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FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

/X/ Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [FEE REQUIRED]
For the fiscal year ended: July 31, 1997

OR

/ / Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [NO FEE REQUIRED]
For the transition period from _____ to _____

Commission File Number 0-23255

COPART, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA	94-2867490
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5500 E. SECOND STREET BENICIA, CALIFORNIA (address of principal executive offices)	94510 (zip code)

Registrant's telephone number, including area code: (707) 748-5000

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: Common Stock
(TITLE OF CLASS)

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 X 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. [ ]

The aggregate market value of voting stock held by non-affiliates of the registrant as of October 23, 1997 was $147,079,000 based upon the last sales price reported for such date on the Nasdaq National Market. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the registrant, have been excluded in that such persons may be deemed to be affiliates. This determination is not necessarily conclusive for other purposes.

At October 23, 1997 registrant had outstanding 13,100,354 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the definitive proxy statement for the Annual Meeting of Shareholders to be held on December 9, 1997 (the "Proxy Statement").

PART I

ITEM 1. BUSINESS

THIS REPORT CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE PROJECTED IN THE FORWARD-LOOKING STATEMENTS AS A RESULT OF THE RISK FACTORS SET FORTH BELOW. THE COMPANY HAS ATTEMPTED TO IDENTIFY FORWARD-LOOKING STATEMENTS BY PLACING AN ASTERISK IMMEDIATELY FOLLOWING THE SENTENCE OR PHRASE THAT CONTAINS THE FORWARD-LOOKING STATEMENT.

GENERAL

Copart, Inc. ("Copart" or the "Company") provides vehicle suppliers, primarily insurance companies, with a full range of services to process and sell salvage vehicles through auctions, principally to licensed dismantlers, rebuilders and used vehicle dealers. Salvage vehicles are either damaged vehicles deemed a total loss for insurance or business purposes or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. The Company offers vehicle suppliers a full range of services which expedite each stage of the salvage vehicle auction process and minimize administrative and processing costs. The Company generates revenues primarily from auction fees paid by vehicle suppliers and vehicle buyers as well as related fees for services such as towing and storage.

Since July 31, 1996, Copart has acquired two auction facilities near Baton Rouge, Louisiana and Salt Lake City, Utah and opened two new facilities in or near Hammond, Indiana and Woodinville, Washington. From July 31, 1990 through July 31, 1996, Copart grew from four auction facilities in northern California to 49 auction facilities in 24 states. In May, 1995, the Company acquired substantially all of the net operating assets (excluding real property) of NER Auction Group ("NER"). The operations acquired by Copart were part of a group of 14 companies that owned and operated 20 salvage vehicle auction facilities in 11 states (the "NER Acquisition"). The number of salvage vehicles processed annually by Copart has grown from approximately 17,200 in fiscal 1990 to 410,000 in fiscal 1997.

Copart was organized as a California corporation in 1982. The Company's principal executive offices are located at 5500 E. Second Street, Benicia, California 94510, and its telephone number at that address is (707) 748-5000.

THE SALVAGE VEHICLE AUCTION INDUSTRY

Although there are other suppliers of salvage vehicles, such as financial institutions, vehicle leasing companies, automobile rental companies and automobile dealers, the primary source of salvage vehicles to the salvage vehicle auction industry historically has been insurance companies. Of the total number of vehicles processed by the Company in fiscal 1997, over 90% were obtained from insurance company suppliers. While there has been substantial consolidation of the salvage vehicle auction industry, the Company believes opportunities continue to exist either to open or acquire facilities.*

INDUSTRY PARTICIPANTS

The primary businesses and/or individuals involved in the salvage vehicle auction industry include:

SALVAGE VEHICLE AUCTION COMPANIES. Salvage vehicle auction companies such as the Company generally either (i) auction salvage vehicles on consignment, for a fixed fee or for a percentage of the sales price of the vehicle or (ii) purchase vehicles from vehicle suppliers at a formula price, based on a percentage of the

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vehicles' estimated pre-loss value, or "actual cash value" ("ACV"), and auction the vehicles for their own account.

VEHICLE SUPPLIERS. The primary suppliers of salvage vehicles are insurance companies. Additional suppliers include automobile dealers and automobile rental companies, which process self-insured salvage vehicles and occasionally process retired fleets, and financial institutions and vehicle leasing companies which process repossessed, uninsured salvage vehicles.

VEHICLE BUYERS. Vehicle dismantlers, rebuilders, repair licensees and used car dealers are the primary buyers of salvage vehicles. Vehicle dismantlers, which the Company believes are the largest group of salvage vehicle buyers, either dismantle a vehicle and sell parts individually or sell the entire vehicle to rebuilders, used automobile dealers or the public. Vehicle rebuilders and vehicle repair licensees repair salvage vehicles for sale to used car dealers

and noncommercial buyers. Used automobile dealers will generally purchase directly from a salvage vehicle auction facility vehicles requiring few repairs before resale such as late model, slightly damaged or intact recovered stolen vehicles.

THE INSURANCE ADJUSTMENT AND VEHICLE AUCTION PROCESS

Following an accident involving an insured vehicle, the damaged vehicle is generally towed to a towing company 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 ACV. The insurance company's 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 and the vehicle's salvage value, as well as customer service considerations. If the cost of repair is greater than the ACV 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 salvage auction company, such as the Company, settle with the insured vehicle owner and receive title to the vehicle.

Factors that vehicle suppliers consider when selecting a salvage vehicle auction company include (i) the anticipated percentage return on salvage (E.G., gross salvage proceeds, minus vehicle handling and selling expenses, divided by the ACV); (ii) the services provided by the salvage vehicle auction company and the degree to which such services reduce administrative costs and expenses; (iii) the ability to provide service across a broad geographic area; (iv) the timing of payment; and (v) the financial and operating history of the salvage vehicle auction company.

In disposing of a salvage vehicle, a vehicle supplier assigns the vehicle to a salvage vehicle auction company with which it has a contractual or other relationship. Upon receipt of the pick-up order, which is conveyed by facsimile, telephone or computer, the salvage vehicle auction company dispatches one of its transporters or a contract towing company to transport the vehicle to the salvage vehicle auction company's facility. As a service to the vehicle supplier, the salvage vehicle auction company customarily pays advance charges (reimbursable charges paid by the Company on behalf of vehicle suppliers) to obtain the subject vehicle's release from a towing company or vehicle repair facility. Typically, advance charges are paid on behalf of the vehicle supplier and are recovered by the salvage vehicle auction company upon sale of the salvage vehicle.

After being received and evaluated at the salvage vehicle auction facility, the vehicle remains in storage and cannot be sold at an auction until ownership documents are transferred from the insured vehicle owner and title to the vehicle is cleared through the appropriate state's motor vehicle regulatory agency (or "DMV"). If a vehicle is a total loss (as determined by the insurance company), it can be sold in most states upon settlement with and receipt of title documents from the insured. Total loss vehicles may be sold in most states only after obtaining a salvage certificate from the DMV, however, in some states only a bill of sale from the insured is required. Upon receipt of the appropriate documentation from the state DMV or the

insured, which is generally received within 45 to 60 days of vehicle pick-up, the salvage vehicle auction company auctions the vehicle. Vehicles are sold primarily through live auctions, which are typically held weekly or biweekly at each facility, and occasionally by sealed bid auctions.

At the Company's facilities, the vehicles to be auctioned are moved from storage areas to a sales area for the convenience of the buyers. At the Company and many other facilities, the auctioneer works from a truck that proceeds through the sales area from vehicle to vehicle. Certain vehicles that are driveable are driven through an auction display area. Minimum bids are occasionally set by vehicle suppliers on high-value and specialty cars, and often facilities have standing guaranteed bids of between $25 to $100 per vehicle from local dismantlers for "junk" vehicles.

Once a vehicle is sold at auction, the buyer typically must pay by cashier's check, money order or approved company check and take possession of the sold vehicle within two to five days. After payment for the vehicle, the buyer receives the appropriate title documentation. In addition to the awarded bid price, the buyer pays any fees or other charges assessed by the salvage vehicle auction company, such as post-sale processing, towing and storage fees. The salvage vehicle auction company thereafter remits to the insurance company the vehicle sales proceeds, less advance charges and any fees for its towing, storage and selling of the vehicle pursuant to the arrangement between the insurance company and the salvage vehicle auction company. The insurance proceeds check will typically be accompanied by copies of invoices for deducted fees and advance charges, and copies of title and related DMV documents. The

insurance company may then close its claims file with copies of all records of the transaction.

OPERATING STRATEGY

The Company's operating strategy is to increase salvage vehicle volume from new and existing vehicle suppliers by (i) designing sales programs tailored to a vehicle supplier's particular needs, (ii) offering a full range of services that reduce the administrative time and costs of the salvage vehicle auction process, such as computerized monitoring and tracking of salvage vehicles, (iii) developing a growing base of buyers, (iv) providing salvage vehicle auction facilities throughout broad geographic regions, and (v) offering insurance companies the ability to contract for vehicle salvage services on a regional or national basis. The Company believes its flexible, service-oriented approach promotes the establishment and maintenance of strong relationships with vehicle suppliers, which are an integral factor in competing effectively in the salvage vehicle auction industry.

FLEXIBLE VEHICLE PROCESSING PROGRAMS

At the election of the vehicle supplier, the Company auctions vehicles (i) pursuant to its Percentage Incentive Program, (ii) on a fixed fee consignment basis, (iii) on a purchase basis or (iv) on a basis which combines the consignment and purchase bases in order to meet a vehicle supplier's particular needs. Based upon the Company's database of historical returns on salvage vehicles and information provided by vehicle suppliers, the Company works with the vehicle supplier to design a program that maximizes the net returns on salvage vehicles. Due to, among other factors, including the timing and size of new acquisitions, market conditions, and acceptance of a particular program by vehicle suppliers, the percentage of vehicles processed under each of its programs may vary in future periods.* The three primary sales programs are as follows:

PERCENTAGE FEE CONSIGNMENT. Copart introduced its Percentage Incentive Program, or the PIP, as an innovative processing program to better serve the needs of certain vehicle suppliers. Under the PIP, Copart agrees to sell at auction all of the salvage vehicles of a vehicle supplier in a specified market for predetermined percentages of vehicle sales prices. Because Copart's revenues under the PIP are directly

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linked to the vehicle's auction price, Copart has an incentive to actively merchandise the vehicles in order to maximize the net return on salvage vehicles. Under the PIP, Copart provides the vehicle supplier, at Copart's expense, with transport of the vehicle to the nearest Company facility, storage at its facilities for up to 90 days, and DMV processing. In addition, Copart provides merchandising services such as covering/taping openings to protect vehicle interiors from weather, adding tires, if needed, washing vehicle exteriors, vacuuming vehicle interiors, cleaning and polishing dashboards and tires, making keys for driveable vehicles and operating "drive-through" sales auctions of driveable vehicles. The Company believes its merchandising increases the sales prices of salvage vehicles, thereby increasing the return on salvage vehicles to both vehicle suppliers and the Company. In fiscal 1997, approximately 33% of all salvage vehicles processed by Copart were processed under the PIP.

FIXED FEE CONSIGNMENT. Under the fixed fee consignment program, the Company sells vehicles for a fixed consignment fee, generally $50 to $125 per vehicle. In addition to the consignment fees, the Company usually charges for, or includes in its fee to the vehicle supplier, the cost of transporting the vehicle to the Company's facility, storage of the vehicle, and other incidental costs. Approximately 61% of all salvage vehicles processed by Copart in fiscal 1997, were processed under the fixed fee consignment program.

PURCHASE CONTRACT. Under a purchase contract arrangement, the Company agrees to buy salvage vehicles of a vehicle supplier in a specific market. The vehicles generally are purchased for a pre-determined percentage of the vehicle's ACV and then resold by the Company for its own account. Under a purchase contract, the Company usually provides vehicle suppliers with free towing to its premises and storage at its facilities for up to 90 days. Approximately 6% of all salvage vehicles processed by the Company during fiscal 1997 were processed under purchase contracts.

BROAD ARRAY OF SERVICES

The Company offers vehicle suppliers a full range of services which expedite each stage of the salvage vehicle auction process and minimize administrative and processing costs:

SALVAGE LYNK-TM-. Copart's proprietary software program, Salvage Lynk, provides a vehicle supplier with on-line access to retrieve information on any of its salvage vehicles being processed at Copart throughout the claims adjustment and auction process. Copart furnishes each user of Salvage Lynk with software and a computer terminal, if necessary, which enables the user to monitor each stage of the salvage vehicle auction process, from pickup to payment and the eventual auction of the vehicle, from each user's own office.

MONTHLY REPORTING. Upon request, the Company provides vehicle suppliers with monthly reports that summarize all of their salvage vehicles processed by the Company. These reports are able to track the vehicle suppliers' gross and net return on each vehicle, service charges, and other data that enable the vehicle suppliers to more easily administer and monitor the salvage vehicle disposition process. In addition, when the suppliers receive payment, they also receive a detailed closing invoice, noting any advance charges made by the Company on their behalf. Copart's vehicle suppliers can obtain all of their payment and invoice information on-line through Salvage Lynk.

DMV PROCESSING. The Company offers employees of vehicle suppliers training on DMV document processing and has prepared a manual that provides step-by-step instructions to expedite title document processing. In addition, the Company's computers provide a direct link to the California, Texas and New York DMV computer systems. This training on DMV procedures and, in California, Texas and New York, the direct link to the DMV computer system, allow vehicle suppliers to expedite title searches and the processing of paperwork, thereby facilitating title acquisition from the insured vehicle owner and consequently shortening the time period in which vehicle suppliers can receive their salvage vehicle proceeds. Under California's license registration fee rebate program, the Company, for a fee, assists participating vehicle suppliers in calculating, applying for and obtaining rebates of unused owner registration and license fees. The net rebates are delivered and paid to the vehicle supplier.

VEHICLE INSPECTION STATION. The Company offers certain of its major insurance company suppliers office and yard space to house a Vehicle Inspection Station ("VIS") on-site at its auction facilities. At July 31, 1997, there were 27 VIS's at 21 of the Company's facilities. An on-site VIS provides an insurance company a central location to inspect potential total loss vehicles and reduces storage charges that otherwise may be incurred at the initial storage and repair facility. The Company believes that providing an on-site VIS enables the Company to improve the level of service it provides to such insurance company.

VEHICLE PREPARATION AND MERCHANDISING. The Company has developed merchandising techniques designed to increase the volume and sale price of salvage vehicles. Under the PIP, Copart provides vehicle weather protection, including shrink-wrapping vehicles to protect them from inclement weather, cleaning and drive-through sales of driveable vehicles, which the Company believes enhance salvage vehicle presentation and increase vehicle sales prices. Direct mailings are also made to selected vehicle buyers, identified through the Company's database of buyers, to alert them to the availability of salvage vehicles in which they might be interested.

SALVAGE BROKERAGE NETWORK. In response to requests of vehicle suppliers to coordinate disposal of their vehicles outside of Copart's current areas of operation, Copart has developed a national network of third party salvage vehicle auction facilities that process vehicles under the direction of Copart. Copart's customers benefit from being able to monitor and obtain information on virtually all of their salvage vehicles at any place in the United States through Salvage Lynk, as opposed to dealing with numerous salvage auction facilities across the country. Copart receives revenues from the sale of vehicles processed by members of these networks, net of applicable fees of the facility which processed the vehicle and without buyer's fees.

TRANSPORTATION SERVICES. The Company maintains a fleet of multi-vehicle transport trucks at most of its yards as well as contracts for vehicle transports at most facilities.

BUYER NETWORK

The Company maintains a database of thousands of registered buyers of salvage vehicles in the vehicle dismantling, rebuilding, repair, and/or resale business. Copart's database of buyers also includes vehicle preference and purchasing history by buyer. This data enables a local facility manager to notify key prospective buyers throughout the region or country of the sale of salvage vehicles that may match their preferences. Sales notices listing the salvage vehicles to be auctioned on a particular day and location are made available at each auction. Each notice details for each vehicle, among other things, the year and make of the vehicle, the description of the damage, the

status of title and the order of the vehicle in the auction.

The Company seeks to establish a loyal and growing customer base of salvage vehicle buyers by providing a variety of value-added programs and services. Copart has initiated its Buyers Plus Program, which includes a Copart Silver and Gold Card frequent buyer program designed to attract high-volume commercial customers by providing them with frequent buyer credits to acquire promotional merchandise, and extra services such as express check-in procedures and streamlined paperwork processing services. Copart also periodically provides free prizes and giveaways to promote auction attendance.

MULTIPLE LOCATIONS

The Company had a total of 53 facilities in 26 states at July 31, 1997. The Company's multiple locations provide vehicle suppliers certain advantages, including (i) a reduction in administrative time and effort, (ii) a reduction in overall towing costs, (iii) the ability for adjusters to make inspections of vehicles in their area, as opposed to traveling long distances, (iv) the convenience to the insurance company's customers of inspecting their vehicles and retrieving any personal belongings left in the vehicle and (v) access to buyers in a broad geographic area.

GROWTH STRATEGY

The Company's growth strategy is to (i) open or acquire new facilities, (ii) increase salvage vehicle volume from new and existing suppliers, (iii) increase revenues and profitability at its existing facilities, and (iv) pursue regional and national supply agreements with vehicle suppliers.* While there has been substantial consolidation of the salvage vehicle auction industry, the Company believes opportunities exist to either open or acquire new facilities.*

NEW FACILITIES. Since its formation in 1982, Copart has expanded, primarily through acquisition, from a single facility in Vallejo, California, to an integrated network of 53 facilities located in California, Texas, Arkansas, Oklahoma, Kansas, Washington, Oregon, Georgia, Missouri, New York, Connecticut, Florida, Pennsylvania, New Jersey, Massachusetts, Maryland, Ohio, Illinois, Minnesota, Wisconsin, Mississippi, North Carolina, Indiana, Arizona, Louisiana and Utah.

The Company's strategy is to offer integrated service to vehicle suppliers on a regional or national basis by acquiring or opening salvage facilities in new markets as well as in regions currently served by the Company. The Company believes that by either opening or acquiring new operations in such markets, it can capitalize on certain operating efficiencies resulting from, among other things, the reduction of duplicative overhead and the implementation of the Company's operating procedures.* During fiscal 1995, in addition to the NER Acquisition, the Company acquired six facilities in or near Kansas City, Kansas, Tulsa and Oklahoma City, Oklahoma, St. Louis, Missouri, Conway and West Memphis, Arkansas and opened an additional facility in Sacramento, California. During fiscal 1996, the Company acquired two facilities in or near Jackson, Mississippi and El Paso, Texas, and opened five new facilities in or near Charlotte, North Carolina, Jacksonville, Florida, Van Nuys, California, Indianapolis, Indiana and Phoenix, Arizona. During fiscal 1997 the Company acquired facilities in Baton Rouge, Louisiana and Salt Lake City, Utah and opened two new facilities in or near Hammond, Indiana and Woodinville, Washington. In addition, the Company believes that the establishment of a national presence both enhances the ability of a salvage vehicle auction company to enter into state, regional or national supply agreements with vehicle suppliers and to develop name recognition with vehicle suppliers and buyers.* The Company, in the normal course of its business, maintains an active dialogue with acquisition candidates of various sizes.

The Company seeks to increase revenues and profitability at acquired facilities by, among other things, (i) implementing its buyer fee structure, (ii) introducing and converting certain vehicle suppliers to the PIP, which typically results in higher net returns to vehicle suppliers and higher fees to the Company than standard fixed fee consignment programs and (iii) initiating the Company's value-enhancing merchandising procedures. In addition, the Company attempts to effect cost efficiencies at each of its acquired facilities through, among other things, implementing the Company's operating procedures, integrating the Company's management information systems and, when necessary, redeploying personnel.

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Before entering a new market, the Company seeks to establish vehicle supply arrangements with one or more of the major insurers in the targeted market. Often this is accomplished by targeting an insurance company in that market with whom the Company does business in other geographic areas. Additional factors which the Company considers when acquiring or opening a new vehicle auction facility include relationships with vehicle suppliers, market size, supply of salvaged vehicles, quality and location of facility, growth potential and the region's potential for additional markets.

The Company strives to integrate its new facilities with minimum disruption to the facility's existing suppliers. Consistent with industry practice, most salvage vehicle auction companies, including those acquired by the Company, operate exclusively on a fixed fee consignment basis. The Company works with suppliers to tailor a vehicle disposition method to fit their needs. Copart's fee structures and service programs for buyers are implemented at a new facility gradually, providing Copart the opportunity to gain knowledge of, and respond to, the existing market. The Company typically attempts to retain all or most of the management at acquired facilities and trains management at acquired facilities by rotating one or two managers from other Company facilities through the new facility for short assignments. If a new facility is opened or if management of an acquired facility needs assistance in converting to the Copart system, the Company will assign an integration team to the new facility, and, where necessary, transfer an experienced facility manager.

The following chart sets forth facilities acquired or opened by Copart since the beginning of fiscal 1995, through July 31, 1997.

LOCATION	OPENING DATE	ACQUISITION/ GEOGRAPHIC SERVICE AREA
Salt Lake City, Utah	March 1997	Northern Utah, Western Colorado
Baton Rouge, Louisiana	January 1997	Southern Louisiana, Western Mississippi
Hammond, Indiana	October 1996	Chicago, Southern Illinois, Indiana
Woodinville, Washington	September 1996	Washington
Phoenix, Arizona	February 1996	Arizona
El Paso, Texas	December 1995	Southwest Texas, Southern New Mexico
Van Nuys, California	November 1995	Greater Los Angeles area
Jacksonville, Florida	November 1995	Northeast Florida
Indianapolis, Indiana	September 1995	Indiana
Jackson, Mississippi	August 1995	Mississippi, Western Louisiana
Charlotte, North Carolina	August 1995	North Carolina
Hartford, Connecticut	May 1995	Connecticut
Marlboro, New York	May 1995	New York City, Southern New York
Syracuse, New York	May 1995	Syracuse and Northeastern New York
Philadelphia, Pennsylvania	May 1995	Philadelphia, Eastern Pennsylvania
Boston, Massachusetts	May 1995	Massachusetts
Pittsburgh, Pennsylvania	May 1995	Pittsburgh, Western Pennsylvania
Columbus, Ohio	May 1995	Ohio
Southampton, New York	May 1995	New York City, Long Island
Glassboro, New Jersey	May 1995	New York City, New Jersey
Waldorf, Maryland	May 1995	Washington D.C., Maryland
Buffalo, New York	May 1995	Buffalo, Western New York
Miami, Florida	May 1995	Miami, South Florida
Tampa, Florida	May 1995	Tampa, Gulf Coast Florida

LOCATION	OPENING DATE	ACQUISITION/ GEOGRAPHIC SERVICE AREA
Chicago, Illinois	May 1995	Chicago; Northern Illinois
Minneapolis, Minnesota	May 1995	Central Minnesota
Madison, Wisconsin	May 1995	Central Wisconsin
Milwaukee, Wisconsin	May 1995	Milwaukee metropolitan area
St. Cloud, Minnesota	May 1995	Northwestern Minnesota
Rochester, Minnesota	May 1995	Southern Minnesota
Duluth, Minnesota	May 1995	Northwestern Minnesota
Conway and West Memphis, Arkansas	April 1995	Arkansas, Western Tennessee, Northern Mississippi, Southern Kentucky
St. Louis, Missouri	March 1995	St. Louis
Oklahoma City and Tulsa, Oklahoma	November 1994	Oklahoma; Arkansas; North Texas
Kansas City, Kansas	October 1994	Kansas, Missouri
Sacramento, California	September 1994	Northern Central Valley area of California, Northern Nevada

SUPPLY ARRANGEMENTS AND SUPPLIER MARKETING

The Company currently obtains salvage vehicles from thousands of vehicle suppliers, including local and regional offices of such suppliers. In fiscal 1997, vehicles supplied by its largest supplier accounted for approximately 16% of the Company's revenues. The Company's agreements with this and other vehicle suppliers are either oral or written agreements that generally are subject to cancellation by either party upon 30 to 90 days' notice.

The Company typically contracts with the regional or branch office of an insurance company or other vehicle supplier. The agreements are customized to each vehicle supplier's particular needs, often providing for disposition of different types of salvage vehicles by differing methods. Although the Company does not have written agreements with all of its vehicle suppliers, the Company has arrangements to process the vehicles generated by such suppliers. Such contracts or arrangements generally provide that the Company will sell virtually all total loss and recovered stolen vehicles generated by the vehicle supplier in a designated geographic area. The Company's written agreements with vehicle suppliers are typically subject to cancellation by either party upon 30 to 90 days' notice. There can be no assurance that existing agreements will not be canceled or that the terms of any new agreements will be comparable to those of existing agreements.

The Company markets its services to vehicle suppliers through an in-house sales force which utilizes mailing of Company sales literature, telemarketing and follow-up personal sales calls, and participation in trade shows and vehicle and insurance industry conventions. The Company's marketing personnel meet with vehicle suppliers and, based upon the Company's historical data on salvage vehicles and upon vehicle information supplied by the vehicle suppliers, provide vehicle suppliers with detailed analysis of the net return on salvage vehicles and a proposal setting forth ways in which the Company can improve net returns on salvage vehicles and reduce administrative costs and expenses.

See "Factors Affecting Future Results" below.

BUYERS

The buyers of salvage vehicles at salvage vehicle auctions are primarily dismantlers, rebuilders, vehicle repair licensees and used automobile dealers. Dismantlers either dismantle the vehicles and sell the

parts, or sell the entire vehicle to rebuilders, used car dealers or the public. Rebuilders and vehicle repair licensees are generally wholesale used car dealers and body shops that repair salvage vehicles for sale to used car dealers. Used car dealers typically purchase late model, slightly damaged or intact, recovered stolen vehicles for repair and sale.

The Company maintains a database of thousands of registered buyers of salvage vehicles in the vehicle dismantling, rebuilding, repair, and/or resale businesses. The Company believes that it has established a broad buyer base by providing buyers of salvage vehicles with a variety of programs and services. In order to gain admission to a Company auction and become a registered buyer, prospective buyers must pay a one-time membership fee and an annual fee, have a vehicle dismantler's, dealer's or repair license, have an active resale license, and provide requested personal and business information. Membership entitles a buyer to transact business at any Company auction subject to local licensing and permitting. A buyer may also bring guests to an auction for a fee. Strict admission procedures are intended to prevent frivolous bids that would invalidate an auction. The Company markets to buyers through customer incentive programs, sales notices, telemarketing and participation in trade show events. In addition, Copart has initiated programs specifically designed to address the needs of its wholesale and high volume retail buyers, including providing streamlined paperwork processing, simplified payment procedures and personalized customer services. No single buyer accounted for more than 2% of the Company's net revenues in fiscal 1997.

COMPETITION

The salvage vehicle auction industry is highly fragmented. As a result, the Company faces intense competition for the supply of salvage vehicles from vehicle suppliers, as well as competition for buyers of vehicles from other salvage vehicle auction companies. The Company believes its principal competitor is Insurance Auto Auctions, Inc. ("IAA"). Over the last several years, IAA acquired and opened a number of salvage vehicle auction facilities. IAA is a significant competitor in certain regions in which the Company operates or may expand in the future. In other regions of the United States, the Company faces substantial competition from salvage vehicle auction facilities with established relationships with vehicle suppliers and buyers and financial resources which may be greater than the Company's. Due to the limited number of

vehicle suppliers and the absence of long-term contractual commitments between the Company and such salvage vehicle suppliers, competition for salvage vehicles from such suppliers is intense. The Company may also encounter significant competition for state, regional and national supply agreements with vehicle suppliers. Vehicle suppliers may enter into state, regional or national supply agreements with competitors of the Company.

The Company has a number of regional and national contracts with various suppliers. There can be no assurance that the existence of other state, regional or national contracts entered into by the Company's competitors will not have a material adverse effect on the Company or the Company's expansion plans. Furthermore, the Company is likely to face competition from major competitors in the acquisition of salvage vehicle auction facilities, which could significantly increase the cost of such acquisitions and thereby materially impede the Company's expansion objectives or have a material adverse effect on the Company's results of operations. Potential competitors could include vehicle suppliers, some of which presently supply salvage vehicles to the Company and used car auction companies. While most vehicle suppliers have abandoned or reduced efforts to sell salvage vehicles without the use of service providers such as the Company, there can be no assurance that they may not in the future decide to dispose of their salvage vehicles directly to buyers. Existing or new competitors may be significantly larger and have greater financial and marketing resources than the Company. There can be no assurance that the Company will be able to compete successfully in the future.

See "Factors Affecting Future Results" below.

ENVIRONMENTAL MATTERS

The Company's operations are subject to federal, state and local laws and regulations regarding the protection of the environment. In the salvage vehicle auction industry, large numbers of wrecked vehicles are stored at auction facilities for short periods of time. Minor spills of gasoline, motor oils and other fluids may occur from time to time at the Company's facilities which may result in localized soil, surface water or groundwater contamination. Petroleum products and other hazardous materials are contained in aboveground or underground storage tanks located at certain of the Company's facilities. Waste materials such as waste solvents or used oils are generated at some of the Company's facilities which are disposed of as nonhazardous or hazardous wastes. The Company has put into place procedures to reduce the amounts of soil contamination that may occur at its facilities, and has initiated safety programs and training of personnel on safe storage and handling of hazardous materials. The Company believes that it is in compliance in all material respects with applicable environmental regulations and does not anticipate any material capital expenditures for environmental compliance or remediation except with regard to the Dallas Operation (as defined below). Environmental laws and regulations, however, could become more stringent over time and there can be no assurance that the Company or its operations will not be subject to significant compliance costs in the future. To date, the Company has not incurred expenditures for preventive or remedial action with respect to soil contamination or the use of hazardous materials which have had a material adverse effect on the Company's financial condition or results of operations. Contamination which may occur at the Company's facilities and the potential contamination by previous users of certain acquired facilities create the risk, however, that the Company could incur substantial expenditures for preventive or remedial action, as well as potential liability arising as a consequence of hazardous material contamination, which could have a material adverse effect on the Company.

