives: three to seven years for internally developed or purchased software; three to twenty years for transportation and other equipment; three to ten years for office furniture and equipment; and 5 to 40 years or the lease term, whichever is shorter, for buildings and improvements. Amortization of equipment under capital leases is included in depreciation expense.

Long-Lived Asset Valuation

The Company evaluates long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In accordance with ASC 360, *Property, Plant, and Equipment*, a long-lived asset is initially measured at the lower of its carrying amount or fair value. An impairment loss is recognized when the estimated undiscounted future cash flows expected to be generated from the use of the asset are less than the carrying amount of the asset. The impairment loss is then calculated by comparing the carrying amount with its fair value, which is usually estimated using discounted cash flows expected to be generated from the use of the asset.

Goodwill

In accordance with ASC 350-30-35, *Intangibles—Goodwill and Other*, goodwill is not amortized but is tested for potential impairment, at a minimum on an annual basis, or when indications of potential impairment exist. The Company assesses goodwill for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment, referred to as a reporting unit. The Company has identified two reporting units, which are consistent with its two operating and reportable segments, U.S. and International. The Company has historically evaluated goodwill for impairment annually as of the end of the fourth quarter, or when an indicator of impairment exists. During the year ended July 31, 2017, the Company voluntarily changed the date of its annual goodwill impairment assessment for its reporting units from the end of fiscal fourth quarter, July 31, to the beginning of fiscal fourth quarter, May 1. This voluntary change in the annual goodwill assessment date is a change in accounting principle, which the Company believes is preferable as it more closely aligns the timing of the annual goodwill impairment assessment date with the most current information from the Company's planning and forecasting process and also provides management with additional time to complete the annual assessment in advance of the Company's year-end reporting. This change in the annual assessment date does not delay, accelerate, or avoid an impairment charge. This change was not applied retrospectively as it was impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly, the change has been applied prospectively.

The Company's annual goodwill impairment analysis, which was performed qualitatively during the fourth quarter of fiscal 2017, did not result in an impairment charge. This qualitative analysis, which is referred to as step zero under ASC 350, considered all relevant factors specific to the reporting units, including macroeconomic conditions; industry and market considerations; overall financial performance and relevant entity-specific events. In the fourth quarters of fiscal 2016 and fiscal 2015, we performed quantitative assessments for our annual goodwill impairment analyses, which did not result in any impairment charge.

Segments and Other Geographic Reporting

The Company's U.S. and International regions are considered two separate operating segments and are disclosed as two reportable segments. The segments represent geographic areas and reflect how the chief operating decision maker allocates resources and measures results, including total revenues, operating income and income before income taxes. The segments continue to share similar business models, services and economic characteristics.

Capitalized Software Costs

The Company capitalizes system development costs and website development costs related to the enterprise computing services during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, generally three years. The Company evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that impact the recoverability of these assets. Total gross capitalized software as of July 31, 2017 and 2016 was $38.5 million and $49.4 million, respectively. Accumulated amortization expense related to software as of July 31, 2017 and 2016 totaled $25.7 million and $20.9 million, respectively. During the year ended July 31, 2016, the Company retired fully amortized capitalized software of $29.8 million, which were no longer being utilized. Additionally, during the year ended July 31, 2017, the Company recognized a $19.4 million charge primarily related to fully impairing costs previously capitalized in connection with the development of business operating software.

Stock-Based Payment Compensation

The Company accounts for stock-based awards to employees and non-employees using the fair value method as required by ASC 718, *Compensation—Stock Compensation* (ASC 718), which requires the measurement and recognition of compensation expense for all stock-based payment awards made to employees, consultants and directors based on estimated fair value. ASC 718 requires companies to estimate the fair value of stock-based payment awards on the measurement date using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized in expense over the requisite service periods. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

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

The fair value of each option was estimated on the measurement date using the Black-Scholes Merton (BSM) option-pricing model utilizing the following assumptions:

	July 31,		
	2017	2016	2015
Expected life (in years)	5.5 – 7.4	5.3 – 7.2	5.3 – 7.2
Risk-free interest rate	1.20 – 2.07	1.16 – 2.06	1.58 – 2.26
Estimated volatility	20 – 23	21 – 26	22 – 28
Expected dividends	—%	—%	—%
Weighted average fair value at measurement date	$ 7.05	$ 5.04	$ 5.09

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

Estimated volatility—The Company uses the trading history of its common stock in determining an estimated volatility factor when using the BSM option-pricing model to determine the fair value of options granted.

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

Risk-free interest rate—The Company bases the risk-free interest rate used in the BSM option-pricing model on the implied yield currently available on U.S. Treasury zero-coupon issues with the same or substantially equivalent expected life.

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

During the year ended July 31, 2016, the Company adopted ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which impacted the accounting for share-based payments, including income tax consequences, classification of awards and the classification on the consolidated statements of cash flows. As a result of the adoption, the Company recognized excess tax benefits of $14.7 million as a reduction to tax expense in the consolidated statements of income, as though ASU 2016-09 had been in effect since the beginning of fiscal 2016, instead of reflected in stockholders' equity.

Net cash proceeds from the exercise of stock options were $31.2 million, $13.2 million and $3.6 million for the years ended July 31, 2017, 2016 and 2015, respectively. In accordance with ASC 718, the Company presents excess tax benefits from disqualifying dispositions of the exercise of incentive stock options, vested prior to August 1, 2005, if any, as financing cash flows rather than operating cash flows.

Retained Insurance Liabilities

The Company is partially self-insured for certain losses related to medical, general liability, workers' compensation and auto liability. The Company's insurance policies are subject to a $250,000 deductible per claim, with the exception of its medical policy which has a $500,000 stop loss per person. Our liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date, including an estimate for reported and unreported claims. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial estimates. The primary estimates used in the actuarial analysis include total payroll and revenue. The Company's estimates have not materially fluctuated from actual results. While the Company believes these estimates are reasonable based on the information currently available, if actual trends, including the severity of claims and medical cost inflation, differ from the Company's estimates, the Company's consolidated results of operations, financial position or cash flows could be impacted. The process of determining the Company's insurance reserves requires estimates with various assumptions, each of which can positively or negatively impact those balances. As of July 31, 2017 and 2016, the total amount reserved for related self-insured claims was $5.3 million.

Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during a period from non-stockholder sources. For the years ended July 31, 2017, 2016 and 2015, accumulated other comprehensive income (loss) was the effect of foreign currency translation adjustments and the effective portion of the interest rate swaps' change in fair value. Deferred taxes are not provided on cumulative translation adjustments where the Company expects earnings of a foreign subsidiary to be indefinitely reinvested.

Acquisitions

The Company recognizes and measures identifiable assets acquired and liabilities assumed in acquired entities in accordance with ASC 805, *Business Combinations*. The accounting for acquisitions involves significant judgments and estimates, including the fair value of certain forms of consideration, the fair value of acquired intangible assets, which involve projections of future revenues, cash flows and terminal value, which are then either discounted at an estimated discount rate or measured at an estimated royalty rate, and the fair value of other acquired assets and assumed liabilities, including potential contingencies and the useful lives of the assets. The projections are developed using internal forecasts, available industry and market data and estimates of long-term growth rates of the Company. Historical experience is additionally utilized, in which historical or current costs have approximated fair value for certain assets acquired.

Recently Issued Accounting Pronouncements

Adopted

In January 2017, the FASB issued ASU 2017-01, *Business Combination (Topic 805): Clarifying the Definition of a Business.* This ASU clarifies the definition of a business, with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. This ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company early adopted ASU 2017-01 during the second quarter of fiscal 2017 and the adoption did not have a material impact on the Company's consolidated results of operations and financial position.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements-Going Concern* (Subtopic 205-40): *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* ASU 2014-15 requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are issued and provide related disclosures in certain circumstances. This ASU is effective for annual and interim periods within those annual reporting periods beginning after December 15, 2016; however, early adoption is permitted. The Company's adoption of ASU 2014-15 did not have a material impact on the Company's consolidated results of operations, financial position, and related disclosures.

Pending

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*, which amends the scope of modification accounting for stock-based payment arrangements and provides guidance on the types of changes to the terms or conditions of stock-based payment awards to which an entity would be required to apply modification accounting under ASC 718. For all entities, this ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period. The Company's adoption of ASU 2017-09 will not have a material impact on the Company's consolidated results of operations and financial position.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350).* ASU 2017-04 amends the requirement that entities compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, entities should perform their annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment if the carrying amount exceeds the reporting unit's fair value. ASU 2017-04 is effective for annual periods beginning after December 15, 2019. The Company's adoption of ASU 2017-04 will not have a material impact on the Company's consolidated results of operations and financial position.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory.* ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs and eliminates the exception for an intra-entity transfer of an asset, other than inventory. This ASU is effective for annual and interim periods within those annual periods beginning after December 15, 2017, is required to be adopted using a modified retrospective approach; however early adoption is permitted. The Company is continuing its assessment of the impact of ASU 2016-16 may have on the Company's consolidated results of operations and financial position.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), that supersedes all existing guidance on accounting for leases in ASC Topic 840. ASU 2016-02 is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. ASU 2016-02 will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 is effective for annual and interim periods within those annual reporting periods beginning after December 15, 2018 and adoption is to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients; however early adoption is permitted. Based on a preliminary assessment, the Company expects that most of its operating lease commitments will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in a significant increase in the assets and liabilities on the Company's consolidated balance sheets. The Company is continuing its assessment, which may identify additional impacts ASU 2016-02 may have on the Company's consolidated results of operations, financial position, and related disclosures.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires companies to classify all deferred tax assets and liabilities as non-current on the balance sheet, rather than separating deferred taxes into current and non-current amounts. This ASU is effective for annual and interim periods within those annual reporting periods beginning after December 15, 2016 and can be adopted prospectively or retrospectively; however, early adoption is permitted. The Company's adoption of ASU 2015-17 will not have a material impact on the Company's consolidated results of operations and financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual and interim periods within those annual reporting periods beginning after December 15, 2017. ASU 2014-09 allows adoption with either retrospective application to each period presented, or retrospective application with the cumulative effect recognized as of the date of initial application. ASU 2014-09 will be effective for the Company beginning with the first quarter of fiscal year 2019, the three months ended October 31, 2018. The Company is currently evaluating the impact of implementing ASU 2014-09 on the consolidated financial statements, as well as evaluating the transition alternatives.

