

COPART INC  
Form 10-Q  
March 12, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly report pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934  
for the quarterly period ended January 31, 2007**

OR

**Transition report pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934  
for the transition period from            to**

Commission file number: 0-23255

**COPART, INC.**

(Exact name of registrant as specified in its charter)

**California**

(State or other jurisdiction  
of incorporation or organization)

**94-2867490**

(I.R.S. Employer  
Identification Number)

**4665 Business Center Drive, Fairfield, CA 94534**  
(Address of principal executive offices with zip code)

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

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.

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YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Number of shares of Common Stock outstanding as of March 9, 2007: 91,277,582

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Copart, Inc.

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January 31, 2007

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## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## Copart, Inc.

## Consolidated Balance Sheets

(in thousands)

(Unaudited)

	January 31, 2007	July 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 124,053	\$ 126,590
Short-term investments	195,885	148,725
Accounts receivable, net	112,174	99,959
Vehicle pooling costs	31,171	29,148
Income taxes receivable	5,340	2,064
Prepaid expenses and other assets	3,999	4,864
Total current assets	472,622	411,350
Property and equipment, net	352,385	341,943
Intangibles, net	1,507	1,874
Goodwill	112,291	112,291
Deferred income taxes	7,184	5,137
Land purchase options and other assets	23,038	22,110
Total assets	\$ 969,027	\$ 894,705
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 58,787	\$ 60,770
Deferred revenue	14,728	15,372
Deferred income taxes	7,225	7,191
Total current liabilities	80,740	83,333
Other liabilities	1,502	1,402
Total liabilities	82,242	84,735
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value - 180,000 shares authorized; 91,232 and 90,445 shares issued and outstanding at January 31, 2007 and July 31, 2006, respectively	292,200	276,052
Accumulated other comprehensive loss	(105)	(37)
Retained earnings	594,690	533,955
Total shareholders' equity	886,785	809,970
Total liabilities and shareholders' equity	\$ 969,027	\$ 894,705

See accompanying notes to consolidated financial statements.

## Copart, Inc.

## Consolidated Statements of Income

(in thousands except per share amounts)

(Unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2007	2006	2007	2006
Revenues	\$ 128,925	\$ 125,099	\$ 261,046	\$ 241,839
Operating costs and expenses:				
Yard operations	68,536	74,524	138,767	143,731
General and administrative	15,225	13,560	30,223	27,093
Total operating expenses	83,761	88,084	168,990	170,824
Operating income	45,164	37,015	92,056	71,015
Other income (expense):				
Interest income, net	3,283	1,805	6,310	3,581
Other income	245	753	895	1,388
Equity in losses of unconsolidated entity		(849	) (2,216	) (849
Total other income	3,528	1,709	4,989	4,120
Income from continuing operations before income taxes	48,692	38,724	97,045	75,135
Income taxes	18,300	12,606	36,310	26,441
Income from continuing operations	30,392	26,118	60,735	48,694
Discontinued operations:				
Loss from discontinued operations, net of income tax effects		(18,265	) (18,027	)
Net Income	\$ 30,392	\$ 7,853	\$ 60,735	\$ 30,667
Earnings per share-basic				
Income from continuing operations	\$ 0.33	\$ 0.29	\$ 0.67	\$ 0.54
Loss from discontinued operations		(0.20	) (0.20	)
Basic net income per share	\$ 0.33	\$ 0.09	\$ 0.67	\$ 0.34
Weighted average shares outstanding	90,752	90,401	90,625	90,393
Earnings per share-diluted				
Income from continuing operations	\$ 0.32	\$ 0.28	\$ 0.65	\$ 0.53
Loss from discontinued operations		(0.20	) (0.20	)
Diluted net income per share	\$ 0.32	\$ 0.08	\$ 0.65	\$ 0.33
Weighted average shares and dilutive potential common shares outstanding	93,682	92,636	93,523	92,248

See accompanying notes to consolidated financial statements.

## Copart, Inc.

## Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Six Months Ended January 31,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 60,735	\$ 30,667
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations		22,327
Depreciation and amortization	17,539	14,817
Allowance for doubtful accounts	(249 )	
Deferred rent	101	13
Share-based compensation	1,685	1,621
(Gain) loss on sale of property and equipment	416	(8 )
Deferred income taxes	(2,014 )	(4,952 )
Equity in loss of unconsolidated entity	2,216	849
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(11,965 )	(33,713 )
Vehicle pooling costs	(2,023 )	(11,906 )
Prepaid expenses and other current assets	931	1,294
Land purchase options and other assets	147	(775 )
Accounts payable and accrued liabilities	(1,984 )	1,620
Deferred revenue	(645 )	10,742
Income taxes	(3,276 )	(6,696 )
Net cash provided by operating activities from continuing operations	61,614	25,900
Net cash provided by operating activities from discontinued operations		124
Net cash provided by operating activities	61,614	26,024
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(428,055 )	(372,100 )
Sales of short-term investments	380,895	266,600
Purchases of property and equipment	(37,355 )	(41,068 )
Proceeds from sale of property and equipment	5,826	379
Purchases of goodwill, intangibles, property, equipment and net current assets in connection with acquisitions		(22,429 )
Investment in unconsolidated entity		(8,976 )
Net cash used in investing activities from continuing operations	(78,689 )	(177,594 )
Net cash used in investing activities from discontinued operations		(14 )
Net cash used in investing activities	(78,689 )	(177,608 )
<b>Cash flows from financing activities:</b>		
Proceeds from the exercise of stock options	9,275	3,122
Proceeds from the issuance of Employee Stock Purchase Plan shares	779	817
Repurchase of common stock		(8,873 )
Excess tax benefit from share-based payment arrangements	4,409	857
Net cash provided by (used in) financing activities from continuing operations	14,463	(4,077 )
Net cash provided by financing activities from discontinued operations		
Net cash provided by (used in) financing activities	14,463	(4,077 )
Effect of foreign currency translation	75	(59 )
Net decrease in cash and cash equivalents	(2,537 )	(155,720 )
Cash and cash equivalents at beginning of period	126,590	252,548
Cash and cash equivalents at end of period	\$ 124,053	\$ 96,828

**Supplemental disclosure of cash flow information:**

Income taxes paid	\$	37,192	\$	33,318
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See accompanying notes to consolidated financial statements.