On a case-by-case basis, the Company evaluates the potential risks and possible exposure to liabilities associated with hazardous materials. In addition, the Company has a policy of conducting environmental site assessments of all newly-acquired or opened facilities. In connection with the acquisition and lease of all of its newly-acquired facilities, except in connection with the Dallas Operation which is described below, the Company's policy is to obtain indemnification from the prior owner and/or landowner for any environmental contamination which is present on the property prior to the Company entering into a lease or acquiring the property. However, there can be no assurance that prior or future owners and/or landowners will have assets sufficient to meet their indemnification obligations, if any.

In connection with its acquisition of a facility in the Dallas metropolitan area (the "Dallas Operation") in March 1994, the Company will pay $3.0 million for environmental corrective action and consulting expenses associated with an approximately six-acre portion of the Dallas Operation's real property which contains elevated levels of lead which related to prior activities of the former operators. The Company estimates that, based upon an investigation of the property by its environmental consultant, the most probable range of cost of corrective action is approximately $980,000 if the contaminated soil can be stabilized on-site to $2.9 million if the contaminated soil must be excavated and disposed of at an off-site disposal facility. If total costs of corrective

action at the Dallas Operation do not exceed $3.0 million, then the remaining funds after payment of all costs of corrective action, up to $3.0 million, will be paid as consulting fees to the former principal shareholder of the Dallas Operation. If the total costs of corrective action exceed $3.0 million, then the former principal shareholder of the Dallas Operation will pay the next $1.2 million of costs of corrective action. The Company and such former principal shareholder are each obligated to pay up to $1.5 million of the costs for corrective action, if incurred, between $4.2 million and $7.2 million. If the total costs of corrective action exceed $7.2 million, then such former principal shareholder will either pay up to the next $1.0 million, or notify the Company to pay up to the next $1.0 million in exchange for a dollar-for-dollar credit toward the purchase price of the Dallas Operation's real property, calculated as the greater of $1.0 million or the then fair market value. Such former principal shareholder's obligations under this arrangement are secured by a pledge of 225,000 shares of Common Stock. However, there can be no assurance that such former principal shareholder will be able to meet his obligations or that the pledged stock will be sufficient to cover such obligations. In March 1995, the Texas

Natural Resource Conservation Commission ("TNRCC") authorized the Company to perform a Corrective Measure Study ("CMS") to determine if the proposed on-site soil stabilization remedy would be effective. In August 1995, the Company's environmental consultant submitted a Baseline Risk Assessment ("BRA") to the TNRCC, which concluded that neither human health nor the environment are placed at risk by the lead battery casing chips at the site. In April 1996, the TNRCC approved the BRA, and in October 1996 approved a modified CMS. Following such approval, the Company contracted to complete the on-site stabilization and asphalt cap for a contract price of $687,000. The project is scheduled to be completed before the end of December 1997. Upon completion of the on-site soil stabilization to the satisfaction of the TNRCC, the TNRCC has indicated to the Company that it will issue a no-further-action letter, at which time the remaining funds shall be paid as consulting fees as set forth above. There can be no assurance that the ultimate cost of corrective action, or any other liabilities with respect to the site, will not exceed estimates of the Company's environmental consultant, or that such actual costs will not have a material adverse effect on the Company.

Metals and hydrocarbon soil contamination was detected at one of Copart's California facilities, which was determined to be associated with uses of the property by persons prior to the time that the prior owner became the occupant of the facility. In addition, metals were detected in samples collected from groundwater monitoring wells located at this property. Copart obtained specific indemnification from the landowner of such facility for any liability for pre-existing environmental contamination. In addition, a small quantity of tetrachlorethane ("PCE") and toluene was detected in a temporary ground water monitoring well at the Dallas Operation. The Company's environmental consultants concluded that both PCE and toluene were from an off-site source upgradient of the facility, and no further action was recommended.

In 1991, Copart removed an underground storage tank from one of its California facilities after monitoring devices indicated that the tank was leaking. Subsequent testing revealed localized low level contamination of the soil and ground water where the tank was removed, but no migration of the contamination. The Company has retained the services of an environmental consultant to represent the Company before the local county environmental management department. The Company has been informed by the consultant that the county agreed to a plan involving periodic monitoring of soil and ground water to assure that the contamination is not spreading. In fiscal 1997, the county issued a remedial action completion certification indicating that no further action related to the underground storage tank release is required.

In connection with the acquisition of NER Auction Systems, environmental consultants were engaged to perform a limited environmental assessment of the properties on which NER conducted its business. Prior to the acquisition, the site assessment for the Company's leased facility located in Bellingham, Massachusetts, reported concentrations of Benzene and MTBE in the groundwater which slightly exceed the reportable concentrations under the Massachusetts environmental laws. The consultant has indicated that further investigation will be required to determine the complete extent of the contamination, and that remediation will likely be required (the "Bellingham Remediation"). It is estimated that the most likely total cost of the Bellingham Remediation will be approximately $50,000, with the maximum remediation costs estimated to be approximately $350,000. It is unclear at this time if any of the contamination has migrated off-site and additional remediation costs may be necessary if any groundwater beyond the site has been contaminated. Approximately $125,000 of the estimated remediation costs relate to amounts accrued for operation and maintenance costs expected to be paid out through 1999. Pursuant to the terms of the NER Acquisition, Copart is indemnified as to any environmental liabilities relating to sites being leased from NER Auction Group, including the Bellingham site by the former shareholders of NER. There can be not assurance that this indemnification will be adequate. The total estimate of $50,000 is a current

estimate of all remediation costs and could change due to further site investigation or changes in applicable laws.

The Company does not believe that the metals and hydrocarbon soil contamination, PCE, storage tank removal or Bellingham Remediation will, either individually or in the aggregate, have a material adverse effect on the Company.*

GOVERNMENT REGULATION

The Company's operations are subject to regulation, supervision and licensing under various federal, state and local statutes, ordinances and regulations. The acquisition and sale of damaged and recovered stolen vehicles is regulated by state motor vehicle departments. In addition to the regulation of sales and acquisitions of vehicles, the Company is also subject to various local zoning requirements with regard to the location of its auction and storage facilities. These zoning requirements vary from location to location. The Company is also subject to environmental regulations. The Company believes that it is in compliance in all material respects with applicable regulatory requirements. The Company may be subject to similar types of regulations by federal, state, and local governmental agencies in new markets. Although the Company believes that it has all permits necessary to conduct its business and is in material compliance with applicable regulatory requirements, failure to comply with present or future regulations or changes in interpretations of existing regulations could result in impairment of the Company's operations and the imposition of penalties and other liabilities.

MANAGEMENT INFORMATION SYSTEM

The Company's management information system ("MIS") consists of an expandable, integrated IBM AS/400 computer located in Benicia, California, integrated computer interfaces (Salvage Lynk) and proprietary software which enables salvage vehicles to be tracked by the Company and vehicle suppliers throughout the salvage vehicle auction process. Salvage Lynk provides remote access to customers via the client's personal computer system to allow direct inquiry during the Company's salvage vehicle disposal process. By providing this accessibility, the Company provides a marketing benefit to its customers in streamlining their internal salvage tracking process. The Company's MIS is an essential part of its strategy to provide superior service to its clients and buyers, as well as to effectively support internal operations. In February 1997, Copart finished the design of a new proprietary operating system, the Copart Auction System (CAS). By December, 1997, the Company plans to be fully implemented on CAS.* The new system is written for the millenium change and is designed to be more efficient in processing and billing vehicles. The Company continues to research new computer technologies to enhance its MIS development. Other functions provided by MIS include accounting, inventory and salvage vehicle supplier and buyer information. The Company believes that, with planned upgrades and integration of new acquisitions, the Company's MIS will serve its information management needs for the foreseeable future.*

EMPLOYEES

As of July 31, 1997, the Company had approximately 1,050 full-time employees, of whom approximately 420 were engaged in general and administrative functions and approximately 630 were engaged in yard and fleet operations. The Company is not subject to any collective bargaining agreements and believes that its relationships with its employees are good.

FACTORS AFFECTING FUTURE RESULTS

Historically, a limited number of vehicle suppliers have accounted for a substantial portion of the Company's revenues. In fiscal 1997, vehicles supplied by Copart's largest supplier accounted for

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* This statement is a forward-looking statement reflecting current expectations. Actual future performance may differ materially from the Company's current expectations. The reader is advised to review "Factors Affecting Future Results" for a fuller discussion of factors that could affect future performance.

approximately 16% of Copart's revenues. The Company's agreements with this and other vehicle suppliers are either oral or written agreements that typically are subject to cancellation by either party upon 30 days' notice. There can be no assurance that existing agreements will not be canceled or that the terms of any new agreements will be comparable to those of existing agreements. While the Company believes that, as the salvage vehicle auction industry becomes more

consolidated, the likelihood of large vehicle suppliers entering into agreements with single companies to dispose of all of their salvage vehicles on a statewide, regional or national basis increases, there can be no assurance that the Company will be able to enter into such agreements or that it will be able to retain its existing supply of salvage vehicles in the event vehicle suppliers begin disposing of their salvage vehicles pursuant to state, regional or national agreements with other operators of salvage vehicle auction facilities. A loss or reduction in the number of vehicles from a significant vehicle supplier or material changes in the terms of an arrangement with a substantial vehicle supplier could have a material adverse effect on the Company's financial condition and results of operations.

The Company's operating results have in the past and may in the future fluctuate significantly depending on a number of factors. These factors include changes in the market value of salvage vehicles, buyer attendance at salvage auctions, delays or changes in state title processing and/or changes in state or federal laws or regulations affecting salvage vehicles, fluctuations in ACV's of salvage vehicles, the availability of vehicles and weather conditions. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. There can be no assurance, therefore, that the Company's operating results in some future quarter will not be below the expectations of public market analysts and/or investors.

The market price of the Company's Common Stock could be subject to significant fluctuations in response to various factors and events, including variations in the Company's operating results, the timing and size of acquisitions and facility openings, the loss of vehicle suppliers or buyers, the announcement of new vehicle supply agreements by the Company or its competitors, changes in regulations governing the Company's operations or its vehicle suppliers, environmental problems or litigation. In addition, the stock market in recent years has experienced broad price and volume fluctuations that often have been unrelated to the operating performance of companies.

The Company seeks to increase sales and profitability primarily through the opening of new facilities, the acquisition of other salvage vehicle auction facilities, and the increase of salvage vehicle volume and revenue at existing facilities. There can be no assurance that the Company will be able to continue to acquire additional facilities on terms economical to the Company or that the Company will be able to increase revenues at newly acquired facilities above levels realized at such facilities prior to their acquisition by the Company. In particular, the Company's rate of growth could be materially adversely affected if the Company is not able to open or acquire new facilities at the same rate as it has in the past. For example, while the Company opened or acquired an average of eight facilities per fiscal year from fiscal 1992 through fiscal 1996, it opened or acquired four facilities during fiscal 1997. Additionally, as the Company continues to grow, its openings and acquisitions will have to be more numerous or of a larger size in order to have a material impact on the Company's operations. The ability of the Company to achieve its expansion objectives and to manage its growth is also dependent on other factors, including the integration of new facilities into existing operations, the establishment of new relationships or expansion of existing relationships with vehicle suppliers, the identification and lease of suitable premises on competitive terms and the availability of capital. The size and timing of such acquisitions and openings may vary. Management believes that facilities opened by the Company require more time to reach revenue and profitability levels comparable to its existing facilities and may have greater working capital requirements than those facilities acquired by the Company. Therefore, to the extent that the Company opens a greater number of facilities in the future than it has historically, the Company's growth rate in revenues and profitability may be adversely affected.

While Copart has acquired a number of companies in recent years, the Company's acquisition of the NER Auction Group in May 1995 was its largest acquisition undertaken to date. The successful integration

of NER was more difficult and required a greater period of time than prior acquisitions. In connection with the integration of NER, the Company completed the closure of the eastern division office and former NER corporate headquarters in July, 1996.

Currently, Willis J. Johnson, Chief Executive Officer of the Company, together with one other existing shareholder, beneficially own approximately 31% of the issued and outstanding shares of Common Stock. This interest in the Company may also have the effect of making certain transactions, such as mergers or tender offers involving the Company, more difficult, absent the support of Mr. Johnson, and such other existing shareholder.

While the Company believes that the proceeds from its financing and public offerings, cash generated from operations, borrowing availability under its line of credit and existing equipment leasing lines of credit will be sufficient to

satisfy the Company's working capital requirements for the next 12 months, there can be no assurance that additional funding will not be required sooner, depending on a number of factors including the rate at which the Company acquires or opens new facilities, the size and timing of capital expenditures for existing facilities, the extent of future environmental remediation costs, if any and other factors. There can be no assurance that any such funding would be available if and when required by the Company, on acceptable terms to the Company or at all.

EXECUTIVE OFFICERS OF THE REGISTRANT

EXECUTIVE OFFICERS

The executive officers of the Company and their ages as of July 31, 1997 are as follows:

NAME	AGE	POSITION
Willis J. Johnson	50	Chief Executive Officer and Director
A. Jayson Adair	28	President and Director
James E. Meeks	48	Executive Vice President and Chief Operating Officer
Joseph M. Whelan	42	Senior Vice President and Chief Financial Officer
Paul A. Styer	41	Senior Vice President, General Counsel and Secretary

WILLIS J. JOHNSON, co-founder of the Company, has served as Chief Executive Officer of the Company since 1986, and has been a Board member since 1982. Mr. Johnson was also President of the Company from 1986 through the closing of the NER Acquisition in May 1995. Mr. Johnson has over 25 years of experience in owning and operating auto dismantling and vehicle salvage companies.

A. JAYSON ADAIR has served as President of the Company since October 1996 and as a director since September 1992. From April 1995 to October 1996, Mr. Adair served as Executive Vice President, from August 1990 until April 1995, Mr. Adair served as Vice President of Sales and Operations and from June 1989 to August 1990, Mr. Adair served as the Company's Manager of Operations.

JAMES E. MEEKS has served as Vice President and Chief Operating Officer of the Company since September 1992 when he joined the Company concurrent with the Company's purchase of South Bay Salvage Pool (the "San Martin Operation"). Mr. Meeks has served as Executive Vice President and Director since October 1996 and as Senior Vice President since April 1995. From April 1986 to September 1992, Mr. Meeks, together with his family, owned and operated the San Martin Operation. Mr. Meeks is also an officer, director and part owner of Cas & Meeks, Inc., a towing and subhauling service company, which he has operated since 1991. Mr. Meeks has also been an officer and director of E & H Dismantlers, a self-service auto dismantler, since 1967. Mr. Meeks has over 25 years of experience in the vehicle dismantling business.

JOSEPH M. WHELAN has served as Senior Vice President since April 1995 and Chief Financial Officer of the Company since March 1994. From 1989 to 1993, Mr. Whelan served as Senior Vice President and Chief Financial Officer of Phillips, Inc., the largest privately held owner of educational facilities in the United States. Mr. Whelan received a B.A. from Vanderbilt University and a M.B.A. from Tulane University. Mr. Whelan is a certified public accountant. Mr. Whelan resigned his position as Senior Vice President and Chief Financial Officer on October 6, 1997. A successor has not been named.

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

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

ITEM 2. PROPERTIES

FACILITIES INFORMATION

The following table sets forth certain information regarding the facilities currently used by the Company.

FACILITY LOCATION	OPENED/ ACQUIRED	APPROXIMATE ACREAGE	EXPIRATION OF LEASE TERM	PURCHASE OPTION
		COPART		
Vallejo, California	(1)	18	February 2000	Yes
Sacramento, California	A	12	Company owned	Not applicable
Hayward, California	O	8	Month-to-month	No
Fresno, California	A	10	July 2000	Yes
Bakersfield, California	A	5	Company owned	Not applicable
San Martin, California	A	14	August 2002	Yes
Colton, California	A	14	November 2002	Right of first refusal
Seattle, Washington	A	11	March 1998	Yes
Portland, Oregon	O	33	June 2001	Yes
Los Angeles, California	A	12	June 1998	Right of first refusal
Houston, Texas	A	62	January 2004	Right of first refusal
Dallas, Texas (2)	A	42	March 2004	Yes
Lufkin, Texas	A	15	May 1999	Yes
Longview, Texas	A	10	May 1999	Yes
Atlanta, Georgia	A	62	July 2004	Yes
Sacramento, California	O	11	Month-to-month	Not applicable
Kansas City, Kansas	A	27	October 2004	Yes
Oklahoma City, Oklahoma	A	12	November 2004	Yes
Tulsa, Oklahoma	A	10	November 2004	Yes
St. Louis, Missouri	A	21	March 2005	Yes
Conway, Arkansas	A	22	March 2005	Yes
West Memphis, Arkansas	A	12	April 2005	Yes
Hartford, Connecticut	A	30	May 2005	Yes
Marlboro, New York	A	25	May 2005	Yes
Syracuse, New York	A	12	May 2005	Yes
Philadelphia, Pennsylvania	A	40	May 2005	Yes
Boston, Massachusetts	A	20	May 2005	Yes
Pittsburgh, Pennsylvania	A	20	May 2005	Yes
Columbus, Ohio	A	20	May 2005	Yes
Southampton, New York (3)	A	13	July 2000	Yes
Glassboro, New Jersey	A	18	May 2005	Yes
Waldorf, Maryland	A	15	May 2005	Yes
Buffalo, New York	A	10	May 2005	Yes
Miami, Florida	A	14	May 2005	Yes
Tampa, Florida	A	10	May 2005	Yes
Chicago, Illinois	A	10	September 1999	Right of first refusal (4)
Minneapolis, Minnesota	A	12	December 2001	No
Duluth, Minnesota	A	20	February 1998	No
Rochester, Minnesota	A	20	August 2003	Right of first refusal (4)
St. Cloud, Minnesota	A	20	August 2003	Right of first refusal (4)
Madison, Wisconsin	A	10	August 2003	Right of first refusal (4)

FACILITY LOCATION	OPENED/ ACQUIRED	APPROXIMATE ACREAGE	EXPIRATION OF LEASE TERM	PURCHASE OPTION
Milwaukee, Wisconsin	A	20	August 2003	Right of first refusal (4)
Jackson, Mississippi	A	15	July 2005	Yes
Charlotte, North Carolina	O	24	July 2005	Yes
Jacksonville, Florida	O	28	October 2005	Yes
Van Nuys, California	O	40	Company owned	Not applicable
Indianapolis, Indiana	O	16	February 2001	No
El Paso, Texas	A	15	Company owned	Not applicable
Phoenix, Arizona	O	13	February 2001	Yes
Hammond, Indiana	O	19	September 2001	Right of first refusal
Woodinville, Washington	O	10	August 2001	No
Baton Rouge, Louisiana	A	30	Company owned	Not applicable
Salt Lake City, Utah	O/A	20	March 2007	Yes
Benicia, California (5)	N/A	16,400/sq ft	April 2000	No

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(1) Copart's initial facility.

(2) In connection with the acquisition of the Dallas Operation, Copart obtained an option, exercisable from March 2004 through March 2014, to acquire the Dallas Operation's real property for the purchase price of $2.5 million, consisting of $500,000 in cash and a $2.0 million promissory note bearing interest at the then prime rate payable in equal monthly installments over 10 years. Such purchase

price may be subject to adjustment in the event that the total cost of corrective action at the Dallas Operation exceeds $7.2 million.

(3) Leasehold interest held by NER Auction Group on the current Southampton facility expired on July 31, 1997. Thereafter, the Company and Richard Polidori, the former principal owner of NER, cancelled a lease agreement for property owned by Mr. Polidori on Long Island. The Company has extended its existing lease of the Southampton facility to July 31, 2000.

(4) Right of first refusal for these properties is held by the NER Auction Group entities which are leasing such properties from third party landowners and as to which Copart is the sublesee.

(5) Corporate headquarters.

ITEM 3. LEGAL PROCEEDINGS

On June 3, 1994, Bill Woltz, doing business as Salvage Pool Systems, filed a complaint against Copart and Willis J. Johnson, the Company's Chief Executive Officer and a Director, in the Northern District of California alleging claims for copyright infringement, breach of implied contract, common law fraud, negligent misrepresentation and slander. Mr. Woltz is a former employee and consultant who performed computer programming services for Copart. On August 25, 1994, the original complaint was dismissed without prejudice. Mr. Woltz filed a new complaint on October 14, 1994 in the Northern District of California alleging the same claims contained in his prior complaint and, in addition, claims for unfair competition, goods sold and delivered, accounting and libel. The dispute arises out of alleged contracts between Woltz and Copart, Copart's alleged use and copying of computer programs, and alleged statements by Copart about the computer programs and alleged contracts. The complaint seeks an unspecified amount in damages, an injunction preventing Copart from using or offering to sell or license the software, costs and attorneys' fees, treble damages, punitive damages, and a retraction of alleged libelous statements. Copart filed an answer to the complaint denying all of the allegations and asserting various defenses. Management believes that the action is without merit and is contesting the action vigorously. Additionally, the Company has asserted counterclaims against Woltz for ownership of software that Woltz developed while a Copart employee, conversion and possession of Copart's property. In February 1996 the Company filed a Motion for Summary Judgment. On August 19, 1996, the Court entered an Order in which it denied summary judgment on plaintiff's copyright infringement claim and reserved ruling on plaintiff's state law causes of action. However, in that Order the Court invited the Company to file a further summary judgment motion

based on certain copyright issues. Trial was held on August 25-28, 1997 before Judge Vaugh Walker in United States District Court in San Francisco. Judge Walker issued a decision finding for the Company and Willis Johnson on all causes of action. The case was dismissed.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET PRICE AND DISTRIBUTIONS

The following table summarized the high and low sales prices per share for each quarter during the last two fiscal years. As of July 31, 1997, there were 13,071,111 shares outstanding. The Company's Common Stock has been quoted on the Nasdaq National Market under the symbol CPRT since March 17, 1994. As of July 31, 1997, the Company had 264 shareholders of record.

1996	High	Low
First Quarter	23 7/8	19 1/4
Second Quarter	30 1/8	20 3/4
Third Quarter	30 1/4	23 1/4
Fourth Quarter	28 1/2	12 1/4

1997	High	Low
First Quarter	21 1/8	14 3/8
Second Quarter	18 3/4	10 1/4
Third Quarter	18 3/4	12 3/4

The Company has not paid a cash dividend since 1984 and does not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The tables below summarize the Selected Consolidated Financial Data of the Registrant as of and for each of the last five fiscal years. This selected financial information should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Report. The selected financial data presented below have been derived from the Company's consolidated financial statements that have been audited by KPMG Peat Marwick LLP, independent public accountants, whose report is included herein covering the consolidated financial statements as of July 31, 1997 and 1996 and for each of the years in the three-year period ended July 31, 1997. The selected operating data for the years ended July 31, 1994 and 1993 and the balance sheet data as of July 31, 1995, 1994 and 1993 are derived from audited consolidated financial statements not included herein:

SELECTED OPERATING DATA	1997	1996	1995	1994	1993
Revenues (1)	$126,276	$118,248	$ 58,117	$ 22,794	$10,436
Operating income	18,853	17,802	11,261	4,112	1,422
Income before income taxes and extraordinary item	19,475	18,190	11,437	3,710	729
Extraordinary item, net	--	--	--	(1,633)	--
Net income	11,993	11,185	6,894	590	495
Per share:					
Income before extraordinary item	$ 0.90	$ 0.85	$ 0.65	$ 0.30	$ 0.07
Extraordinary item, net	--	--	--	(0.22)	--
Net income	$ 0.90	$ 0.85	$ 0.65	$ 0.08	$ 0.07
Weighted average shares (000)	13,257	13,216	10,614	7,305	6,780
BALANCE SHEET DATA					
Cash and cash equivalents	$ 27,685	$ 13,026	$ 13,779	$ 17,871	$ 1,786
Working capital	48,930	40,586	32,756	21,890	2,941
Total assets	175,340	158,066	135,158	62,569	15,944
Total debt	9,753	11,260	3,734	4,019	8,575
Shareholders' equity	142,814	126,245	113,116	49,288	4,132
OTHER					
Salvage vehicles processed	410,000	391,100	223,300	101,000	45,400
Gross proceeds (000)	$537,657	$506,916	$317,788	$114,397	$57,876
Number of auction facilities	53	49	42	15	10

(1) See Note 2 to the Consolidated Financial Statements for a discussion of acquisitions.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company processes salvage vehicles principally on a consignment method, on either the Percentage Incentive Program (or the "PIP") or on a fixed fee consignment basis. Using either consignment method, only the fees associated with vehicle processing are recorded in revenue. The Company also processes a percentage of its salvage vehicles pursuant to purchase contracts (the "Purchase Program") under which the Company records the gross proceeds of the vehicle sale in revenue. For the fiscal years ended July 31, 1997, 1996, and 1995,

approximately 33%, 25%, and 28% of the vehicles sold by Copart, respectively, were processed under the PIP, and approximately 6%, 6% and 2% of the vehicles sold by Copart, respectively, were processed pursuant to the Purchase Program. The increase in the percentage of vehicles sold under the PIP in fiscal 1997 is due to the Company's successful marketing efforts. The decrease in the percentage of vehicles sold under the PIP in fiscal 1996 resulted from the acquisition by Copart of various companies that conducted business on a fixed fee consignment basis, which is consistent with industry practice. As a result of the acquisition of NER Auction Group ("NER") on May 2, 1995, which processed almost all of its vehicles on a fixed fee consignment basis, the percentage of the Company's vehicles processed under the PIP decreased. The Company attempts to convert acquired operations to the PIP Program which typically results in higher net returns to vehicle suppliers and higher fees to the Company than standard fixed fee consignment programs. The decrease in vehicles sold under the Purchase Program between fiscal 1997 and 1996 is attributable to the termination, or renegotiation to consignment contracts, of certain vehicle purchase contracts. However, due to a number of factors, including the timing and size of new acquisitions, market conditions, and acceptance of the PIP Program by vehicle suppliers, the percentage of vehicles processed under this program in future periods may vary. In addition to auction fees paid by vehicle suppliers and vehicle buyers, approximately 31%, 27%, and 31% of Copart's revenues for the fiscal years ended July 31, 1997, 1996 and 1995, respectively, were attributable to buyer fees, which are fees received from buyers in addition to amounts they pay to purchase salvage vehicles.

Costs attributable to yard and fleet expenses consist primarily of operating personnel (which includes yard management, clerical and yard employees), rent, contract vehicle towing, insurance, fleet maintenance and repair, fuel and acquisition costs of salvage vehicles under the Purchase Program. Costs associated with general and administrative expenses consist primarily of executive, accounting, data processing and sales personnel, professional fees and marketing expenses.

The period-to-period comparability of Copart's operating results and financial condition is substantially affected by business acquisitions and new openings made by Copart during such periods.

ACQUISITIONS AND NEW OPERATIONS

Copart has experienced significant growth as it acquired 30 salvage vehicle auction facilities and established eight new facilities since the beginning of fiscal 1995. All of the acquisitions have been accounted for using the purchase method. Accordingly, the excess of the purchase price over the net tangible assets acquired (consisting principally of goodwill) is being amortized over periods not exceeding 40 years.

As part of the Company's overall expansion strategy of offering integrated service to vehicle suppliers, the Company anticipates further attempts to open or acquire new salvage yards in new regions, as well as the regions currently served by Company yards. As part of this strategy, during fiscal 1997, Copart acquired facilities near Baton Rouge, Louisiana, and Salt Lake City, Utah and opened new facilities in Woodinville, Washington and Hammond, Indiana. In fiscal 1996, Copart acquired two facilities in or near Jackson, Mississippi and El Paso, Texas and opened five new facilities in or near Charlotte, North Carolina; Jacksonville, Florida; Indianapolis, Indiana; Van Nuys, California; and Phoenix, Arizona. During fiscal

1995, Copart acquired NER, plus six facilities in or near Kansas City, Kansas; Tulsa and Oklahoma City, Oklahoma; St. Louis, Missouri; and Conway and West Memphis, Arkansas; and opened one facility in Sacramento, California. The Company believes that these acquisitions and openings solidify the Company's coverage of the West Coast, expand the Company's coverage of the South, Southwest and Midwest, give the Company a substantial presence in the Northeast, the Great Lakes states, Georgia and Florida. The Company expects to incur future amortization charges in connection with anticipated acquisitions attributable to goodwill, covenants not to compete and other purchase-related adjustments.*

The Company seeks to increase revenues and profitability at acquired facilities by, among other things, (i) implementing its buyer fee structure, (ii) introducing and converting certain vehicle suppliers to the PIP, which typically results in higher net returns to vehicle suppliers and higher fees to the Company than standard fixed fee consignment programs, (iii) making available vehicle purchase programs which are designed to reduce vehicle suppliers' administrative expenses and (iv) initiating the Company's merchandising procedures. In addition, the Company attempts to effect cost efficiencies at each of its acquired facilities through, among other things, implementing the Company's operational procedures, integrating the Company's management information systems and, when necessary, redeploying personnel.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated information derived from the consolidated statements of income of Copart expressed as a percentage of revenues. There can be no assurance that any trend in operating results will continue in the future.