While the Company is continuing to assess all potential impacts of ASU 2014-09, it currently believes the most significant impact relates to the Company's performance obligations through the determination of distinct and separately identifiable services, which may be different from the Company's current separate units of accounting under ASU 2009-13. Additionally, changes in revenue recognition requirements regarding the Company's performance obligations within its service contracts could potentially result in either the earlier recognition of revenue and associated costs for certain performance obligations or the deferral of a significant portion of revenue and associated costs for a vehicle until the sale is substantially complete. Due to the variety and complexity of the Company's contracts, the actual revenue recognition treatment required under ASU 2014-09 may be dependent on contract-specific terms and vary in some instances.

NOTE 2 — Acquisitions

Fiscal 2017 Transactions

During the year ended July 31, 2017, the Company acquired 100% of the voting stock of Cycle Express, LLC, which conducts business primarily as National Powersport Auctions (NPA), a leading non-salvage auction platform for motorcycles, snowmobiles, watercraft and other powersports vehicles. NPA currently operates facilities in Atlanta, Georgia; Cincinnati, Ohio; Dallas, Texas; Philadelphia, Pennsylvania; and San Diego, California. NPA predominantly auctions pre-owned powersports vehicles on behalf of financing companies, dealers and manufacturers. The Company also acquired the assets of an excavation company, which engages in earthwork, soil stabilization, equipment hauling, and erosion control commercial contractor services. The aggregate purchase price of these acquisitions totaled $160.8 million, net of cash acquired.

The following table summarizes the purchase price allocation based on the estimated fair values of the assets acquired and liabilities assumed for these acquisitions (in thousands):

Allocation of the acquisition:	
Accounts receivable and prepaid expenses	$ 6,583
Vehicle pooling costs	571
Property and equipment	10,903
Inventory	1,067
Intangible assets	70,900
Goodwill	79,256
Liabilities assumed	(7,968)
Noncontrolling interest	(500)
Fair value of net assets and liabilities acquired	$ 160,812

The NPA acquisition was undertaken because of its strategic fit, and the acquisition of certain excavation assets was undertaken to enhance the Company's land development capabilities. These acquisitions have been accounted for using the purchase method in accordance with ASC 805, *Business Combinations*, which resulted in the recognition of goodwill in the Company's consolidated financial statements. Goodwill arose because the purchase price of each acquisition reflected a number of factors, including their future earnings and cash flow potential; the comparable multiples of earnings, cash flow and other factors at which similar businesses have been purchased by other acquirers; the complementary tactical development capability and cost control over the development of the Company's yard locations; and the complementary strategic fit and resulting synergies brought to existing operations. Goodwill is calculated as the excess of the consideration transferred over the fair value of the identifiable net assets acquired and is not amortized for financial reporting purposes.

The Company obtained a third party independent valuation to assist in the determination of the fair values of certain assets acquired. The valuation utilized the income approach (specifically the Multi-Period Excess Earnings Method (MPEEM) model and the Relief from Royalty model) to estimate the fair value of acquired supplier relationships and trade names, respectively. The valuation utilized the cost approach to estimate the fair value of acquired software. The valuation of these assets was performed using Level III inputs, as the calculated fair values are based on valuation models that utilize unobservable inputs that are significant to the overall fair value measurement. The unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine the value of acquired assets based on the best information available in the circumstances. Intangible assets acquired include customer and supplier relationships, trade names, and software with a useful life ranging from three to eleven years. See *Note - 6 — Intangibles, Net.*

The purchase price allocation for NPA and the assets of an excavation company are not final for property and equipment, income taxes and intangible assets acquired, pending the final valuation by the Company. The Company believes any potential changes to its preliminary purchase price allocations will not have a material impact on the Company's consolidated financial position and results of operations.

These acquisitions did not result in a significant change in the Company's consolidated results of operations individually or in the aggregate; therefore, pro forma financial information has not been presented. The operating results have been included in the Company's consolidated financial position and results of operations since the acquisition dates. The acquisition-related expenses incurred during the year ended July 31, 2017, were $1.9 million and were included in general and administrative expenses in the Company's consolidated financial position and results of operations.

Fiscal 2016 and Fiscal 2015 Transactions

The Company made no acquisitions during the years ended July 31, 2016 and 2015.

NOTE 3 — Accounts Receivable, Net

Accounts receivable, net consisted of:

(In thousands)	July 31, 2017	July 31, 2016
Advance charges receivable	$ 204,097	$ 182,824
Trade accounts receivable	110,189	86,455
Other receivables	1,871	1,111
	316,157	270,390
Less: Allowance for doubtful accounts	(4,311)	(4,120)
Accounts receivable, net	$ 311,846	$ 266,270

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

The movements in the allowance for doubtful accounts were as follows:

(In thousands)	July 31, 2017	2016	2015
Balance at beginning of year	$ 4,120	$ 2,988	$ 3,584
Charged to costs and expenses	2,928	3,646	2,221
Deductions to bad debt	(2,737)	(2,514)	(2,817)
Balance at end of year	$ 4,311	$ 4,120	$ 2,988

NOTE 4 — Property and Equipment, Net

Property and equipment, net consisted of the following:

(In thousands)	July 31, 2017	July 31, 2016
Transportation and other equipment	$ 120,420	$ 85,083
Office furniture and equipment	51,778	51,473
Software	38,501	49,426
Land	629,826	556,780
Buildings and leasehold improvements	555,525	489,566
	1,396,050	1,232,328
Less: Accumulated depreciation and amortization	(451,994)	(415,537)
Property and equipment, net	$ 944,056	$ 816,791

Depreciation expense on property and equipment was $39.6 million, $34.2 million and $34.9 million for the years ended July 31, 2017, 2016 and 2015, respectively. Amortization expense of software was $10.6 million, $8.5 million and $5.0 million for the years ended July 31, 2017, 2016 and 2015, respectively. During the year ended July 31, 2016, the Company retired fully amortized capitalized software of $29.8 million, which were no longer being utilized. Additionally, during the year ended July 31, 2017, the Company recognized a $19.4 million charge primarily related to fully impairing costs previously capitalized in connection with the development of business operating software.

NOTE 5 — Goodwill

The change in the carrying amount of goodwill was as follows:

(In thousands)	July 31, 2017	July 31, 2016
Beginning balance	$ 260,198	$ 271,850
Goodwill recorded during the period	79,256	—
Effect of foreign currency exchange rates	789	(11,652)
Ending balance	$ 340,243	$ 260,198

In accordance with the guidance in ASC 350, goodwill is tested for impairment on an annual basis or upon the occurrence of circumstances that indicate that goodwill may be impaired. The Company's annual impairment tests were performed during the fourth quarter of fiscal 2017 and 2016 and goodwill was not impaired. As of July 31, 2017 and 2016, the cumulative amount of goodwill impairment losses recognized totaled $21.8 million.

NOTE 6 — Intangibles, Net

The following table sets forth amortizable intangible assets by major asset class:

	Gross Carrying Amount		Accumulated Amortization		Net Book Value		Weighted Average Remaining Useful Life (in years)	
	July 31,		July 31,		July 31,		July 31,	
(In thousands, except remaining useful life)	2017	2016	2017	2016	2017	2016	2017	2016
Amortized intangibles:								
Covenants not to compete	$ 1,702	$ 1,702	$ (1,389)	$ (1,235)	$ 313	$ 467	1	2
Supply contracts and customer relationships	75,462	26,471	(22,248)	(17,052)	53,214	9,419	9	3
Trade names	23,859	5,163	(4,989)	(3,423)	18,870	1,740	2	2
Licenses and databases	5,385	2,488	(1,844)	(2,353)	3,541	135	3	1
Intangibles, net	$ 106,408	$ 35,824	$ (30,470)	$ (24,063)	$ 75,938	$ 11,761		

Aggregate amortization expense on intangible assets was $6.8 million, $5.8 million and $6.8 million for the years ended July 31, 2017, 2016 and 2015, respectively. Intangible amortization expense for the next five fiscal years based upon July 31, 2017 intangible assets is expected to be as follows:

(In thousands)	
2018	$ 12,947
2019	9,249
2020	7,912
2021	6,043
2022	6,024
Thereafter	33,763
Total future intangible amortization expense	$ 75,938

NOTE 7 — Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

	July 31,	
(In thousands)	**2017**	**2016**
Trade accounts payable	$ 20,626	$ 30,087
Accounts payable to sellers	50,534	46,866
Buyer deposits and prepayments	50,603	40,500
Accrued compensation and benefits	31,173	33,382
Accrued insurance	5,263	5,753
Other accrued liabilities	50,216	35,791
Total accounts payable and accrued expenses	$ 208,415	$ 192,379

The Company is partially self-insured for certain losses related to general liability, workers' compensation and auto liability. Accrued insurance liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date, including an estimate for reported and unreported claims. The estimated liability is not discounted and is established based upon analysis of historical data, including the severity of the Company's frequency of claims, actuarial estimates and is reviewed periodically by management to ensure that the liability is appropriate.