**Copart, Inc.**

**Notes to Consolidated Financial Statements**



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January 31, 2007

(Unaudited)

## NOTE 1 Business and Basis of Presentation

### *Description of Business*

Copart, Inc. and its subsidiaries (collectively, the Company) provide vehicle suppliers, primarily insurance companies, with a full range of services to process and sell salvage vehicles over the Internet through the Company's Virtual Bidding Second Generation (VB2) Internet auction-style sales technology. The Company sells principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters. 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 that expedite each stage of the salvage vehicle sales process and minimize administrative and processing costs.

### *Principles of Consolidation*

In the opinion of the management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (which are normal recurring accruals) necessary to present fairly its financial position as of January 31, 2007 and July 31, 2006, and its consolidated statements of income and cash flows for the three and six months ended January 31, 2007 and January 31, 2006. Interim results for the six months ended January 31, 2007 are not necessarily indicative of the results that may be expected for the year ending July 31, 2007. The interim financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2006.

### *Use of Estimates*

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

### *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 carry forwards. 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.

## NOTE 2 Vehicle Pooling Costs

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

The operating results for the first and second quarters of fiscal 2007 and 2006 were adversely affected by incremental costs, characterized as abnormal in Statement of Financial Accounting Standards (SFAS) No. 151: *Inventory Costs*, incurred as a result of Hurricanes Katrina and Rita. These additional inventory-type costs, characterized as abnormal and charged to yard operations costs, are approximately \$0.2 million and \$4.9 million for the three-month periods ended January 31, 2007 and January 31, 2006, respectively and \$0.5 million and \$9.5 million for the six-month periods ended January 31, 2007 and January 31, 2006, respectively. These costs include



the additional subhauling, payroll, equipment and facilities expenses directly related to the operating conditions created by the hurricanes. These costs do not include normal expenses associated with the increased unit volume created by the hurricanes, which are deferred until the sale of the units and are recognized as vehicle pooling costs on the balance sheet. As of January 31, 2007, virtually all of the incremental salvage vehicles received as a result of the hurricanes have been sold.

**NOTE 3 Net Income Per Share**

There were no adjustments to net income in calculating diluted net income per share. The table below reconciles basic weighted shares outstanding to diluted weighted average shares outstanding (in thousands):

	<b>Three Months Ended January 31,</b>		<b>Six Months Ended January 31,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Basic weighted average shares outstanding	90,752	90,401	90,625	90,393
Effect of dilutive securities - stock options	2,930	2,235	2,898	1,855
Diluted weighted average shares outstanding	93,682	92,636	93,523	92,248

Options to purchase 51,500 shares of common stock at a weighted average price of \$24.25 per share were outstanding during the three months ended January 31, 2006 (none during the three months ended January 31, 2007), and options to purchase 110,000 and 833,500 shares of common stock at a weighted average price of \$29.76 and \$24.06 were outstanding during the six months ended January 31, 2007 and 2006, respectively, but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares during the respective periods.

**NOTE 4 Short-term Investments**

Short-term investments consist primarily of AAA-rated auction rate securities with readily determinable fair market values and with original maturities in excess of three months. Auction rate securities are principally variable rate securities tied to short-term interest rates. Auction rate securities have interest rate resets through a modified Dutch auction, at predetermined short-term intervals, usually every 7, 28 or 35 days. They trade at par and are callable at par on any interest payment date at the option of the issuer. Interest paid during a given period is based upon the interest rate determined during the prior auction. Although these instruments are issued and rated as long-term securities, they are priced and traded as short-term securities because of the liquidity provided through the interest rate reset.

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

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

	<b>January 31, 2007</b>	<b>July 31, 2006</b>
Available-for-sale securities:		
Auction rate securities	\$ 195,885	\$ 148,725
Total short-term investments	\$ 195,885	\$ 148,725

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### NOTE 5 Discontinued Operations and Goodwill Impairment

In the second quarter of fiscal 2006, the Company adopted a formal plan to discontinue the operations of its public auction business Motors Auction Group ( MAG ) and dispose of or convert the related assets. As of July 31, 2006, no MAG locations remained. The three and six month periods ending January 31, 2006, have been restated to present the results of these operations as discontinued operations.

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

	<b>Three months ended January 31, 2006</b>	<b>Six months ended January 31, 2006</b>
Net revenue	\$ 1,900	\$ 4,200
Loss before income taxes	(22,565 )	(22,327 )
Income tax benefit	4,300	4,300
Net loss from discontinued operations	(18,265 )	(18,027 )

### NOTE 6 Goodwill and Intangible Assets

The following table sets forth intangible assets by major asset class as of the dates indicated (in thousands):

	<b>January 31, 2007</b>	<b>July 31, 2006</b>
<b>Amortized intangibles:</b>		
Covenants not to compete	\$ 10,071	\$ 10,071
Accumulated amortization	(8,564 )	(8,197 )
Net intangibles	\$ 1,507	\$ 1,874

Aggregate amortization expense on intangible assets was \$0.2 million and \$0.3 million for the three months ended January 31, 2007 and 2006, respectively and \$0.4 million and \$0.5 million for the six months ended January 31, 2007 and 2006, respectively. The average life of the covenants not to compete is approximately five years. Estimated amortization expense for each of the five succeeding fiscal years is as follows (in thousands):

2007 (six months remaining)	\$ 322
2008	418
2009	336
2010	300
2011	112
Thereafter	19
<b>Total</b>	<b>\$ 1,507</b>

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

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Balance as of July 31, 2006	\$ 112,291
Goodwill acquired during the period	
Balance as of January 31, 2007	\$ 112,291

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## NOTE 7 Share-Based Compensation

Effective August 1, 2005, the Company adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* ( SFAS 123(R) ), requiring it to recognize expense related to the fair value of its share-based compensation awards. The Company elected to use the modified prospective transition method as permitted by SFAS 123(R). Under this transition method, share-based compensation expense for the three- and six-month periods ended January 31, 2007 and January 31, 2006, include compensation expense for all share-based compensation awards granted prior to, but not yet vested as of August 1, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123 *Accounting for Stock-Based Compensation*, net of estimated forfeitures. Share-based compensation expense for all stock-based compensation awards granted subsequent to August 1, 2005 was based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). For options issued subsequent to August 1, 2005, the Company recognizes compensation expense for stock option awards on a straight-line basis over the requisite service period of the award. For options issued prior to August 1, 2005, the Company recognizes compensation expense for stock option awards on a graded vesting basis over the requisite service period of the award.