	YEAR ENDED JULY 31		
	1997	1996	1995
Revenues	100.0 %	100.0 %	100.00 %
Operating expenses:			
Yard and fleet	70.8	70.6	65.0
General and administrative	8.4	9.2	9.8
Depreciation and amortization	5.9	5.1	5.8
Total operating expenses	85.1	84.9	80.6
Operating income	14.9	15.1	19.4
Other income, net	0.5	0.3	0.3
Income before income taxes	15.4	15.4	19.7
Income taxes	5.9	5.9	7.8
Net income	9.5 %	9.5 %	11.9 %

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* This statement is a forward-looking statement reflecting current expectations. Actual future performance may differ materially from the Company's current expectations. The reader is advised to review "Factors Affecting Future Results" for a fuller discussion of factors that could affect future performance.

FISCAL 1997 COMPARED TO FISCAL 1996

Revenues were approximately $126.3 million during fiscal 1997, an increase of approximately $8.0 million, or 7%, over fiscal 1996 based on 410,000 vehicles processed. Approximately $4.2 million of the increase in revenues was the result of the acquisition of the El Paso, Baton Rouge, and Salt Lake City operations and the opening of Copart's Charlotte, Jacksonville, Indianapolis, and Phoenix facilities. Existing yard revenues increased overall by approximately $3.8 million, or 3%, over fiscal 1996, despite decreased revenues from Purchase Program vehicles of approximately $5.8 million. Under the Purchase Program the Company records the gross proceeds of the vehicle sale in revenue. After eliminating the accounting impact of the Purchase Program, the remainder of the increase in revenues at existing operations was primarily attributable to increased per unit revenues of approximately 10% and increased vehicle volume of approximately 1%.

Yard and fleet expenses were approximately $89.4 million during fiscal 1997, an increase of approximately $5.9 million, or 7%, over fiscal 1996. Approximately $0.8 million of the increase was the result of the acquisition of the El Paso, Baton Rouge, and Salt Lake City operations and the opening of Copart's Charlotte, Jacksonville, Indianapolis, and Phoenix. facilities. The remainder of the increase in yard and fleet expenses was attributable to increased yard and fleet expenses from existing operations, including the cost of Purchase Program vehicles. Yard and fleet expense increased to 70.8% of revenues during fiscal 1997, as compared to 70.6% of revenues during fiscal 1996.

General and administrative expenses were approximately $10.6 million during fiscal 1997, a decrease of approximately $0.3 million, or 3%, over fiscal 1996, due primarily to decreased personnel expense. General and administrative expenses decreased to 8.4% of revenues during fiscal 1997, as compared to 9.2% of revenues during fiscal 1996 due to costs being spread over a greater revenue base.

Depreciation and amortization expense was approximately $7.5 million during fiscal 1997, an increase of approximately $1.5 million, or 24%, over fiscal 1996. Such increase was due primarily to the amortization of goodwill and covenants not to compete and depreciation of acquired assets resulting from the acquisition of new salvage auction facilities.

Interest expense was approximately $826,000 during fiscal 1997, an increase of $375,000 over fiscal 1996. This increase was attributable to the increase in debt associated with the land acquisition in Van Nuys in May, 1996.

The effective income tax rate of 38% applicable to fiscal 1997 is comparable to the fiscal 1996 effective income tax rate of 39%.

Due to the foregoing factors, Copart realized net income of $12.0 million for fiscal 1997, compared to net income of $11.2 million for fiscal 1996.

FISCAL 1996 COMPARED TO FISCAL 1995

Revenues were approximately $118.2 million during fiscal 1996, an increase of approximately $60.1 million, or 103%, over fiscal 1995 based on 391,100 vehicles processed. Approximately $45.8 million of the increase in revenues was the result of the acquisition of the Kansas City, Oklahoma City, Tulsa, St. Louis, Conway, West Memphis, NER, Jackson, and El Paso operations and the opening of Copart's Charlotte, Jacksonville, Indianapolis, and Phoenix facilities. Existing yard revenues increased by approximately $14.3 million, or 33% over fiscal 1995, of which revenues from Purchase Program vehicles accounted for approximately $11.5 million of the increase. Under the Purchase Program the Company records the gross proceeds of the vehicle sale as revenue. The remainder of the increase in revenue at these facilities was

primarily attributable to increased per unit revenues of approximately 9% and increased vehicle volume of approximately 3%.

Yard and fleet expenses were approximately $83.5 million during fiscal 1996, an increase of approximately $45.8 million, or 121%, over fiscal 1995. Approximately $34.2 million of the increase was the result of the acquisition of the Kansas City, Oklahoma City, Tulsa, St. Louis, Conway, West Memphis, NER, Jackson, and El Paso operations; and the opening of Copart's Charlotte, Jacksonville, Indianapolis, and Phoenix facilities. The remainder of the increase in yard and fleet expenses was attributable to yard and fleet expenses from existing operations, including the cost of Purchase Program vehicles. Yard and fleet expenses increased to 70.6% of revenues during fiscal 1996, as compared to 65.0% of revenues during fiscal 1995, primarily as a result of the Company processing additional vehicles under the Purchase Program.

General and administrative expenses were approximately $10.9 million during fiscal 1996, an increase of approximately $5.2 million, or 91%, over fiscal 1995, due primarily to increased personnel expense resulting from acquisitions, increased hiring in anticipation of additional growth and additional investments in marketing and MIS staff. General and administrative expenses decreased to 9.2% of revenues during fiscal 1996, as compared to 9.8% of revenues during fiscal 1995, primarily as a result of the Company processing additional vehicles under the Purchase Program which has higher revenue per unit.

Depreciation and amortization expense was approximately $6.0 million during fiscal 1996, an increase of approximately $2.6 million, or 76%, over fiscal 1995. Such increase was due primarily to the amortization of goodwill and covenants not to compete and depreciation of acquired assets resulting from the acquisition of new salvage auction facilities.

The expected effective income tax rate of 39% applicable to fiscal 1996 is lower than the fiscal 1995 effective income tax rate, due to savings associated with state and local tax planning.

Due to the foregoing factors, Copart realized net income of $11.2 million for fiscal 1996, an increase of 62% compared to net income of $6.9 million for fiscal 1995.

LIQUIDITY AND CAPITAL RESOURCES

Copart has financed its growth principally through cash generated from operations, debt financing in February 1993, the issuance by Copart of 1,071,600 shares of Common Stock at $7.00 per share in a private placement to certain of its existing shareholders in November 1993, its March 1994 initial public offering ("IPO") of 2,300,000 shares of Common Stock at $12.00 per share, its follow-on offering in May 1995 of 1,897,500 shares of Common Stock at $19.25 per share, the equity issued in conjunction with certain acquisitions and borrowings under the Bank Credit Facility (as defined below) in connection with the NER Acquisition.

At July 31, 1997, Copart had working capital of approximately $48.9 million, including cash and cash equivalents of approximately $27.7 million. The Company is able to process, market, sell and receive payment for processed vehicles quickly. Therefore, the Company does not require substantial amounts of working capital, as it receives payment for vehicles at approximately the same time as it remits payments to vehicle suppliers. The Company's primary source

of cash is from the collection of sellers' fees and reimbursable advances from the proceeds of auctioned salvage vehicles and from buyers' fees.

In May, 1995 Copart entered into a bank credit facility provided by Wells Fargo Bank, N.A. and U.S. Bank of California which was amended in March, 1997 to include Fleet National Bank (the "Bank Credit Facility"). The Bank Credit Facility consists of an unsecured revolving reducing line of credit of $50 million which matures in February 2002. The amount available under the facility reduces by $10 million in February 2000 and 2001, leaving the principal balance available as follows: March 1, 2000, $40 million available; March 1, 2001, $30 million available; February 28, 2002, the line of credit matures. Amounts

outstanding under the Bank Credit Facility accrue interest at either the prime rate most recently announced by Wells Fargo or at a rate based on LIBOR plus a spread of 0.50%, subject to increases to a maximum spread of 1.25% based on certain credit ratios. As of July 31, 1997, there are no outstanding borrowings under this facility.

The Company has entered into various operating lease lines for the purpose of leasing up to $16.0 million of yard and fleet equipment, of which approximately $5.5 million was available as of July 31, 1997.

Copart generated cash from operations of approximately $24.6 million, $11.3 million and $5.2 million in fiscal years 1997, 1996 and 1995, respectively. The increase in cash from operations from fiscal 1995 to fiscal 1996 and from fiscal 1996 to fiscal 1997 reflects Copart's increased profitability.

During the fiscal year ended July 31, 1997, Copart used cash for the acquisition of the Baton Rouge and the Salt Lake City operations, which had an aggregate cash cost of approximately $3.4 million. During the fiscal year ended July 31, 1996, Copart used cash for the acquisition of the Jackson, Mississippi and El Paso, Texas facilities, which had an aggregate cash cost of approximately $2.8 million. During the fiscal year ended July 31, 1995, Copart's principal use of cash was for the acquisition of the NER, Kansas City, Oklahoma City, Tulsa, St. Louis, Conway and West Memphis salvage vehicle auction facilities, which had an aggregate cash cost of approximately $38.3 million. Copart financed the cash portion of the NER acquisition of approximately $24.7 million principally with the proceeds from the Bank Credit Facility. The Company used a portion of the net proceeds of its May 1995 follow-on offering to repay the amounts borrowed under the Bank Credit Facility. In addition, the Company issued $21.3 million in value of its Common Stock in conjunction with the fiscal 1995 acquisitions.

Capital expenditures (excluding those associated with fixed assets attributable to acquisitions) were approximately $7.2 million, $8.4 million and $5.1 million for fiscal 1997, 1996 and 1995, respectively. During the fiscal year ended July 31, 1996, Copart acquired approximately 40 acres of land at the Van Nuys facility for the purchase price of $10.5 million, for which the Company paid $3.0 million in cash and issued the seller a promissory note secured by the real property in the principal amount of $7.5 million, payable interest only at the rate of 7.2% per annum, with the principal payable in 5 years. Copart's capital expenditures have related primarily to opening and operating facilities and acquiring yard equipment. Historically, while Copart has sub-contracted for a significant portion of its vehicle transport services, the Company has implemented a program for converting long haul transports to its own fleet of vehicle carriers at each facility. Based upon the potential for increased revenues from Company-owned vehicle towing services, the Company has entered into agreements to acquire approximately $5.0 million of additional multi-vehicle transport trucks and forklifts and is disposing of certain older equipment.

In fiscal 1997, 1996 and 1995, the Company generated approximately $2.4, $0.6 and $0.3 million through the exercise of stock options and warrants, respectively. In fiscal 1995, the Company generated approximately $33.9 million of net cash primarily through the issuance of common stock in its follow-on offering.

Cash and cash equivalents increased by approximately $14.7 million and decreased by $0.8 million in fiscal 1997 and 1996, respectively. The Company's liquidity and capital resources have not been materially affected by inflation and are not subject to significant seasonal fluctuations.

The Company believes that the proceeds of its follow-on offering of Common Stock, cash generated from operations, borrowing availability under the Bank Credit Facility and existing equipment leasing lines of credit will be sufficient to satisfy the Company's working capital requirements and fund openings and acquisitions of new facilities for the next 12 months.* However, there can be no assurance that the Company

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* This statement is a forward-looking statement reflecting current

expectations. Actual future performance may differ materially from the Company's current expectations. The reader is advised to review "Factors Affecting Future Results" for a fuller discussion of factors that could affect future performance.

will not be required to seek additional debt or equity financing prior to such time, depending upon the rate at which the Company opens or acquires new facilities.

RECENT ACCOUNTING PRONOUNCEMENTS

In 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 128, EARNINGS PER SHARE. The statement specified the computation, presentation and disclosure requirements for earnings per share and is effective for periods ending after December 15, 1997, and will be adopted by Copart, Inc. in fiscal year 1998.

In 1997, the FASB issued SFAS No. 129, DISCLOSURE OF INFORMATION ABOUT CAPITAL STRUCTURE. The statement is effective for periods ending after December 15, 1997. This statement will have no impact on Copart's disclosures within the consolidated financial statements.

In 1997, the FASB issued SFAS No. 130, REPORTING COMPREHENSIVE INCOME, which establishes standards for reporting and displaying comprehensive income and its components. The statement is effective for fiscal years beginning after December 15, 1997 and will be adopted by Copart, Inc. in fiscal year 1999.

In 1997, the FASB issued SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, which establishes standards for the way that public business enterprises are to report information about operating segments in the annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. The statement is effective for periods beginning after December 15, 1997, and will be adopted by Copart, Inc. in fiscal year 1999.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Item 14 (a) for an index to the financial statements and supplementary financial information which are attached thereto.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning the Company's directors required by this Item is incorporated herein by reference from the Company's Proxy Statement under the heading "Election of Directors."

Information regarding executive officers is included in Part I hereof under the caption "Executive Officers of the Registrant" and is incorporated by reference herein.

The information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended is incorporated herein by reference from the Company's Proxy Statement under the heading "Election of Directors - Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference from the Company's Proxy Statement under the heading "Election of Directors-Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated herein by reference from the Company's Proxy Statement under the heading "Election of

Directors-Security Ownership."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference from the Company's Proxy Statement under the heading "Certain Transactions."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. EXHIBITS

*3.1	Amended and Restated Articles of Incorporation of the Registrant
***3.2	Bylaws of the Registrant, as amended
***10.1+	Copart, Inc. 1992 Stock Option Plan, as amended
*10.2+	1994 Employee Stock Purchase Plan, with form of Subscription Agreement
*10.3+	1994 Director Option Plan, with form of Subscription Agreement
*10.4	Indemnification Agreement, dated December 1, 1992, among the Registrant and Willis J. Johnson, Reba J. Johnson, A. Jayson Adair, Michael A. Seebode, Steven D. Cohan and Paul A. Styer
*10.5	Indemnification Agreement, dated July 1, 1993, between the Registrant and Willis J. Johnson, Marvin L. Schmidt, James E. Meeks and Steven D. Cohan
*10.6	Indemnification Agreement, dated November 9, 1993, between the Registrant and James Grosfeld
*10.7	Form of Indemnification Agreement to be entered into by the Registrant and each of Harold Blumentstein and Patrick Foley
*10.8+	Employment Contract for Chief Executive, dated February 17, 1993, between Willis J. Johnson and the Registrant
*10.9+	Employment Contract, dated August 1, 1992, between A. Jayson Adair and the Registrant

*10.10+	Employment for Senior Executive, dated September 1, 1992, between Paul A. Styer and the Registrant
*10.11	Employment Contract for Senior Executive, dated September 1, 1992, between James E. Meeks and the Registrant
*10.12	Common Stock Warrant, dated November 9, 1993, issued to James Grosfeld
***10.13	Credit Agreement among Copart, Inc. and Wells Fargo Bank, National Association, U.S. Bank of California and Wells Fargo

		Bank, National Association, as Agent, dated May 1, 1995
****10.14		Agreement for Purchase and Sale of Assets of NER Auction Systems, dated January 13, 1995, among Registrant, the list of Sellers as set forth therein, Richard A. Polidori, Gordon VanValkenberg, and Stephen Powers
*****10.15		Contract of Sale by and between the Stroh Companies, Inc. as Seller and Copart, Inc. as Purchaser, dated April 4, 1996
	10.16	Amended and Restated Credit Agreement among Copart, Inc. and Wells Fargo Bank, National Association, U.S. Bank of California and Fleet National Bank and Wells Fargo Bank, National Association, as Agent, dated March 7, 1997
	11.1	Copart, Inc. and Subsidiaries Computation of Net Income Per Share
	23.1	Consent of KPMG Peat Marwick LLP
	24.1	Power of Attorney (See page 30 of this Form 10-K)
	27.1	Financial Data Schedule

(b) Reports on Form 8-K

None

(c) See response to Item 14(a)(3) above

(d) See response to Item 14(a)(2) above

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* Incorporated by reference from exhibit to registrant's Registration Statement on Form S-1, as amended (File No. 33- 74250).

\+ Denotes a compensation plan in which an executive officer participates.

*** Incorporated by reference from exhibit to registrant's Form 10-K for its fiscal year ended July 31, 1995, filed with the Securities and Exchange Commission.

**** Incorporated by reference from exhibit to registrant's Registration Statement on Form S-3, as amended (File No. 33-91110) filed with the Securities and Exchange Commission.

***** Incorporated by reference from exhibit to registrant's Form 10-K for its fiscal year ended July 31, 1996, filed with the Securities and Exchange Commission.

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.

October __, 1997 BY: _____
Willis J. Johnson
Chief Executive Officer

POWER OF ATTORNEY

KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Willis J. Johnson, as his true and lawful attorney-in-fact and agent, 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 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 attorney-in-fact and agent, 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
_____ Willis J. Johnson	Chief Executive Officer and acting Chief Financial Officer (Principal Executive, Principal Financial and Accounting Officer and Director)	October __, 1997
_____ A. Jayson Adair	President and Director	October __, 1997
_____ James Grosfeld	Director	October __, 1997
_____ Marvin L. Schmidt	Senior Vice President of Corporate Development and Director	October __, 1997
_____ Jonathan Vannini	Director	October __, 1997
_____ Harold Blumenstein	Director	October __, 1997
_____ James E. Meeks	Executive Vice President and Director	October __, 1997

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Copart, Inc.:

We have audited the consolidated financial statements of Copart, Inc. and subsidiaries as listed in Item 14(a). In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in Item 14(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Copart, Inc. and subsidiaries as of July 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended July 31, 1997, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

San Francisco, California
September 26, 1997

COPART, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	July 31,	
	1997	1996
	ASSETS	
Current assets:		
Cash and cash equivalents	$ 27,684,500	$ 13,026,200
Accounts receivable, net	31,337,100	29,992,000
Income taxes receivable	-	742,200
Vehicle pooling costs	8,822,500	9,253,300
Inventory	278,700	1,456,400
Deferred income taxes	343,700	378,400
Prepaid expenses and other assets	2,825,200	2,450,800
Total current assets	71,291,700	57,299,300
Property and equipment, net	28,787,900	26,204,200
Intangibles and other assets, net	75,259,900	74,562,300
Total assets	$ 175,339,500	$ 158,065,800
	LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:		
Current portion of long-term debt	$ 1,938,800	$ 772,800
Accounts payable and accrued liabilities	11,757,300	10,370,000
Deferred revenue	5,566,300	5,570,500
Income taxes payable	83,200	-
Other current liabilities	3,016,100	-
Total current liabilities	22,361,700	16,713,300
Deferred income taxes	975,200	610,300
Long-term debt, less current portion	7,814,200	10,487,000
Other liabilities	1,374,000	4,010,200
Total liabilities	32,525,100	31,820,800
Shareholders' equity:		
Common stock, no par value - 30,000,000 shares authorized; 13,071,111 and 12,641,213 shares issued and outstanding at July 31, 1997 and July 31, 1996, respectively	111,050,600	106,473,800
Retained earnings	31,763,800	19,771,200
Total shareholders' equity	142,814,400	126,245,000
Commitments and contingencies		
Total liabilities and shareholders' equity	$ 175,339,500	$ 158,065,800

See accompanying notes to consolidated financial statements.

COPART, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years ended July 31,		
	1997	1996	1995
Revenues	$ 126,275,900	$ 118,247,600	$ 58,116,700
Operating expenses:			
Yard and fleet	89,393,500	83,541,800	37,753,400
General and administrative	10,566,100	10,907,500	5,704,400
Depreciation and amortization	7,463,300	5,996,700	3,397,900
Total operating expenses	107,422,900	100,446,000	46,855,700
Operating income	18,853,000	17,801,600	11,261,000
Other income (expense):			
Interest expense	(826,100)	(450,800)	(491,000)
Interest income	1,066,500	680,200	582,500
Other income	381,400	158,900	84,200
Total other income	621,800	388,300	175,700
Income before income taxes	19,474,800	18,189,900	11,436,700
Income taxes	7,482,200	7,004,500	4,542,400
Net income	$ 11,992,600	$ 11,185,400	$ 6,894,300
Net income per share	$ .90	$ .85	$ .65
Weighted average shares and equivalents outstanding	13,256,707	13,215,636	10,614,201

See accompanying notes to consolidated financial statements.

COPART, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock			
	Outstanding shares	Amount	Retained Earnings	Shareholders' Equity
BALANCES AT JULY 31, 1994	8,753,157	$ 47,596,500	$ 1,691,500	$ 49,288,000
Shares issued for acquisitions	1,366,666	21,310,100	-	21,310,100
Shares issued in connection with public offering	1,897,500	33,844,900	-	33,844,900
Exercise of stock options	156,100	269,100	-	269,100
Exercise of warrants and related tax benefit	188,341	1,301,800	-	1,301,800
Shares issued for Employee Stock Purchase Plan	10,460	207,400	-	207,400
Net Income	-	-	6,894,300	6,894,300
BALANCES AT JULY 31, 1995	12,372,224	104,529,800	8,585,800	113,115,600
Shares issued for acquisitions	288	6,200	-	6,200
Exercise of stock options	157,508	586,600	-	586,600
Exercise of warrants and related tax benefit	87,431	860,300	-	860,300
Shares issued for Employee Stock Purchase Plan	21,062	434,200	-	434,200
Shares issued for software	2,700	56,700	-	56,700
Net Income	-	-	11,185,400	11,185,400
BALANCES AT JULY 31, 1996	12,641,213	106,473,800	19,771,200	126,245,000
Exercise of stock options and related tax benefit	45,400	1,147,000	-	1,147,000
Exercise of warrants and related tax benefit	357,001	3,023,800	-	3,023,800
Shares issued for Employee Stock Purchase Plan	27,497	406,000	-	406,000
Net Income	-	-	11,992,600	11,992,600
BALANCES AT JULY 31, 1997	13,071,111	$ 111,050,600	$ 31,763,800	$ 142,814,400

See accompanying notes to consolidated financial statements.

COPART, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended July 31,		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 11,992,600	$ 11,185,400	$ 6,894,300
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,463,300	5,996,700	3,397,900
Deferred rent	404,300	991,200	19,000
Deferred income taxes	399,600	(270,100)	71,800
Gain on sale of assets	(197,200)	(62,300)	(17,000)
Employee Stock Purchase Plan compensation	101,400	91,600	68,600
Changes in operating assets and liabilities:			
Accounts receivable	(827,500)	(5,528,500)	(4,905,500)
Vehicle pooling costs	671,900	(2,366,800)	(1,487,100)
Inventory	1,177,700	1,796,000	(3,172,500)
Prepaid expenses and other current assets	(580,000)	(1,738,800)	503,400
Accounts payable and accrued liabilities	1,352,900	820,000	1,925,900
Deferred revenue	(4,200)	248,000	751,900
Income taxes	2,624,100	118,100	1,168,900
Net cash provided by operating activities	24,578,900	11,280,500	5,219,600
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments received on notes receivable	-	-	146,400
Purchase of property and equipment	(7,285,600)	(8,412,800)	(5,055,800)
Proceeds from sale of property and equipment	1,853,800	516,600	17,000
Purchase of property and equipment in connection with acquisitions	(466,600)	(174,500)	(4,870,400)
Purchase of intangible assets in connection with acquisitions	(2,130,700)	(2,296,800)	(24,869,900)
Purchase of net current assets in connection with acquisitions	(839,900)	(511,200)	(8,562,500)
Purchase of software development costs	(1,542,700)	(672,100)	-
Deferred preopening costs	(456,100)	(714,700)	-
Other intangible asset additions	(222,700)	(123,500)	-
Net cash used in investing activities	(11,090,500)	(12,389,000)	(43,195,200)

CONTINUED ON NEXT PAGE

	Years ended July 31,		
	1997	1996	1995
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	-	-	33,844,900
Proceeds from the exercise of stock options and warrants	2,372,100	586,600	269,100
Proceeds from issuance of Employee Stock Purchase Plan shares	304,600	342,600	138,800
Proceeds from issuance of notes payable	-	-	20,525,700
Principal payments on notes payable	(1,506,800)	(573,700)	(20,894,200)
Net cash provided by financing activities	1,169,900	355,500	33,884,300
Net increase (decrease) in cash and cash equivalents	14,658,300	(753,000)	(4,091,300)
Cash and cash equivalents at beginning of year	13,026,200	13,779,200	17,870,500
Cash and cash equivalents at end of year	$ 27,684,500	$ 13,026,200	$ 13,779,200
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Interest paid	$ 826,100	$ 450,800	$ 491,000
Income taxes paid	$ 4,864,900	$ 7,160,300	$ 3,298,400

See note 13 for noncash financing and investing activities.

See accompanying notes to consolidated financial statements.

COPART, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 1997, 1996 AND 1995

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CORPORATION ACTIVITIES

Copart, Inc. and its subsidiaries (the "Company") provide vehicle suppliers with a full range of services to process and sell salvage vehicles. The Company auctions salvage vehicles, which are either damaged vehicles deemed a total loss for insurance or business purposes or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made.

Gross proceeds generated from auctioned vehicles were approximately $537,657,000, $506,916,000, and $317,788,000, for the years ended July 31, 1997, 1996 and 1995, respectively.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries. Significant intercompany transactions and balances have been eliminated in consolidation.

REVENUE RECOGNITION

Revenues are recorded at the date the vehicles are sold at auction.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents.

VEHICLE POOLING COSTS

Vehicle pooling costs consist of labor, towing, outside services and other costs directly attributable to the gathering and processing of vehicles prior to their sale. Vehicle pooling costs are recognized as expenses in the period the vehicle is sold at auction. The Company continually evaluates and adjusts the components of vehicle pooling costs as necessary.

INVENTORY

Inventories of purchased vehicles are stated at the lower of specific cost or estimated realizable value.

DEFERRED PREOPENING COSTS

Costs related to the opening of new auction facilities, such as preopening payroll and various training expenses, are deferred until the auction facilities open and are amortized over the subsequent 12 months. These costs are included in prepaid expenses and other assets.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and amortization. Assets acquired before July 31, 1991 are depreciated using accelerated methods. For assets acquired subsequent to July 31, 1991, depreciation expense is provided on the straight-line method over the estimated useful lives of the related assets, generally five to nineteen years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease terms or the useful lives of the respective assets.

INTANGIBLE ASSETS

Intangible assets consist of covenants not to compete, goodwill, options to purchase leased property and other costs. Amortization, except for the options to purchase leased property, is provided on the straight-line method over the estimated lives which range from five to forty years. The Company continually evaluates the recoverability of goodwill as well as other intangible assets by assessing whether the amortization of the balance over the remaining life can be recovered through expected and undiscounted future results. As part of this review, the Company takes into consideration any events and circumstances which might have diminished the fair values.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The amounts recorded for financial instruments in the Company's consolidated financial statements approximate fair value.

NET INCOME PER SHARE

Net income per share is computed by using the weighted-average number of common shares and equivalents assumed to be outstanding during the periods. Common stock options and warrants to purchase common stock were included in the calculations of net income per share.

Fully diluted earnings per share is not presented since the amounts are antidilutive or do not differ significantly from the primary earnings per share presented

INCOME TAXES

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

ACCOUNTING FOR STOCK OPTIONS

Prior to August 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25. Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense would be recorded only if the current market price of the underlying stock exceeded the exercise price on the date of grant. On August 1, 1996, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma net income per share disclosures for employee stock option grants made in fiscal 1996 and future years as if

the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions required by SFAS No. 123.

USE OF ESTIMATES

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

RECENT ACCOUNTING PRONOUNCEMENTS

In 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128, EARNINGS PER SHARE. The statement specified the computation, presentation and disclosure requirements for earnings per share and is effective for periods ending after December 15, 1997, and will be adopted by Copart, Inc. in fiscal year 1998.

In 1997, the FASB issued SFAS No. 129, DISCLOSURE OF INFORMATION ABOUT CAPITAL STRUCTURE. The statement is effective for periods ending after December 15, 1997. This statement will have no impact on Copart's disclosures within the consolidated financial statements.

In 1997, the FASB issued SFAS No. 130, REPORTING COMPREHENSIVE INCOME, which establishes standards for reporting and displaying comprehensive income and its components. The statement is effective for fiscal years beginning after December 15, 1997 and will be adopted by Copart, Inc. in fiscal year 1999.

In 1997, the FASB issued SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, which establishes standards for the way that public business enterprises are to report information about operating segments in the annual financial statements and requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. The statement is effective for periods beginning after December 15, 1997, and will be adopted by Copart, Inc. in fiscal year 1999.

(2) ACQUISITIONS

FISCAL 1997 TRANSACTIONS

On January 10, 1997, the Company acquired certain assets of SALA Insurance Salvage, Inc., of Baton Rouge, Louisiana. On March 28, 1997, the Company acquired certain assets of Western Affiliated Salvage Pool and Auction of Salt Lake City, Utah. The consideration paid for these acquisitions consisted of $3,437,200 in cash. The acquired net assets consisted of accounts and advances receivable, inventory, fixed assets, goodwill and covenants not to compete. The acquisitions were accounted for using the purchase method of accounting, and the operating results subsequent to the acquisition dates are included in the Company's consolidated statements of income. The excess of the purchase price over fair market value of the net identifiable assets acquired of $2,130,700 has been recorded as goodwill and is being amortized on a straight-line basis over 40 years. In conjunction with the Salt Lake City acquisition, the Company entered into a lease for the use of the facility.

FISCAL 1996 TRANSACTIONS

On August 1, 1995, the Company acquired certain assets of Mississippi Salvage Disposal Company, Inc., of Jackson, Mississippi. On November 16, 1995, the Company acquired certain assets of Sun City Salvage Pool, Inc., of El Paso, Texas. The consideration paid for these acquisitions consisted of

$2,782,500 in cash. The Company also paid $200,000 for an option to purchase land. The acquired net assets consisted of accounts and advances receivable, inventory, fixed assets, goodwill and covenants not to compete. The acquisitions were accounted for using the purchase method of accounting, and the operating results subsequent to the acquisition dates are included in the Company's consolidated statements of income. The excess of the purchase price over fair market value of the net identifiable assets acquired of $1,746,800 has been recorded as goodwill and is being amortized on a straight-line basis over 40 years. In conjunction with these acquisitions, the Company entered into leases for the use of these facilities. In addition, the Company paid $125,000 in June 1996 for contingent consideration related to the fiscal 1994 Lufkin/Longview acquisitions, and paid $6,200 in stock consideration, in November 1995, related to the fiscal 1995 St. Louis acquisition.