NOTE 8 — Long-Term Debt

Credit Agreement

On December 3, 2014, the Company entered into a Credit Agreement (as amended from time to time, the "Credit Amendment") with Wells Fargo Bank, National Association, as administrative agent, and Bank of America, N.A., as syndication agent. The Credit Agreement provided for (a) a secured revolving loan facility in an aggregate principal amount of up to $300.0 million (the "Revolving Loan Facility"), and (b) a secured term loan facility in an aggregate principal amount of $300.0 million (the "Term Loan"), which was fully drawn at closing. The Term Loan amortized $18.8 million per quarter.

On March 15, 2016, the Company entered into a First Amendment to Credit Agreement (the "Amendment to Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent and Bank of America, N.A. The Amendment to Credit Agreement amended certain terms of the Credit Agreement, dated as of December 3, 2014. The Amendment to Credit Agreement provided for (a) an increase in the secured revolving credit commitments by $50.0 million, bringing the aggregate principal amount of the revolving credit commitments under the Credit Agreement to $350.0 million, (b) a new secured term loan (the "Incremental Term Loan") in the aggregate principal amount of $93.8 million having a maturity date of March 15, 2021, and (c) an extension of the termination date of the Revolving Loan Facility and the maturity date of the Term Loan from December 3, 2019 to March 15, 2021. The Amendment to Credit Agreement extended the amortization period for the Term Loan, and decreased the quarterly amortization payments for that loan to $7.5 million per quarter. The Amendment to Credit Agreement additionally reduced the pricing levels under the Credit Agreement to a range of 0.15% to 0.30% in the case of the commitment fee, 1.125% to 2.0% in the case of the applicable margin for LIBOR loans, and 0.125% to 1.0% in the case of the applicable margin for base rate loans, based on the Company's consolidated total net leverage ratio during the preceding fiscal quarter. The Company borrowed the entire $93.8 million principal amount of the Incremental Term Loan concurrent with the closing of the Amendment to Credit Agreement.

On July 21, 2016, the Company entered into a Second Amendment to Credit Agreement (the "Second Amendment to Credit Agreement") with Wells Fargo Bank, National Association, SunTrust Bank, and Bank of America, N.A., as administrative agent (as successor in interest to Wells Fargo Bank). The Second Amendment to Credit Agreement amends certain terms of the Credit Agreement, dated as of December 3, 2014 as amended by the Amendment to Credit Agreement, dated as of March 15, 2016. The Second Amendment to Credit Agreement provides for, among other things, (a) an increase in the secured revolving credit commitments by $500.0 million, bringing the aggregate principal amount of the revolving credit commitments under the

Credit Agreement to $850.0 million, (b) the repayment of existing term loans outstanding under the Credit Agreement, (c) an extension of the termination date of the revolving credit facility under the Credit Agreement from March 15, 2021 to July 21, 2021, and (d) increased covenant flexibility.

Concurrent with the closing of the Second Amendment to Credit Agreement, the Company prepaid in full the outstanding $242.5 million principal amount of the Term Loan and Incremental Term Loan under the Credit Agreement without premium or penalty. The Second Amendment to Credit Agreement reduced the pricing levels under the Credit Agreement to a range of 0.125% to 0.20% in the case of the commitment fee, 1.00% to 1.75% in the case of the applicable margin for LIBOR loans, and 0.0% to 0.75% in the case of the applicable margin for base rate loans, in each case depending on the Company's consolidated total net leverage ratio. The principal purposes of these financing transactions were to increase the size and availability under the Company's Revolving Loan Facility and to provide additional long-term financing. The proceeds are being used for general corporate purposes, including working capital and capital expenditures, potential share repurchases, acquisitions, or other investments relating to the Company's expansion strategies in domestic and international markets.

The Revolving Loan Facility under the Credit Agreement bears interest, at the election of the Company, at either (a) the Base Rate, which is defined as a fluctuating rate per annum equal to the greatest of (i) the Prime Rate in effect on such day; (ii) the Federal Funds Rate in effect on such date plus 0.50%; or (iii) an adjusted LIBOR rate determined on the basis of a one-month interest period plus 1.0%, in each case plus an applicable margin ranging from 0.0% to 0.75% based on the Company's consolidated total net leverage ratio during the preceding fiscal quarter; or (b) an adjusted LIBOR rate plus an applicable margin ranging from 1.00% to 1.75% depending on the Company's consolidated total net leverage ratio during the preceding fiscal quarter. Interest is due and payable quarterly, in arrears, for loans bearing interest at the Base Rate, and at the end of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. The interest rate as of July 31, 2017 on the Company's Revolving Loan Facility was the one month LIBOR rate of 1.23% plus an applicable margin of 1.00%. The carrying amount of the Credit Agreement is comprised of borrowings under which interest accrues under a fluctuating interest rate structure. Accordingly, the carrying value approximates fair value at July 31, 2017, and was classified within Level II of the fair value hierarchy.

Amounts borrowed under the Revolving Loan Facility may be repaid and reborrowed until the maturity date of July 21, 2021. The Company is obligated to pay a commitment fee on the unused portion of the Revolving Loan Facility. The commitment fee rate ranges from 0.125% to 0.20%, depending on the Company's consolidated total net leverage ratio during the preceding fiscal quarter, on the average daily unused portion of the revolving credit commitment under the Credit Agreement. The Company had $231.0 million and $238.0 million of outstanding borrowings under the Revolving Loan Facility as of July 31, 2017 and July 31, 2016, respectively.

The Company's obligations under the Credit Agreement are guaranteed by certain of the Company's domestic subsidiaries meeting materiality thresholds set forth in the Credit Agreement. Such obligations, including the guaranties, are secured by substantially all of the assets of the Company and the assets of the subsidiary guarantors pursuant to a Security Agreement, dated December 3, 2014, among the Company, the subsidiary guarantors from time to time party thereto, and Wells Fargo Bank, National Association, as collateral agent.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends, or make distributions on and repurchase stock, in each case subject to certain exceptions. The Company is also required to maintain compliance, measured at the end of each fiscal quarter, with a consolidated total net leverage ratio and a consolidated interest coverage ratio. The Credit Agreement contains no restrictions on the payment of dividends and other restricted payments, as defined, as long as (1) the consolidated total net leverage ratio, as defined, both before and after giving effect to any such dividend or restricted payment on a pro forma basis, is less than 3.25:1, in an unlimited amount, (2) if clause (1) is not available, so long as the consolidated total net leverage ratio both before and after giving effect to any such dividend on a pro forma basis is less than 3.50:1, in an aggregate amount not to exceed the available amount, as defined, and (3) if clauses (1) and (2) are not available, in an aggregate amount not to exceed $50.0 million; provided, that, minimum liquidity, as defined, shall be not less than $75.0 million both before and after giving effect to any such dividend or restricted payment. As of July 31, 2017, the consolidated total net leverage ratio was 0.83:1. Minimum liquidity as of July 31, 2017 was $803.2 million. Accordingly, the Company does not believe that the provisions of the Credit Agreement represent a significant restriction to its ability to pay dividends or to the successful future operations of the business. The Company has not paid a cash dividend since becoming a public company in 1994. The Company was in compliance with all covenants related to the Credit Agreement as of July 31, 2017.

Note Purchase Agreement

On December 3, 2014, the Company entered into a Note Purchase Agreement and sold to certain purchasers (collectively, the "Purchasers") $400.0 million in aggregate principal amount of senior secured notes (the "Senior Notes") consisting of (i) $100.0 million aggregate principal amount of 4.07% Senior Notes, Series A, due December 3, 2024; (ii) $100.0 million aggregate principal amount of 4.19% Senior Notes, Series B, due December 3, 2026; (iii) $100.0 million aggregate principal amount of 4.25% Senior Notes, Series C, due December 3, 2027; and (iv) $100.0 million aggregate principal amount of 4.35% Senior Notes, Series D, due December 3, 2029. Interest is due and payable quarterly, in arrears, on each of the Senior Notes. Proceeds from the Note Purchase Agreement are being used for general corporate purposes.

On July 21, 2016, the Company entered into Amendment No. 1 to Note Purchase Agreement (the "First Amendment to Note Purchase Agreement") which amended certain terms of the Note Purchase Agreement, including providing for increased flexibility substantially consistent with the changes included in the Second Amendment to Credit Agreement, including among other things increased covenant flexibility.

The Company may prepay the Senior Notes, in whole or in part, at any time, subject to certain conditions, including minimum amounts and payment of a make-whole amount equal to the discounted value of the remaining scheduled interest payments under the Senior Notes.

The Company's obligations under the Note Purchase Agreement are guaranteed by certain of the Company's domestic subsidiaries meeting materiality thresholds set forth in the Note Purchase Agreement. Such obligations, including the guaranties, are secured by substantially all of the assets of the Company and the subsidiary guarantors. The obligations of the Company and its subsidiary guarantors under the Note Purchase Agreement will be treated on a pari passu basis with the obligations of those entities under the Credit Agreement as well as any additional debt the Company may obtain.