The following is a summary of option activity for the Company's stock option plans:

	Shares (in 000s)	Weighted- average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value (in 000s)
Outstanding at July 31, 2006	5,879	\$ 12.76		
Grants of options	216	\$ 28.64		
Exercises	(755 )	\$ 13.21		
Forfeitures or expirations	(18 )	\$ 23.47		
Outstanding at January 31, 2007	5,322	\$ 13.29	5.02	\$ 85,969
Exercisable at January 31, 2007	3,926	\$ 10.49	3.91	\$ 74,411

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock for the options that were in-the-money at January 31, 2007.

## NOTE 8 Common Stock Repurchases

In February 2003, the Company's Board of Directors authorized the Company to repurchase up to 9.0 million shares of its common stock. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the share repurchase program. The repurchases will be made at such times and in such amounts as the Company deems appropriate and may be discontinued at any time. The Company repurchased 366,000 shares at a weighted average price of \$24.24 during the six months ended January 31, 2006. The Company did not repurchase any shares during the six months ended January 31, 2007. The total number of shares repurchased under the program as of January 31, 2007 is approximately 4.0 million, leaving approximately 5.0 million available under the repurchase program.

## NOTE 9 Segment Reporting

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

## NOTE 10 Comprehensive Income

The following table reconciles net income to comprehensive income (in thousands):

	Three months ended January 31,		Six months ended January 31,	
	2007	2006	2007	2006
Net income, as reported	\$ 30,392	\$ 7,853	\$ 60,735	\$ 30,667
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	427	18	(68 )	28

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Total other comprehensive income	\$ 30,819	\$ 7,871	\$ 60,667	\$ 30,695
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## NOTE 11 Recent Accounting Pronouncements

In September 2006, the SEC issued SAB 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ) to provide guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. Under SAB 108, companies should evaluate a misstatement based on its impact on the current year income statement, as well as the cumulative effect of correcting such misstatements that existed in prior years existing in the current year's ending balance sheet. SAB 108 will become effective for the Company in its fiscal year ending July 31, 2007. The Company is currently evaluating the impact of the provisions of SAB 108 on its financial statements.

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

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 ( SFAS 159 )*. SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred, e.g., debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by Copart in the first quarter of fiscal 2009. Copart currently is determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, which SFAS 159 will have on its consolidated results of operations and financial condition.

## NOTE 12 Equity Investment and Related Party Transaction

During the three months ended October 31, 2005, the Company committed to invest \$9.0 million for a 50% equity interest in Lanelogic, LLC, a Delaware limited liability company ( Lanelogic ), of which \$3.0 million was contributed during the three months ended October 31, 2005 and \$6.0 million was contributed during the three months ended January 31, 2006. The Company has no further contractual funding commitment. Based on the Company's evaluation of Lanelogic and related agreements, management believes Lanelogic does not constitute a Variable Interest Entity as defined in FASB Interpretation No.46, *Consolidation of Variable Interest Entities*. As a result, the Company's investment has been accounted for under the equity method prescribed by Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*.

During the quarter ended January 31, 2007, the Company's Chairman and CEO, made a personal unsecured loan to Lanelogic to prevent a restriction of working capital from disrupting its business as Lanelogic sought additional equity financing. The loan was also repaid during the quarter. The Company has concluded that the personal unsecured loan did not cause a change in the accounting of Lanelogic as an equity method investment. During the three months ended January 31, 2007, Lanelogic received a strategic equity investment totaling approximately \$10 million from two new investment groups as well as Lanelogic's founder. The Company did not participate in this additional equity financing into Lanelogic, which reduced the Company's ownership percentage from 50% to 37%. In addition, Lanelogic converted from a limited liability company to a Delaware Corporation, of which the Company is now a stockholder.



NOTE 13 Legal Proceedings

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

Ciano Dessources filed a lawsuit on May 21, 2003 in the Commonwealth of Massachusetts Superior Court against Copart of Connecticut, Inc. and Copart, Inc., which suit purported to be a class action on behalf of persons whose vehicles were disposed of by the Company as abandoned vehicles and which the named plaintiff contended were disposed of without complying with state laws. On February 14, 2007, the parties entered into a settlement agreement terminating the lawsuit.

On September 16, 2005, Richard M. Gray filed suit against Copart of Connecticut, Inc. and A. Safrin in the State Court of the County of Chatham, State of Georgia, alleging a class action for unreasonable amounts claimed for storage liens by the Company, and related claims. Relief sought includes class certification, damages, fees, costs and expenses. The Company's motion for summary judgment was heard on January 31, 2007 and no decision has yet been made. The Company believes the claim is without merit, and is defending the lawsuit vigorously.

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

On August 7, 2006, Kimberly and Jason Green filed suit against Copart in the Superior Court of the State of California, County of Sacramento, making allegations pursuant to a California consumer protection statute similar to a class action for unreasonable amounts claimed for storage liens by the Company, and related claims. Relief sought includes class certification, damages, fees, costs and expenses. The Company filed an answer on September 1, 2006 denying the claim. The Company believes the claim is without merit, and is defending the lawsuit vigorously.

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

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This report, including the information incorporated by reference herein, 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. All statements other than statements of historical facts are statements that could be deemed forward-looking statements. In some cases, you can identify forward-looking statements by terms such as may, will, should, expect, plan, intend, forecast, anticipate, believe, estimate, predict, potential, continue or the negative of these terms or other comparable terminology. The forward-looking statements contained in this report involve known and unknown risks, uncertainties and situations that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These factors include those listed in Part II, Item 1A Risk Factors beginning on page 21 of this report and those discussed elsewhere in this report. We encourage investors to review these factors carefully.*

*Although we believe that, based on information currently available to the Company and its management, the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements and we undertake no obligation to revise or update any forward-looking statements for any reason.*

**Overview**

We provide vehicle suppliers, primarily insurance companies, with a full range of services to process and sell salvage vehicles over the Internet through our Virtual Bidding Second Generation ( VB2 ) Internet auction-style sales technology. We sell principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters. Salvage vehicles are either damaged vehicles deemed a total loss for insurance or business purposes or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. We offer vehicle suppliers a full range of services that expedite each stage of the salvage vehicle sales process and minimize administrative and processing costs. We generate revenues primarily from fees paid by vehicle suppliers and vehicle buyers, as well as related fees for services such as towing and storage.