FISCAL 1995 TRANSACTIONS

On October 17, 1994, the Company acquired all of the stock of Kansas City Salvage Pool, Inc. for $3,947,600 in cash and 93,104 shares of common stock valued at $1,512,900. The acquisition was accounted for using the purchase method, and the operating results subsequent to the acquisition date are included in the Company's consolidated statements of income. The excess of the purchase price over the fair value of the net identifiable assets acquired at $4,689,200 has been recorded as goodwill and is being amortized on a straight-line basis of 40 years. In conjunction with this acquisition, the Company entered into a lease for the use of the facilities.

On November 13, 1994, the Company acquired certain assets of Auto Pools of Oklahoma City and Tulsa, Inc., Auto Storage Pool, Inc., and Auto Pools of Tulsa, Inc. of Oklahoma City and Tulsa, Oklahoma. On March 1, 1995, the Company acquired certain assets of Missouri Auto Salvage Pool, Inc., of St. Louis, Missouri. On April 7, 1995, the Company acquired certain assets and liabilities of Mid-Ark Salvage Pool, Inc., of Conway and West Memphis, Arkansas. The consideration paid for these acquisitions consisted of $4,391,300 in cash and 112,466 shares of common stock valued at $2,055,500. The Company also paid $500,000 for options to purchase the St. Louis, Conway, and West Memphis facilities. The acquired net assets consisted of accounts and advances receivable, inventory, fixed assets, goodwill and covenants not to compete. The acquisitions were accounted for using the purchase method of accounting, and the operating results subsequent to the acquisition dates are included in the Company's consolidated statements of income. The excess of the purchase price over fair market value of the net identifiable assets acquired of $4,471,000 has been recorded as goodwill and is being amortized on a straight-line basis between 30 and 40 years. In conjunction with these acquisitions, the Company entered into leases for the use of these facilities. In addition, the Company paid $119,400 in May, 1995 for contingent consideration related to the fiscal 1994 Lufkin and Longview acquisitions.

On May 2, 1995, the Company acquired certain assets and liabilities of NER Auction Group with 20 locations in 11 states in the northeast and great lakes regions and Florida for $22,732,000 in cash and 1,161,103 shares of common stock valued at $17,741,700. The Company also paid $2,000,000 for options to purchase land and buildings at certain facilities. The acquisition was accounted for using the purchase method, and the operating results subsequent to the acquisition date are included in the Company's consolidated statements of income. The excess of the purchase price over the fair value of the identifiable net assets acquired of $31,615,200 has been recorded as goodwill and is being amortized on a straight-line basis over 40 years. In conjunction with this acquisition, the Company entered into leases for all of the facilities.

The following unaudited pro forma financial information assumes the 1997 and 1996 acquisitions occurred at the beginning of fiscal 1996. These results have been prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the acquisitions been made at the beginning of fiscal 1996, or of the results which may occur in the future.

	YEARS ENDED JULY 31,	
	1997	1996
Revenues	$126,796,000	$119,667,000
Operating income	$ 18,988,000	$ 18,152,000
Net income	$ 12,077,500	$ 11,404,700

Net income per share	$ .91	$ .86

(3) ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	JULY 31,	
	1997	1996
Advance charges receivable	$20,272,600	$17,785,800
Trade accounts receivable	10,274,500	11,515,400
Other receivables	889,000	789,800
	31,436,100	30,091,000
Less allowance for doubtful accounts	99,000	99,000
	$31,337,100	$29,992,000

Advance charges receivable represent 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 include fees to be collected from insurance companies and buyers.

(4) PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	JULY 31,	
	1997	1996
Transportation and other equipment	$10,024,600	$11,488,100
Office furniture and equipment	5,204,700	4,361,600
Land, buildings and leasehold improvements	23,135,200	17,582,800
	38,364,500	33,432,500
Less accumulated depreciation and amortization	9,576,600	7,228,300
	$28,787,900	$26,204,200

Included in property and equipment as of July 31, 1997 and 1996, are $939,100 and $1,330,600 respectively, of equipment under capital leases. Accumulated amortization related to this equipment was $349,800 and $404,200 as of July 31, 1997 and 1996, respectively.

(5) INTANGIBLE AND OTHER ASSETS

Intangible and other assets consists of the following:

	JULY 31,	
	1997	1996
Covenants not to compete	$ 5,212,500	$ 4,787,500
Goodwill	72,244,000	70,404,400
Options to purchase leased property	3,455,000	3,455,000
Other	2,363,000	1,025,200
	83,274,500	79,672,100
Less accumulated amortization	8,014,600	5,109,800
	$75,259,900	$74,562,300

(6) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consists of the following:

	JULY 31,	
	1997	1996
Trade accounts payable	$ 527,800	$ 347,600
Accounts payable to insurance companies	8,392,500	7,810,100
Accrued payroll	1,789,300	1,455,400
Other accrued liabilities	1,047,700	756,900
	$ 11,757,300	$ 10,370,000

(7) LONG-TERM DEBT

Long-term debt consists of the following:

	JULY 31,	
	1997	1996
Note payable to a corporation, secured by land, payable in monthly interest only installments of $45,000 through May 2001, when balance is due, bearing interest at 7.2%	$7,500,000	$7,500,000
Unsecured note payable to an individual, payable in monthly installments of $33,000 through September 1997 when the balances become due, bearing interest at 10%	1,575,000	1,801,500
Notes payable under capital leases, secured by equipment, payable in monthly installments of $1,600 to $17,800 through July 1999, bearing interest from 3.9% to 10.4%	500,500	908,300
Notes payable secured by land, payable in monthly installments of $2,600 to $3,100, paid in 1997.	--	642,100
Unsecured notes payable to individuals, payable in monthly installments of $3,300 to $5,000 through February 2000, bearing interest at 10% to 12%	136,000	229,700
Notes payable to financial institutions, secured by equipment, payable in monthly installments of $1,400 to $3,200 through September 1999, bearing interest from 8% to 9.5%	$ 41,500	$ 178,200
	9,753,000	11,259,800
Less current portion	1,938,800	772,800
	$7,814,200	$10,487,000

The aggregate maturities of long-term debt are as follows:

YEARS ENDING JULY 31,	
1998	$ 1,938,800
1999	228,600
2000	85,600
2001	7,500,000
	$ 9,753,000

In May, 1995 Copart entered into a bank credit facility provided by Wells Fargo Bank, N.A. and U.S. Bank of California which was amended in March, 1997 to include Fleet National Bank (the "Bank Credit Facility"). The Bank Credit Facility consists of an unsecured revolving reducing line of credit of $50 million which matures in February 2002. The amount available under the facility reduces by $10 million in February 2000 and 2001, leaving the principal balance available as follows: March 1, 2000, $40 million available; March 1, 2001, $30

million available; February 28, 2002, the line of credit matures. Amounts outstanding under the Bank Credit Facility accrue interest at either the prime rate most recently announced by Wells Fargo or at a rate based on LIBOR plus a spread of 0.50%, subject to increases to a maximum

spread of 1.25% based on certain credit ratios. As of July 31, 1997, under the facility there are no outstanding borrowings under this facility. The Company is subject to customary covenants, including restrictions or payment of dividends, with which it is in compliance.

(8) SHAREHOLDERS' EQUITY

The Company adopted the Copart, Inc. 1992 Stock Option Plan (the "Plan") as amended, presently covering 1,500,000 shares of the Company's common stock. The Plan provides for the grant of incentive stock options to employees and non-qualified stock options to employees, officers, directors and consultants at prices not less than 100% and 85% of the fair market value for incentive and non-qualified stock options, respectively, as determined by the Board of Directors at the grant date. Incentive and non-qualified stock options may have terms of up to ten years and vest over periods determined by the Board of Directors. Options generally vest ratably over a two or five year period.

In March 1994, the Company adopted the Copart, Inc. 1994 Director Option Plan under which 40,000 shares of the Company's common stock are presently reserved. In general, new non-employee directors will automatically receive grants of non-qualified options to purchase 3,000 shares and subsequent grants to purchase 1,500 shares at specified intervals.

The Company has authorized the issuance of 5,000,000 shares of preferred stock, no par value, none of which are issued at July 31, 1997.

The Copart, Inc. Employee Stock Purchase Plan provides for the purchase of up to 85,000 shares of common stock of the Company by employees pursuant to the terms of the plan, as defined. Shares of common stock issued pursuant to the plan during fiscal 1997 and 1996 were 27,497 and 21,062, respectively. Additional compensation expense of $101,400, $91,600 and $68,600 was recognized in fiscal 1997, 1996, and 1995 respectively.

At July 31, 1997, the Company has 36,396 outstanding warrants expiring in 1998 and 2000 to purchase shares of common stock at $2.04 per share.

Pro forma information regarding net income and net income per share is required by SFAS No. 123, and has been determined as if the Company had accounted for the Plans under the fair value method of the Statement. The fair value of options issued under the Plans was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions: no dividend yield, volatility factor of the expected market price of the Company's stock of .60, a forfeiture rate of .05, a weighted-average expected life of the options of 5 years and a risk-free interest rate of 6.6% and 6.7% for 1997 and 1996, respectively. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period. The Company's pro forma net income and net income per common share would approximate the following:

	As Reported	Pro Forma
Year Ended July 31, 1997:		
Net Income	$11,992,600	$11,867,300
Net Income per share	$ .90	$ .90
Year Ended July 31, 1996:		
Net Income	$11,185,400	$11,179,400
Net Income per share	$ .85	$ .85

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to 1995.

A summary of stock option activity for the years ended July 31, 1997 and 1996 follows:

	1997		1996	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding at beginning of year	845,500	$ 9.16	889,400	$ 7.62
Granted	-	-	149,000	13.48
Exercised	(45,400)	5.42	(157,500)	3.76
Cancelled	(44,325)	16.47	(35,400)	12.80
Outstanding at year end	755,775	8.95	845,500	9.16
Options exercisable at year end	505,525	6.64	389,283	5.76
Weighted average fair value of options granted during the year:		$ -		$ 8.49

	Options Outstanding			Options Exercisable	
Range of exercise Prices	Number outstanding at July 31,1997	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at July 31, 1997	Weighted-average exercise price
1.00 - 2.00	312,666	5.44	$ 1.63	301,166	$ 1.62
12.00 - 15.00	326,150	8.16	12.44	146,750	12.21
17.00 - 23.44	116,959	7.65	18.77	57,609	18.66
	755,775	7.49	$ 8.95	505,525	$ 6.64

(9) INCOME TAXES

Income tax expense (benefit) consists of:

	Years ended July 31,		
	1997	1996	1995
Federal:			
Current	$ 6,390,300	$ 6,362,400	$ 4,031,200
Deferred	359,400	(233,800)	66,200
	6,749,700	6,128,600	4,097,400
State:			
Current	692,300	912,200	439,400
Deferred	40,200	(36,300)	5,600
	732,500	875,900	445,000
	$ 7,482,200	$ 7,004,500	$ 4,542,400

The reconciliation between the amount computed by applying the U.S. federal statutory tax rate of 34% to income before income tax expense and the actual income tax expense follows:

Years ended July 31,

	1997	1996	1995
Income tax expense at statutory rate	34%	34%	34%
State income taxes, net of federal income tax benefit	3	4	3
Amortization of goodwill	1	1	1
Other	--	--	2
	38%	39%	40%

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

	Years ended July 31, 1997	1996
Deferred tax assets:		
Allowance for doubtful accounts receivable	$ -	$ 38,700
Accrued vacation	108,300	148,600
State taxes	235,400	317,200
Depreciation	182,100	-
Total gross deferred tax assets	525,800	504,500
Deferred tax liabilities:		
Amortization of intangible assets	(1,157,300)	(424,000)
Accrual to cash basis accounting	-	(126,100)
Depreciation	-	(186,300)
Total gross deferred tax libilities	(1,157,300)	(736,400)
Net deferred tax libility	$ (631,500)	$ (231,900)

In fiscal 1997 and 1996, the Company recognized a tax benefit of $1,798,700 and $860,300, respectively, upon the exercise of certain stock warrants and options.

(10) MAJOR CUSTOMERS

One customer accounted for 16% of revenue in fiscal 1997 and 1996, respectively, and two customers accounted for 37% of revenue in fiscal 1995. No other customer accounted for more than 10% of revenues. No buyer of auto salvage accounted for more than 10% of gross proceeds in any period.

(11) COMMITMENTS AND CONTINGENCIES

LEASES:

The Company leases certain facilities under operating leases and has either a right of first refusal to acquire or option to purchase certain facilities at fair value. Facilities rental expense for the years ended July 31, 1997, 1996 and 1995 aggregated, $6,223,300, $5,536,400 and $2,833,600, respectively.

The Company has operating leasing lines with certain financial institutions of approximately $16,000,000 for the purpose of leasing yard and fleet equipment of which approximately $5,500,000 was available as of July 31, 1997.

Noncancelable future minimum lease payments under capital and operating leases with initial or remaining lease terms in excess of one year at July 31, 1997 are as follows:

	CAPITAL	OPERATING

YEARS ENDING JULY 31,	LEASES	LEASES
1998	$ 299,400	$ 9,576,100
1999	222,700	9,261,900
2000	--	9,043,900
2001	--	7,899,500
2002	--	5,722,600
Thereafter	--	9,503,300
	522,100	$ 51,007,300
Less amount representing interest	21,600	
	$ 500,500	

COMMITMENT:

The Company has entered into agreements to acquire approximately $5 million of multi-vehicle transport trucks and forklifts.

CONTINGENCIES:

Copart is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, any ultimate liability with respect to these actions will not materially affect the financial position of Copart.

(12) RELATED PARTY TRANSACTIONS

The Company leases certain of its facilities from affiliates of the Company under lease agreements. Rental payments under these leases aggregated $388,800, $1,517,900 and $589,300 for the years ended July 31, 1997, 1996 and 1995, respectively, and expire on various dates through 2005.

An affiliate provided $380,300, $559,800 and $535,800 of tow services to the Company in fiscal 1997, 1996 and 1995, respectively.

(13) NONCASH FINANCING AND INVESTING ACTIVITIES

In fiscal 1997, 1996 and 1995, 54,140, 94,607 and 210,673 warrants were exercised in a non-cash transaction which resulted in the issuance of 46,953, 87,431 and 188,431 shares of common stock, respectively.

In fiscal 1996, 2,700 shares, valued at $56,700, were issued to an outside consultant for services rendered in connection with the development of computer software. In addition, 288 shares of common stock were issued as contingent consideration related to the acquisition of the St. Louis facility.

In fiscal 1996 and 1995, the Company acquired (i) $62,900 and $21,310,100 of intangible assets through the issuance of common stock, respectively and (ii) $599,800 and $133,100 of tangible assets through the issuance of notes payable in connection with capital leases, respectively. In addition, in fiscal 1996, the Company acquired real property for the purchase price of $10.5 million of which $3 million was paid in cash, and $7.5 million was paid through the issuance of a note payable.

(14) QUARTERLY INFORMATION (UNAUDITED)

	FISCAL QUARTER				
	FIRST	SECOND	THIRD	FOURTH	TOTAL
	1997				
Revenues	$ 32,517,100	$ 30,364,500	$ 33,806,800	$ 29,587,500	$ 126,275,900
Operating income	$ 3,835,500	$ 4,955,300	$ 5,304,900	$ 4,757,300	$ 18,853,000
Net income	$ 2,336,800	$ 3,011,600	$ 3,298,000	$ 3,346,200	$ 11,992,600
Net income per share	$ .18	$ .23	$ .25	$ .25	$ .90
	FIRST	SECOND	THIRD	FOURTH	TOTAL
	1996				
Revenues	$ 26,416,400	$ 26,071,100	$ 34,330,100	$ 31,430,000	$ 118,247,600
Operating income	$ 4,283,200	$ 4,881,200	$ 4,537,600	$ 4,099,600	$ 17,801,600
Net income	$ 2,617,700	$ 3,021,500	$ 2,789,100	$ 2,757,100	$ 11,185,400
Net income per share	$ .20	$ .23	$ .21	$ .21	$ .85

FORM 10-K

The Company will provide, without charge to each Shareholder, upon written request a copy of its Form 10-K as required to be filed with the Securities & Exchange Commission pursuant to rule 13a-1, under the Securities Exchange Act of 1934. Your written request should be directed to: Chief Financial Officer, Copart, Inc.

ANNUAL MEETING

The Annual meeting of Shareholders will be held at 5500 E. Second Street, Benicia, California 94510 at 9:00 a.m. December 9, 1997.

SCHEDULE II

COPART, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED JULY 31, 1997, 1996 AND 1995

Description and year	Balance at beginning of year	Charged to costs and expenses	Deductions: Applications to bad debt	Balance at end of year
Reserve for doubtful accounts:				
July 31, 1997	$ 99,000	$ 96,300	$(96,300)	$ 99,000
July 31, 1996	$ 99,000	--	--	$ 99,000
July 31, 1995	$ 80,000	$ 19,000	--	$ 99,000

EX-10.16
2
EXHIBIT 10.16

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AMENDED AND RESTATED

CREDIT AGREEMENT

AMONG

COPART, INC.

AND

WELLS FARGO BANK, NATIONAL ASSOCIATION,

U.S. BANK OF CALIFORNIA

AND

FLEET NATIONAL BANK

AND

WELLS FARGO BANK, NATIONAL ASSOCIATION,
AS AGENT

March 7, 1997

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AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDED AND RESTATED CREDIT AGREEMENT is entered into as of March __, 1997, by and among COPART, INC., a California corporation ("Borrower"), WELLS FARGO BANK, NATIONAL ASSOCIATION ("Wells Fargo"), U.S. BANK OF CALIFORNIA, a California state chartered bank, and FLEET NATIONAL BANK, and each of the other financial institutions, if any, listed on Schedule I hereto, as amended from time to time (collectively, including Wells Fargo in its capacity as a lender hereunder, "Lenders"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, as agent for the Lenders (in such capacity, "Agent").

RECITALS

Pursuant to that certain Credit Agreement among Borrower, Wells Fargo and U.S. Bank of California, and Wells Fargo Bank, National Association, as Agent, dated as of May 1, 1995 (the "Original Credit Agreement"), Wells Fargo and U.S. Bank of California agreed to make available to Borrower the Credits described therein. Borrower has now requested that the Lenders amend and restate the Original Credit Agreement so as to provide to Borrower the credit facilities described in this Agreement, and the Lenders and Agent have agreed to provide said credit facilities to Borrower on the terms and conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and promises of the parties contained herein, Agent, the Lenders and Borrower hereby amend and restate the Original Credit Agreement to read in its entirety as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1. DEFINED TERMS. As used in this Agreement, all terms defined above shall have the meanings set forth above, and the following terms shall have the meanings set forth after each (with all such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"ADVANCE" shall mean each advance made by the Lenders to Borrower pursuant to Section 2.1 or 2.2.

"AFFILIATE", as applied to any Person, shall mean any other Person directly or indirectly controlling, controlled by, or under common control with, that Person, PROVIDED that Consolidated Subsidiaries shall not constitute "Affiliates" of Borrower or of other Consolidated Subsidiaries, and Borrower shall not constitute an "Affiliate" of any Consolidated Subsidiary. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, shall mean (i) the possession, directly or indirectly, of the power to vote ten percent (10%) or more of the securities having voting power for the election of directors of such Person or otherwise to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise, or (ii) the ownership of a general partnership interest, limited partnership interest or membership interest representing ten percent (10%) or more of the outstanding equity interest of such Person.

"AGENT'S OFFICE" shall mean (i) initially, Agent's office designated as such in Schedule I hereto, and (ii) subsequently, such other office designated as such in writing by Agent to the Lenders and Borrower.

"AGREEMENT" shall mean this Credit Agreement as amended, modified or supplemented from time to time.

"APPLICABLE LENDING OFFICE" shall mean, with respect to each Lender, (i) initially, its office designated as such in Schedule I hereto, and (ii) subsequently, such other office or offices designated as such in writing by such Lender to Agent, PROVIDED that in all cases such office or offices shall be located within the United States of America or a territory thereof.

"ASSIGNEE" shall have the meaning set forth in Section 9.5(c).

"ASSIGNMENT" shall have the meaning set forth in Section 9.5(c).

"ASSIGNMENT AGREEMENT" shall have the meaning set forth in Section 9.5(c).

"AUTHORIZED REPRESENTATIVES" shall mean those officers and employees

designated by Borrower on the most current Notice of Authorized Representatives delivered by Borrower to Agent as being authorized to request any borrowing or make any interest rate selection on behalf of Borrower hereunder, or to give Agent any other notice hereunder which is designated by the terms hereof, as being made through one of Borrower's Authorized Representatives.

"BANKRUPTCY CODE" shall mean the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time.

"BORROWER DISCLOSURE LETTER" shall mean that certain letter dated as of the date hereof signed on behalf of Borrower and delivered to Agent on or prior to the Closing Date.

"BUSINESS DAY" shall mean (i) for all purposes other than as covered by clause (ii) below, any day other than a Saturday, Sunday or other day on which commercial banks are authorized or required to close in San Francisco, California, and (ii) with

respect to all notices, determinations, fundings and payments in connection with any LIBOR interest selection, any day that is a Business Day described in clause (i) above and that also is a day for trading by and between banks in U.S. dollar deposits in the London interbank eurocurrency market.

"CAPITAL LEASES", as applied to any Person, shall mean any lease of any property (whether real, personal or mixed) by that Person as lessee which, in conformity with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person.

"CHANGE OF LAW" shall mean the adoption of any Governmental Rule, any change in any Governmental Rule or the application or requirements thereof (whether such change occurs in accordance with the terms of such Governmental Rule as enacted, as a result of amendment or otherwise), any change in the interpretation or administration of any Governmental Rule by any Governmental Authority, or compliance by any Lender (or any entity controlling such Lender) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority.

"CLOSING DATE" shall mean the date of this Agreement.

"CONSOLIDATED SUBSIDIARY" shall mean any Subsidiary the financial results of which, under GAAP, are required to be reported on a consolidated basis with the financial results of Borrower.

"CREDITS" shall mean the Revolving Reducing Term Line of Credit and the Letter of Credit Facility.

"DALLAS OPERATION RESERVE" means all amounts held from time to time in the restricted reserve account (in the amount of $3,100,000 as of the date hereof) established in connection with environmental corrective actions in respect of the Dallas Operation, as described in the SEC Documents.

"DEFAULT" shall mean an event or condition, which, with the passage of time or giving of notice, or both, would constitute an Event of Default.

"EBITDA" shall mean net profit before tax plus interest expense (net of capitalized interest expense but including the interest component of rental payments under Capital Leases), depreciation expense and amortization expense.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended or recodified from time to time, including (unless the context otherwise requires) any rules or regulations promulgated thereunder.

"EVENT OF DEFAULT" shall have the meaning set forth in Section 7.1.

"FEDERAL FUNDS RATE" shall mean, for any day, the weighted average of the per annum rates on overnight Federal funds transactions with member banks of the Federal Reserve System arranged by Federal funds brokers as published by the Federal Reserve Bank of New York for such day (or, if such rate is not so published for any day, the average rate quoted to Agent on such day by three (3) Federal funds brokers of recognized standing selected by Agent).

"FINANCIAL INSTITUTION" shall mean any bank, savings bank, savings and loan association or insurance company, and any affiliate of any of U.S. Bancorp, Fleet National Bank or Wells Fargo & Co. that is controlled, either directly or indirectly, by such Person.

"FIXED RATE TERM" shall mean a period of one (1), two (2), three (3), or

six (6) months, as designated by Borrower, during which all or a portion of the Revolving Reducing Term Line of Credit bears interest determined in relation to LIBOR; PROVIDED, HOWEVER, that no Fixed Rate Term may extend beyond the Maturity Date.

"FUNDED DEBT" shall mean all Indebtedness of Borrower (including only Indebtedness that is reflected or required to be reflected as a liability on the consolidated balance sheet of Borrower in accordance with GAAP) that matures more than one year from the date of creation or matures one year from the date of creation but is renewable or extendible, at the option of the obligor, to a date more than one year from the date of creation or arises under a revolving credit or similar agreement which obligates the lender to extend credit during a period more than one year from the date as of which Funded Debt is being determined; PROVIDED, HOWEVER, that, regardless of whether they would otherwise constitute "Funded Debt", neither deferred rents nor the Dallas Operation Reserve nor Subordinated Debt shall constitute "Funded Debt" for purposes of the Loan Documents.

"GAAP" shall mean generally accepted accounting principles as in effect in the United States from time to time, consistently applied.

"GOVERNMENTAL AUTHORITY" shall mean any domestic or foreign national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Comptroller of the Currency, any central bank or any comparable authority.

"GOVERNMENTAL RULE" shall mean any law, rule, regulation, ordinance, order, code interpretation, judgment, decree, directive, guidelines, policy or similar form of decision of any Governmental Authority.

"GUARANTORS" shall mean each Subsidiary that either (i) has assets with a fair market value in excess of $100,000, or (ii) is significant to the operations of Borrower and the Subsidiaries, considered as a single enterprise.

"INDEBTEDNESS" shall mean (i) indebtedness or liability for borrowed money; (ii) obligations evidenced by bonds, debentures, notes or other similar instruments; (iii) obligations for the deferred purchase price of property or services (but excluding trade payables incurred in the ordinary course of business); (iv) obligations as lessee under Capital Leases or other leases in respect of which the lessee is treated as the owner of the leased property for tax purposes; (v) reimbursement obligations under letters of credit; and (vi) obligations, of the types described in the foregoing clauses (i) through (v), secured by Liens, whether or not such obligations have been assumed.

"INDEMNITEES" shall have the meaning set forth in Section 9.3.

"LETTER OF CREDIT DOCUMENTS" has the meaning given to it in SECTION 2.2.

"LETTER OF CREDIT EXPOSURE" means, at any time, the aggregate amount remaining to be drawn under all outstanding Letters of Credit; PROVIDED THAT the "Letter of Credit Exposure" shall not include amounts remaining to be drawn under Letters of Credit in respect of which credit support has been provided and currently exists as set forth in Section 2.2(a)(v).

"LETTER OF CREDIT FACILITY" means the facility for the issuance of Letters of Credit provided for under Section 2.2.

"LETTER OF CREDIT OBLIGATIONS" mean, collectively, all reimbursement and other obligations of Borrower in respect of Letters of Credit.

"LETTERS OF CREDIT" mean the standby and commercial letters of credit issued from time to time by Agent, for the account of Borrower, pursuant to SECTION 2.2, as the same may be drawn on, advanced, replaced or modified from time to time.

"LEVERAGE RATIO" shall mean the aggregate of (i) current liabilities and non-current liabilities, less (A) Subordinated Debt and (B) (1) the Dallas Operation Reserve and deferred rents; and (2) amounts held in such other restricted reserve accounts that Majority Lenders agree in writing shall be deducted from liabilities in determining the Leverage Ratio, DIVIDED BY (ii) Tangible Net Worth.

"LIBOR" shall mean, for each Fixed Rate Term, the rate per annum (rounded upward if necessary to the nearest whole 1/16 of 1%) and determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{BASE LIBOR}}{100\% - \text{LIBOR Reserve Percentage}}$$

As used herein, (i) "BASE LIBOR" shall mean the average of the rate per annum at which U.S. dollar deposits are offered to Agent in the London interbank eurocurrency market on the second Business Day prior to the commencement of a Fixed Rate Term at or about 11:00 A.M. (London time), for delivery on the first day of such Fixed Rate Term, for a term comparable to the number of days in such Fixed Rate Term and in an amount approximately equal to the principal amount to which such Fixed Rate Term shall apply, and (ii) "LIBOR RESERVE PERCENTAGE" shall mean the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Agent for expected changes in such reserve percentage during the applicable Fixed Rate Term.

"LIEN" shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance (intended as security), preference, priority or other security agreement or preferential arrangement (intended as security) of any kind or nature whatsoever, including, without limitation, any conditional sale or other title retention agreement, the interest of a lessor under a Capital Lease, any financing lease having substantially the same economic effect as any of the foregoing; PROVIDED, HOWEVER, that none of the following shall be deemed a "Lien" for purposes of the Loan Documents: (i) a right of set-off (other than a banker's lien or similar Lien), provided that no consensual Lien has been granted as security therefor; nor (ii) the interest of a consignor of inventory, under a consignment that is not a security interest, in (A) the goods consigned or (B) the proceeds thereof, PROVIDED that no consensual Lien has been granted in such goods or proceeds; nor (iii) a financing statement filed pursuant to Section 2326 or 9114 of the Uniform Commercial Code to reflect a consignment that is not a security interest, PROVIDED that no consensual Lien has been granted in the consigned goods or the proceeds thereof.

"LOAN AVAILABILITY" shall have the meaning set forth in Section 2.1(a).

"LOAN DOCUMENTS" shall mean this Agreement, the Notes, the Letter of Credit Documents and Subsidiary Guaranties and each other notice, document, contract or instrument at any time delivered to Agent pursuant to this Agreement, any Note, any Letter of Credit Document or any Subsidiary Guaranty.

"MAJORITY LENDERS" shall mean Lenders whose Proportionate Shares at any time equal one hundred percent (100%) of the Total Commitments.