The Note Purchase Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends, or make distributions and repurchase stock, in each case subject to certain exceptions. The Company is also required to maintain compliance, measured at the end of each fiscal quarter, with a consolidated total net leverage ratio and a consolidated interest coverage ratio. The Note Purchase Agreement contains no restrictions on the payment of dividends and other restricted payments, as defined, as long as (1) the consolidated total net leverage ratio, as defined, both before and after giving effect to any such dividend or restricted payment on a pro forma basis, is less than 3.25:1, in an unlimited amount, (2) if clause (1) is not available, so long as the consolidated total net leverage ratio both before and after giving effect to any such dividend on a pro forma basis is less than 3.50:1, in an aggregate amount not to exceed the available amount, as defined, and (3) if clauses (1) and (2) are not available, in an aggregate amount not to exceed $50.0 million; provided, that, minimum liquidity, as defined, shall be not less than $75.0 million both before and after giving effect to any such dividend or restricted payment. As of July 31, 2017, the consolidated total net leverage ratio was 0.83:1. Minimum liquidity as of July 31, 2017 was $803.2 million. Accordingly, the Company does not believe that the provisions of the Note Purchase Agreement represent a significant restriction to its ability to pay dividends or to the successful future operations of the business. The Company has not paid a cash dividend since becoming a public company in 1994. The Company was in compliance with all covenants related to the Note Purchase Agreement as of July 31, 2017.

Related to the execution of the Credit Agreement, First Amendment to Credit Agreement, Second Amendment to Credit Agreement, and the Note Purchase Agreement, the Company incurred $3.4 million in costs, of which $2.0 million was capitalized as debt issuance fees and $1.4 million was recorded as a reduction of the long-term debt proceeds as a debt discount. During the year ended July 31, 2016, the Company recognized an expense of $0.6 million for prior capitalized costs into interest expense relating to the Second Amendment to Credit Agreement and payoff of the outstanding Term Loans. Both the debt issuance fees and debt discount are amortized to interest expense over the term of the respective debt instruments and are classified as reductions of the outstanding liability.

As of July 31, 2017, future payments on the Revolving Loan Facility and Note Purchase Agreement were as follows:

(In thousands)	July 31,[1]
2018	$ 81,000
2019	150,000
2020	—
2021	—
2022	—
Thereafter	400,000
Total future payments	$ 631,000

(1) Fiscal 2018 and 2019 payments assume payoff of the current portion of the Revolving Loan Facility in fiscal 2018 and the long-term portion of the Revolving Loan Facility in fiscal 2019 based on management's intent of the use of the Revolving Loan Facility, which may change on a quarter by quarter basis.

NOTE 9 — Derivatives and Hedging

The Company had entered into two interest rate swaps to exchange its variable interest rate payments commitment for fixed interest rate payments through December 2015. The swaps were designated effective cash flow hedges under ASC 815, *Derivatives and Hedging.* Each quarter, the Company measured hedge effectiveness using the "hypothetical derivative method" and recorded in earnings any hedge ineffectiveness with the effective portion of the change in fair value recorded in other comprehensive income or loss. The interest rate swaps expired in December 2015. The Company reclassified $0.5 million and $1.7 million for the years ended July 31, 2016 and 2015 respectively, out of other comprehensive income into interest expense.

The interest rate swaps were classified within Level II of the fair value hierarchy as the derivatives were valued using observable inputs. The Company determined fair value of the derivative utilizing observable market data of swap rates and basis rates. These inputs were placed into a pricing model using a discounted cash flow methodology in order to calculate the mark-to-market value of the interest rate swaps.

NOTE 10 — Fair Value Measures

The following table summarizes the fair value of the Company's financial assets and liabilities measured and recorded at fair value on a recurring basis based on inputs used to derive their fair values:

	July 31, 2017		July 31, 2016	
(In thousands)	Fair Value Total	Significant Observable Inputs (Level II)	Fair Value Total	Significant Observable Inputs (Level II)
Assets				
Cash equivalents	$ 3,498	$ 3,498	$ 8,422	$ 8,422
Total Assets	$ 3,498	$ 3,498	$ 8,422	$ 8,422
Liabilities				
Long-term fixed rate debt, including current portion	$ 400,908	$ 400,908	$ 430,375	$ 430,375
Revolving loan facility	231,000	231,000	238,000	238,000
Total Liabilities	$ 631,908	$ 631,908	$ 668,375	$ 668,375

During the year ended July 31, 2017, no transfers were made between any levels within the fair value hierarchy. See *Note 1 — Summary of Significant Accounting Policies, Note 2 — Acquisitions, Note 8 — Long-Term Debt, and Note 9 — Derivatives and Hedging.*

NOTE 11 — Stockholders' Equity

General

The Company has authorized the issuance of 400 million shares of common stock, with a par value of $0.0001, of which 230,488,296 shares were issued and outstanding at July 31, 2017. As of July 31, 2017 and 2016, the Company had reserved 28,878,913 and 41,625,934 shares of common stock, respectively, for the issuance of options granted under the Company's stock option plans and 1,788,909 and 1,979,622 shares of common stock, respectively, for the issuance of shares under the Copart, Inc. Employee Stock Purchase Plan (ESPP). The Company has authorized the issuance of five million shares of preferred stock, with a par value of $0.0001, none of which were issued or outstanding at July 31, 2017 or 2016, which have the rights and preferences as the Company's Board of Directors shall determine, from time to time.

Stock Repurchases

On September 22, 2011, the Company's Board of Directors approved an 80 million share increase in the stock repurchase program, bringing the total current authorization to 196 million shares. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the stock repurchase program. Subject to applicable securities laws, such repurchases will be made at such times and in such amounts as the we deem appropriate and may be discontinued at any time. For fiscal 2017, the Company did not repurchase any shares of its common stock under the program. For fiscal 2016, the Company repurchased 5,877,038 shares of its common stock at a weighted average price of $20.065 per share totaling $117.9 million. For fiscal 2015, the Company repurchased 463,000 shares of its common stock at a weighted average price of $18.01 per share totaling $8.3 million. As of July 31, 2017, the total number of shares repurchased under the program was 106,913,602, and 89,086,398 shares were available for repurchase under the program.

On July 9, 2015, the Company completed a modified "Dutch Auction" tender offer, or tender offer, to purchase up to 27,777,776 shares of its common stock at a price not greater than $18.00 nor less than $17.375 per share. In connection with the tender offer, the Company accepted for payment an aggregate of 12,508,122 shares of its common stock at a purchase price of $18.00 per share for a total value of $225.1 million. Additionally, on December 30, 2015, the Company completed a modified "Dutch Auction" tender offer, or tender offer, to purchase up to 14,634,146 shares of its common stock at a price not greater than $20.50 nor less than $19.00 per share. In connection with the tender offer, the Company accepted for payment an aggregate of 16,666,666 shares of its common stock at a purchase price of $19.50 per share for a total value of $325.0 million. The Company's directors and executive officers did not participate in the tender offers. The shares purchased as a result of the tender offers were not part of the Company's stock repurchase program.

During fiscal 2017, 2016 and 2015, certain executive officers and other employees exercised stock options through cashless exercises. A portion of the options exercised were net settled in satisfaction of the exercise price and federal and state statutory tax withholding requirements. The Company remitted $134.6 million, $15.0 million and $3.8 million for the years ended July 31, 2017, 2016 and 2015, respectively, to the proper taxing authorities in satisfaction of the employees' statutory withholding requirements.

The exercised stock options, utilizing a cashless exercise, are summarized in the following table:

Period	Options Exercised	Weighted Average Exercise Price	Shares Net Settled for Exercise	Shares Withheld for Taxes[(1)]	Net Shares to Employees	Weighted Average Share Price for Withholding	Employee Stock Based Tax Withholding (in 000s)
FY 2015—Q1	402,666	$ 9.80	249,242	70,832	82,592	$ 15.83	$ 1,121
FY 2015—Q3	279,380	10.14	152,042	41,312	86,026	18.64	770
FY 2015—Q4	400,000	6.01	133,204	104,316	162,480	18.04	1,882
FY 2016—Q4	2,260,000	9.32	821,296	586,304	852,400	25.65	15,039
FY 2017—Q1	18,000,000	7.70	5,408,972	5,255,322	7,335,706	25.62	134,615

(1) Shares withheld for taxes are treated as a repurchase of shares for accounting purposes but do not count against the Company's stock repurchase program.

Employee Stock Purchase Plan

The ESPP provides for the purchase of up to an aggregate of 10 million shares of common stock of the Company by employees pursuant to the terms of the ESPP. The Company's ESPP was adopted by the Board of Directors and approved by the stockholders in 1994. The ESPP was amended and restated in 2003 and again approved by the stockholders. In 2014, a new ESPP was approved by the Board of Directors and approved by the stockholders. Under the ESPP, employees of the Company who elect to participate have the right to purchase common stock at a 15% discount from the lower of the market value of the common stock at the beginning or the end of each six month offering period. The ESPP permits an enrolled employee to make contributions to purchase shares of common stock by having withheld from their salary an amount up to 10% of their compensation (which amount may be increased from time to time by the Company but may not exceed 15% of compensation). No employee may purchase more than $25,000 worth of common stock (calculated at the time the purchase right is granted) in any calendar year. The Compensation Committee of the Board of Directors administers the ESPP. The number of shares of common stock issued pursuant to the ESPP during the years ended July 31, 2017, 2016 and 2015 was 190,713; 216,264; and 202,030; respectively. As of July 31, 2017, there were 8,291,165 shares of common stock issued pursuant to the ESPP and 1,788,909 shares remain available for purchase under the ESPP.

Stock Options

In December 2007, the Company adopted the Copart, Inc. 2007 Equity Incentive Plan (Plan), presently covering an aggregate of 16.0 million shares of the Company's common stock. The Plan provides for the grant of incentive stock options, restricted stock, restricted stock units and other equity-based awards to employees and non-qualified stock options, restricted stock, restricted stock units and other equity-based awards to employees, officers, directors and consultants at prices not less than 100% of the fair market value for incentive and non-qualified stock options, as determined by the Board of Directors at the grant date. Incentive and non-qualified stock options may have terms of up to ten years and vest over periods determined by the Board of Directors. Options generally vest ratably over a five-year period. The Plan replaced the Company's 2001 Stock Option Plan. As of July 31, 2017, 10,103,589 shares were available for grant under the Plan.