At the election of the vehicle supplier, we sell vehicles pursuant to our Percentage Incentive Program ( PIP ) consignment basis or on a fixed fee consignment basis. Under the PIP program, we agree to sell all of the salvage vehicles of a vehicle supplier in a specified market usually for a predetermined percentage of the vehicle sales price. Under our fixed fee consignment program, we sell vehicles for a fixed consignment fee. Although sometimes included in the consignment fee, we may also charge additional fees for the cost of transporting the vehicle to our facility, storage of the vehicle, and other incidental costs. Using either consignment method, only the fees associated with vehicle processing are recorded in revenue, not the actual sales price ( gross proceeds ).

Our revenues consist of salvage fees charged to vehicle suppliers and vehicle buyers, transportation revenue and purchased vehicle revenues. Salvage fees from vehicle suppliers include sales fees under PIP agreements and fixed fee programs where we charge for title processing, special preparation, storage and selling. Salvage fees also include fees charged to vehicle buyers for purchasing vehicles, storage and annual registration. Transportation revenue includes charges to suppliers for towing vehicles under certain contracts. Transportation revenue also includes towing charges assessed to buyers for delivering vehicles. Purchased vehicle revenues are comprised of the price that buyers paid for vehicles that we own.

Costs attributable to yard operations consist primarily of operating personnel (which includes yard management, clerical and yard employees), rent, contract vehicle towing, insurance, fuel, equipment maintenance and repair, and costs of vehicles we sold under purchase contracts. Costs associated with general and administrative expenses consist primarily of executive management, accounting, data processing, sales personnel, human resources, professional fees, research and development and marketing expenses.

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

During the second quarter of the fiscal year ending July 31, 2006, we adopted a formal plan to discontinue the operations of our public auction business Motors Auction Group ( MAG ) and dispose of or convert the related assets. The MAG yards converted into salvage facilities will continue to be included in the results of continuing operations on our income statements.

The period-to-period comparability of our operating results and financial condition is substantially affected by business acquisitions, new openings, weather and product introductions during such periods.

### **Acquisitions and New Operations**

We have experienced significant growth as we have acquired nine vehicle storage facilities and established thirteen new facilities since the beginning of fiscal 2005. All of these acquisitions have been accounted for using the purchase method of accounting.

As part of our overall expansion strategy of offering integrated services to vehicle suppliers, we anticipate acquiring and developing facilities in new regions, as well as the regions currently served by our facilities. As part of this strategy, in fiscal 2007 we opened new facilities in Woodburn, OR and Baltimore, MD. In fiscal 2006 we acquired new facilities in or near Greenwood, Nebraska; Grand Island, Nebraska; York Haven, Pennsylvania; Chambersburg, Pennsylvania; Altoona, Pennsylvania; Fruitland, Maryland; Billings, Montana and opened new facilities in or near Honolulu, Hawaii; Lansing, Michigan; Dover, Florida and Jacksonville, Florida. In fiscal 2005 we acquired new facilities in or near Lexington, Kentucky and Columbia, Missouri and opened new facilities in Strongsville, Ohio; Ocala, Florida; Knoxville, Tennessee; Loganville, Georgia; Spokane, Washington; Tallahassee, Florida and Hialeah, Florida. We believe that these acquisitions and openings strengthen our coverage as we have 124 facilities located in North America and are able to provide national coverage for our suppliers.

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

### **Critical Accounting Policies and Estimates**

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

Management has discussed the selection of critical accounting policies and estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting policies and estimates in this quarterly report on Form 10-Q. The following is a summary of the more significant judgments and estimates used in the preparation of our consolidated financial statements:

### ***Revenue Recognition***

We provide a portfolio of services to our sellers and buyers that facilitate the sale and delivery of a vehicle from seller to buyer. These services include the ability to use our VB2 Internet sales technology and vehicle delivery, loading, title processing, preparation and storage. We evaluate multiple-element arrangements relative to our buyer and seller agreements in accordance with Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* ( EITF 00-21 ), which addresses accounting for multiple-element arrangements, and Staff Accounting Bulletin No. 104, *Revenue Recognition* ( SAB 104 ), which addresses revenue recognition for units of accounting.

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

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

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

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

#### ***Vehicle Pooling Costs***

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

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

#### ***Allowance for Doubtful Accounts***

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

#### ***Valuation of Goodwill and Intangibles***

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

#### ***Income Taxes and Deferred Tax Assets***

We are required to estimate income tax provisions and amounts ultimately payable or recoverable in numerous jurisdictions. Such estimates involve significant interpretations of regulations and are inherently very complex. Resolution of income tax treatments in individual jurisdictions may not be known for many years after completion of any fiscal year.

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

***Long-lived Asset Valuation***

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

***Share-Based Compensation***

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

***Retained Insurance Liabilities***

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

**Results of Operations**

*Three Months Ended January 31, 2007 Compared to Three Months Ended January 31, 2006*



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Revenues from continuing operations were approximately \$128.9 million during the three months ended January 31, 2007, an increase of approximately \$3.8 million, or 3.1% over the three months ended January 31, 2006. Revenue growth from same store sales, those opened before January 31, 2005, was approximately \$2.3 million. Revenue growth from new facilities, those opened after February 1, 2005, including facilities in or near Billings, Montana; Dover, Florida; Jacksonville, Florida; and Woodburn, Oregon was approximately \$1.5 million.

Yard operation expenses from continuing operations were approximately \$68.5 million during the three months ended January 31, 2007, a decrease of approximately \$6.0 million, or 8.0%, over the three months ended January 31, 2006. Included in yard expenses is depreciation expense of \$7.8 million, an increase of \$1.3 million over the three months ended January 31, 2006. Yard operation expenses decreased to 53.2% of revenues during three months ended January 31, 2007, as compared to 59.6% of revenues during the three months ended January 31, 2006. The absolute and percentage decreases in yard expenses, excluding depreciation, were attributable to the decrease in incremental abnormal costs incurred as a result of Hurricanes Katrina and Rita. These additional inventory-type costs were approximately \$4.9 million during the three months ended January 31, 2006 as compared to \$0.2 million during the three months ended January 31, 2007, and were charged to yard operations in accordance with SFAS 151. These costs include the additional subhauling, payroll, equipment and facilities expenses directly related to the operating conditions created by the hurricanes. These costs do not include normal expenses associated with the increased unit volume created by the hurricanes, which are deferred until the sale of the units and are recognized as vehicle pooling costs on the balance sheet. As of January 31, 2007, virtually all of the incremental salvage vehicles received as a result of the hurricanes have been sold. The disposition of the remaining hurricane vehicles is not expected to have a material impact on yard operation expenses in future periods.