"MATERIAL ADVERSE EFFECT" shall mean a material adverse

effect upon the financial condition, business or properties of Borrower and its Subsidiaries, considered as a single enterprise. The phrase "has a Material Adverse Effect", or "could have a Material Adverse Effect" or "will result in a Material Adverse Effect" or words substantially similar thereto shall in all cases be intended to mean "has resulted, or is reasonably likely to result, in a Material Adverse Effect", and the phrase "has no (or does not have a) Material Adverse Effect" or "will not result in a Material Adverse Effect" or words substantially similar thereto shall in all cases be intended to mean "does not or will not or is not reasonably likely to result in a Material Adverse Effect".

"MATURITY DATE" shall mean February 28, 2002.

"MAXIMUM PRINCIPAL AMOUNT" shall have the meaning set forth in Section 2.1(a).

"NET WORTH" shall mean total shareholders' equity.

"NOTES" shall mean the promissory notes executed by Borrower in favor of the Lenders to evidence Advances under the Revolving Reducing Term Line of Credit, substantially in the form of Exhibit A attached hereto.

"NOTICE OF AUTHORIZED REPRESENTATIVES" shall mean a notice delivered by Borrower to Agent which designates by name each of Borrower's Authorized Representatives and includes each of their respective specimen signatures, in the form of Exhibit B attached hereto.

"NOTICE OF BORROWING" shall have the meaning set forth in Section 2.3.

"NOTICE OF CONVERSION OR CONTINUATION" shall have the meaning set forth in Section 2.5(b).

"OBLIGATIONS" shall mean, from time to time, all indebtedness or other obligations of Borrower owing to Agent, any Lender or any Person entitled to indemnification pursuant to Section 9.3, or any of their respective successors, transferees or assigns, of every type and description, whether or not evidenced by any note, guaranty or other instrument, arising under or in connection with this Agreement, any Letter of Credit Document or any other Loan Document, whether or not for the payment of money, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired.

"PARTICIPANT" shall have the meaning set forth in Section 9.5(b).

"PERMITTED INVESTMENTS" shall mean:

(a) (i) Marketable direct obligations, maturing within one (1) year after the date of acquisition thereof, issued or

unconditionally guarantied by the United States of America or any agency thereof; (ii) provided in each case that such obligation, as of the date of acquisition thereof, is rated "investment grade" by Standard & Poor's Corporation or Moody's Investors Service, Inc. (or the equivalent thereof by another nationally recognized rating agency): (A) marketable direct obligations, maturing within one (1) year after the date of acquisition thereof, issued or unconditionally guarantied by any State of the United States or any political subdivision of such a State, or (B) commercial paper maturing within one year after the date of acquisition thereof; (iii) provided in each case that such obligation, as of the date of acquisition thereof, is an obligation of a Lender, or of a commercial or investment bank whose unsecured long-term debt obligations are rated at least A-1 by Standard & Poor's Corporation or A3 by Moody's Investors Service, Inc. (or the equivalent thereof by another nationally recognized rating agency): (A) certificates of deposit maturing no more than one (1) year from the date of investment therein, (B) deposit accounts, (C) banker's acceptances eligible for rediscount under the requirements of the Board of Governors of the Federal Reserve System, and (D) Investments in repurchase agreements involving securities or debt obligations of the types described in this paragraph (a); (iv) Investments in money market programs having total invested assets in excess of $1,000,000,000, PROVIDED that such Investment would be classified on the balance sheet of Borrower as a current asset in accordance with GAAP; and (v) Investments in money market preferred stocks or other equivalent Dutch-auction preferred stock of any corporation with a credit rating, at the time of acquisition thereof, of AA+ or aa1 or better by Standard & Poor's Corporation or Moody's Investors Service, Inc. (or the equivalent thereof by another nationally recognized rating agency);

(b) other Investments that, at the time of acquisition thereof, are permitted by Borrower's investment policy, as amended from time to time, PROVIDED that such investment policy (and any such amendment thereto) has been approved by Majority Lenders (such approval not to be unreasonably withheld):

(c) Investments in any fund that invests solely in Investments of the type permitted under the foregoing paragraphs (a) and (b) of this definition;

(d) Investments of Persons who become Subsidiaries in a transaction not prohibited by Section 6.2 which exist at the time such transaction is consummated (or are made pursuant to binding commitments which exist at such time) and which Investments (or commitments) were not made or entered into in anticipation of such transaction;

(e) Subject to the restrictions of Section 6.6, Investments in Borrower by any Subsidiary;

(f) (i) travel advances, employee relocation loans and other employee loans and advances in the ordinary course of

business, provided that the aggregate principal amount of all such loans outstanding at any time shall not exceed $1,000,000, (ii) loans to employees, officers or directors to finance the purchase of equity securities from Borrower under either (A) a plan approved by the board of directors of Borrower or (B) another arrangement approved by the board of directors of Borrower, or (iii) other loans to officers and employees, in each case, specifically approved by the board of directors of Borrower.

(g) (i) Investments received in connection with the bankruptcy or reorganization of customers or suppliers, and (ii) Investments consisting of debt obligations received in settlement of delinquent obligations of, or other disputes with, customers or suppliers arising in the ordinary course of business;

(h) deposit accounts (other than deposit accounts described in paragraph (a) of this definition) maintained in the ordinary course of business in amounts reasonably necessary for Borrower's or any Subsidiary's operating purposes; and

(i) Investments not otherwise permitted by Section 6.5, in an aggregate outstanding amount not in excess of $10,000,000 at any time.

"PERMITTED LIENS" shall mean: (i) Liens (other than any Lien imposed under ERISA or under any Governmental Rule relating to protection of the environment) for taxes, assessments or charges of any Governmental Authority that are either (A) not more than thirty (30) days delinquent, unless they are being contested in good faith by appropriate proceedings and for which appropriate reserves have been established, to the extent required by GAAP or (B) in respect of amounts not in excess of $100,000 in any single instance; (ii) Liens (other than any Lien imposed under ERISA) incurred or deposits made in the ordinary course of business (including, without limitation, surety bonds and appeal bonds) in connection with workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, leases, contracts (other than for the repayment of Indebtedness) or statutory obligations, and excluding in any event consensual Liens securing either (A) any right of set-off (except as permitted under clause (v) below), or (B) any right to payment under a consignment of goods; (iii) Liens imposed by law, such as mechanics' liens and other similar liens arising in the ordinary course of business, which secure payment of obligations not more than thirty (30) days past due, unless such obligations are being contested in good faith by appropriate proceedings and appropriate reserves have been established, to the extent required by GAAP; (iv) Liens arising from judgments, decrees, attachments or levies not constituting an Event of Default under Section 7.1(f); (v) bankers' liens or other Liens that constitute rights of set-off of a customary nature with respect to amounts on deposit with Financial Institutions, whether arising by operation of law or by contract, in connection with non-lending arrangements entered into with

such institutions in the ordinary course of business; and (vi) other Liens permitted under Section 6.7.

"PERSON" shall mean any natural person, employee, corporation, limited partnership, general partnership, joint stock company, limited liability company, joint venture, association, company, trust, bank, trust company, land trust, business trust or other organization, whether or not a legal entity, or any other non-governmental entity, or any Governmental Authority.

"PLAN" shall mean any defined employee pension benefit plan as defined in ERISA.

"PRIME RATE" shall mean at any time the rate of interest most recently announced within Agent at its principal office in San Francisco as its Prime Rate, with the understanding that the Prime Rate is one of Agent's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto (and not necessarily the rate of interest Agent charges to any borrower or class of borrowers), and is evidenced by the recording thereof in such internal publication or publications as Agent may designate.

"PROPORTIONATE SHARE" shall mean, for each Lender, the dollar amount determined at any time by multiplying the percentage set forth opposite such Lender's name in Schedule I hereto by the amount of the Total Commitments at such time, and shall include, where the context so requires, the amount of all outstanding credit from such Lender to Borrower pursuant to this Agreement and the obligation of such Lender to make Advances or otherwise extend credit up to such amount on the terms and conditions set forth herein.

"REGISTER" shall have the meaning set forth in Section 9.5(d).

"RESPONSIBLE OFFICERS" shall mean each of the Chief Executive Officer, the Chief Financial Officer and the President of Borrower.

"REVOLVING REDUCING TERM LINE OF CREDIT" shall mean a credit facility available to Borrower in the initial maximum principal amount of $50,000,000, as defined more fully in Section 2.1.

"SEC DOCUMENTS" shall mean the Annual Report of Borrower on Form 10-K for the fiscal year ended July 31, 1996, the Quarterly Reports of Borrower on Form 10-Q for the quarters ended October 31, 1996, the Proxy Statement of Borrower dated November 8, 1996, in connection with the Annual Meeting of Shareholders held on December 5, 1996, and all other reports and documents filed with the Securities and Exchange Commission and deemed incorporated by reference therein.

"SIGNIFICANT GUARANTOR" shall mean any Subsidiary that would

be a "significant subsidiary" under either clause (2) or clause (3) of the definition of "significant subsidiary" in Rule 1-02 of Regulation S-X under the Securities Act of 1933 (as amended) and the Securities Exchange Act of 1934 (as amended), as such Regulation is in effect on the date hereof, assuming that Borrower is the "registrant" referred to in such definition; PROVIDED that such definition shall be applied for purposes hereof as if all references therein to "10 percent" were references to "5 percent".

"SUBORDINATED DEBT" shall mean Indebtedness of Borrower or any Subsidiary that has been subordinated to the Obligations, in writing, on terms and conditions reasonably satisfactory to the Majority Lenders.

"SUBSIDIARY" shall mean any corporation, association, limited liability company or other business entity of which Borrower owns directly or indirectly more than fifty percent (50%) of the voting securities thereof or in which Borrower otherwise owns a controlling interest.

"SUBSIDIARY GUARANTY" shall mean each of the guaranties, in substantially the form of Exhibit F attached hereto, required to be entered into by each Guarantor in accordance with this Agreement.

"TANGIBLE NET WORTH" shall mean the aggregate of Net Worth plus Subordinated Debt less any intangible assets.

"TAXES" shall have the meaning set forth in Section 2.13(a).

"TOTAL COMMITMENTS" shall mean, at any time, the then aggregate amount of the Proportionate Shares of the Lenders under this Agreement.

SECTION 1.2. ACCOUNTING TERMS. Any accounting terms used in this Agreement which are not specifically defined shall have the meanings customarily given them in accordance with GAAP. Unless otherwise expressly provided, all calculations of financial ratios or other amounts with respect to Borrower shall be determined on a consolidated basis in accordance with GAAP. Unless otherwise expressly provided, all references to the "principal amount" or the "amount" of any Indebtedness (expressly or by implication) shall mean the principal amount of such Indebtedness, determined in accordance with GAAP.

SECTION 1.3. LENDER DISCRETION. In each case where the consent or approval of Agent, all Lenders and/or Majority Lenders is required, or their non-obligatory action is requested by Borrower, then, unless otherwise specifically indicated, such consent, approval or action shall be in the sole and absolute discretion of Agent and, as applicable, each Lender, exercised in good faith.

SECTION 1.4. CERTAIN INTERPRETATIONS. Unless the context

otherwise clearly requires: any time the word "or" is used herein, it has the inclusive meaning represented by the phrase "and/or"; "includes" and "including" shall not be limiting; and "all" shall include "any" and "any" shall include "all." The words "hereof", "herein", "hereby", "hereunder", and similar terms refer to this Agreement as a whole and not to any particular provision of this Agreement. Article, section, subsection, paragraph, subparagraph, clause, exhibit and schedule references are to this Agreement unless otherwise specified. Any reference in this Agreement to this Agreement or to any other Loan Document includes any and all amendments, modifications, supplements, renewals or restatements thereto or thereof, as applicable.

SECTION 1.5. HEADINGS. Headings in this Agreement and each of the other Loan Documents are for convenience of reference only and are not part of the substance hereof or thereof.

ARTICLE II
THE CREDITS

SECTION 2.1. REVOLVING REDUCING TERM LINE OF CREDIT.

(a) REVOLVING REDUCING TERM LINE OF CREDIT. Subject to the terms and conditions of this Agreement, each Lender hereby severally agrees, on a pro rata basis, to make Advances to Borrower under the Revolving Reducing Term Line of Credit from time to time up to and including the Maturity Date, not to exceed at any time (x) during any period set forth below the applicable maximum amount ("MAXIMUM PRINCIPAL AMOUNT") set forth for such period (all dates inclusive), LESS (y) the Letter of Credit Exposure at such time (such difference at any time, the "LOAN AVAILABILITY"):

Through February 29, 2000:	$50,000,000

March 1, 2000 through February 28, 2001:	$40,000,000
March 1, 2001 through February 27, 2002:	$30,000,000
February 28, 2002:	$0

The proceeds of Advances under the Revolving Reducing Term Line of Credit shall be used (i) to finance all or a portion of the costs of Borrower's acquisition, either directly or through one or more Subsidiaries, of (A) another Person or Persons engaged in businesses that, in the reasonable business judgment of the Borrower's Board of Directors, lead to efficiencies or synergies with the business of Borrower or any of its Subsidiaries, (B) all or substantially all of the assets of any such Person, or (C) fixed assets; or (ii) for the working capital and other general corporate purposes of Borrower and the Subsidiaries. Borrower's obligation to repay Advances under the Revolving Reducing Term Line of Credit shall be evidenced by the Notes, all terms of which are incorporated herein by this reference.

(b) BORROWING AND REPAYMENT. Borrower may from time to time during the term of the Revolving Reducing Term Line of Credit borrow, partially or wholly repay its outstanding borrowings, and reborrow, subject to all the limitations, terms and conditions contained herein; PROVIDED, HOWEVER, that the sum of the total outstanding borrowings under the Revolving Reducing Term Line of Credit plus the Letter of Credit Exposure shall not at any time exceed the applicable Maximum Principal Amount. If at any time the principal amount of such total outstanding borrowings, for any reason whatsoever, shall exceed the difference between the applicable Maximum Principal Amount and the Letter of Credit Exposure, the amount of such excess shall be immediately due and payable.

SECTION 2.2. LETTERS OF CREDIT.

(a) LETTERS OF CREDIT.

(i) Subject to the terms and conditions set forth in this Agreement, at any time and from time to time prior to the Maturity Date, Agent shall issue such Letters of Credit for the account of Borrower as Borrower may request, PROVIDED THAT (A) upon issuance of any such Letter of Credit: (1) the sum of the aggregate outstanding principal amount of all Advances plus the Letter of Credit Exposure shall not exceed the applicable Maximum Principal Amount; (2) the Letter of Credit Exposure shall not exceed $2,500,000; and (3) unless the Lenders otherwise unanimously consent in writing and subject to paragraph (v) of this Section 2.2(a), the term of any Letter of Credit shall not extend beyond the earlier of (q) the first anniversary of the issuance thereof and (r) the Maturity Date. Unless the context otherwise requires: (x) all references herein to "the outstanding principal balance of the Advances" or similar references shall be deemed to include, for all purposes, the Letter of Credit Exposure; and (y) each reference herein to an "Advance" or a "borrowing" shall include both the issuance of a Letter of Credit and (except with respect to conditions precedent to the making of Advances) the payment of any draw thereunder by Agent, as appropriate.

(ii) Borrower, through one of its Authorized Representatives, shall deliver to Agent a duly executed request for Letter of Credit not later than 9:00 A.M. (San Francisco time), at least one (1) Business Day prior to the date upon which the requested Letter of Credit is to be issued. Borrower shall further execute and deliver to Agent such additional instruments and documents as Agent may reasonably require, in conformity with

the then standard practices of Agent's letter of credit department relating to letters of credit comparable to the requested Letter of Credit, in connection with the issuance of such Letter of Credit (collectively, the "LETTER OF CREDIT DOCUMENTS"); provided that if any of the terms of the Letter of Credit Documents are inconsistent with the terms of this Agreement then the terms of this Agreement shall control unless Borrower and the Lenders expressly agree otherwise.

(iii) Agent shall, if the requested form of such Letter of Credit and the identity and location of the proposed beneficiary thereof are acceptable to Agent consistent with Agent's established policies generally applicable to the issuance of letters of credit and

applicable law, and subject to the conditions set forth in SECTION 4.2 (and, if applicable, SECTION 4.1), issue the Letter of Credit on or before 2:00 P.M. (San Francisco time), on or before the day one (1) Business Day following receipt of the documents last due pursuant to SUBSECTION (ii) above.

(iv) If and to the extent that any amounts are drawn under any Letter of Credit, then, unless prior to the date such draw is to be funded (A) Borrower notifies Agent that Borrower intends to reimburse Agent for such draw and on or before the date such draw is to be funded AND, on or before the date such draw is funded, Borrower does reimburse Agent in full therefor, in immediately available funds; or (B) Borrower authorizes Agent to reimburse itself on the date of such draw by debiting one or more accounts of Borrower maintained with Agent AND, on the date of such draw, sufficient funds are available in such designated account(s) to reimburse Agent in full the amount so drawn: the amounts so drawn under such Letter of Credit shall be considered an Advance for all purposes hereunder as of the date of such draw, accruing interest, initially, at a rate determined in accordance with Section 2.4(a)(i), the proceeds of which were applied to reimburse Agent for the payment made by it under the Letter of Credit.

(v) (A) Upon the occurrence of the Maturity Date (or earlier acceleration of the Advances or termination of the Lenders' commitments hereunder) prior to the expiration of all Letters of Credit, Borrower shall promptly provide to Agent a standby letter of credit in favor of Agent, issued by a bank reasonably satisfactory to Majority Lenders and in form and substance reasonably satisfactory to Agent, in a face amount equal to the Letter of

Credit Exposure on that date, or shall immediately make other provisions satisfactory to Majority Lenders for the full collateralization, by cash or cash equivalent, of all such outstanding Letters of Credit.

(B) If, as of the date of any reduction in the Revolving Reducing Term Line of Credit, the Letter of Credit Exposure exceeds the difference between the Maximum Principal Amount and the aggregate outstanding principal balance of the Advances as of such date, Borrower shall promptly provide to Agent a standby letter of credit in favor of Agent, issued by a bank reasonably satisfactory to Majority Lenders and in form and substance reasonably satisfactory to Majority Lenders, in a face amount equal to the amount of such excess, or shall immediately make other provisions reasonably satisfactory to Majority Lenders for the full collateralization, by cash or cash equivalent, of the amount of such excess.

(C) Upon the failure of Borrower to comply with the requirements of either of the foregoing paragraphs, such portion of the Letter of Credit Exposure as to which Borrower has failed to comply shall be deemed to be immediately due and payable.

(vi) The issuance of any supplement, modification, amendment, renewal or extension to or of any Letter of Credit shall be treated in all respects the same as the issuance of a new Letter of Credit, provided that the fees provided for in the first sentence of Section 2.4(d) shall not be affected by any amendment that does not change the amount available to be drawn under, or the expiration date of, the affected Letter of Credit.

(vii) Borrower assumes all risks as to the acts or omissions of any beneficiary or transferee of any Letter of Credit with respect to its use of such Letter of Credit. Neither Agent nor any Lender, nor any of its or their respective officers or directors, shall be liable or responsible for, nor shall Borrower's obligations hereunder in respect of any Letter of Credit be impaired as a result of:

(A) any lack of validity or enforceability of any Letter of Credit or any Letter of Credit Document;

(B) the use that may be made of any Letter of Credit or any acts or omissions of any
beneficiary or transferee in connection therewith;

(C) any statement or any other document presented

under a Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(D) the existence of any claim, set-off, defense or other right that Borrower may have at any time against any beneficiary or any transferee of a Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), any Lender or any other Person, whether in connection with the transactions contemplated by the Letter of Credit Documents or any unrelated transaction;

(E) payment by Agent against presentation of documents that do not comply with the terms of a Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit; or

(F) any other circumstance whatsoever in making or failing to make payment under any Letter of Credit.

In furtherance and not in limitation of the foregoing, Agent may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary. Notwithstanding the foregoing, Borrower may have a claim against Agent, and Agent may be liable to Borrower, to the extent of any direct (as opposed to consequential or exemplary) damages suffered by Borrower caused by Agent's wilful misconduct or gross negligence.

SECTION 2.3. NOTICE OF BORROWING. Borrower, through one of its Authorized Representatives, shall request each Advance under the Revolving Reducing Term Line of Credit by giving Agent irrevocable written notice or telephonic notice (confirmed promptly in writing), in the form of Exhibit C attached hereto (each, a "Notice of Borrowing"), which specifies, among other things:

(i) the principal amount of the requested Advance, and a short description of the proposed use of the proceeds thereof, and, if the proceeds of such Advance are to be used to finance all or any part of an acquisition: (A) a description of the acquisition to be financed with the proceeds thereof, (B) copies of the related documentation (to the extent available, but including at least the relevant purchase or acquisition agreement), and (C) if the aggregate Advances being used to finance all or any portion of such acquisition exceed (i) $20,000,000, if such acquisition involves a business substantially similar to Borrower's business as of the date of this Agreement, or (ii) $10,000,000, if such acquisition does not involve a business substantially similar to

Borrower's business as of the date of this Agreement (unless Majority Lenders have waived delivery thereof, based on such other information as may have been provided to the Lenders with respect to such acquisition): calculations, based on pro forma financial statements of Borrower as of the end of the most recently completed fiscal quarter of Borrower giving pro forma effect to such acquisition as of such date confirming on a pro forma basis Borrower's compliance with the financial covenants of Section 5.6 as of the end of such most recently completed fiscal quarter notwithstanding such acquisition (provided that the financial covenants otherwise required to be tested as of the end of each fiscal year shall be calculated on the basis of the twelve-month period ended as of the last day of such most recently completed fiscal quarter);

(ii) the proposed date of borrowing, which shall be a Business Day; and

(iii) the interest rate option applicable to such borrowing (which, for a LIBOR interest selection, shall be subject to the minimum dollar requirements set forth in Section 2.4(a)); and

(iv) if the amounts disbursed or advanced will bear interest determined in relation to LIBOR, the Fixed Rate Term applicable thereto.

Each such Notice of Borrowing must be received by Agent not later than 10:00 a.m. (San Francisco time) on the date of borrowing if interest will be determined in relation to the Prime Rate, and (ii) at least three (3) Business

Days prior to the date of borrowing if interest will be determined in relation to LIBOR. Agent shall promptly notify each Lender of the contents of each Notice of Borrowing and of the amount of the Advance to be made by such Lender. Each Advance (other than an Advance made in respect of a draw under a Letter of Credit) shall be in the minimum amount of $500,000 and in an integral multiple of $10,000.

SECTION 2.4. INTEREST/FEES

(a) INTEREST. Each LIBOR interest selection must be for a minimum amount of $500,000 and in an integral multiple of $10,000. The outstanding principal balances of the Revolving Reducing Term Line of Credit shall bear interest in accordance with the following interest rate options, as designated by Borrower:

(i) at a fluctuating rate per annum equal to the Prime Rate in effect from time to time; or

(ii) at a fixed rate per annum determined by Agent to be that number of basis points above LIBOR in effect on the first day of a Fixed Rate Term applicable in accordance with the following:

(A) If, as of the last day of Borrower's most recent fiscal quarter, Borrower's ratio of Funded Debt to EBITDA for the period of four fiscal quarters ending thereon was less than 0.75 to 1.00: 50 basis points.

(B) If, as of the last day of Borrower's most recent fiscal quarter, Borrower's ratio of Funded Debt to EBITDA for the period of four fiscal quarters ending thereon was less than or equal to 1.50 to 1.00 but not less than .75 to 1.00: 75 basis points.

(C) If, as of the last day of Borrower's most recent fiscal quarter, Borrower's ratio of Funded Debt to EBITDA for the period of four fiscal quarters ending thereon was less than or equal to 2.00 to 1.00 but not less than 1.51 to 1.00: 100 basis points.

(D) If, as of the last day Borrower's most recent fiscal quarter, Borrower's ratio of Funded Debt to EBITDA for the period of four fiscal quarters ending thereon was greater than 2.00 to 1.00: 125 basis points.

When interest is determined in relation to the Prime Rate, each change in the rate of interest shall become effective on the date each Prime Rate change is announced within Agent. Each change in the applicable spread over LIBOR shall take effect as of the date on which Borrower delivers to Agent pursuant to Section 5.3(c) its calculations evidencing satisfaction, as of the last day of the immediately preceding fiscal quarter, of the ratios required to be met in order for such spread to apply. If Borrower fails to deliver such calculations within ten (10) days after the date that they are required to be delivered under Section 5.3(c),

then, commencing on the day after such ten-day period and continuing until Borrower has delivered to Agent such calculations evidencing that a different spread should apply (but without prejudice to any other rights or remedies of Agent or the Lenders in respect of Borrower's failure to deliver such calculations when due under Section 5.3(c)), interest shall accrue on that portion of the outstanding principal balance of the Revolving Reducing Term Line of Credit subject to Fixed Rate Terms at a per annum rate equal to 125 basis points over the LIBOR applicable to each Fixed Rate Term.

(b) COMMITMENT FEE. On the Closing Date, Borrower shall pay to Agent, for the ratable benefit of the Lenders, a non-refundable commitment fee for the Revolving Reducing Term Line of Credit of $25,000.

(c) UNUSED REVOLVING LOAN COMMITMENT FEE. From and after the first anniversary of the date of this Agreement and until the Maturity Date (or earlier acceleration of the Loans or termination of the Lenders' commitments hereunder), Borrower shall pay to Agent, for the ratable benefit of the Lenders, a fee accruing at the rate of 0.125% per year upon an amount equal to (i) the average daily amount of the Maximum Principal Amount MINUS (ii) the average daily principal balance of all Advances, including the Letter of Credit Exposure (said difference being the "UNUSED AMOUNT"), as determined for each Fiscal Quarter (the aforesaid fee, the "UNUSED REVOLVING LOAN COMMITMENT FEE"). The Unused Revolving Loan Commitment Fee shall be payable, in the manner provided in Section 2.6, in arrears on the first Business Day in each Fiscal Quarter, beginning with the first such date to occur after the first anniversary of the date hereof, and on the Maturity Date (or earlier acceleration of the Loans or

termination of the Lenders' commitments hereunder), with the Unused Revolving Loan Commitment Fee to be prorated to the date of such payment in each case.

(d) LETTER OF CREDIT FEES. As additional consideration for the issuance, extension or renewal of Letters of Credit pursuant to SECTION 2.2, Borrower agrees to pay to Agent, for the ratable benefit of the Lenders, a fee, calculated at the rate of one and one-quarter percent (1.25%) per annum for the term thereof, on the face amount of each standby Letter of Credit and one-eighth percent (.125%) on the face amount of each Commercial Letter of Credit (but in no event less than $500 in respect of a standby Letter of Credit and $200 in respect of a commercial Letter of Credit), payable upon issuance (and, in the event of any extension or renewal of a Letter of Credit, upon such extension or renewal, for the term thereof). In addition, Borrower shall pay Agent all transfer, amendment and similar fees normally charged by Agent in connection with standby or commercial letters of credit, as applicable.

(e) COMPUTATION AND PAYMENT. All interest and fees shall be computed on the basis of a 360-day year, actual days elapsed, with the exception of Prime Rate interest calculations which

shall be computed on the basis of a 365/366-day year, actual days elapsed. Interest shall be payable on the last day of each month.

SECTION 2.5. CONVERSION OF INTEREST OPTIONS.

(a) ELECTION. Subject to (i) the minimum dollar requirements set forth in Section 2.4(a), and (ii) the requirements that (A) as of the first day of any Fixed Rate Term requested by Borrower, there shall not have occurred and be continuing any Event of Default, and (B) as of the first day of any Fixed Rate Term in excess of one (1) month, there shall not have occurred and be continuing any Default: (1) at any time any portion of the Revolving Reducing Term Line of Credit bears interest determined in relation to the Prime Rate, Borrower may convert all or any portion thereof so that it bears interest determined in relation to LIBOR for a Fixed Rate Term designated by Borrower, and (2) at any time any portion of the Revolving Reducing Term Line of Credit bears interest determined in relation to LIBOR, Borrower may convert all or a portion thereof at the end of the Fixed Rate Term applicable thereto so that it bears interest determined in relation to the Prime Rate or in relation to LIBOR for a new Fixed Rate Term designated by Borrower. If Borrower has not delivered the required interest rate conversion or continuation election at least three (3) Business Days prior to the last day of any Fixed Rate Term AND, as of the last day of such Fixed Rate Term, no Event of Default has occurred and is continuing, Borrower shall be deemed to have made an election to have the amounts subject thereto earn interest at a rate determined in relation to LIBOR for a new Fixed Rate Term (x) of one (1) month if, as of the last day of such Fixed Rate Term, there shall have occurred and be continuing a Default, or (y) in any other case, of the same duration as such expiring Fixed Rate Term. As of the last day of any Fixed Rate Term with respect to which Borrower has not delivered a notice making a Prime Rate selection for the amounts subject thereto, Borrower shall be deemed to have represented and warranted to Agent and the Lenders that no Event of Default has occurred and is continuing. As of the last day of any Fixed Rate Term of more than one (1) month with respect to which Borrower has not delivered a notice either making a Prime Rate selection for the amounts subject thereto or selecting a new Fixed Rate Term of one (1) month therefor, Borrower shall be deemed to have represented and warranted to Agent and the Lenders that no Default has occurred and is continuing.

(b) NOTICE TO AGENT. Borrower, through one of its Authorized Representatives, shall request each interest rate conversion or continuation by giving Agent irrevocable written notice or telephonic notice (confirmed promptly in writing), in the form of Exhibit D attached hereto (a "Notice of Conversion or Continuation"), which specifies, among other things:

(i) the principal amount which is the subject of such conversion or continuation;

(ii) the proposed date of such conversion or continuation, which shall be a Business Day; and

(iii) if such Notice pertains to a LIBOR interest selection, the length of the applicable Fixed Rate Term.