In October 2013, the Compensation Committee of the Company's Board of Directors, subject to stockholder approval (which was subsequently obtained at the December 16, 2013 annual meeting of stockholders), approved the grant to each of A. Jayson Adair, the Company's Chief Executive Officer, and Vincent W. Mitz, the Company's President, of nonqualified stock options to purchase 4,000,000 and 3,000,000 shares of the Company's common stock, respectively, at an exercise price of $17.81 per share, which equaled the closing price of the Company's common stock on December 16, 2013, the effective date of grant. Such grants were made in lieu of any cash salary or bonus compensation in excess of $1.00 per year or the grant of any additional equity incentives for a five-year period. Each option will become exercisable over five years, subject to continued service by Mr. Adair and Mr. Mitz, with 20% vesting on April 15, 2015 and December 16, 2014, respectively, and the balance vesting monthly over the subsequent four years. Each option will become fully vested, assuming continued service, on April 15, 2019 and December 16, 2018, respectively. If, prior to a change in control, either executive's employment is terminated without cause, then 100% of the shares subject to that executive's stock option will immediately vest. If, upon or following a change in control, either the Company or a successor entity terminates the executive's service without cause, or the executive resigns for good reason (as defined in the option agreement), then 100% of the shares subject to his stock option will immediately vest. On June 2, 2015, the Compensation Committee of the Company's Board of Directors approved the amendment of each of the stand-alone stock option agreements, by and between the Company and A. Jayson Adair and Vincent W. Mitz, respectively, to remove the provision providing at times prior to a "change in control" for the immediate vesting in full of the underlying option upon an involuntary termination of Mr. Adair or Mr. Mitz, as applicable, without "cause." The fair value of each option at the date of grant using the Black-Scholes Merton option-pricing model was $5.72. The total estimated compensation expense to be recognized by the Company over the five year estimated service period for these options is $40.0 million. The Company recognized $7.5 million in compensation expenses for these grants in the years ended July 31, 2017, 2016 and 2015, respectively.

The following table details stock-based payment compensation expense included in the company's consolidated statements of income:

(In thousands)	Year Ended July 31, 2017	2016	2015
General and administrative	$ 17,622	$ 18,194	$ 15,938
Yard operations	3,286	2,670	2,216
Total stock-based payment compensation	$ 20,908	$ 20,864	$ 18,154

There were no material compensation costs capitalized as part of the cost of an asset as of July 31, 2017 and 2016.

A summary of the status of the Company's non-vested shares and its activity during the year ended July 31, 2017 was as follows:

(In thousands, except per share amounts)	Number of Shares	Weighted Average Grant-date Fair Value
Non-vested shares at July 31, 2016	9,622	$ 5.33
Grants of non-vested shares	939	7.05
Vested	(3,509)	5.30
Forfeitures or expirations	(385)	5.55
Non-vested shares at July 31, 2017	6,667	$ 5.57

Stock option activity for the year ended July 31, 2017 was as follows:

(In thousands, except per share and term data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value
Outstanding as of July 31, 2016	38,902	$ 12.15	4.96	$ 508,401
Grants of options	939	27.83		
Exercises	(20,682)	8.21		
Forfeitures or expirations	(385)	19.12		
Outstanding as of July 31, 2017	18,774	$ 17.14	6.48	$ 269,449
Exercisable as of July 31, 2017	12,112	$ 15.95	5.96	$ 188,211
Vested and expected to vest as of July 31, 2017	18,316	$ 17.09	6.45	$ 263,691

As required by ASC 718, *Compensation — Stock Compensation*, the Company made an estimate of expected forfeitures and recognized compensation cost only for those equity awards expected to vest.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between the Company's closing stock price on the last trading day of the year ended July 31, 2017 and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their options on July 31, 2017. The aggregate intrinsic value of options exercised was $366.7 million, $53.6 million and $13.4 million in the years ended July 31, 2017, 2016 and 2015, respectively, and represents the difference between the exercise price of the option and the estimated fair value of the Company's common stock on the dates exercised. As of July 31, 2017, the total compensation cost related to non-vested stock-based payment awards granted to employees under the Company's stock option plans but not yet recognized was $32.0 million, net of estimated forfeitures. This cost will be amortized on a straight-line basis over a weighted average remaining term of 2.21 years and will be adjusted for subsequent changes in estimated forfeitures. The fair value of options vested for the years ended July 31, 2017, 2016 and 2015 was $18.6 million, $21.0 million and $19.5 million, respectively.

The following table summarizes stock options outstanding and exercisable as of July 31, 2017:

(In thousands, except per share amounts)	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number**	**Weighted Average Exercise Price**
$6.54–$10.28	2,285	3.18	$ 9.53	2,285	$ 9.53
$10.52–$17.73	3,890	7.10	16.34	2,047	15.18
$17.81–$18.23	9,352	6.44	17.87	6,569	17.88
$18.32–$31.24	3,247	8.19	21.34	1,211	18.94
Outstanding and exercisable as of July 31, 2017	18,774	6.48	17.14	12,112	15.95

NOTE 12 — Income Taxes

Income before taxes consisted of the following:

	Year Ended July 31,		
(In thousands)	**2017**	**2016**	**2015**
U.S.	$ 385,526	$ 339,013	$ 286,169
International	54,574	56,852	45,900
Total income before taxes	$ 440,100	$ 395,865	$ 332,069

Income tax expense (benefit) from continuing operations consisted of the following:

(In thousands)	Year Ended July 31, 2017	2016	2015
Federal:			
Current	$ 12,752	$ 103,127	$ 95,468
Deferred	20,094	7,019	5,841
	32,846	110,146	101,309
State:			
Current	1,659	5,347	1,160
Deferred	499	151	(86)
	2,158	5,498	1,074
International:			
Current	11,468	10,855	11,062
Deferred	(633)	(994)	(1,159)
	10,835	9,861	9,903
Income tax expense	$ 45,839	$ 125,505	$ 112,286

A reconciliation of the expected U.S. statutory tax rate to the actual effective income tax rate is as follows:

(In thousands)	Year Ended July 31, 2017	2016	2015
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	1.3	0.9	1.1
International rate differential	(1.8)	(1.8)	(1.9)
Compensation and fringe benefits[1]	(24.3)	(3.6)	0.1
Other differences	0.2	1.2	(0.5)
Effective tax rate	10.4%	31.7%	33.8%

(1) Included in the compensation and fringe benefits rate reconciliation is the impact of the Company's adoption, during the fourth quarter of fiscal 2016 on a modified retrospective basis, of ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting.* Under this standard, all excess tax benefits and tax deficiencies related to exercises of stock options are recognized as income tax expense or benefit in the income statement as discrete items in the reporting period in which they occur.

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

(In thousands)	July 31, 2017	July 31, 2016
Deferred tax assets:		
Allowance for doubtful accounts	$ 1,177	$ 1,396
Accrued compensation and benefits	26,621	43,594
State taxes	215	638
Accrued other	2,684	3,018
Deferred revenue	(371)	(545)
Property and equipment	9,405	14,170
Losses carried forward	3,688	3,312
Federal tax benefit	10,542	10,757
Total gross deferred tax assets	53,961	76,340
Less: Valuation allowance	(6,455)	(5,420)
Net deferred tax assets	47,506	70,920
Deferred tax liabilities:		
Vehicle pooling costs	(9,590)	(8,871)
Prepaid insurance	(1,333)	(1,142)
Intangibles and goodwill	(38,580)	(39,773)
Total gross deferred tax liabilities	(49,503)	(49,786)
Net deferred tax (liabilities) assets	$ (1,997)	$ 21,134

The above net deferred tax assets and liabilities have been reflected in the accompanying consolidated balance sheets as follows:

(In thousands)	July 31, 2017	July 31, 2016
U.S. current (liabilities) assets	$ (92)	$ 1,444
U.S. non-current assets	1,054	23,506
International non-current liabilities	(2,959)	(3,816)
Net deferred tax (liabilities) assets	$ (1,997)	$ 21,134

As of July 31, 2017 and 2016, the Company had foreign operating losses and a U.S. federal tax credit carryforward of $5.5 million and $5.0 million, respectively. The foreign operating losses, subject to certain limitations, usually can be carried forward from a minimum of eight years to indefinitely. If not used, those foreign operating losses would start to expire after 2023. The U.S. federal related tax credit, if not used, would start to expire after 2026.

The Company's ability to realize deferred tax assets is dependent on its ability to generate future taxable income. Accordingly, the Company has established a valuation allowance in taxable jurisdictions where the utilization of the tax assets is uncertain. Additional timing differences or future tax losses may occur which could warrant a need for establishing additional valuation allowances against certain deferred tax assets. The valuation allowance for the years ended July 31, 2017 and 2016 was $6.5 million and $5.4 million, respectively. The valuation allowance for deferred tax assets primarily related to operating losses in certain international jurisdictions and certain tax credits that are unlikely to be realized.

As of July 31, 2017 and 2016, if recognized, the portion of liabilities for unrecognized tax benefits that would favorably affect the Company's effective tax rate was $13.0 million and $14.0 million, respectively. It is possible that the amount of unrecognized tax benefits will change in the next twelve months, due to tax legislation updates or future audit outcomes; however, an estimate of the range of the possible change cannot be made at this time.