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General and administrative expenses from continuing operations were approximately \$15.2 million for the three months ended January 31, 2007, an increase of approximately \$1.7 million, or 12.3%, over the three months ended January 31, 2006. The increase was primarily due to increases in information technology payroll costs, costs relating to Sarbanes-Oxley compliance, SFAS 123(R) stock compensation costs and outside legal expense and general corporate expansion. General and administrative expenses increased to 11.8% of revenues during the three months ended January 31, 2007, as compared to 10.8% of revenues during the three months ended January 31, 2006.

Total other income was approximately \$3.5 million during the three months ended January 31, 2007, an increase of approximately \$1.8 million from the three months ended January 31, 2006. The increase is due primarily to a \$1.5 million increase in interest income due to higher interest rates and a higher average cash and investments balance and a decrease of \$0.8 million in losses from an equity investment in Lanelogic LLC, a Delaware limited liability company ( Lanelogic ). During the quarter ended January 31, 2007, our Chairman and CEO made a personal unsecured loan to Lanelogic to prevent a restriction of working capital from disrupting its roll out as Lanelogic sought additional equity financing. The loan was also repaid during the current quarter. We have concluded that the personal unsecured loan did not cause a change in the accounting of Lanelogic as an equity method investment. During the three months ended January 31, 2007, Lanelogic received a strategic equity investment totaling approximately \$10 million from two new investment groups as well as Lanelogic's founder. The Company did not participate in this additional equity financing into Lanelogic, which reduced our ownership percentage from 50% to 37%. In addition, Lanelogic converted from a limited liability company to a Delaware Corporation, of which we are now a stockholder.

Our effective combined federal, state and local income tax rates for three months ended January 31, 2007 and 2006 were approximately 37.6% and 32.6%, respectively. The increase in the effective tax rate is primarily the result of the 2006 period including a \$1.8 million out-of-period reduction, to deferred tax liabilities and income tax expense originating primarily in 2001 and prior years.

During the three months ended January 31, 2006 we adopted a formal plan to discontinue the operations of our public auction business Motors Auction Group ( MAG ) and dispose of or convert the related assets. The MAG yards converted into salvage facilities will continue to be included in the results of continuing operations on the income statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

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

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

Due to the foregoing factors, we realized net income of approximately \$30.4 million for the three months ended January 31, 2007, compared to net income of approximately \$7.9 million for the three months ended January 31, 2006.

***Six Months Ended January 31, 2007 Compared to Six Months Ended January 31, 2006***

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Revenues from continuing operations were approximately \$261.0 million during the six months ended January 31, 2007, an increase of approximately \$19.2 million, or 7.9%, over the six months ended January 31, 2006. Revenue growth from same store sales, those opened before January 31, 2005, was approximately \$17.0 million. Revenue growth from new facilities, those opened after February 1, 2005, including facilities in or near Billings, Montana; Dover, Florida; Jacksonville, Florida; Baltimore, Maryland; and Woodburn, Oregon was approximately \$2.2 million.

Yard operation expenses from continuing operations were approximately \$138.8 million during the six months ended January 31, 2007, a decrease of approximately \$5.0 million, or 3.5%, over the six months ended January 31, 2006.

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Included in yard expenses is depreciation expense of \$15.3 million, an increase of \$2.7 million over the six months ended January 31, 2006. Yard operation expenses decreased to 53.2% of revenues during six months ended January 31, 2007, as compared to 59.4% of revenues during the six months ended January 31, 2006. The decreases in yard expenses, excluding depreciation, were primarily attributable to the decrease in incremental abnormal costs incurred as a result of Hurricanes Katrina and Rita during the six months ended January 31, 2006. These additional inventory-type costs were approximately \$9.5 million during the six months ended January 31, 2006 as compared to \$0.5 million during the six months ended January 31, 2007, and were charged to yard operations in accordance with SFAS 151. These costs include the additional subhauling, payroll, equipment and facilities expenses directly related to the operating conditions created by the hurricanes. These costs do not include normal expenses associated with the increased unit volume created by the hurricanes, which are deferred until the sale of the units and are recognized as vehicle pooling costs on the balance sheet. As of January 31, 2007, virtually all of the incremental salvage vehicles received as a result of the hurricanes have been sold. The disposition of the remaining hurricane vehicles is not expected to have a material impact on yard operation expenses in future periods.

General and administrative expenses from continuing operations were approximately \$30.2 million for the six months ended January 31, 2007, an increase of approximately \$3.1 million, or 11.6%, over the six months ended January 31, 2006. The increase was primarily due to increases in information technology payroll costs, costs relating to Sarbanes-Oxley compliance, SFAS 123(R) stock compensation costs and outside legal expense and general corporate expansion. General and administrative expenses increased slightly to 11.6% of revenues during the six months ended January 31, 2007, as compared to 11.2% of revenues during the six months ended January 31, 2006.

Total other income was approximately \$5.0 million during the six months ended January 31, 2007, an increase of approximately \$0.9 million from the six months ended January 31, 2006. The increase is due primarily to a \$2.7 million increase in interest income due to higher interest rates and a higher average cash and investments balance. This increase was partially offset by an increase of \$1.4 million in losses from an equity investment in Lanelogic. During the quarter January 31, 2007, our Chairman and CEO made a personal unsecured loan to Lanelogic to prevent a restriction of working capital from disrupting its business as Lanelogic sought additional equity financing. The loan was also repaid during the current quarter. We have concluded that the personal unsecured loan did not cause a change in the accounting of Lanelogic as an equity method investment. During the six months ended January 31, 2007, Lanelogic received a strategic equity investment totaling approximately \$10 million from two new investment groups as well as Lanelogic's founder. The Company did not participate in this additional equity financing into Lanelogic, which reduced our ownership percentage from 50% to 37%. In addition, Lanelogic converted from a limited liability company to a Delaware Corporation, of which we are now a stockholder.

Our effective combined federal, state and local income tax rates for the six months ended January 31, 2007 and 2006 were approximately 37.4% and 35.2%, respectively. The increase in the effective tax rate is primarily the result of the 2006 period including a \$1.8 million out-of-period reduction, to deferred tax liabilities and income tax expense originating primarily in 2001 and prior years.

During the six months ended January 31, 2006, we adopted a formal plan to discontinue the MAG operations and dispose of or convert the related assets. The MAG yards converted into salvage facilities will continue to be included in the results of continuing operations on the income statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*.