Any such Notice of Conversion or Continuation must be received by Agent not later than 10:00 a.m. (San Francisco time), at least three (3) Business Days prior to (x) the last day of any then-existing Fixed Rate Term to be affected

thereby, or (y) the effective date of any LIBOR interest selection made therein, as applicable. Agent shall promptly notify each Lender of the contents of each such Notice of Conversion or Continuation, or if timely notice is not received from Borrower prior to the last day of any Fixed Rate Term of the automatic conversion of the amounts subject thereto to the Prime Rate interest option.

SECTION 2.6. OTHER PAYMENT TERMS.

(a) AUTOMATIC DEBIT. Agent shall, and Borrower hereby authorizes Agent to, debit a deposit account of Borrower with Agent, specifically identified by Borrower to Agent for such purposes (but subject to change by mutual agreement of Borrower and Agent, PROVIDED that at all times there shall be at least one such deposit account so identified), for all payments of interest and fees as they become due on any of the Credits. Should, for any reason whatsoever, the funds in any such deposit account be insufficient to pay all interest and/or fees when due, Borrower shall, immediately upon demand, remit to Agent the full amount of any such deficiency.

(b) PLACE AND MANNER. Borrower shall make all payments due to each Lender under the Loan Documents by payment to Agent at Agent's Office, for the account of such Lender, in lawful money of the United States and in same day or immediately available funds not later than 12:00 noon (San Francisco time) on the date due. Agent shall promptly disburse to each Lender at such Lender's Applicable Lending Office each such payment received by Agent for such Lender.

(c) DATE. Whenever any payment due hereunder shall fall due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall be included in the computation of interest or fees, as the case may be.

(d) DEFAULT INTEREST. From and after the Maturity Date, or such earlier date as all principal owing under the Revolving Reducing Term Line of Credit becomes due and payable, by acceleration or otherwise, the outstanding principal balance thereof shall bear interest until paid in full at an increased rate per annum (computed in accordance with Section 2.4(e)) equal to two percent (2%) above the rate of interest from time to time

applicable thereto.

(e) APPLICATION OF PAYMENTS. All payments under the Loan Documents (including prepayments) shall be applied first to unpaid fees, costs and expenses then due and payable under this Agreement and the other Loan Documents, second to accrued interest then due and payable under the Loan Documents, and finally to reduce the principal amount of outstanding Advances. If no Event of Default has occurred and is continuing, Agent shall, subject to the preceding sentence, apply all payments to be applied to Borrower's obligations as directed by Borrower. If an Event of Default has occurred and is continuing or if Borrower fails to direct application, Agent shall apply such payments as determined by it in its discretion.

(f) FAILURE TO PAY AGENT. Unless Agent shall have received notice from Borrower at least one (1) Business Day prior to the date on which any payment is due to the Lenders hereunder that Borrower will not make such payment in full, Agent may assume that Borrower has made such payment in full to Agent on such date and Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent Borrower shall not have made such payment in full to Agent, such Lender shall repay to Agent forthwith on demand such amount distributed to such Lender, together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to Agent, at the Federal Funds Rate. A notice of Agent submitted to any Lender with respect to any amounts owing by such Lender under this Section 2.6(f) shall be presumptive evidence of such amounts.

SECTION 2.7. PREPAYMENT. Borrower may, through one of its Authorized Representatives and upon (a) delivery of written notice to Agent received no later than 10:00 a.m. on any Business Day, if interest is determined in relation to the Prime Rate, and (b) at least three (3) Business Days' prior written notice to Agent if interest is determined in relation to LIBOR, prepay the outstanding amount of the Advances in whole or in part, without premium or penalty, except as required by Section 2.14. Partial prepayments of any portion of the Revolving Reducing Term Line of Credit which bears interest determined in relation to the Prime Rate shall be in the minimum amount of $100,000 and in integral multiples of $10,000, and partial prepayments of any portion of the Reducing Term Line of Credit which bears interest determined in relation to LIBOR shall be in the minimum amount of $500,000 and in integral multiples of $10,000.

SECTION 2.8. FUNDING.

(a) LENDER FUNDING AND DISBURSEMENT. Each Lender shall, before 11:00 a.m.

(San Francisco time) on the date of each borrowing (including the date of any draw under a Letter of Credit) make available to Agent at Agent's Office, in same day or immediately available funds, such Lender's Proportionate Share

thereof. After Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article IV, Agent will promptly disburse such funds in same day or immediately available funds to Borrower. Unless otherwise directed by Borrower in writing, Agent shall disburse the proceeds of each borrowing to Borrower by deposit to any demand deposit account maintained by Borrower with Agent.

(b) LENDER FAILURE TO FUND. Unless Agent shall have received notice from a Lender on or prior to the date of any borrowing (including any draw under a Letter of Credit) that such Lender will not make available to Agent such Lender's Proportionate Share thereof, Agent may assume that such Lender has made such portion available to Agent on the date of such borrowing in accordance with Section 2.8(a), and Agent may, in reliance upon such assumption, make available to Borrower (or otherwise disburse) on such date a corresponding amount. If any Lender does not make the amount of its Proportionate Share of any borrowing available to Agent on the date of such borrowing, such Lender shall pay to Agent, on demand, interest which shall accrue on such amount until made available to Agent at rates equal to (i) the daily Federal Funds Rate during the period from the date of such borrowing through the third Business Day thereafter, and (ii) thereafter, the Prime Rate in effect from time to time. A notice of Agent submitted to any Lender with respect to any amounts owing under this Section 2.8(b) shall be presumptive evidence of such amounts. If any Lender's Proportionate Share of any borrowing is not in fact made available to Agent by such Lender within three (3) Business Days after the date of such borrowing, Borrower shall pay to Agent, on demand, an amount equal to such Proportionate Share together with interest thereon, for each day from the date such amount was made available to Borrower until the date such amount is repaid to Agent, at the rate of interest then applicable thereto.

(c) LENDERS' OBLIGATIONS SEVERAL. The obligation of each Lender hereunder is several. The failure of any Lender to make available its Proportionate Share of any borrowing shall not relieve any other Lender of its obligation hereunder to do so on the date requested, but no Lender shall be responsible for the failure of any other Lender to make available the Proportionate Share to be funded by such other Lender.

SECTION 2.9. PRO RATA TREATMENT.

(a) BORROWINGS. Except as otherwise provided herein, (i) each extension of credit under the Revolving Reducing Term Line of Credit, including in respect of any draw under a Letter of Credit, shall be made or shared among the Lenders pro rata according to their respective Proportionate Shares, and (ii) each payment of principal of and interest or fees on a Credit (other than administrative fees in respect of Letters of Credit) shall be made or shared among the Lenders pro rata according to the respective unpaid principal amounts of the Advances held by such Lenders.

(b) SHARING OF PAYMENTS, ETC. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of setoff or otherwise) on account of a Credit in excess of its ratable share of payments on account of such Credit obtained by all Lenders entitled to such payments, such Lender shall forthwith purchase from the other Lenders sufficient participations in such Credit as shall be necessary to increase the purchasing Lender's interest in the Credit to such amount as may be necessary to render the excess payment received an amount equal to such Lender's ratable share of payments, as so increased; PROVIDED, HOWEVER, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase shall be rescinded and each other Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such other Lender's ratable share (according to the proportion of (i) the amount of such other Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.9(b) may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff) with respect to such participation as fully as if such Lender were the direct creditor of Borrower in the amount of such participation.

SECTION 2.10. GUARANTIES.

(a) GUARANTIES. The Obligations shall be jointly and severally guaranteed by Guarantors, as evidenced by and subject to the terms of the Subsidiary

Guaranties.

(b) CERTAIN ACKNOWLEDGMENTS BY BORROWER. Borrower recognizes and acknowledges the Credits made available hereunder are being established and will be maintained in the manner provided herein and in the other Loan Documents at the express request of, and to accommodate the administrative and operational requirements of, Borrower and Guarantors. Specifically, the Credits might have been established to provide for direct borrowings by Borrower and by each Guarantor, subject to individual borrowing limits consistent with the Lenders' prudent lending practices, based on each such Person's borrowing capacity, with additional credit needs of such Person in excess of such borrowing limit being accommodated by loans made to such Person by Borrower or other Guarantors having excess borrowing capacity. For administrative and operational reasons imposed by Borrower as aforesaid, however, the Credits are being established and will be maintained as described above, but with the intention, as confirmed in Section 5.8 (but without limiting in any manner the obligations of Borrower to repay any and all Advances in accordance with the terms hereof and of the Notes), that Borrower and Guarantors ultimately share, among themselves, repayment obligations under the Credits to the same extent as if

such borrowings had been made under the alternative, individualized arrangement described above. In addition, it is further recognized and acknowledged that Borrower, and each Guarantor, will directly and indirectly benefit from the expansion of Borrower's and Guarantors' collective business activities, as facilitated by the Credits.

SECTION 2.11. CHANGE OF CIRCUMSTANCES.

(a) INABILITY TO DETERMINE RATE. If Agent at any time shall reasonably determine that adequate and reasonable means do not exist for ascertaining LIBOR, or the Majority Lenders shall reasonably determine at any time that LIBOR does not accurately reflect the cost to the Lenders of making or maintaining LIBOR interest rates hereunder, then Agent shall give telephonic notice (promptly confirmed in writing) to Borrower and each Lender of such determination. If such notice is given and until such notice has been withdrawn in writing by Agent, then no LIBOR interest option may be selected by Borrower and any portion of any Credit which bears interest determined in relation to LIBOR, subsequent to the end of the Fixed Rate Term applicable thereto, shall bear interest determined in relation to the Prime Rate pursuant to the terms and conditions of this Agreement. Agent shall review the circumstances affecting the London interbank market from time to time and withdraw such notice at such time as it shall reasonably determine that the circumstances giving rise to said notice no longer exist.

(b) ILLEGALITY: TERMINATION OF COMMITMENT. Notwithstanding any other provisions herein, if any Change of Law shall make it unlawful for any Lender (i) to make a LIBOR interest rate available, or (ii) to maintain LIBOR interest rates hereunder, then, in the former event, any obligation of the Lenders hereunder to make available such unlawful LIBOR interest rate shall forthwith be canceled, and in the latter event, any such unlawful LIBOR interest rate then outstanding shall at the option of Agent be converted so that interest is determined in relation to the Prime Rate pursuant to the terms of this Agreement; PROVIDED, HOWEVER, if any such Change in Law shall permit a LIBOR interest rate until the expiration of the Fixed Rate Term relating thereto, then such permitted LIBOR interest rate shall continue as such until the end of such Fixed Rate Term. In the event any outstanding principal amount to which such LIBOR interest rate is converted to a lower rate in accordance with the foregoing terms and provisions, Borrower shall pay to each Lender, within thirty (30) days following demand accompanied by a certificate of such Lender describing the basis therefor and the calculation thereof, such amount or amounts as may be necessary to compensate such Lender for any loss in connection therewith.

(c) CHARGES: ILLEGALITY. Upon the occurrence of any event described in Section 2.11(b), Borrower shall pay to each Lender, within thirty (30) days following demand accompanied by a certificate of such Lender describing the basis therefor and the calculation thereof, such amount or amounts as may be necessary to compensate such Lender for any fines, fees, charges, penalties or other amounts payable by such Lender as a result thereof and which are attributable to LIBOR interest rates made available to Borrower hereunder. In determining which amounts payable by any Lender and/or losses incurred by any Lender are attributable to LIBOR interest rates made available to Borrower hereunder, any reasonable allocation made by any Lender among its operations, absent manifest error, shall be conclusive and binding upon Borrower.

(d) CHARGES: CHANGE OF LAW. If, after the date of this Agreement, any Change of Law:

(i) shall subject any Lender to any tax, duty or other charge with respect to any LIBOR interest rate, or shall change the basis of taxation of payments by Borrower to any Lender of principal, interest, fees or any other amount payable hereunder (except for changes in the rate of taxation on the overall net income of any Lender imposed by the jurisdiction of such Lender's incorporation or by any jurisdiction in which its Applicable Lending Office is located); or

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances or loans by, or any other acquisition of funds by any Lender; or

(iii) shall impose on any Lender any other condition;

and the effect of any of the foregoing is to increase materially the cost to such Lender of making, renewing or maintaining any LIBOR interest rate hereunder or to reduce any amount receivable by such Lender in connection therewith, then Borrower shall, within thirty (30) days following demand accompanied by a certificate of such Lender describing the basis therefor and the calculation thereof, pay to such Lender such amount or amounts as may be necessary to reimburse such Lender for such increased costs or to compensate such Lender for such reduced amounts. Such certificate as to the amount of such increased costs or reduced amounts, delivered by such Lender to Borrower, shall, in the absence of manifest error, be conclusive and binding on Borrower for all purposes.

(e) CAPITAL REQUIREMENTS. If any Lender shall have determined that any Change of Law regarding capital adequacy which occurs after the Closing Date has or shall have the effect

of reducing the rate of return on the capital of such Lender (or any entity controlling such Lender) as a consequence of such Lender's obligations hereunder to a level below that which such Lender or such entity would have achieved but for such Change of Law (taking into consideration such Lender's or such entity's policies with respect to capital adequacy), by an amount deemed by such Lender to be material, then from time to time, within thirty (30) days after demand by such Lender (with a copy to Agent) accompanied by a certificate of such Lender describing the basis therefor and the calculation thereof, Borrower shall pay to such Lender or such entity such additional amounts as shall compensate such Lender or such entity for such reduction. Any such request by a Lender under this Section 2.11(e) shall, in the absence of manifest error, be conclusive and binding on Borrower for all purposes.

SECTION 2.12. TAXES ON PAYMENTS.

(a) PAYMENTS FREE OF TAXES. All payments made by Borrower under the Loan Documents shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority (except net income taxes imposed on Agent or any Lender) (with all such non-excluded taxes, levies, imposts, duties, charges, fees, deductions and withholdings being hereinafter referred to herein as "Taxes"). If any Taxes are required to be withheld from any amounts payable to Agent or any Lender under the Loan Documents, the amounts so payable to Agent or such Lender shall be increased to the extent necessary to yield to Agent or such Lender (after payment of all Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in the Loan Documents. Whenever any Taxes are payable by Borrower, as promptly as possible thereafter, Borrower shall send to Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by Borrower showing payment thereof. If Borrower fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to Agent the required receipts or other required documentary evidence, Borrower shall indemnify Agent and Lenders for any incremental taxes, interest or penalties that may become payable by Agent or any Lender as a result of any such failure. The agreements in this Section 2.12(a) shall survive the termination of this Agreement.

(b) WITHHOLDING EXEMPTION CERTIFICATES. Each Lender agrees that it will deliver to Borrower and Agent, upon the reasonable request of Borrower or Agent, either (i) a statement that it is incorporated under the laws of the United States of America or a state thereof, or (ii) if it is not so incorporated, two duly completed copies of United States Internal Revenue Service Form 1001 or 4224 or successor applicable form, as the case may be, certifying in each case that such Lender is entitled to receive

payments under this Agreement without deduction or withholding of any United States federal income taxes.

SECTION 2.13. FUNDING LOSS INDEMNIFICATION. If Borrower shall (a) repay or prepay any portion of a Credit which bears interest determined in relation to LIBOR on any day other than the last day of the Fixed Rate Term therefor (whether an optional prepayment, a mandatory prepayment, a payment upon acceleration or otherwise), (b) fail to borrow any such portion of a Credit for which a Notice of Borrowing has been delivered to Agent (whether as a result of the failure to satisfy any applicable conditions or otherwise), or (c) fail to convert or continue at the LIBOR interest option any portion of a Credit in accordance with a Notice of Conversion or Continuation delivered to Agent (whether as a result of the failure to satisfy any applicable conditions or otherwise), Borrower shall, within thirty (30) days after demand by such Lender (with a copy to Agent) accompanied by a certificate of such Lender describing the basis therefor and the calculation thereof, reimburse such Lender and hold such Lender harmless for all reasonable costs and losses incurred by such Lender as a result of such repayment, prepayment or failure, to the extent that such costs and losses (x) arise from funding and other contracts entered into, or similar arrangements made, by such Lender to fund any LIBOR portion of any Credit or (y) are incidental to such contracts or other arrangements. Each Lender demanding payment under this Section 2.13 shall deliver to Agent for delivery to Borrower a certificate setting forth the amount of costs and losses for which demand is made. Such a certificate so delivered to Borrower shall, in the absence of manifest error, be conclusive and binding on Borrower as to the amount of such loss for all purposes. The agreements in this Section 2.13 shall survive the termination of this Agreement.

SECTION 2.14. LIMITATION ON REIMBURSEMENT AND INDEMNITY OBLIGATIONS. Notwithstanding any other provision of this Agreement or the other Loan Documents, no Lender shall be entitled to claim, under any of the foregoing Sections 2.11(b), 2.11(c), 2.11(d), 2.11(e), 2.12 and 2.13, any amount in respect the period preceding the date of the relevant demand by more than 360 days.

SECTION 2.15. AUTHORIZED REPRESENTATIVES. Agent shall be entitled to rely conclusively on the authority of each officer or employee designated as an Authorized Representative in the most current Notice of Authorized Representatives delivered by Borrower to Agent to request borrowings and select interest rate options hereunder, and to give to Agent such other notices as are specified herein as being made through one of Borrower's Authorized Representatives, until such time as Borrower has delivered to Agent, and Agent has actual receipt of, a new written Notice of Authorized Representatives. Agent shall have no duty or obligation to Borrower to verify the authenticity of any signature appearing on any Notice of Borrowing, or any other written notice from an Authorized Representative or to verify the authenticity of any person purporting to be an Authorized

Representative giving any telephonic notice permitted hereby.

ARTICLE III
REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Agent and the Lenders as follows, which representations and warranties shall survive the execution of this Agreement: Except as set forth in the Borrower Disclosure Letter (which indicates which sections of this Agreement are qualified by the disclosures set forth therein):

SECTION 3.1. LEGAL STATUS. Borrower is a corporation, duly organized and existing and in good standing under the laws of the State of California, and is qualified or licensed to do business and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which the failure to so qualify or to be so licensed could have a Material Adverse Effect. Each Subsidiary is a corporation, duly organized and existing and in good standing under the laws of the State indicated for such Subsidiary in Section 3.1 of the Borrower Disclosure Letter (or, with respect to Subsidiaries acquired after the date hereof, as indicated on the relevant notice required to be delivered pursuant hereto), and is qualified or licensed to do business and is in good standing as a foreign corporation, if applicable) in all jurisdictions in which the failure to so qualify or to be so licensed could have a Material Adverse Effect. A true and correct list of (i) all names (including any former names) used within the five (5) years preceding the date of this Agreement by Borrower or any Subsidiary listed in Section 3.1 of the Borrower Disclosure Letter, and (ii) to the best knowledge of Borrower, all names (including any former names) used within the five (5) years preceding the date of this Agreement by any Person acquired by Borrower or any Subsidiary listed in Section 3.1 of the Borrower Disclosure Letter, or any Person all or any substantial portion of the assets of which has been acquired by Borrower or any such Subsidiary, during such period, is set forth in Section 3.1 of the Borrower Disclosure Letter.

Except as indicated in the Borrower Disclosure Letter, neither Borrower nor any Subsidiary currently operates under any name other than its true corporate (or other entity) name (indicated, in the case of Borrower, on the signature pages hereto, and in the case of any Subsidiary listed in Section 3.1 of the Borrower Disclosure Letter, in that Section 3.1).

SECTION 3.2. AUTHORIZATION AND VALIDITY. The Loan Documents to which Borrower or any Subsidiary is or is to become a party have been duly authorized by Borrower or such Subsidiary, and, upon their execution and delivery in accordance with the provisions hereof, will constitute legal, valid and binding agreements and obligations of Borrower or such Subsidiary, as the case may be, enforceable in accordance with their respective terms.

SECTION 3.3. NO VIOLATION. The execution, delivery and

performance by Borrower or any Subsidiary of each of the Loan Documents to which such Person is or is to become a party do not violate any provision of any Governmental Rule, or contravene any provision of the Articles or Certificate of Incorporation or By-Laws of Borrower or any Subsidiary, or result in a breach of or constitute a default under any one or more contracts, obligations, indentures or other instruments to which Borrower or any Subsidiary is a party or by which Borrower or any Subsidiary may be bound and pursuant to which Borrower or any Subsidiary is obligated to pay in excess of (a) in any one instance, $200,000, or (b) in the aggregate, $2,000,000.

SECTION 3.4. LITIGATION. There are no pending or threatened actions, claims, investigations, suits or proceedings before any governmental authority, court or administrative agency which could have a Material Adverse Effect.

SECTION 3.5. CORRECTNESS OF FINANCIAL STATEMENTS. The consolidated financial statements of Borrower dated as of and for the fiscal quarter ended October 31, 1996 heretofore delivered by Borrower to Agent (a) are complete and correct in all material respects and present fairly the consolidated financial condition of Borrower as of such date; (b) disclose all material consolidated liabilities of Borrower that are required to be reflected or reserved against therein under GAAP, whether liquidated or unliquidated, fixed or contingent; and have been prepared in accordance with GAAP (except for the absence of full footnotes). Since the date of (x) such financial statements, or (y) if applicable, the most recent financial statements delivered to the Lenders pursuant to Section 5.3: (i) there has been no occurrence that has had a Material Adverse Effect, and (ii) neither Borrower or any Subsidiary has created, or suffered to exist, any Lien with respect to all or any portion of its assets or properties except as permitted by this Agreement.

SECTION 3.6. OTHER OBLIGATIONS; LIENS. Neither Borrower nor any Subsidiary is in default on any Indebtedness or any other material lease, commitment, contract, instrument or obligation, which default could have a Material Adverse Effect. Neither Borrower nor any Subsidiary is obligated in respect of any Indebtedness, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, other than (a) the Obligations and the obligations of Guarantors under the Loan Documents, and (b) Indebtedness not prohibited by any provision of Article VI. Borrower, and each Subsidiary owns good title to each of the assets reflected on the most recent financial statements previously delivered to the Lenders (other than any such assets disposed of in a transaction not prohibited by any of the provisions of Article VI or any other Loan Document after the date of such financial statements), subject to no Liens other than Permitted Liens.

SECTION 3.7. PERMITS, FRANCHISES. Borrower, and each Subsidiary, possesses, and will hereafter possess, (a) all permits, memberships, franchises, contracts and licenses required, and (b) and all trademark rights, trade names, trade name rights, patents, patent rights and fictitious name rights necessary, to enable it to conduct the business in which it is now engaged without violation of any Governmental Rule or conflict with the rights of others, except where the failure so to possess such items would not have a Material Adverse Effect.

SECTION 3.8. ERISA. Borrower, and each Subsidiary, is in compliance in all material respects with all applicable provisions of ERISA; neither Borrower nor any Subsidiary has violated any provision of any Plan maintained or contributed to by Borrower or such Subsidiary; no Reportable Event as defined in ERISA has occurred and is continuing with respect to any Plan initiated or contributed to by Borrower or any Subsidiary; Borrower, and each Subsidiary, has met its minimum funding requirements under ERISA with respect to each Plan; and each Plan will be able to fulfill its benefit obligations as they come due in accordance with the Plan documents and under GAAP.

SECTION 3.9. ENVIRONMENTAL MATTERS.

(a) Borrower, and each Subsidiary, is in compliance in all respects with all applicable environmental, hazardous waste, health and safety statutes and regulations governing its operations and/or properties (whether owned, leased or operated), including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986, the Federal Resource Conservation and Recovery Act of 1976, the Federal Toxic Substances Control Act and the California Health and Safety Code, as the same may be amended, modified or supplemented from time to time, except to the extent that non-compliance would not have a Material Adverse Effect.

(b) Other than as disclosed to Agent in writing, none of the operations of Borrower or any Subsidiary, or any real property owned, leased or operated by Borrower or any Subsidiary, is the subject of any federal or state investigation evaluating whether any remedial action involving a material expenditure is needed to respond to a release of any toxic or hazardous waste or substance into the environment.

(c) Neither Borrower nor any Subsidiary has, in connection with any release of any toxic or hazardous waste or substance into the environment, any contingent liability which would have a Material Adverse Effect.

SECTION 3.10. INCOME TAX RETURNS. As of the date hereof, neither Borrower nor any Subsidiary has any knowledge of any pending assessments in excess of $100,000 or adjustments of its income tax payable with respect to any year.

SECTION 3.11. NO SUBORDINATION. There is no agreement, indenture, contract or instrument to which Borrower or any Subsidiary is a party or by which Borrower or any Subsidiary may be bound that requires the subordination in right of payment of any of Borrower's or any such Subsidiary's obligations subject to this Agreement to any other obligation of Borrower or such Subsidiary.

SECTION 3.12. SUBSIDIARIES AND OTHER INVESTMENTS. Borrower owns no stock or equity interest in any Person (directly or indirectly), and holds no debt obligation of any Person, other than (a) accounts receivable arising in the ordinary course of business; (b) stock and equity interests in Persons listed in Section 3.1 of the Borrower Disclosure Letter or (if acquired after the date hereof) otherwise advised to Agent in writing to the extent required under the provisions hereof, in each case, identifying whether such Subsidiary is wholly owned or, if not, the percentage of the outstanding equity of such Subsidiary owned by Borrower (directly or indirectly); (c) Permitted Investments; or (d) other Investments not prohibited by Section 6.5. As of the date hereof, Section 3.1 of the Borrower Disclosure Letter correctly identifies the address of the chief executive office of Borrower and of each Subsidiary.

SECTION 3.13. GOVERNMENTAL REGULATION. Neither Borrower nor any Subsidiary is subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, the Investment Company Act of 1940 or any other federal or state statute or regulation such that Borrower's ability to incur indebtedness is limited or its ability to consummate the transactions contemplated by the Loan Documents is materially impaired.

SECTION 3.14. TRUTH, ACCURACY OF INFORMATION. All financial and other information furnished to Agent or any Lender in connection with this Agreement, taken together (and including the SEC Documents), is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the information furnished, in light of the circumstances under which furnished, not misleading (it being recognized by Agent and the Lenders that projections and forecasts provided by Borrower are not to be viewed as facts and that actual results during the period or periods covered by any such projections and forecasts may differ from the projected or forecasted results).

ARTICLE IV
CONDITIONS

SECTION 4.1. CONDITIONS TO INITIAL EXTENSION OF CREDIT. The obligation of the Lenders to extend the initial credit contemplated by this Agreement (whether the making of an Advance or the issuance of a Letter of Credit) is subject to the fulfillment to Agent's satisfaction of all of the following

conditions on or before the earlier of (i) the date such initial credit is extended hereunder, and (ii) the date that is thirty (30) days after the Closing Date:

(a) APPROVAL OF AGENT'S COUNSEL. All legal matters incidental to the extension of credit hereunder shall be satisfactory to counsel for Agent.

(b) DOCUMENTATION. Agent shall have received, in form and substance satisfactory to Agent, each of the following duly executed:

(i) This Agreement and the Notes.

(ii) Corporate Borrowing Resolution from Borrower.

(iii) Corporate Resolution from each Guarantor authorizing the execution and delivery of its respective Continuing Guaranty.

(iv) Certified copies of the filed Articles or Certificate of Incorporation for Borrower and for each Guarantor.

(v) Certificate of Incumbency from Borrower and from each Guarantor.

(vi) Subsidiary Guaranty from each Guarantor.

(vii) Notice of Authorized Representatives.

(c) FINANCIAL CONDITION. Since the date of the most recent financial statements delivered to the Lenders as of the date hereof: (i) there shall have been no material adverse change, as determined by Agent, in the financial condition or business of Borrower and the Subsidiaries, considered as a single enterprise.

(d) FEES AND EXPENSES. Borrower shall have paid all fees and reasonable invoiced costs and expenses then due pursuant to the terms of this Agreement.

(e) PAYMENT OF AMOUNTS DUE UNDER ORIGINAL CREDIT AGREEMENT. All amounts, if any, remaining due and unpaid under the Original Credit Agreement shall have been paid in full.

Without prejudice to any of the rights or remedies of Agent and the Lenders in respect of any Default or Event of Default (and subject to the terms of any waiver executed in connection with the initial Advance), the initial extension of credit by the Lenders pursuant to this Agreement shall be deemed to be an acknowledgment by the Lenders and Agent that the conditions set forth in this Section 4.1 have been fulfilled to Agent's satisfaction.

SECTION 4.2. CONDITIONS TO EACH EXTENSION OF CREDIT. The

obligation of the Lenders to make each Advance (other than an Advance in respect of a draw under a Letter of Credit) or issuance of a Letter of Credit requested by Borrower hereunder shall be subject to the fulfillment, to Agent's reasonable satisfaction, of all of the following conditions:

(a) REPRESENTATIONS AND WARRANTIES. The representations and warranties contained herein shall be true and correct in all material respects on and as of the date of the signing of this Agreement and on the date of each such extension of credit by the Lenders pursuant hereto (except to the extent such representations or warranties are conditioned by reference to a specific date, in which case they shall be true and correct in all material respects as of such date), with the same effect as though such representations and warranties had been made on and as of each such date; and

(b) ABSENCE OF DEFAULTS. On each such date, no Default or Event of Default shall have occurred and be continuing immediately prior to giving effect to such Advance or shall exist immediately after giving effect to such Advance.

Borrower's delivery of any Borrowing Notice requesting an Advance or of a request for the issuance of a Letter of Credit shall be deemed Borrower's representation and warranty that, as of the date of such Borrowing Notice or request and as of the date of the requested Advance or of the issuance of the requested Letter of Credit, each of the foregoing conditions shall be satisfied.