The following table summarizes the activities related to the Company's unrecognized tax benefits:

(In thousands)	July 31, 2017	2016	2015
Beginning balance	$ 20,715	$ 17,428	$ 18,419
Increases related to current year tax position	2,807	4,311	3,441
Prior year tax positions:			
Prior year increase	2,694	1,120	599
Prior year decrease	(3,605)	—	—
Cash settlement	(1,123)	(412)	(225)
Lapse of statute of limitations	(2,219)	(1,732)	(4,806)
Ending balance	$ 19,269	$ 20,715	$ 17,428

It is the Company's continuing practice to recognize interest and penalties related to income tax matters in income tax expense. As of July 31, 2017, 2016 and 2015, the Company had accrued interest and penalties related to unrecognized tax benefits of $5.3 million, $4.9 million and $3.8 million, respectively.

The Company is currently under examination by certain taxing authorities in the U.S. for fiscal years 2012 to 2016. At this time, the Company does not believe that the outcome of any examination will have a material impact on the Company's consolidated results of operations and financial position.

During the year ended July 31, 2016, the Company adopted ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which impacted the accounting for share-based payments, including income tax consequences, classification of awards and the classification on the consolidated statements of cash flows. As of July 31, 2017 and 2016 the Company recognized excess tax benefits of $107.6 million and $14.7 million, respectively, as a reduction to tax expense in the consolidated statements of income.

In the year ended July 31, 2015, the Company recognized a tax benefit of $3.0 million, upon the exercise of certain stock options, which was reflected in stockholders' equity.

The Company has not provided for U.S. federal income and foreign withholding taxes on $181.4 million of its international subsidiaries' undistributed earnings as of July 31, 2017, because the Company intends to reinvest such earnings indefinitely in its international operations. Specifically, the earnings will be dedicated to the following areas outside the U.S. (i) funding operating and capital spending needs in existing foreign markets; (ii) funding merger and acquisition deals both in existing and new international markets; and (iii) other investments to help expand the Company's footprint in international emerging markets. The Company does not anticipate the need for any international cash in its U.S. operations. It is not practical to determine the income tax liability that might be incurred if these earnings were to be distributed in the form of dividends or otherwise. If distributed, however, foreign tax credits may become available under then current law to reduce or eliminate the resultant U.S. income tax liability.

NOTE 13 — Net Income Per Share

The table below reconciles basic weighted shares outstanding to diluted weighted average shares outstanding:

(In thousands)	Year Ended July 31, 2017	2016	2015
Weighted average common shares outstanding	228,686	228,846	251,829
Effect of dilutive securities — stock options	8,333	15,449	11,022
Weighted average common and dilutive potential common shares outstanding	237,019	244,295	262,851

There were no material adjustments to net income required in calculating diluted net income per share. Excluded from the dilutive earnings per share calculation were 3,058,808; 11,594,014; and 11,810,748 options to purchase the Company's common stock for the years ended July 31, 2017, 2016 and 2015, respectively, because their inclusion would have been anti-dilutive. During the year ended July 31, 2016, the Company adopted ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which caused an impact on dilutive potential common shares outstanding, as the Company excluded the excess tax benefits and deficiencies from the proceeds portion of the diluted earnings per share calculations as they are no longer recorded in equity, which caused dilutive potential common shares outstanding to increase for all periods in fiscal 2016.

NOTE 14 — Segments and Other Geographic Reporting

The Company's U.S. and International regions are considered two separate operating segments and are disclosed as two reportable segments. The segments represent geographic areas and reflect how the chief operating decision maker allocates resources and measures results, including total revenues, operating income and income before income taxes. The segments continue to share similar business models, services and economic characteristics. Intercompany income (expense) primarily related to charges for services provided by the U.S. segment.

The following tables present financial information by segment:

	Year Ended July 31, 2017		
(In thousands)	**United States**	**International**	**Total**
Total service revenues and vehicle sales	$ 1,193,188	$ 254,793	$ 1,447,981
Yard operations	585,587	92,814	678,401
Cost of vehicle sales	61,484	76,068	137,552
General and administrative	130,392	20,972	151,364
Impairment of long-lived assets	19,365	—	19,365
Operating income	396,360	64,939	461,299
Interest (expense) income, net	(23,373)	1,000	(22,373)
Other income, net	(10)	1,184	1,174
Intercompany income (expense)	12,549	(12,549)	—
Income before income tax expense	385,526	54,574	440,100
Income tax expense	34,985	10,854	45,839
Net income	$ 350,541	$ 43,720	$ 394,261
Depreciation and amortization	$ 47,507	$ 9,493	$ 57,000
Capital expenditures, including acquisitions	317,646	15,344	332,990
Total assets	1,514,018	468,483	1,982,501
Goodwill	259,162	81,081	340,243

(In thousands)	Year Ended July 31, 2016 United States	International	Total
Total service revenues and vehicle sales	$ 1,016,036	$ 252,413	$ 1,268,449
Yard operations	494,146	88,758	582,904
Cost of vehicle sales	55,866	85,093	140,959
General and administrative	118,315	19,801	138,116
Operating income	347,709	58,761	406,470
Interest (expense) income, net	(23,178)	1,021	(22,157)
Other income, net	1,216	10,336	11,552
Intercompany income (expense)	13,266	(13,266)	—
Income before income tax expense	339,013	56,852	395,865
Income tax expense	115,667	9,838	125,505
Net income	$ 223,346	$ 47,014	$ 270,360
Depreciation and amortization	$ 39,083	$ 9,492	$ 48,575
Capital expenditures, including acquisitions	153,451	20,466	173,917
Total assets	1,249,755	400,065	1,649,820
Goodwill	179,906	80,292	260,198

(In thousands)	Year Ended July 31, 2015 United States	International	Total
Total service revenues and vehicle sales	$ 902,880	$ 243,199	$ 1,146,079
Yard operations	440,517	85,774	526,291
Cost of vehicle sales	52,232	84,180	136,412
General and administrative	120,140	18,835	138,975
Operating income	289,991	54,410	344,401
Interest (expense) income, net	(17,622)	318	(17,304)
Other income, net	2,707	2,265	4,972
Intercompany income (expense)	11,093	(11,093)	—
Income before income tax expense	286,169	45,900	332,069
Income tax expense	102,379	9,907	112,286
Net income	$ 183,790	$ 35,993	$ 219,783
Depreciation and amortization	$ 36,238	$ 10,335	$ 46,573
Capital expenditures, including acquisitions	64,769	14,384	79,153
Total assets	1,404,946	393,714	1,798,660
Goodwill	176,890	94,960	271,850

NOTE 15 — Commitments and Contingencies

Leases

The Company leases certain facilities and certain equipment under non-cancelable capital and operating leases. In addition to the minimum future lease commitments presented below, the leases generally require the Company to pay property taxes, insurance, maintenance and repair cost which are not included in the table because the Company has determined these items are not material. Certain leases provide the Company with either a right of first refusal to acquire or an option to purchase a facility at fair value. Certain leases also contain escalation clauses and renewal option clauses calling for increased rents. Where a lease contains an escalation clause or a concession, such as a rent holiday or tenant improvement allowance, rent expense is recognized on a straight-line basis over the lease term in accordance with ASC 840, Operating Leases.

The future minimum lease commitments for the next five fiscal years, under non-cancelable capital and operating leases with initial or remaining lease terms in excess of one year were as follows:

Years Ending July 31, (In thousands)	Capital Leases	Operating Leases
2018	$ 1,153	$ 28,126
2019	966	23,364
2020	30	17,285
2021	13	14,409
2022	—	10,147
Thereafter	—	59,436
Subtotal	2,162	152,767
Less: Amount relating to interest	(97)	—
Total	$ 2,065	$ 152,767

Facilities rental expense for the years ended July 31, 2017, 2016 and 2015 was $26.8 million, $21.6 million and $21.7 million, respectively. Yard operations equipment rental expense for the years ended July 31, 2017, 2016 and 2015 was $2.9 million, $3.1 million and $3.6 million, respectively.

Commitments

Letters of Credit

Under a letter of credit facility separate from our Revolving Loan Facility, the Company had outstanding letters of credit of $15.8 million at July 31, 2017, which are primarily used to secure certain insurance obligations.

Contingencies

Legal Proceedings

The Company is subject to threats of litigation and is involved in actual litigation and damage claims arising in the ordinary course of business, such as actions related to injuries, property damage, contract disputes, and handling or disposal of vehicles. The material pending legal proceedings to which the Company is a party, or of which any of the Company's property is subject, include the following matters.

On November 1, 2013, the Company filed suit against Sparta Consulting, Inc. (now known as KPIT) in the 44th Judicial District Court of Dallas County, Texas, alleging fraud, fraudulent inducement, and/or promissory fraud, negligent misrepresentation, unfair business practices pursuant to California Business and Professions Code § 17200, breach of contract, declaratory judgment, and attorney's fees. The Company seeks compensatory and exemplary damages, disgorgement of amounts paid, attorney's fees, pre- and post-judgment interest, costs of suit, and a judicial declaration of the parties' rights, duties, and obligations under the Implementation Services Agreement dated October 6, 2011. The suit arises out of the Company's September 17, 2013 decision to terminate the Implementation Services Agreement, under which KPIT was to design, implement, and deliver a customized replacement enterprise resource planning system for the Company. On January 2, 2014, KPIT removed this suit to the United States District Court for the Northern District of Texas. On August 11, 2014, the Northern District of Texas transferred the suit to the United States District Court for the Eastern District of California for convenience. On January 8, 2014, KPIT filed suit against the Company in the United States District Court for the Eastern District of California, alleging breach of contract, promissory estoppel, breach of the implied covenant of good faith and fair dealing, account stated, quantum meruit, unjust enrichment, and declaratory relief. KPIT seeks compensatory and exemplary damages, prejudgment interest, costs of suit, and a judicial declaration of the parties' rights, duties, and obligations under the Implementation Services Agreement. On June 8, 2016, the Company amended its complaint to include claims that KPIT stole certain intellectual property owned by the Company and acted negligently in its provision of services. The Company is pursuing its claim for damages, and defending against KPIT's claim for damages. The Company and KPIT filed competing motions for summary judgment in January 2017. The Court issued its ruling on the motions on September 25, 2017. The order granted some of the relief sought by the Company, and some of the relief sought by KPIT. The Company's core claims remain in the case after the ruling, including its claims for fraud, fraudulent inducement, breach of contract, professional negligence, trade secret misappropriation, unfair competition, unjust enrichment, and computer hacking. KPIT's claims are now limited to breach of contract, breach of the implied covenant of good faith and fair dealing, and declaratory relief.