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

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

Due to the foregoing factors, we realized net income of approximately \$60.7 million for the six months ended January 31, 2007, compared to net income of approximately \$30.7 million for the six months ended January 31, 2006.

## **Liquidity and Capital Resources**

Historically, we have financed our growth through cash generated from operations, public offerings of common stock, the equity issued in conjunction with certain acquisitions and debt financing. Cash and cash equivalents, combined with short-term investments increased by approximately \$44.6 million from July 31, 2006 to January 31, 2007, as a result of cash generated from continuing operations, which was reduced by cash used for purchases of property and equipment. During the winter months, most of our facilities process 10% to 30% more vehicles than at other times of the year. This increased seasonal volume requires the increased use of our cash to pay out advances and handling costs of the additional business. Our primary source of cash generated by operations is from the collection of sellers' fees, buyers' fees and reimbursable advances from the proceeds of auctioned salvage vehicles.

As of January 31, 2007, we had working capital of approximately \$391.9 million, including cash, cash equivalents and short-term investments of approximately \$319.9 million. During the course of the year, we invest substantially all of our cash balances in AAA-rated auction rate securities and typically convert a portion of these securities to cash and cash equivalents prior to the end of each quarter. Auction rate securities are principally variable rate securities tied to short-term interest rates with maturities on the face of the securities in excess of 90 days. Auction rate securities have interest rate resets through a modified Dutch auction, at predetermined short-term intervals, usually every 7, 28 or 35 days. They trade at par and are callable at par on any interest payment date at the option of the issuer. Interest paid during a given period is based upon the interest rate determined during the prior auction. Although these instruments are issued and rated as long-term securities, they are priced and traded as short-term securities because of the liquidity provided through the interest rate reset.

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

## ***Operating Activities***

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Net cash provided by operating activities increased by approximately \$35.6 million to \$61.6 million during the six months ended January 31, 2007 when compared to the six months ended January 31, 2006, due to the increase in net income which was offset in part to the timing of routine changes in working capital items. The increase in net income is primarily a result of the loss on discontinued operations in the amount of \$22.3 million which was recorded during the six months ended January 31, 2006.

### *Investing Activities*

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During the six months ended January 31, 2007, we purchased approximately \$428.1 million in short-term investments. These purchases were partially offset by the sale of \$380.9 million of short-term investments. As noted above, we typically invest our cash in auction rate notes with ratings of AAA.

Capital expenditures related to continuing operations (excluding those associated with fixed assets attributable to acquisitions) were approximately \$37.4 million and \$41.1 million for six months ended January 31, 2007 and 2006, respectively. Our capital expenditures are related primarily to opening and improving facilities and acquiring yard equipment. We continue to expand and invest in new and existing facilities in order to handle increased volume and standardize the appearance of existing locations.

During the six months ended January 31, 2007, we did not acquire any facilities. During the six months ended January 31, 2006, we used cash for the acquisition of facilities in or near Fruitland, Maryland; Altoona, Pennsylvania; Chambersburg, Pennsylvania; York Haven, Pennsylvania; Greenwood, Nebraska; and Grand Island, Nebraska, which had an aggregate cash cost of approximately \$22.4 million.

During the six months ended January 31, 2006 the Company committed to invest \$9.0 million for a 50% equity interest in Lanelogic, of which \$3.0 million was contributed during the three months ended October 31, 2005 and \$6.0 million was contributed during the three months ended January 31, 2006.

### *Financing Activities*

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For the six months ended January 31, 2007 and 2006, we generated approximately \$14.5 million and \$4.8 million, respectively, through the exercise of stock options, including the related excess tax benefit from share based payment arrangements and shares issued under our Employee Stock Purchase Plan.

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In February 2003, our Board of Directors authorized us to repurchase up to 9.0 million shares of our common stock. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the share repurchase program. The repurchases will be made at such times and in such amounts as we deem appropriate and may be discontinued at any time. For the six months ended January 31, 2006, we repurchased 366,000 shares at a weighted average price of \$24.24. We did not repurchase any shares during the six months ended January 31, 2007. The total number of shares repurchased under the program as of January 31, 2007 is approximately 4.0 million, leaving approximately 5.0 million available under the repurchase program.

*Lease, Purchase and Other Contractual Obligations*

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

Contractual Obligations (1)	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	\$ 118,508	\$ 22,298	\$ 35,951	\$ 27,171	\$ 33,088

Commercial Commitments (2)	Amount of commitment expiration per period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Letters of credit	\$ 9,946	\$ 9,946	\$	\$	\$

(1) Contractual obligations consist of future non-cancelable minimum lease payments under operating leases entered into in the ordinary course of business.

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

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal exposures to financial market risk are interest rate and foreign currency risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio of marketable securities. As of January 31, 2007, our cash, cash equivalents and short-term investments consisted primarily of funds invested in money market accounts, which bear interest at a variable rate and AAA rated auction rate securities, which also bear interest at a variable rate. Due to the average maturity and nature of the Company's investment portfolio, we believe a sudden change in interest rates would not have a material effect on the value of our investment portfolio. As the interest rates on a material portion of our cash, cash equivalents and short-term investments are variable, a change in interest rates earned on our investment portfolio would impact interest income along with cash flows, but would not materially impact the fair market value of the related underlying instruments.

Our exposure to foreign currency risks relates to our operations in Canada, which have not been significant. We do not hedge our exposure to the Canadian dollar. We do not use derivative financial instruments for speculative or trading purposes.

#### ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, or Disclosure Controls, as of the end of the period covered by this quarterly report on Form 10-Q. This evaluation, or Controls Evaluation, was performed under the supervision and with the participation of management, including our Chairman of the Board, Chief Executive Officer and Director (our CEO) and our Senior Vice President and Chief Financial Officer (our CFO). Disclosure Controls are controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure Controls include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our Disclosure Controls include some, but not all, components of our internal control over financial reporting.

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

(b) Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### PART II - OTHER INFORMATION

**ITEM 1. LEGAL PROCEEDINGS**

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

Ciano Dessources filed a lawsuit on May 21, 2003 in the Commonwealth of Massachusetts Superior Court against Copart of Connecticut, Inc. and Copart, Inc., which suit purported to be a class action on behalf of persons whose vehicles were disposed of by us as abandoned vehicles and which the named plaintiff contended were disposed of without complying with state laws. On February 14, 2007, the parties entered into a settlement agreement terminating the lawsuit.