ARTICLE V
AFFIRMATIVE COVENANTS

Borrower covenants that so long as the Lenders remain committed to extend credit to Borrower pursuant to the terms of this Agreement or any payment Obligations remain outstanding, and until payment in full of all such outstanding payment Obligations (including, without limitation, the

cancellation, termination or cash collateralization as provided herein of all outstanding Letters of Credit), Borrower shall, and shall cause each Subsidiary to, unless Majority Lenders shall otherwise consent in writing:

SECTION 5.1. PUNCTUAL PAYMENTS. Punctually pay all interest, principal, fees and other liabilities due under any of the Loan Documents at the times and place and in the manner specified therein, and immediately upon demand by Agent, the amount by which the outstanding principal balance of the Revolving Reducing Term Line of Credit at any time exceeds Loan Availability.

SECTION 5.2. ACCOUNTING RECORDS. Maintain adequate books and records in accordance with GAAP, and permit any representative of any Lender, at any reasonable time and upon reasonable notice, to inspect, audit and examine such books and

records, to make copies of the same, and to inspect the properties of Borrower or any Subsidiary.

SECTION 5.3. FINANCIAL STATEMENTS. Provide to Agent and each Lender all of the following, in form and detail reasonably satisfactory to Agent:

(a) not later than ninety (90) days after and as of the end of each fiscal year, audited consolidated financial statements of Borrower prepared in accordance with GAAP (to include balance sheet, statement of income, statement of cash flows and statement of shareholders' equity), together with an unqualified opinion of an independent certified public accountant of national or regional reputation;

(b) not later than forty-five (45) days after and as of the end of each fiscal quarter other than the last fiscal quarter of each year, consolidated financial statements of Borrower prepared in accordance with GAAP (to include balance sheet, statement of income and statement of cash flows), certified as complete and correct in all material respects by a senior financial officer of Borrower, together with a comparison of Borrower's actual financial condition for said fiscal quarter to that of the same fiscal quarter in the immediately preceding fiscal year;

(c) within ten Business Days after delivery of the financial statements required to be delivered pursuant to Section 5.3(a) and 5.3(b) (but in no event later than ten Business Days after the date on which such financial statements are required to be so delivered pursuant to the relevant section), (i) copies of calculations confirming Borrower's compliance with all financial covenants contained in Section 5.6 as of the date of the most recent balance sheet included in such financial statements, certified by a senior financial officer of Borrower and (ii) a certificate of a senior financial officer of Borrower to the effect that, as of the end of such fiscal quarter, no Default or Event of Default had occurred and was continuing (or, if any Default or Event of Default was then continuing, a description of such Default or Event of Default and of the action that Borrower proposes to take, or cause to be taken, in connection therewith); and

(d) from time to time such other information as Agent or any Lender may reasonably request (provided that Borrower shall not be required to deliver information the delivery of which would violate any confidentiality requirements imposed by law or contract (provided that such contractual requirements were not entered into principally to prevent disclosure to the Agent or the Lenders), except where such delivery would be permitted subject to an agreement by Agent and the Lenders to treat such information confidentially and Agent and the Lenders agree to comply with such requirements of confidentiality).

Delivery by Borrower of its Annual Report on Form 10-K with respect to any fiscal year shall be deemed to satisfy the

requirements of Section 5.3(a) for such year (provided that the included opinion of independent certified public accountants is unqualified and that such Annual Report otherwise complies with the requirements of applicable regulations); and delivery by Borrower of its Quarterly Report on Form 10-Q for any fiscal quarter shall be deemed (i) unless otherwise noted at the time by Borrower, to constitute a certification by Borrower that the financial statements included therein with respect to the most recently completed fiscal quarter are complete and correct in all material respects and (ii) to satisfy the requirements of Section 5.3(b) for such quarter (provided that the certification described in the foregoing clause (i) is deemed made as provided therein and that such Quarterly Report otherwise complies with the requirements of applicable regulations).

SECTION 5.4. COMPLIANCE. Maintain all licenses, permits, governmental

approvals, rights, privileges and franchises necessary for the conduct of its business in substantially the manner in which it is conducted as of the date hereof; conduct its business in an orderly and regular manner; and comply with the provisions of all documents pursuant to which Borrower or any Subsidiary is organized and/or which govern Borrower's or any Subsidiary's continued existence and with the requirements of all Governmental Rules, of any Governmental Authority, applicable to Borrower or any Subsidiary, its business, or any real property owned, leased or operated by it (and including, without limitation, pay all taxes, assessments and governmental charges imposed upon it or its property before they become delinquent); except, in the case of any of the foregoing, where the failure to do so would not have a Material Adverse Effect.

SECTION 5.5. FACILITIES. In a manner consistent with prudent business practices and subject to Section 6.2(c), keep all properties of Borrower and each Subsidiary useful or necessary to its business in good repair and condition, and from time to time make necessary repairs, renewals and replacements thereto so that such properties shall be fully and efficiently preserved and maintained.

SECTION 5.6. FINANCIAL COVENANTS. Maintain the financial condition (or results, as the case may be) of Borrower on a consolidated basis as follows (using GAAP consistently with prior practices, except to the extent modified by the definitions herein):

(a) As of the last day of each fiscal quarter, a ratio of Funded Debt to EBITDA for the period of four fiscal quarters ending thereon not greater than 3.00 to 1.00.

(b) Profitable operations (after tax, but without deduction of non-recurring non-cash expenses) for every period of two consecutive fiscal quarters, determined as of the end of each fiscal quarter on the basis of the period consisting of the fiscal quarter just completed and the immediately preceding fiscal quarter.

(c) Leverage Ratio not greater than 2.50 to 1.00 as of the end of each fiscal quarter.

SECTION 5.7. NOTICE TO AGENT. Promptly (but in no event more than ten (10) days after a Responsible Officer has knowledge of the occurrence of each such event or matter) give written notice to Agent in reasonable detail of: (a) the occurrence of any Default other than one arising from the failure to pay money due to Agent or any Lender hereunder (provided that no such notice shall be required to be given if, prior to the expiration of such 10-day period (i) such Default is cured or (ii) Agent or any Lender has notified Borrower in writing of the existence of such Default); (b) any change in the name of Borrower or any Guarantor; and (c) any uninsured or partially uninsured loss through liability or property damage, or through fire, theft or any other cause affecting the property of Borrower or any Subsidiary, if such loss (i) is in excess of $1,000,000 in any one case or (ii) together with all other such losses during any one fiscal year, would cause the aggregate amount of such losses to exceed $5,000,000.

SECTION 5.8. INDEMNITY OF GUARANTORS. Indemnify and hold harmless each Guarantor from and against any liability (in the form of indebtedness repaid to the Lenders in respect of the Obligations, including (if applicable) by way of foreclosure under any security agreement at any time hereafter executed by such Guarantor for the benefit of the Lenders) in excess of the benefit realized by such Guarantor from the proceeds of Advances under the Revolving Reducing Term Line of Credit, the issuance of Letters of Credit or under the Credits described in the Original Credit Agreement. As between and among Borrower and Guarantors, Borrower and the other Guarantors shall be responsible to reimburse each Guarantor in respect of amounts paid by such Guarantor under its guaranty of the Obligations to the end that Borrower, and each Guarantor, ultimately bears the burden of payment of its respective share of the Obligations.

SECTION 5.9. INSURANCE COVERAGE. Maintain, or cause to be maintained, for itself and its Subsidiaries, insurance against loss, damage and other risks of the kinds customarily insured against by Persons similarly situated, with reputable insurers, in such amounts, and with such deductibles and by such methods as shall be adequate, and in any event in amounts not less than the amounts generally maintained by other Persons engaged in businesses comparable to those engaged in by Borrower and its Subsidiaries. From time to time, upon the written request of Agent, Borrower shall deliver to Agent insurance certificates evidencing the coverages maintained by Borrower.

ARTICLE VI
NEGATIVE COVENANTS

Borrower further covenants that so long as the Lenders remain committed to extend credit to Borrower pursuant to the

terms of this Agreement or any payment Obligations remain outstanding, and until payment in full of all such outstanding payment Obligations (including, without limitation, the cancellation, termination or cash collateralization as provided herein of all outstanding Letters of Credit), Borrower will not, and will not permit any Subsidiary to, without the prior written consent of Majority Lenders:

SECTION 6.1. USE OF FUNDS. Use any of the proceeds of any of the Credits except for the purposes stated in Article II with respect to the relevant Credit.

SECTION 6.2. MERGER, CONSOLIDATION, TRANSFER OF ASSETS. Subject to the last sentence of this Section 6.2:

(a) Merge with or into, or consolidate with, any other Person, except (i) in a transaction complying with Section 6.2(b) in which Borrower or the relevant Subsidiary is the surviving Person (or, in the case of a transaction complying with Section 6.2(b) involving the merger or consolidation of a Subsidiary, in which the surviving Person becomes a Guarantor and, no later than five (5) Business Days following the effective date of such merger or consolidation, executes and delivers to Agent a Subsidiary Guaranty, PROVIDED, HOWEVER, that Borrower shall not become a subsidiary of any other Person; or (ii) in a transaction (A) between Borrower and one or more Subsidiaries (provided that Borrower is the surviving Person) or (B) among Subsidiaries (provided that the Subsidiary that is the surviving Person is a Guarantor or, if such Subsidiary will meet the definition of "Guarantor" as a result of such merger, on or before the date of such Transfer has executed and delivered to Agent a Subsidiary Guaranty); or

(b) acquire all or substantially all of the capital stock, or all or any substantial portion of the assets (if such assets represent an ongoing business), of any other Person (other than from Borrower or a Subsidiary), unless:

(i) Borrower's Board of Directors has determined in its reasonable business judgement that such acquisition would lead to efficiencies or synergies with the business of Borrower or any of its Subsidiaries;

(ii) as of the closing of such acquisition, Borrower would be in compliance with each of the financial covenants contained in Section 5.6, in each case, determined as of the end of the most recently concluded fiscal quarter and as if such acquisition had occurred on the last day of such fiscal quarter (provided that compliance with the financial covenants otherwise required to be tested as of the end of each fiscal year shall be determined on the basis of the twelve-month period ended as of the last day of such most recently

completed fiscal quarter); and

(iii) if such acquisition involves the payment by Borrower or the acquiring Subsidiary of aggregate consideration (whether in cash, stock or other property or by means of assumption of liabilities) of (y) $20,000,000 or more if such Person is engaged in substantially the same line of business as are Borrower and the Subsidiaries as of the Closing Date or (z) $10,000,000 if such Person is not engaged in substantially the same line of business as are Borrower and the Subsidiaries as of the Closing Date: Borrower shall have delivered to Agent, no later than five (5) Business Days prior to the closing thereof, notice and a description of such acquisition and (unless Majority Lenders have waived delivery thereof, based on such other information as may have been provided to the Lenders with respect to such acquisition) calculations, based on pro forma financial statements of Borrower as of the end of the most recently completed fiscal quarter of Borrower giving pro forma effect to such acquisition as of such date, establishing that the requirements of the foregoing clause (ii) will be met; or

(c) Sell, lease, transfer or otherwise dispose of (any such action, a "Transfer") (i) all or substantially all of the assets of Borrower or any Significant Guarantor, or (ii) except in the ordinary course of business and for fair and reasonable consideration, any substantial or material part of the assets of Borrower and the Subsidiaries, considered as a whole; PROVIDED, HOWEVER, that this Section 6.2(c) shall not prohibit (1) Transfers in connection with the creation of operating leases or Capital Leases not prohibited by Section 6.4 or 6.7; (2) Transfers by any Subsidiary (other than a Transfer of

all or substantially all of the assets of a Significant Guarantor) to Borrower or to another Subsidiary that (A) is a Guarantor or (B) if such Subsidiary will meet the definition of "Guarantor" as a result of such Transfer, on or before the date of such Transfer has executed and delivered to Agent a Subsidiary Guaranty; or (3) Transfers constituting a dividend or other distribution permitted under Section 6.6 hereof. In the event that any Transfer permitted under this Section 6.2(c) shall cause a Subsidiary to no longer fall within the definition of a "Guarantor", Agent and the Lenders shall take such steps as may be necessary to release such Guarantor from its obligations to Agent and the Lenders hereunder and under any Subsidiary Guaranty.

If any of the transactions otherwise permitted under this Section 6.2 would involve, at a time when a Default or Event of Default has occurred and is continuing, (i) the merger into Borrower or another Subsidiary of a Significant Guarantor, (ii) the Transfer of all or substantially all of the assets of a

Significant Guarantor to Borrower or another Subsidiary, or (iii) the liquidation or dissolution of a Significant Guarantor, Borrower shall first obtain the prior written consent of the Majority Lenders, which consent shall be withheld only if the Majority Lenders determine, in the reasonable exercise of their discretion, that such transaction would materially adversely affect the prospect of the Credits being repaid in full.

SECTION 6.3. GUARANTIES. Guarantee or become liable in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for (collectively, "Guarantee"), any liabilities or obligations of any other Person (including Guarantees by Borrower of any obligations of Subsidiaries) except (a) such Guarantees as are required by this Agreement; (b) Guarantees of obligations of Borrower or any Subsidiary, if the obligation so guarantied is not prohibited by the other provisions of this Article VI, and (c) other Guarantees not exceeding $1,000,000 in the aggregate at any time.

SECTION 6.4. OTHER INDEBTEDNESS. Create, incur, assume or permit to exist any Indebtedness, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except:

(a) the Obligations and the obligations of Guarantors under the Loan Documents;

(b) Indebtedness incurred to any Person from whom the capital stock or all or any substantial portion of the assets (if such assets represent an ongoing business) of a Person are acquired in a transaction complying with Section 6.2(b), in an amount not in excess of the purchase price thereof, PROVIDED that (i) such Indebtedness is either unsecured or, if secured, is secured only by the capital stock or assets so acquired or if such Person is acquired pursuant to a stock acquisition, any assets of such Person (and the proceeds thereof), and (ii) both immediately before and immediately following the incurrence of such obligation, there shall not exist and be continuing any Default or Event of Default;

(c) Subordinated Debt;

(d) Indebtedness to Borrower or any Guarantor;

(e) Indebtedness of a Subsidiary created prior to the time such Person was acquired directly or indirectly by Borrower, PROVIDED that such Indebtedness was not created in anticipation of such acquisition;

(f) non-recourse Indebtedness incurred to finance the acquisition or improvement of real property or the acquisition of equipment, in a principal amount not in excess of the purchase price thereof, PROVIDED that such Indebtedness is incurred within one year of the initial acquisition of such real property or

equipment (or, in the case of improvements, within one year of the construction thereof) by Borrower or any Subsidiary and is secured by Liens limited to (i) such real property (including improvements and fixtures) and the rents, issues and profits thereof or (ii) such equipment (and nonmaterial accessions), as the case may be, and the proceeds thereof;

(g) other liabilities of Borrower or any Subsidiary (i) shown on Borrower's financial statements as of October 31, 1996;

(h) Indebtedness listed in the Borrower Disclosure Letter;

(i) to the extent that the aggregate amount of all Indebtedness incurred

pursuant to this Section 6.4(i) does not exceed at any time ten percent (10%) of Borrower's Net Worth:

(i) Indebtedness (not otherwise permitted under the preceding paragraphs of this Section 6.4 or under paragraph (j) below as an extension, refunding, refinancing, amendment or modification of Indebtedness so otherwise permitted) incurred to finance the acquisition of real property or equipment or other fixed assets (other than in connection with the acquisition of all or any substantial portion of the assets (if such assets represent an ongoing business) of any Person), including Capital Leases and other leases constituting Indebtedness; PROVIDED that the principal amount of such Indebtedness (A) does not exceed in any case the purchase price of such asset, (B) is either unsecured or is secured by Liens that are limited to such asset and the proceeds thereof, and (C) is incurred within one year of the initial acquisition of such asset by Borrower or any Subsidiary; or

(ii) Indebtedness, not otherwise permitted under the foregoing provisions of this Section 6.4 of this Section 6.4 or under paragraph (j) below as an extension, refunding, refinancing, amendment or modification of Indebtedness so otherwise permitted, the amount of which does not exceed $4,166,667 in the aggregate at any one time; or

(j) extensions, refundings, refinancings, amendments or modifications of any of the foregoing, PROVIDED that (i) the principal amount thereof is not increased; and (ii) no Lien securing such Indebtedness is extended to property not theretofore securing such Indebtedness.

For purposes of this Section 6.4, the "principal amount" or "amount" of a lease under which the lessee is treated as the owner of the leased property for tax purposes shall be determined as if such lease were a Capital Lease.

SECTION 6.5. LOANS, ADVANCES, INVESTMENTS.

(a) Make any loans or advances to, or otherwise acquire any Indebtedness of, or acquire any equity interest or any option or warrant to acquire any equity interest in, any Person (collectively, "Investments"; PROVIDED, HOWEVER, that the term "Investments" shall not include obligations owed to Borrower or any Subsidiary by customers or suppliers arising from Borrower's or such Subsidiary's payment, in the ordinary course of business, of towing, storage and other expenses associated with services rendered by Borrower or such Subsidiary, that are subject to "netting" arrangements that provide for settlement of the net outstanding obligations between Borrower or such Subsidiary and such customer or supplier when the net obligation owed by one to the other reaches a specified level), other than:

(i) Permitted Investments;

(ii) Investments in Subsidiaries (provided that if such Subsidiary will meet the definition of "Guarantor" as a result of such Investment, on or before the date of such Investment such Subsidiary has executed and delivered to Agent a Subsidiary Guaranty; or

(iii) the acquisition of the capital stock of a Person in a transaction complying with Section 6.2(b) (and, if applicable, Section 6.2(a)); or

(b) without limiting the foregoing paragraph (a), organize any Subsidiary unless, within five (5) Business Days after the incorporation or other formation thereof: (i) Borrower gives Agent written notice thereof, and (ii) if such Subsidiary meets the definition of "Guarantor", Borrower causes such Subsidiary to execute and deliver to Agent a Subsidiary Guaranty.

SECTION 6.6. DIVIDENDS AND DISTRIBUTIONS. Declare or pay any dividend or distribution either in cash, stock or any other property on the stock of Borrower or (except to Borrower or another Subsidiary) any Subsidiary now or hereafter outstanding; nor redeem, retire, repurchase or otherwise acquire any shares of any class of the stock of Borrower or any Subsidiary (other than such as may be owned by Borrower or another Subsidiary), or any options, warrants or other rights to acquire any such security, now or hereafter outstanding; PROVIDED, HOWEVER, that (a) Borrower may pay dividends on its capital stock in its own capital stock and (b) Borrower may pay dividends to its shareholders in cash or repurchase shares of its outstanding capital stock (collectively, "Cash Distributions"), PROVIDED that the aggregate amount of all Cash Distributions paid on or after January 31, 1995, shall not exceed the lesser of (x) that amount equal to fifty percent (50%) of Borrower's cumulative retained earnings

(such retained earnings to be determined as of the end of the most recently completed fiscal quarter preceding each Cash

Distribution and as if no Cash Distributions had been paid since January 30, 1995), and (y) $20,000,000; and PROVIDED FURTHER that (i) Borrower shall not declare any Cash Distribution if, as of the date of declaration thereof, (A) any Default or Event of Default has occurred and is continuing or (B) (determined as of the end of the most recent fiscal quarter, as if such Cash Distribution had been effected on the last day of such period) would exist after giving effect thereto, and (ii) Borrower shall not effect any Cash Distribution at any time that there has occurred and is continuing any Default or Event of Default.

SECTION 6.7. LIENS. Create, incur, assume, suffer or permit to exist any Lien on all or any portion of the assets of Borrower or any Subsidiary, real or personal, now owned or hereafter acquired, except for (a) Liens required by this Agreement or the other Loan Documents; (b) Liens (i) existing as of the date hereof and (ii) disclosed in the Borrower Disclosure Letter; (c) Permitted Liens described in clauses (i) through (v) of the definition of Permitted Liens; (d) the Liens of lessors under Capital Leases or other leases constituting Indebtedness entered into in compliance with Section 6.4; (e) Liens, granted by the primary obligor, securing Indebtedness incurred by such Person in compliance with Section 6.4(b) and complying with the requirements of Section 6.4(b); (f) Liens on tangible assets (including nonmaterial accessions thereto) other than inventory, and the proceeds thereof, that existed at the time such assets were acquired by Borrower or any Subsidiary (including Liens on tangible assets of any corporation that existed at the time it becomes a Subsidiary, PROVIDED that such transaction is effected in compliance with Section 6.2); (g) Liens (other than those described in any of the foregoing clauses of this Section 6.7) (i) upon or in any tangible assets acquired or held by Borrower or any Subsidiary in a transaction not prohibited by any provision of this Article VI, and (ii) securing the purchase price of such assets or Indebtedness, incurred solely for the purpose of financing the acquisition of such asset, PROVIDED that the Indebtedness so secured is permitted, and is permitted to be secured, under Section 6.4 and PROVIDED FURTHER that the Lien is confined solely to the asset so acquired (and (x) in the case of real property, related improvements and fixtures and the rents, issues and profits thereof, or (y) in the case of equipment, nonmaterial accessions thereto) and proceeds thereof; (g) Liens not otherwise permitted by the foregoing clauses of this Section 6.7 or under the following clause (h) with respect to a Lien so otherwise permitted, PROVIDED that the aggregate amount of the Indebtedness or other obligations secured thereby does not exceed at any time $1,666,667; or (h) Liens securing the extension, renewal or refinancing of the Indebtedness secured by Liens (other than Liens identified in the Borrower Disclosure Letter as to be satisfied) previously existing in compliance with this Section 6.7, PROVIDED that such Lien is limited to the property theretofore encumbered by such Lien and the principal amount of the Indebtedness so extended, renewed or refinanced is not increased. For purposes of this Section 6.7, the "principal amount" or "amount" of a lease under which the lessee is treated

as the owner of the leased property for tax purposes shall be determined as if such lease were a Capital Lease.

SECTION 6.8. NO NEGATIVE PLEDGES. Enter into or suffer to exist, in favor of any Person other than Agent and the Lenders, any agreement that prohibits or conditions the creation or assumption of any Lien upon any of its property or assets except those in favor of such Person if such agreement would prohibit the granting of a security interest to the Agent on behalf of the Lenders as security for the Obligations of Borrower and any of the Guarantors, EXCEPT FOR limitations prohibiting or conditioning the creation or imposition of Liens on property or assets subject to a consensual Permitted Lien in favor of such Person.

SECTION 6.9. TRANSACTIONS WITH AFFILIATES. Enter into any transaction, including, without limitation, the lease, purchase, sale, or exchange of real or personal property or the rendering of any service, with any Affiliate, except any such transaction which, considered together with any series of transactions of which such transaction is a part, is upon fair and reasonable terms no less favorable to Borrower or such Subsidiary than those which would obtain in a comparable arm's-length transaction with a Person not an Affiliate, PROVIDED that the foregoing shall not apply to compensation of employees, officers and directors so long as a disinterested majority of the board of directors (or the compensation committee of the board of directors) of the Borrower (or the Subsidiary, as the case may be) approves such compensation. The transactions with Affiliates described in the SEC Documents under the heading "Certain Transactions" or disclosed in the footnotes to the financial statements included therein shall be deemed to satisfy the requirements of this Section 6.9.

SECTION 6.10. CHANGE IN NATURE OF BUSINESS. Other than pursuant to an acquisition permitted pursuant to Section 6.2(b) engage in, or permit any of the Subsidiaries to engage in, any business other than the businesses engaged in on the Closing Date and any businesses substantially similar, substantially related or incidental thereto; PROVIDED, HOWEVER, that the primary business of Borrower and the Subsidiaries, considered as a single enterprise, shall remain at all times the processing and sale of vehicles, principally through auctions.

ARTICLE VII
EVENTS OF DEFAULT

SECTION 7.1. EVENTS OF DEFAULT. The occurrence of any of the following (for whatever reason, and whether voluntarily or involuntarily, by operation of law or otherwise) shall constitute an "Event of Default" under this Agreement:

(a) Borrower, or any Guarantor, shall fail to pay:

(i) the outstanding principal of the Revolving

Reducing Term Line of Credit on the Maturity Date;

(ii) the principal amount of any Advance due on any date other than the foregoing dates when due (provided that such amount has continued unpaid for at least five days after notice by the Agent, if, as of the relevant due date, adequate funds to pay such amount were on deposit in the deposit accounts subject to the automatic debit arrangement provided for under Section 2.6(a));

(iii) interest on any Advance, within five days after such interest shall have become due (provided such amount has continued unpaid for at least five days after notice by the Agent, if, as of the relevant due date, adequate funds to pay such amount were on deposit in the deposit accounts subject to the automatic debit arrangement provided for under Section 2.6(a));

(iv) any amount payable under any of Sections 2.11(b), 2.11(c), 2.11(d), 2.11(e), 2.12 and 2.13 when due; or

(v) any other amount payable by Borrower or any Guarantor under this Agreement or any other Loan Document within thirty (30) days after Borrower or Guarantor, as the case may be, shall have received notice from Agent or the relevant Lender demanding payment thereof and setting forth in reasonable detail the basis for demanding payment and the calculation of the amount so payable.

(b) Any representation or warranty made by Borrower or any Guarantor hereunder or under any other Loan Document shall fail to be true and correct in all material respects when made or deemed made.

(c) Any default by Borrower or any Guarantor in the performance of or compliance with any obligation, agreement or other provision contained herein (other than those referred to in Section 7.1(a) or 7.1(b)) which by its nature cannot be cured or remedied, or which, if it can by its nature be cured or remedied, shall continue uncured or unremedied, as the case may be, for a period of thirty (30) days after a Responsible Officer first becomes aware (or should have become aware) of such default (whether by notice from Agent or otherwise).

(d) (i) (A) Any default in the payment by Borrower or any Guarantor when due of any amount due under any Indebtedness (whether by acceleration or otherwise) to any Person if such default continues uncured beyond the expiration of any applicable grace or cure period(s), or (B) any default other than a payment default by Borrower or any Guarantor under any Indebtedness if the effect of such default is to accelerate such Indebtedness, or

to give the holders of such Indebtedness, or any trustee or other representative thereof, the right to accelerate the Indebtedness, and (ii) the amount of such Indebtedness exceeds (A) in any instance, $3,000,000, or (B) in the aggregate, $5,000,000.

(e) Any default, whether or not involving the payment of money, under any operating lease or other obligation of Borrower or any Guarantor not constituting Indebtedness, if as a result thereof such operating lease or obligation is accelerated or terminated, and the aggregate payments due in respect of such acceleration or termination exceed (i) in any instance, $3,000,000, or (ii) in the aggregate, $5,000,000.

(f) Any default in the performance by Borrower or any Guarantor of any obligation, or any defined event of default, under any of the Loan Documents other than this Agreement, which by its nature cannot be cured or remedied, or which, if it can by its nature be cured or remedied, shall continue uncured or unremedied, as the case may be, for a period of thirty (30) days after a Responsible Officer first becomes aware (or reasonably should have become aware) of such default (whether by notice from Agent or otherwise).

(g) The filing of a notice of judgment lien against Borrower or any Guarantor; or the recording of any abstract of judgment against Borrower or any Guarantor in any county in which Borrower or such Guarantor has an interest in real property; or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of Borrower or any Guarantor; or the entry of a judgment against Borrower or any Guarantor; in each case, with respect to an obligation to pay money of in excess of $250,000, and which shall have remained unsatisfied and in effect for sixty (60) consecutive days without having being vacated, discharged or satisfied, or stayed or bonded pending appeal.

(h) Borrower or any Guarantor shall become insolvent, or shall suffer or consent to or apply for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, or shall generally fail to pay its debts as they become due, or shall make a general assignment for the benefit of creditors; or Borrower or any Guarantor shall file a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Code, or under any state or federal law granting relief to debtors, whether now or hereafter in effect; or any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against Borrower or any Guarantor and remains undismissed for a period of sixty (60) consecutive days; or Borrower or any Guarantor shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or Borrower or any Guarantor shall be adjudicated a bankrupt, or an order for relief shall be entered

by any court of competent jurisdiction under the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors.

(i) The dissolution or liquidation of Borrower; or Borrower or its directors or stockholders shall take action seeking to effect the dissolution or liquidation of Borrower.

(j) (i) Any material provision of any Loan Document shall cease to be in full force and effect, or Borrower or any Guarantor shall disclaim any liability thereunder or purport to revoke such Loan Document; or (ii) any Obligation (or any obligation of any Guarantor under any Loan Document) shall be subordinated to any other obligation of Borrower or any Guarantor, for any reason.

SECTION 7.2. REMEDIES. Upon the occurrence or existence of any Event of Default (other than an Event of Default referred to in Section 7.1(h)) and at any time thereafter during the continuance of such Event of Default, Agent may, with the consent of the Majority Lenders, or shall, upon instructions from the Majority Lenders, by written notice to Borrower, (a) terminate the obligations of the Lenders to make Advances under the Revolving Reducing Term Line of Credit and to issue Letters of Credit under the Letter of Credit Facility, and/or (b) declare all indebtedness of Borrower under the Loan Documents to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything in the Loan Documents to the contrary notwithstanding. Upon the occurrence or existence of any Event of Default described in Section 7.1(h), immediately and without notice, (i) the obligations, if any, of the Lenders to extend any further credit hereunder shall automatically cease and terminate, and (ii) all indebtedness of Borrower under the Loan Documents shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein or in the Notes to the contrary notwithstanding. In addition to the foregoing remedies, upon the occurrence or existence of any Event of Default, Agent may exercise any other right, power or remedy granted to it or the Lenders under any Loan Document or permitted to it or the Lenders by law, either by suit in equity or by action at law, or both, or as otherwise permitted under applicable law. Immediately after taking any action under this Section 7.2, Agent shall notify each Lender of such action.