The Company provides for costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on the Company's future consolidated results of operations and cash flows cannot be predicted because any such effect depends on future results of operations and the amount and timing of the resolution of such matters. The Company believes that any ultimate liability will not have a material effect on its consolidated results of operations, financial position or cash flows. However, the amount of the liabilities associated with these claims, if any, cannot be determined with certainty. The Company maintains insurance which may or may not provide coverage for claims made against the Company. There is no assurance that there will be insurance coverage available when and if needed. Additionally, the insurance that the Company carries requires that the Company pay for costs and/or claims exposure up to the amount of the insurance deductibles negotiated when the insurance is purchased.

Governmental Proceedings

The Georgia Department of Revenue, or DOR, conducted a sales and use tax audit of the Company's operations in Georgia for the period from January 1, 2007 through June 30, 2011. As a result of their initial audit, the DOR issued a notice of proposed assessment for uncollected sales taxes in which it asserted that the Company failed to collect and remit sales taxes totaling $73.8 million, including penalties and interest.

The Company subsequently engaged a Georgia law firm and outside tax advisors to review the conduct of its business operations in Georgia, the notice of proposed assessment, and the DOR's policy position. In particular, the Company's outside legal counsel provided the Company an opinion that the sales for resale to non-U.S. registered resellers should not be subject to Georgia sales and use tax. In rendering its opinion, the Company's counsel noted that non-U.S. registered resellers are unable to comply strictly with technical requirements for a Georgia certificate of exemption but concluded that its sales for resale to non-U.S. registered resellers should not be subject to Georgia sales and use tax notwithstanding this technical inability to comply. Following the Company's receipt of the notice of proposed assessment, the Company and its counsel engaged in active discussions with the DOR to resolve the matter.

On August 4, 2015, the DOR issued an official Assessment and Demand for Payment (the "Assessment") for $96.1 million for sales taxes, penalties, and interest that the DOR alleged the Company owes to the State of Georgia. The Company filed an appeal of this Assessment from the DOR with the Georgia Tax Tribunal on September 3, 2015. On August 5, 2016, the DOR filed a response in which it denied all allegations noted in the Company's appeal of the Assessment.

During an extended remand period, it was determined that grounds exist for a substantial reduction in the Official Assessment, on the basis that (i) the transactions and resulting tax at issue were erroneously double-counted by the DOR in the audit sales transaction work papers on which the Assessment was based; and (ii) the Company was ultimately able to provide documentation showing that most of the remaining transactions were sales at wholesale, therefore qualifying for the sale for resale exemption from Georgia Sales and Use Tax. After these reductions, the remaining amount of principal Georgia Sales and Use Tax still in dispute between the parties is $2.6 million, plus applicable interest. A Consent Order to this effect was entered by the Georgia Tax Tribunal on May 22, 2017. Since the date of entry of the Consent Order, the Company and the DOR have exchanged discovery requests and initial discovery responses. The Company expects that discovery will be completed in the fall of 2017. The Company and the DOR will then present the case to the Tax Tribunal for final disposition.

Based on the opinion from the Company's outside law firm, advice from its outside tax advisors, and the Company's best estimate of a probable outcome, the Company has adequately provided for the payment of any assessment in its consolidated financial statements. The Company believes it has strong defenses to the remaining tax liability set forth above and intends to continue to defend this matter. There can be no assurance that this matter will be resolved in the Company's favor or that the Company will not ultimately be required to make a substantial payment to the DOR. The Company understands that litigating and defending the matter in Georgia could be expensive and time-consuming and result in substantial management distraction. If the matter were to be resolved in a manner adverse to the Company, it could have a material adverse effect on the Company's consolidated results of operations and financial position.

NOTE 16 — Guarantees — Indemnifications to Officers and Directors

The Company typically enters into indemnification agreements with its directors and certain of its officers to indemnify them to the extent permitted by law against any and all liabilities, costs, expenses, amounts paid in settlement and damages incurred by the directors as a result of any lawsuit, or any judicial, administrative or investigative proceeding in which the directors are sued as a result of their service as members of its Board of Directors.

NOTE 17 — Related Party Transactions

During the year ended July 31, 2016, the Company acquired interest in a partnership, partially owned by an executive, which held the lease on property where the Company is operating a facility which totaled $2.0 million. During the year ended July 31, 2015, the Company purchased a property previously leased from an executive for $11.9 million.

There were no amounts due to or from related parties as of July 31, 2017 and 2016 that are not separately or previously disclosed.

NOTE 18 — Employee Benefit Plan

The Company sponsors a 401(k) defined contribution plan covering its eligible employees. The plan is available to all U.S. employees who meet minimum age and service requirements and provides employees with tax deferred salary deductions and alternative investment options. The Company matches 20% of employee contributions up to 15% of employee salary deferral. The Company recognized expenses of $0.9 million for the year ended July 31, 2017, and $0.8 million for the years ended July 31, 2016 and 2015, respectively, related to this plan.

The Company also sponsors an additional defined contribution plan for its U.K. employees, which is available to all U.K. employees who meet minimum service requirements. The Company matches up to 5% of employee contributions. The Company recognized expenses of $0.6 million, for the years ended July 31, 2017 and 2016, and $0.7 million for the year ended July 31, 2015, related to this plan.

NOTE 19 — Quarterly Financial Information (in thousands, except per share data) (Unaudited)[1]

Fiscal Year 2017	Fiscal Quarter First[2]	Second[2]	Third[2]	Fourth
Total revenue	$ 345,991	$ 349,532	$ 373,862	$ 378,596
Gross margin	145,293	146,765	172,505	167,465
Operating income	104,824	108,880	136,788	110,807
Income before income taxes	102,534	100,099	131,088	106,379
Net income attributable to Copart, Inc.	167,280	66,066	90,546	70,335
Basic net income per common share	$ 0.74	$ 0.29	$ 0.39	$ 0.31
Diluted net income per common share	$ 0.70	$ 0.28	$ 0.38	$ 0.30

Fiscal Year 2016	Fiscal Quarter First[2]	Second[2]	Third[2]	Fourth[2]
Total revenue	$ 288,838	$ 299,706	$ 347,246	$ 332,659
Gross margin	120,861	124,614	157,647	141,464
Operating income	86,246	92,085	121,948	106,191
Income before income taxes	81,760	91,552	116,568	105,985
Net income attributable to Copart, Inc.	52,610	59,007	74,623	84,120
Basic net income per common share	$ 0.22	$ 0.25	$ 0.34	$ 0.38
Diluted net income per common share	$ 0.21	$ 0.24	$ 0.32	$ 0.35

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

(2) Earnings per share data were revised from previously reported amounts due to a two-for-one common stock split effected in the form of a stock dividend. See *Note 1 — Summary of Significant Accounting Policies.*

EXHIBIT INDEX

The following Exhibits are filed as part of, or incorporated by reference into this report.

Exhibit Number		Description	Incorporated by reference herein Form	Date
3.1		Copart, Inc. Certificate of Incorporation	Current Report on Form 8-K, (File No. 000-23255), Exhibit No. 3.1	February 25, 2016
3.2		Certificate of Amendment to the Copart, Inc. Certificate of Incorporation	Current Report on Form 8-K, (File No. 000-23255), Exhibit No. 2	December 22, 2016
3.3		Bylaws of Copart, Inc.	Current Report on Form 8-K, (File No. 000-23255), Exhibit No. 3	December 22, 2016
4.1		Preferred Stock Rights Agreement, dated as of March 6, 2003, between Copart 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/A-12/G (File No. 000-23255), Exhibit No. 4.1	March 11, 2003
4.2		Amendment to Preferred Stock Rights Agreement, as of March 14, 2006, between the Registrant and Computershare Trust Company, N.A. (formerly Equiserve Trust Company, N.A.)	8/A-12G/A (File No. 000-23255), Exhibit 4.2	March 15, 2006
4.3		Amendment to Preferred Stock Rights Agreement, as of January 10, 2013, between the Registrant and Computershare Trust Company, N.A. (formerly Equiserve Trust Company, N.A.)	8/A-12G/A (File No. 000-23255), Exhibit 4.3	January 10, 2012
10.1	*	Copart Inc. 2001 Stock Option Plan	Registration Statement on Form S-8 (File No. 333-90612), Exhibit No. 4.1	June 17, 2002
10.2	*	Copart Inc. 2007 Equity Incentive Plan, as Amended and Restated (2007 EIP)	Current Report on Form 8-K, (File No. 000-23255), Exhibit No. 1	December 22, 2016
10.3	*	Form of Performance Share Award Agreement for use with 2007 EIP	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.1	December 12, 2007
10.4	*	Form of Restricted Stock Unit Award Agreement for use with 2007 EIP	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.3	December 12, 2007
10.5	*	Form of Stock Option Award Agreement for use with 2007 EIP	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.5	December 12, 2007
10.6	*	Form of Restricted Stock Award Agreement for use with 2007 EIP	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.4	December 12, 2007