On September 16, 2005, Richard M. Gray filed suit against Copart of Connecticut, Inc. and A. Safrin in the State Court of the County of Chatham, State of Georgia, alleging a class action for unreasonable amounts claimed for storage liens by us, and related claims. Relief sought includes class certification, damages, fees, costs and expenses. Our motion for summary judgment was heard on January 31, 2007 and no decision has yet been made. We believe the claim is without merit, and are defending the lawsuit vigorously.

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

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On August 7, 2006, Kimberly and Jason Green filed suit against Copart in the Superior Court of the State of California, County of Sacramento, making allegations pursuant to a California consumer protection statute similar to a class action for unreasonable amounts claimed for storage liens by us, and related claims. Relief sought includes class certification, damages, fees, costs and expenses. We filed an answer on September 1, 2006 denying the claim. We believe the claim is without merit, and are defending the lawsuit vigorously.

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

#### **ITEM 1A. RISK FACTORS**

Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.

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

Historically, a limited number of vehicle suppliers have accounted for a substantial portion of our revenues. In the second quarter of fiscal 2007, vehicles supplied by our largest supplier accounted for approximately 11% of our revenues. Supplier arrangements are either written or oral agreements typically subject to cancellation by either party upon 30 to 90 days notice. Vehicle suppliers have terminated agreements with us in the past in particular markets, which has affected the pricing for sales services in those markets. There can be no assurance that our existing agreements will not be cancelled. Furthermore, there can be no assurance that we will be able to enter into future agreements with vehicle suppliers or that we will be able to retain our existing supply of salvage vehicles. A reduction in vehicles from a significant vehicle supplier or any material changes in the terms of an arrangement with a substantial vehicle supplier could have a material adverse effect on our results of operations and financial condition. In addition, a failure to increase our sources of vehicle supply could adversely affect our earnings and revenue growth rates.

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

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

- Our operating results in a particular period could be adversely affected in the event our networks are not operable for an extended period of time for any reason, as a result of Internet viruses, or as a result of any other technological circumstance that makes us unable to conduct our virtual sales.
- Our business is increasingly reliant on internally developed technology, and we have limited historic experience developing technologies or systems for large-scale implementation and use.
- Our general and administrative expenses have tended to increase as a percentage of revenue as our information technology payroll has increased.
- The change in our business model may make it more difficult for management, investment analysts, and investors to model or predict our future operating results until sufficient historic data is available to evaluate the effect of the VB2 implementation over a longer period of time and in different economic environments.
- Our increasing reliance on proprietary technology subjects us to intellectual property risks, including the risk of third party infringement claims or the risk that we cannot establish or protect intellectual property rights in our



technologies. We have filed patent applications for VB2 in the United States, Netherlands, and Europe, but we cannot provide any assurances that patents will actually issue or that, if issued, the patent could not later be found to be unenforceable or invalid.

**Our operating results were adversely affected by abnormal expenses associated with Hurricanes Katrina and Rita during the year ended July 31, 2006, and our operating margins in future periods could be adversely affected by future hurricanes.**

During the year ended July 31, 2006, we recognized substantial additional costs associated with Hurricanes Katrina and Rita. These additional costs, characterized as abnormal under SFAS 151, were recognized during the year ended July 31, 2006, and include the additional subhauling, payroll, equipment and facilities expenses directly related to the operating conditions created by the hurricanes. We expect these costs to continue in future periods. These abnormal costs do not include the normal expenses associated with the increased unit volume created by the hurricanes, which are deferred until the sale of the unit and are reflected in vehicle pooling costs on the balance sheet.

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

We believe that the implementation of our proprietary VB2 sales technologies across our salvage operations has had a favorable impact on our results of operations by increasing the size and geographic scope of our buyer base and increasing the average selling price for vehicles sold through our sales. VB2 was implemented across all our salvage yards beginning in the third quarter of fiscal 2004. We do not believe, however, that we will continue to experience improvements in our results of operations at the same relative rates we have experienced in the last few years.

**Failure to have sufficient capacity to accept additional cars at one or more of our salvage yards could adversely affect our relationships with insurance companies or other suppliers of salvage vehicles.**

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

**Factors such as mild weather conditions in the United States can have an adverse effect on our revenues and operating results as well as our revenue and earnings growth rates.**

Mild weather conditions in the United States tend to result in a decrease in the available supply of salvage vehicles because traffic accidents decrease and fewer automobiles are damaged. Accordingly, mild weather can have an adverse effect on our salvage vehicle inventories, which would be expected to have an adverse effect on our revenue and operating results and related growth rates. Conversely, our inventories will tend to increase in poor weather such as a harsh winter or as a result of adverse weather-related conditions such as flooding. During periods of mild weather conditions, our ability to increase our revenues and improve our operating results and related growth will be increasingly dependent on our ability to obtain additional vehicle suppliers and to compete more effectively in the market, each of which is subject to the other risks and uncertainties described in these sections.

**High fuel prices in the United States and Canada may have an adverse effect on our revenues and operating results as well as our earnings growth rates.**

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





**Our future revenues and revenue growth rates will depend in part on growth in the number of salvage vehicles we sell and process, which in turn depends on numerous factors outside our control.**

Our future revenues and revenue growth, if any, will depend in part on increases in the volume of salvage vehicles we sell and process and in part on the revenues we receive for each vehicle sold. In addition to competitive factors such as our ability to establish relationships with suppliers of salvage vehicles, we believe our ability to increase the number of vehicles processed will depend on factors such as increases in the number of automobiles on the road and trends in accident frequency and accident severity. If the trend in any of these elements were to change, it could have an adverse effect on our revenues and rates of revenue growth, if any. For example, although the number of automobiles on the road has historically increased, the rate of increase may vary from period to period due, among other factors, to the state of the economy, rates of population growth, demographic trends in the ages and number of drivers, or changes in the prices of gasoline. Similarly, rates of accident frequency may depend on weather conditions, and our revenues and growth rates can be adversely affected by mild weather conditions as described above. Accident severity rates may vary based on changes in automobile construction standards or new automobile safety regulations and standards. We cannot predict if or to what extent these trends will continue in the future. Absolute decreases or decreases in the growth rates for any of these factors could have an adverse effect on our future revenues or rates of revenue growth.

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

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

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

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

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

- continue to acquire additional facilities on favorable terms;
- expand existing facilities in no-growth regulatory environments;
- increase revenues and profitability at acquired and new facilities;
- maintain the historical revenue and earnings growth rates we have been able to obtain through facility openings and strategic acquisitions; or
- create new salvage vehicle storage facilities that meet our current revenue and profitability requirements.