ARTICLE VIII
THE AGENT AND RELATIONS AMONG LENDERS

SECTION 8.1. APPOINTMENT, POWERS AND IMMUNITIES. Each Lender hereby irrevocably appoints and authorizes Agent to act as its agent under the Loan

Documents with such powers as are expressly delegated to Agent by the terms of the Loan Documents, together with such other powers as are reasonably incidental thereto. Agent shall not have any duties or responsibilities

except those expressly set forth in any Loan Document, and Agent shall neither be a trustee for any Lender nor have any fiduciary duty to any Lender. No implied covenants, functions, responsibilities, duties or obligations shall be read into any Loan Document or otherwise exist against Agent. Notwithstanding anything to the contrary contained herein, Agent shall not be required to take any action which is contrary to any Loan Document or applicable law. Neither Agent nor any Lender shall be responsible to any other Lender for any recitals, statements, representations or warranties made by Borrower contained in any Loan Document, for the value, validity, effectiveness, genuineness, enforceability or sufficiency of any Loan Document or (if applicable) any collateral at any time hereafter securing the Obligations or the obligations of any Guarantor or for any failure by Borrower or any Guarantor to perform its respective obligations hereunder or thereunder. Agent may employ agents and attorneys-in-fact and shall not be responsible to any Lender for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. Neither Agent nor any of its directors, officers, employees or agents shall be responsible to any Lender for any action taken or omitted to be taken by it or them under any Loan Document or in connection therewith, except for its or their own gross negligence or wilful misconduct. Except as otherwise provided under this Agreement, Agent shall take such action with respect to the Loan Documents as shall be directed by the Majority Lenders.

SECTION 8.2. RELIANCE BY AGENT. Agent shall be entitled to rely upon any certificate, notice or other document (including any cable, telegram, telecopy, or telex) or conversation believed by it in good faith to be genuine and correct and to have been signed, sent or made by or on behalf of the proper person or persons, and upon advice and statements of legal counsel (including counsel to Borrower), independent accountants and other experts selected by Agent with reasonable care. As to any matters not expressly provided for by this Agreement, Agent shall not be required to take any action or exercise any discretion, but shall be required to act or to refrain from acting upon instructions of the Majority Lenders and shall in all cases be fully protected by the Lenders in acting, or in refraining from acting, hereunder or under any other Loan Document in accordance with the instructions of the Majority Lenders, and such instructions of the Majority Lenders and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders.

SECTION 8.3. DEFAULTS. Agent shall not be deemed to have knowledge or notice of the occurrence of a Default unless Agent has received a notice from a Lender or Borrower, referring to this Agreement, describing such Default, and stating that such notice is a "Notice of Default"; PROVIDED, HOWEVER, that Agent shall be deemed to have knowledge and notice of a Default if Agent, in its capacity as a Lender, has knowledge or notice of such Default. If Agent receives such a notice of the occurrence

of a Default, Agent shall give prompt notice thereof to the Lenders. Subject to Section 9.4 and to the fourth sentence of Section 8.1, Agent shall take such action with respect to such Default as shall be directed by the Majority Lenders; PROVIDED, HOWEVER, that until Agent shall have received such directions, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as may be reasonably necessary to prevent the material impairment of the Lenders' collateral (if any) or the Lenders' rights; PROVIDED, FURTHER, that Agent shall not, without the direction of Majority Lenders, institute any legal proceedings against Borrower or any other Person to enforce any of the Lenders' rights or remedies under the Loan Documents.

SECTION 8.4. INDEMNIFICATION. Without limiting the obligations of Borrower or any Guarantor hereunder or under any other Loan Document, each Lender agrees to indemnify Agent, ratably in accordance with its Proportionate Share, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may at any time (including at any time following payment of such obligations) be imposed on, incurred by or asserted against Agent in any way relating to or arising out of this Agreement or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or the enforcement of any of the terms hereof or thereof or of any such other documents or any action taken or omitted by Agent under or in connection herewith or therewith; PROVIDED, HOWEVER, that no Lender shall be liable for any of the foregoing to the extent they arise from Agent's gross negligence or willful misconduct. Without limiting the foregoing, each Lender agrees to reimburse Agent promptly on demand for its ratable share of any amounts payable but not paid by Borrower under Section 9.2. Agent shall be fully justified in

refusing to take or to continue to take any action hereunder unless it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by Agent by reason of taking or continuing to take any such action. The agreements in this Section 8.4 shall survive the payment of the Obligations.

SECTION 8.5. NON-RELIANCE. Each Lender represents that it has, independently and without reliance on Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the financial condition and affairs of Borrower and decision to enter into this Agreement. Each Lender agrees that it will, independently and without reliance upon Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own appraisals and decisions in taking or not taking action under this Agreement. Each Lender acknowledges that Agent has not made any representation or warranty to it with respect to the financial condition or affairs of Borrower, this Agreement, any other Loan Document or any collateral for the Obligations or

for the obligations of any Guarantor, and that no act by Agent hereafter, including any review of any of such matters, shall be deemed to constitute any such representation or warranty by Agent to any Lender. Neither Agent nor any Lender shall be required to keep informed as to the performance or observance by Borrower or any Guarantor of the respective obligations of Borrower and the Guarantors under this Agreement or any other document referred to or provided for herein or to make inquiry of, or to inspect the properties or books of Borrower or any Guarantor. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by Agent hereunder, neither Agent nor any Lender shall have any duty or responsibility to provide any Lender with any credit or other information concerning Borrower or any Guarantor which may come into the possession of Agent or of such Lender, or of any of its or their respective affiliates.

SECTION 8.6. RESIGNATION OR REMOVAL OF AGENT. Subject to the appointment and acceptance of a successor Agent as provided below, Agent may resign at any time by giving thirty (30) days' notice thereof to the Lenders, and Agent may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been appointed by the Majority Lenders and shall have accepted such appointment within thirty (30) days after the retiring Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be a bank having a combined capital, surplus and retained earnings of not less than U.S. $500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VIII shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

SECTION 8.7. AUTHORIZATION. Agent is hereby authorized by the Lenders to execute, deliver and perform each of the Loan Documents to which Agent is or is intended to be a party and each Lender agrees to be bound by all of the agreements of Agent contained in the Loan Documents.

SECTION 8.8. AGENT IN ITS INDIVIDUAL CAPACITY. Agent and its affiliates may make loans to, accept deposits from, own securities of and generally engage in any kind of business with Borrower, as though Agent were not Agent hereunder, without any duty to give notice thereof or account therefor to any Lender. Wells Fargo as a Lender shall have the same rights and powers under this Agreement and the other Loan Documents as any other Lender and may exercise the same as though it were not Agent, and

the terms "Lender" or "Lenders" shall include Wells Fargo in each such capacity.

ARTICLE IX
MISCELLANEOUS

SECTION 9.1. NOTICES. Except as specified otherwise herein, any communications between the parties hereto or notices or requests required herein to be given must be in writing and shall be deemed given or made when personally delivered, or when received if sent by telecopy or cable, or upon the earlier of

the date of receipt or three (3) days after deposit in the U.S. mail, first class and postage prepaid, addressed to Borrower at the following address or telecopy number:

BORROWER: Copart, Inc.
5500 East 2nd Street, 2nd Floor
Benicia, California 94510
Attn: Joseph M. Whelan, Senior Vice President
and Chief Financial Officer
Telecopier: (707) 644-7355,

WITH A COPY TO:

Paul A. Styer, Esq., Senior Vice President
and General Counsel,

at the same address;

and to Agent and each Lender at its address or telecopy number set forth as the "Address for Notices" for Agent or such Lender in Schedule I hereto, or at such other address or telecopy number as any party may in writing hereafter indicate by written notice to all other parties.

SECTION 9.2. EXPENSES. Borrower shall pay immediately upon demand (a) all reasonable costs, fees and expenses, including reasonable attorneys' fees and expenses, incurred by Agent and the Lenders in connection with the preparation, review, execution and delivery of, and the exercise of its duties under, this Credit Agreement and the other Loan Documents, and the preparation of amendments and waivers hereunder and thereunder; (b) all reasonable costs, fees and expenses, including reasonable attorneys' fees and expenses, incurred by the Lenders and/or Agent in connection with the enforcement, preservation or protection (or attempted enforcement, preservation or protection) of any rights or remedies of the Lenders or Agent under this Agreement or any other Loan Document (including in connection with any "workout" or restructuring relating to this Agreement, any Credit, or any bankruptcy or insolvency case involving Borrower or any Guarantor; and (c) all reasonable costs, fees and expenses incurred by Agent and the Lenders for appraisals, audits, environmental inspections and reviews, searches and filings in connection with any of the foregoing; PROVIDED,

HOWEVER, that (x) Borrower shall not be required to pay in excess of $20,000 in respect of attorneys' fees and expenses related to the preparation, review, execution and delivery of the Loan Documents to be delivered in connection with the initial Advance; and (y) absent the existence of a Default or the making of a specific request by Borrower regarding the interpretation, amendment or modification of, or any waiver or consent under, any Loan Document, or the permissibility thereunder of a particular act or occurrence, Borrower shall not be required to pay Agent's or the Lenders' costs, fees and expenses incurred in administering the Credits. As used herein, the term "reasonable attorneys' fees and expenses" shall include, without limitation, reasonable allocable costs and expenses of the Lenders' and Agent's in-house legal counsel and staff, and "reasonable costs, fees and expenses" shall include, without limitation, reasonable allocable costs, fees and expenses of the Lenders' and Agent's internal appraisal, audit, environmental and other similar services, and reasonable fees and disbursements of expert witnesses and other consultants.

SECTION 9.3. INDEMNIFICATION. To the fullest extent permitted by law, Borrower hereby agrees to protect, indemnify, defend and hold harmless each of the Lenders, Agent, and their respective affiliates and each of their and their respective affiliates' respective past and present officers, directors, shareholders, employees, agents, attorneys, affiliates, successors and assigns, together with their respective heirs, beneficiaries, executors, administrators, trustees, predecessors, successors and assigns (collectively, "Indemnitees") from and against any liabilities, losses, damages or expenses of any kind or nature and from any suits, claims or demands (including in respect of or for reasonable attorneys' fees and other expenses, including the allocated costs and expenses of internal counsel) arising on account of or in connection with any matter or thing or action or failure to act by Indemnitees, or any of them, arising out of or relating to this Agreement, any other Loan Document, including without limitation any use by Borrower of any proceeds of any Credit, except to the extent such liability arises from the willful misconduct or gross negligence of the Indemnitees. Upon receiving knowledge of any suit, claim or demand asserted by a third party that Agent or any Lender believes is covered by this indemnity, Agent or such Lender shall give Borrower notice of the matter and an opportunity to defend it, at Borrower's sole cost and expense, with legal counsel satisfactory to Agent or such Lender, as the case may be. Agent or such Lender may also require Borrower to defend the matter. Any failure or delay of Agent or any Lender to notify Borrower of any such suit, claim or demand shall not relieve Borrower of its obligations under this Section 9.3 but shall reduce such obligations to the extent of any increase in those obligations caused solely by an unreasonable failure or delay in providing such notice. The

obligations of Borrower under this Section 9.3 shall survive the payment in full and performance of all of the Obligations.

SECTION 9.4. WAIVERS, AMENDMENTS. Any term, covenant, agreement or condition of this Agreement or any other Loan Document may be amended if such amendment is in writing and is signed by Borrower and Majority Lenders, and any term, covenant, agreement or condition of this Agreement or any other Loan Document may be waived if such waiver is in writing and is signed by Borrower and (for so long as Wells Fargo is the Agent) the Agent; PROVIDED, HOWEVER, that (a) any waiver of a Default under (i) any of Sections 5.1, 5.6, 6.1 and 6.2, or (ii) any of Sections 5.3(a), 5.3(b) and 5.3(c) that involves a failure to deliver the financial information required to be delivered pursuant thereto more than thirty (30) days after the date it initially becomes due thereunder, or (iii) any of Sections 6.3, 6.5, 6.6, 6.7 and 6.8 that involves an amount in excess of $1,000,000, or (iv) Section 6.10, if such Default is material, may be effected only with the written consent of Majority Lenders; (b) any amendment, waiver or consent which affects the rights or duties of Agent must be in writing and be signed also by Agent; and (c) any amendment, waiver or consent which effects any of the following changes must be in writing and be signed also by all the Lenders:

(i) increases the Maximum Principal Amount or the maximum Letter of Credit Exposure set forth in Section 2.2(a);

(ii) extends the Maturity Date or the permissible term of any Letter of Credit;

(iii) reduces (A) the principal of, or interest (including default rate interest) on, any Advance, or (B) any fees or other amounts payable for the account of the Lenders;

(iv) postpones or conditions any date fixed for any payment of the principal of, or interest on, any Advance or any fees or other amounts payable for the account of any of the Lenders;

(v) waives or amends this Section 9.4;

(vi) amends the definition of Majority Lenders;

(vii) results in a release of any substantial part of any collateral at the time securing all or any portion of the Obligations; or

(viii) increases or decreases the Proportionate Share of any Lender in the Total Commitments (other than through an assignment under Section 9.5).

No failure or delay by Agent or the Lenders in exercising any right hereunder shall operate as a waiver thereof or of any other right, nor shall any single or partial exercise of any such right preclude any other further exercise thereof or of any other

right. Unless otherwise specified in such waiver or consent, a waiver or consent given hereunder shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 9.5. SUCCESSORS AND ASSIGNS.

(a) BINDING EFFECT. The Loan Documents shall be binding upon and inure to the benefit of Borrower, Guarantors, the Lenders, Agent, all future holders of the Notes and their respective successors and permitted assigns, except that neither Borrower nor any Guarantor may assign or transfer any of its rights or obligations under any Loan Document without the prior written consent of Agent and each Lender. All references in this Agreement to any Person shall be deemed to include all successors and assigns of such Person.

(b) PARTICIPATIONS. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time sell to one or more Financial Institutions ("Participants") participating interests in any Credit owing to such Lender, any Note held by such Lender, or any other interest of such Lender under this Agreement and the other Loan Documents. In the event of any such sale by a Lender of a participating interest to a Participant, (i) such Lender's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible for the performance thereof, (iii) such Lender shall remain the holder of any such Note for all purposes under this Agreement, and (iv) Borrower and the Guarantors and Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Participants

shall have no rights under this Agreement or any other Loan Document except as provided below. No Lender shall sell any participating interest under which the Participant shall have any rights to vote on any amendment or waiver of this Agreement or any other Loan Document; PROVIDED, HOWEVER, that any agreement pursuant to which any Lender sells a participating interest to a Participant may require the selling Lender to obtain the consent of such Participant in order for such Lender to agree in writing to any amendment of a type specified in Sections 9.4(c)(i) through 9.4(c)(viii). No agreement pursuant to which any Lender sells a participating interest to a Participant other than a Lender may permit the participant to transfer, pledge, assign, sell participations in or otherwise encumber its participating interest. Borrower agrees that if amounts outstanding under this Agreement and the other Loan Documents are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall, to the fullest extent permitted by law, be deemed to have the right of setoff in respect of its participating interest in amounts owing under this Agreement and any other Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement or any other Loan Documents; PROVIDED, HOWEVER, that such rights of setoff shall be subject to

the obligation of such Participant to share with the Lenders, and the Lenders agree to share with such Participant, as provided in Section 2.9(b). Borrower also agrees that any Lender which has transferred all or part of its interests in the Credits to one or more Participants shall, notwithstanding any such transfer, be entitled to the full benefits accorded such Lender under Sections 2.12 and 2.14, as if such Lender had not made such transfer.

(c) ASSIGNMENTS. Any Lender may, in the ordinary course of its business and in accordance with applicable law, at any time, sell and assign to any Lender or any other Financial Institution (individually, an "Assignee") all or any portion of its rights and obligations under this Agreement and the other Loan Documents (such a sale and assignment to be referred to herein as an "Assignment") pursuant to an Assignment and Assumption Agreement in the form of Exhibit E attached hereto (an "Assignment Agreement"), executed by each Assignee and such assignor Lender (an "Assignor") and delivered to Agent for its acceptance and recording in the Register; PROVIDED, HOWEVER, that:

(i) each Assignment shall be in a minimum amount of $5,000,000; and

(ii) without the written consents of Borrower, Agent and each other Lender, which consents shall not be unreasonably withheld, no Lender may make any Assignment to any Assignee which is not, immediately prior to such Assignment, a Lender hereunder or an affiliate thereof.

Upon the execution, delivery, acceptance and recording of each Assignment Agreement, from and after the effective date set forth therein, (A) each Assignee thereunder shall be a Lender hereunder with a Proportionate Share as set forth in Section 1 of such Assignment Agreement and shall have the rights, duties and obligations of such a Lender under this Agreement and the other Loan Documents, and (B) the Assignor thereunder shall be a Lender with a Proportionate Share as set forth in Section 1 of such Assignment Agreement, or, if the Proportionate Share of the Assignor has been reduced to 0%, the Assignor shall cease to be a Lender; PROVIDED, HOWEVER, that each Assignor shall nevertheless be entitled to the indemnification rights contained in Section 9.3 for any events, acts or omissions occurring before the effective date of its Assignment. Each Assignment Agreement shall be deemed to amend Schedule I hereto to the extent necessary to reflect the addition of each Assignee and the resulting adjustment of Proportionate Shares arising from the purchase by each Assignee of all or a portion of the rights and obligations of an Assignor under this Agreement and the other Loan Documents. On or prior to the effective date of any Assignment, Borrower, at its own expense, shall execute and deliver to Agent, in exchange for the surrendered Note of the Assignor thereunder, a new Note to the order of the Assignee thereunder (with each new Note to be in an amount equal to the

commitment assumed by such Assignee) and, if the Assignor has retained a commitment hereunder, a new Note to the order of the Assignor (with the new Note to be in an amount equal to the commitment retained by the Assignor), and otherwise in the form of the Note replaced thereby. Any Note surrendered by the Assignor shall be returned by Agent to Borrower marked "Exchanged".

(d) REGISTER. Agent shall maintain at Agent's Office a copy of each Assignment Agreement delivered to it and a register (the "Register") for the recordation of the names and addresses of the Lenders and the Proportionate Shares of each Lender from time to time. The entries in the Register shall be

conclusive in the absence of manifest error, and Borrower, Agent and the Lenders may treat each entity whose name is recorded in the Register as the owner of the Proportionate Shares recorded therein for all purposes of this Agreement. The Register shall be available for inspection by Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) REGISTRATION. Upon its receipt of an Assignment Agreement executed by an Assignor and an Assignee (and, in the case of an Assignee that is not then a Lender or an affiliate of a Lender, by Borrower and Agent) together with payment by such Assignee to Agent of a registration and processing fee of $3,000, Agent shall (i) promptly accept such Assignment Agreement, and (ii) on the effective date of such Assignment record the information contained therein in the Register and give notice of such acceptance and recordation to the Lenders and Borrower. Agent may, from time to time at its election, prepare and deliver to the Lenders and Borrower a revised Schedule I reflecting the names, addresses and respective Proportionate Shares of all Lenders then parties hereto.

(f) CONFIDENTIALITY. Agent, and each of the Lenders, understands that some of the information and documents furnished to it pursuant to this Agreement or the other Loan Documents may be confidential, and agrees that it will keep all non-public information, documents and agreements so furnished to it confidential and will make no disclosure to other Persons of such information or agreements until it shall have become public, except (i) to the extent required in connection with matters involving operations under or enforcement or amendment of the Loan Documents; (ii) in accordance with Agent's or such Lender's obligations under law or regulations or pursuant to subpoenas or other legal process to make information available to governmental agencies and examiners or to others; (iii) to any corporate parent or (if such affiliate is a Financial Institution) other affiliate of Agent or such Lender so long as such parent or other affiliate agrees to accept such information or agreement subject to the restrictions provided in this

Section 9.5(f); (iv) to any participant bank or trust company of the Agent or such Lender that agrees to keep such information, documents or agreement confidential in accordance with the restrictions provided in this Section 9.5(f); (v) to Agent or to any other Lender and such Lender's, Agent's and such other Lenders' respective counsel and other professional advisors so long as such Persons are instructed to keep such information confidential in accordance with the provisions of this Section 9.5(f); (vi) to proposed Assignees and Participants that are Financial Institutions and that agree to keep such information, documents or agreements confidential in accordance with the restrictions provided in this Section 9.5(f); or (vii) with the prior written consent of the Borrower.

SECTION 9.6. SETOFF. In addition to any rights and remedies of the Lenders provided by law, each Lender shall have the right, with the prior consent of Agent but without prior notice to Borrower, any such notice being expressly waived by Borrower to the extent permitted by applicable law, upon the occurrence and during the continuance of an Event of Default, to set off and apply against any indebtedness, whether matured or unmatured, of Borrower to such Lender, any amount owing from such Lender to Borrower, at or at any time after the happening of any of the above mentioned events, and, as security for such indebtedness, Borrower hereby grants to each Lender a continuing security interest in any and all deposits, accounts or moneys of Borrower then or thereafter maintained with such Lender, subject in each case to Section 2.9(b). The aforesaid right of set-off may be exercised by such Lender against Borrower or against any trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, receiver or execution, judgment or attachment creditor of Borrower or against anyone else claiming through or against Borrower or such trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, receiver, or execution, judgment or attachment creditor, notwithstanding the fact that such right of set-off shall not have been exercised by such Lender prior to the occurrence of a Default or Event of Default. Each Lender agrees promptly to notify Borrower after any such set-off and application made by such Lender, PROVIDED that the failure to give such notice shall not affect the validity of such set-off and application.

SECTION 9.7. ENTIRE AGREEMENT, AMENDMENT. This Agreement and the other Loan Documents constitute the entire agreement among Borrower, Agent and the Lenders with respect to the Credits and supersede all prior negotiations, communications, discussions and correspondence concerning the subject matter hereof.

SECTION 9.8. NO THIRD PARTY BENEFICIARIES. This Agreement is made and entered into for the sole protection and benefit of the parties hereto and their respective permitted successors and assigns, and no other Person shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any other of the Loan Documents to which it is not a party.

SECTION 9.9. TIME. Time is of the essence of each and every provision of

this Agreement and each other of the Loan

Documents.

SECTION 9.10. SEVERABILITY OF PROVISIONS. If any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

SECTION 9.11. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

SECTION 9.12. SUBMISSION TO JURISDICTION. EACH OF BORROWER, AGENT AND THE LENDERS HEREBY (A) SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF CALIFORNIA AND THE FEDERAL COURTS OF THE UNITED STATES SITTING IN THE STATE OF CALIFORNIA (AND TO THE NONEXCLUSIVE JURISDICTION OF THE SUPERIOR COURTS FOR THE COUNTY OF SACRAMENTO OF THE STATE OF CALIFORNIA AND THE FEDERAL COURTS OF THE UNITED STATES SITTING IN THE EASTERN DISTRICT OF THE STATE OF CALIFORNIA) FOR THE PURPOSE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY OF THE LOAN DOCUMENTS, (B) AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH COURTS, (C) IRREVOCABLY WAIVES (TO THE FULL EXTENT PERMITTED BY APPLICABLE LAW) ANY OBJECTION WHICH IT NOW OR HEREAFTER MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY OF THE FOREGOING COURTS, AND ANY OBJECTION ON THE GROUND THAT ANY SUCH ACTION OR PROCEEDING IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM, AND (D) AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PERMITTED BY LAW.

SECTION 9.13. WAIVER OF JURY TRIAL. EACH OF BORROWER, AGENT AND THE LENDERS, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRAIL BY JURY IN ANY ACTION, PROCEEDING, COUNTERCLAIM OR OTHER LITIGATION IN ANY WAY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS OR EVENTS REFERENCED HEREIN OR THEREIN OR CONTEMPLATED HEREBY OR THEREBY, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS OR OTHERWISE. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND/OR ANY OTHER OF THE LOAN DOCUMENTS. A COPY OF THIS SECTION 9.13 MAY BE FILED WITH ANY COURT AS WRITTEN EVIDENCE OF THE WAIVER OF THE RIGHT TO TRIAL BY JURY AND THE CONSENT TO TRIAL BY COURT.

SECTION 9.14. COUNTERPARTS. This Agreement may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes.

SECTION 9.15. AMENDMENT AND RESTATEMENT OF PRIOR AGREEMENT. As of the Closing Date, this Agreement shall amend and restate

the Original Credit Agreement, but without prejudice to the rights of Wells Fargo and U.S. Bank of California under Section 9.3 of the Original Credit Agreement or to the rights of Wells Fargo under Section 8.4 of the Original Credit Agreement, each of which shall remain in full force and effect and is hereby incorporated into this Agreement by reference. Effective upon satisfaction of the condition precedent to the initial extension of credit set forth in Section 4.1(e), Agent hereby releases the security interests granted to Agent pursuant to the Original Credit Agreement or the Security Agreements (as defined in the Original Credit Agreement) or any other Loan Document (as defined in the Original Credit Agreement) heretofore executed by Borrower or any Subsidiary of Borrower as security for the Obligations (as defined in the Original Credit Agreement). Agent shall cooperate with Borrower, at Borrower's expense, in executing and filing or recording of record appropriate releases of such security interests.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first written above.

COPART, INC., a California corporation

WELLS FARGO BANK, NATIONAL ASSOCIATION, in its capacity as Agent

By: _____ By: _____

Title: _____ Title: _____

LENDERS:

WELLS FARGO BANK, NATIONAL ASSOCIATION

U.S. BANK OF CALIFORNIA, a California state chartered Bank

By: _____ By: _____

Title: _____ Title: _____

FLEET NATIONAL BANK

By: _____

Title: _____

SCHEDULE I

1. LENDERS:	PROPORTIONATE SHARES:(1)
WELLS FARGO BANK, NATIONAL ASSOCIATION	40%

Applicable Lending Office:

Wells Fargo Bank, National Association
400 Capitol Mall, 7th Floor
Sacramento, California 95814

Address for Notices:

Wells Fargo Bank, National Association
201 Third Street, 8th Floor
San Francisco, California 94103
Attn: Agency Department - Tessie Melgar
Telephone: (415) 477-5421
Telecopier: (415) 512-9408

Wiring Instructions:

Wells Fargo Bank, National Association
San Francisco, California
ABA No. 121000248
Account: 4518073895
Attn: Agency Department, Destination SR #703
Ref: Copart, Inc.

U.S. BANK OF CALIFORNIA	40%

Applicable Lending Office:

U.S. Bank of California
980 9th Street, Suite 1100
Sacramento, California 95814

(1) Applicable to both Credits.

Address for Notices:

U.S. Bank of California
P.O. Box 720
Seattle, Washington 98111-0720
or
1414 Fourth Avenue, 5th Floor
Seattle, Washington 98101
Attn: Jackie Ainsworth/Christy Parker
Telephone: (206) 344-5059/(206) 344-7846
Telecopier: (206) 587-7022

Wiring Instructions:

U.S. Bank California
Seattle, Washington
ABA No. 121122676
Account: 4771111079
Attn: Christy Parker
Ref: Copart, Inc.

FLEET NATIONAL BANK 20%
- ------------------

Applicable Lending Office:

Fleet National Bank
777 Main Street
Hartford, Connecticut 06115

Address for Notices:

Fleet National Bank
777 Main Street
Hartford, Connecticut 06115
Attn: Jeffrey Kinney
Telephone: (860) 986-2158
Telecopier: (860) 986-3450

Wiring Instructions:

Fleet National Bank
ABA No. 011900571
Account: 151035003121 (General Ledger)
Attn: Helena Schwalm (ph. (860) 986-3916)
Ref: Copart, Inc.

2. AGENT'S OFFICE:

Wells Fargo Bank, National Association
Sacramento RCBO # 2684
400 Capitol Mall, 7th Floor
Sacramento, California 95814
Attn: Patrick Sherwood
Telephone: (916) 440-4269
Telecopier: (916) 444-2689

EX-11.1
3
EXHIBIT 11.1

EXHIBIT 11.1

COPART, INC. AND SUBSIDIARIES
COMPUTATION OF NET INCOME PER SHARE

Years ended July 31,

	1997	1996	1995
Weighted average common shares issued and outstanding	12,873,878	12,433,204	9,733,201
Common stock equivalents:			
Warrants and stock options	382,829	782,432	881,000
	13,256,707	13,215,636	10,614,201
Net income	$ 11,992,600	$ 11,185,400	$ 6,894,300
Net income per share	$ .90	$ .85	$ .65

Net income per share is computed by using the weighted average number of common shares and equivalents assumed to be outstanding during the periods. Common stock options and warrants to purchase common stock were included in the calculation of net income per share.

Fully diluted earnings per share is not presented since the amounts are antidilutive, or do not differ significantly from the primary earnings per share presented.

EX-23.1
4
EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Copart, Inc.:

We consent to incorporation by reference in the registration statement (No. 33-81238) on Form S-8 of Copart, Inc. of our report dated September 26, 1997, relating to the consolidated balance sheets of Copart, Inc. and subsidiaries as of July 31, 1997, and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended July 31, 1997, and related schedule, which report appears in the July 31, 1997, annual report on Form 10-K of Copart, Inc.

KPMG Peat Marwick LLP

San Francisco, California
October 27, 1997

EX-27.1
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EXHIBIT 27.1

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM COPART INC. ANNUAL REPORT ON FORM 10K FOR THE YEAR ENDING JULY 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

YEAR	
JUL-31-1997	
AUG-01-1996	
JUL-31-1997	
27684500	
0	
31337100	
0	
278700	
71291700	
38364500	
9576600	
175339500	
22361700	
0	
0	
0	
111050600	
0	
175339500	
126275900	
126275900	
0	
107422900	
0	
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0	
19474800	
7482200	
11992600	
0	
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11992600	
.90	
0	