Exhibit Number	Description	Incorporated by reference herein	
		Form	Date
10.7 *	Credit Agreement dated as of December 14, 2010 by and between the Registrant and Bank of America, N.A.	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.1	December 15, 2010
10.8 *	Amendment to Credit Agreement between the Registrant and Bank of America, N.A., dated as of September 29, 2011	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.13b	October 4, 2011
10.9 *	Copart, Inc. Executive Bonus Plan	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.13	August 3, 2006
10.10 *	Amended and Restated Executive Officer Employment Agreement between the Registrant and William E. Franklin, dated September 25, 2008	Quarterly Report on Form 10-Q (File No. 000-23255), Exhibit No. 10.1	December 10, 2008
10.11 *	Form of Copart, Inc. Stand-Alone Stock Option Award Agreement for grant of options to purchase 2,000,000 shares of the Registrant's common stock to each of Willis J. Johnson and A. Jayson Adair	Registration Statement on Form S-8 (File No. 333-159946), Exhibit No. 4.1	June 12, 2009
10.12 *	Amendment dated June 9, 2010 to Option Agreements dated June 6, 2001, October 21, 2002 and August 19, 2003 between the Registrant and Willis J. Johnson	Annual Report on Form 10-K (File No. 000-23255), Exhibit No. 10-17	September 23, 2010
10.13 *	Form of Indemnification Agreement signed by executive officers and directors	Annual Report on Form 10-K (File No. 000-23255), Exhibit No. 10.17	October 1, 2012
10.14	Standard Industrial/Commercial single tenant lease-net dated February 3, 2013 between Garden Centura, L.P. and the Registrant	Annual Report on Form 10-K (File No. 000-23255), Exhibit No. 10.18	October 1, 2012
10.15	Credit Agreement among the Registrant, the lenders from time to time party thereto, and Wells Fargo Bank, N.A., as administrative agent, dated as of December 3, 2014	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.1	December 4, 2014
10.16	Security Agreement among the Registrant, the lenders from time to time party thereto, and Wells Fargo Bank, N.A., as collateral agent, dated as of December 3, 2014	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.2	December 4, 2014
10.17	Note Purchase Agreement among the Registrant and each of the purchasers listed on Schedule B dated as of December 3, 2014	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.3	December 4, 2014
10.18 *	Copart, Inc. 2014 Employee Stock Purchase Plan	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.1	December 5, 2014
10.19 *	Form of Copart, Inc. Stand-Alone Stock Option Award Agreement for grant of options to purchase 2,000,000 and 1,500,000 shares of the Registrant's common stock to A. Jayson Adair and Vincent W. Mitz, respectively.	Registration Statement on Form S-8 (File No. 333-193244), Exhibit No. 4.2	January 9, 2014

Exhibit Number		Description	Incorporated by reference herein	
			Form	Date
10.20	*	Amended and Restated Stand-Alone Stock Option Award Agreement dated June 2, 2015, between the Registrant and A. Jayson Adair.	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.1	June 4, 2015
10.21	*	Amended and Restated Stand-Alone Stock Option Award Agreement dated June 2, 2015, between the Registrant and Vincent W. Mitz.	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.2	June 4, 2015
10.22	*	Executive Officer Employment Agreement, effective January 4, 2016, between the Registrant and Jeffrey Liaw.	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.26	November 23, 2015
10.23	*	Executive Officer Employment Agreement, effective August 1, 2014, between the Registrant and Rama Prasad.	Quarterly Report on Form 10-Q (File No. 000-23255), Exhibit No. 10.27	November 24, 2015
10.24		First Amendment to Credit Agreement, dated as of March 15, 2016, by and among Copart, Inc., the subsidiaries of Copart, Inc. party thereto, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent.	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.1	March 17, 2016
10.25		Second Amendment to Credit Agreement, dated as of July 21, 2016, by and among Copart, Inc., the subsidiaries of Copart, Inc. party thereto, the lenders party thereto, and Bank of America, N.A., as administrative agent.	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.1	July 27, 2016
10.26		First Amendment to Note Purchase Agreement, dated as of July 21, 2016, by and among Copart, Inc., the subsidiaries of Copart, Inc. party thereto and the purchasers party thereto.	Current Report on Form 8-K (File No. 000-23255), Exhibit No. 10.2	July 27, 2016
10.27	*	Amended and Restated Executive Officer Employment Agreement between the Registrant and Vikrant Bhatia, dated November 28, 2016.	Quarterly Report on Form 10-Q (File No. 000-23255), Exhibit No. 10.28	November 30, 2016
14.01		Code of Ethics for Principal Executive and Senior Financial Officers	Annual Report on Form 10-K (File No. 000-23254), Exhibit No. 14-01	October 17, 2003
21.1		List of subsidiaries of Registrant	—	Filed herewith
23.1		Consent of Independent Registered Public Accounting Firm	—	Filed herewith
24.1		Power of Attorney (included on signature page)	—	Filed herewith
31.1		Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	—	Filed herewith
31.2		Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	—	Filed herewith
32.1	(1)	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	—	Filed herewith
32.2	(1)	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	—	Filed herewith

Exhibit Number	Description	Incorporated by reference herein	
		Form	Date
101.INS	XBRL Instance Document		
101.SCH	XBRL Taxonomy Extension Schema Document		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document		
101.DEF	XBRL Extension Definition		
101.LAB	XBRL Taxonomy Extension Label Linkbase Document		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document		
(1)	In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-K and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.		

* Management contract, plan or arrangement

BOARD OF DIRECTORS AND MANAGEMENT

DIRECTORS

WILLIS J. JOHNSON
CHAIRMAN OF THE BOARD
COPART, INC.

A. JAYSON ADAIR
CHIEF EXECUTIVE OFFICER
COPART, INC.

VINCENT W. MITZ
PRESIDENT
COPART, INC.

STEVEN D. COHAN
CHIEF EXECUTIVE OFFICER & DIRECTOR
LOCO VENTURES, INC.

DANIEL J. ENGLANDER
MANAGING PARTNER
URSULA CAPITAL PARTNERS

THOMAS N. TRYFOROS
PRIVATE INVESTOR

JAMES E. MEEKS
FORMER EXECUTIVE VICE PRESIDENT &
CHIEF OPERATING OFFICER
COPART, INC.

MATT BLUNT
FORMER GOVERNOR
STATE OF MISSOURI

EXECUTIVE OFFICERS

WILLIS J. JOHNSON
CHAIRMAN OF THE BOARD

A. JAYSON ADAIR
CHIEF EXECUTIVE OFFICER

VINCENT W. MITZ
PRESIDENT

WILLIAM E. FRANKLIN
EXECUTIVE VICE PRESIDENT, U.S. OPERATIONS AND SHARED SERVICES

JEFFREY LIAW
SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER

CORPORATE HEADQUARTERS

Copart, Inc.
14185 Dallas Parkway, Suite 300
Dallas, TX 75254
(972) 391-5000

ANNUAL MEETING

The Annual Meeting of Stockholders will be held at 14185 Dallas Parkway, Suite 300, Dallas, Texas 75254 at 8:00 a.m., central time, on December 8, 2017.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young, LLP
Dallas, Texas

LEGAL COUNSEL

Wilson Sonsini Goodrich & Rosati, P.C.
Palo Alto, California

STOCKHOLDER SERVICES

You may contact our transfer agent Computershare Trust Company, N.A., by telephone at (877) 282-1168, by writing Computershare Trust Company, N.A., P.O. Box 30170, College Station, TX 77842 or via the Internet at www.computershare.com.

INTERNET ADDRESS INFORMATION

Visit us online at www.copart.com for more information about Copart and its products and services. The 2017 Annual Report is available online by visiting www.investorvote.com/CPRT.

MARKET PRICE DISTRIBUTIONS

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, 2017, there were 230,488,296 shares outstanding. Our common stock has been quoted on the NASDAQ Global Select Market under the symbol "CPRT" since March 17, 1994. As of September 26, 2017, we had 946 stockholders of record.

2017	High	Low
FOURTH QUARTER	31.95	29.18
THIRD QUARTER	31.20	27.83
SECOND QUARTER	28.81	25.40
FIRST QUARTER	27.23	24.87

2016	High	Low
FOURTH QUARTER	25.66	21.25
THIRD QUARTER	21.42	16.56
SECOND QUARTER	19.84	16.51
FIRST QUARTER	18.37	16.45

ANNUAL REPORT ON FORM 10-K

Copart will provide, without charge to each stockholder, upon written request a copy of its annual report on Form 10-K as required to be filed with the Securities and Exchange Commission pursuant to Rule 13a-1, under the Securities and Exchange Act of 1934, as amended. All such requests shall be sent to Copart, Inc., 14185 Dallas Parkway, Suite 300, Dallas, TX 75254.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to management. The forward-looking statements are contained principally in the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business." Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities and the effects of competition. Forward-looking statements include statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. Given these uncertainties, you should not place undue reliance on any forward-looking statements. In particular, Copart cannot predict its future revenues or operating results or its future rates of revenue growth, if any. Factors that could materially affect future results include, but are not limited to, risks relating to our dependence on a limited number of major vehicle sellers for a substantial portion of our revenues, risks associated with international operations, our ability to implement our management information systems, our need to acquire new facilities, and the potential for quarterly variations in our operating results. In addition, investors in Copart should review the more detailed discussions of risks and uncertainties affecting our business described under the caption "Risk factors" in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 27, 2017 and supplemented in our subsequent Quarterly Reports on Form 10-Q.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Copart, Inc.
14185 Dallas Pkwy., Suite #300 | Dallas, TX 75254 | Ph: 972-391-5000