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

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

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

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

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

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

- fluctuations in the market value of salvage and used vehicles;
- the availability of salvage vehicles;
- variations in vehicle accident rates;
- buyer participation in the Internet bidding process;
- delays or changes in state title processing;
- changes in state or federal laws or regulations affecting salvage vehicles;
- changes in state laws affecting who may purchase salvage vehicles;
- our ability to integrate and manage our acquisitions successfully;
- the timing and size of our new facility openings;
- the announcement of new vehicle supply agreements by us or our competitors;
- severity of weather and seasonality of weather patterns;
- the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our business, operations and infrastructure;
- the availability and cost of general business insurance;

- labor costs and collective bargaining;
- availability of subhaulers at competitive rates;
- acceptance of buyers and sellers of our Internet-based model deploying VB2, a proprietary Internet auction-style sales technology;
- changes in the current levels of out of state and foreign demand for salvage vehicles;
- the introduction of a similar Internet product by a competitor; and
- the ability to obtain necessary permits to operate salvage storage facilities.

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

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

Implementation of VB2 across our salvage operations has increased the relative importance of intellectual property rights to our business. Our intellectual property rights include pending patent applications for VB2 as well as trademarks, trade secrets, copyrights and other intellectual property rights. We are in the process of prosecuting an initial patent application relating to VB2 and cannot predict whether a patent will actually issue from that application. Even if a patent is issued, the scope of the protection gained may be insufficient or any issued patent could subsequently be deemed invalid or unenforceable. In addition, we are increasingly entering into agreements with third parties regarding the license or other use of our intellectual property in foreign jurisdictions. Effective intellectual property protection may not be available in every country in which our products and services are distributed, deployed, or made available. We seek to maintain certain intellectual property rights as trade secrets. The secrecy could be compromised by third parties, or intentionally or accidentally by our employees, which would cause us to lose the competitive advantage resulting from those trade secrets. Any significant impairment of our intellectual property rights, or any inability to protect our intellectual property rights, could have a material adverse effect on our financial position, results of operations, or cash flows.

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

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

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

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

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

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

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

Our operations are subject to federal, state, provincial and local laws and regulations regarding the protection of the environment. In the salvage vehicle sales industry, large numbers of wrecked vehicles are stored at storage facilities and, during that time, spills of fuel, motor oil and other fluids may occur, resulting in soil, surface water or groundwater contamination. In addition, certain of our facilities generate and/or store petroleum products and other hazardous materials, including waste solvents and used oil. We could incur substantial expenditures for preventative, investigative or remedial action and could be exposed to liability arising from our operations, contamination by previous users of certain of our acquired facilities, or the disposal of our waste at off-site locations. Environmental laws and regulations could become more

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stringent over time and there can be no assurance that we or our operations will not be subject to significant costs in the future. Although we have obtained indemnification for pre-existing environmental liabilities from many of the persons and entities from whom we have acquired facilities, there can be no assurance that such indemnifications will be adequate. Any such expenditures or liabilities could have a material adverse effect on our results of operations and financial condition.

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

We rely upon independent subhauers to pick up and deliver vehicles to and from our storage facilities. Our failure to pick up and deliver vehicles in a timely and accurate manner could harm our reputation and brand, which could have a material adverse effect on our business. Further, an increase in fuel cost may lead to increased prices charged by our independent subhauers, which may significantly increase our cost. These costs may not be passed on to our sellers or buyers.

**We are partially self-insured for certain losses.**

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

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

Our executive officers, directors and their affiliates beneficially own, in the aggregate, approximately 20% of our common stock as of January 31, 2007. If they were to act together, these shareholders would have significant influence over most matters requiring approval by shareholders, including the election of directors, any amendments to our articles of incorporation and certain significant corporate transactions, including potential merger or acquisition transactions. In addition, without the consent of these shareholders, we could be delayed or prevented from entering into transactions that could be beneficial to us or our other investors. These shareholders may take these actions even if they are opposed by our other investors.

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

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

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

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

**Compliance with new rules and regulations concerning corporate governance may be costly and time consuming.**

The Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, requires, among other things, that companies adopt new corporate governance measures, imposes comprehensive reporting and disclosure requirements, sets stricter independence and financial expertise standards for board and audit committee members and imposes increased civil and criminal penalties for companies, their chief executive officers and chief financial officers for securities law violations. In addition, the Nasdaq Global Select Market, on which our common stock is traded, has adopted additional comprehensive rules and regulations relating to corporate governance. These laws, rules and regulations will increase the scope, complexity and cost of our corporate governance, reporting and disclosure practices, which could harm our results of operations and divert management's attention from business operations. These new rules and regulations may also make it more difficult and more expensive for us to obtain director



and officer liability insurance and make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee.

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**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth information concerning the number of shares of Common Shares repurchased under our publicly announced program since the beginning of fiscal 2006:

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

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS ADDED TO CURRENT QUARTER**

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- (a) The Annual Meeting of Shareholders of the Company was held on December 18, 2006 (the Meeting ).
- (b) The following directors were elected at the Meeting:

Willis J. Johnson  
 A. Jayson Adair  
 Harold Blumenstein  
 Steven D. Cohan  
 James Grosfeld  
 James E. Meeks  
 Daniel Englander

- (c) The results of the vote on the matters voted upon at the meeting are:

(i)	Election of Directors	For	Withheld
	Willis J. Johnson	85,044,472	2,493,736
	A. Jayson Adair	85,021,322	2,516,886
	Harold Blumenstein	68,109,747	19,428,461
	Steven D. Cohan	86,837,227	700,981
	James Grosfeld	66,229,436	21,308,772
	James E. Meeks	83,143,768	4,394,440
	Daniel Englander	86,889,125	639,083

- (ii) Ratification of Ernst & Young LLP as independent auditors for the Company for the current fiscal year ending July 31, 2007:

For	Against	Abstained	No Vote
87,217,920	240,858	79,430	-0-

The foregoing matters are described in more detail in the Company's definitive proxy statement dated November 27, 2006 relating to the Meeting.

**ITEM 6. EXHIBITS**

(a) Exhibits

- 31.1 Certification of Willis J. Johnson, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of William E. Franklin, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Willis J. Johnson, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of William E. Franklin, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COPART, INC.

/s/ William E. Franklin  
William E. Franklin, Senior Vice President and Chief  
Financial Officer (duly authorized officer and principal  
financial and accounting officer)

Date: March 9, 2007