COPART INC
Form 10-K
October 31, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Form 10-K

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

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: July 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-23255

Copart, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

Title of Each Class	**Name of each exchange on which registered**
Common Stock	The NASDAQ Stock Market LLC

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in the Exchange Act Rule 12b-2).

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

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

The aggregate market value of the voting and non-voting Common Stock held by non-affiliates of the registrant as of January 31, 2006 (the last business day of the registrant s most recently completed second fiscal quarter) was $1,361,457,000 based upon the last sales price reported for such date on the NASDAQ Global Select Market (formerly the NASDAQ National Market). For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

At October 30, 2006, registrant had 90,553,228 outstanding shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13, and 14 of Part III incorporate certain information by reference from the registrant s definitive proxy statement for the Annual Meeting of Shareholders (Proxy Statement). Except with respect to the information specifically incorporated by reference, the Proxy Statement is not deemed to be filed as a part hereof.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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. 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, cont 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 Item 1A Business under the caption entitled Risk Factors beginning on page 15 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 Copart and its management, the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements.

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PART I

Item 1. *Business*

General

Copart, Inc. is a leading provider of salvage vehicle sales services in the United States.

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.

We have grown our salvage vehicle sales business through a combination of acquisitions and the development of new facilities and also by increasing our buyer base and implementing additional value-added services for both buyers and suppliers. For fiscal year 2006, our revenues were approximately $528.6 million and our operating income was approximately $171.6 million from continuing operations. During the fiscal year ending July 31, 2006, we acquired seven salvage vehicle storage facilities and opened four new salvage vehicle storage facilities. We acquired storage sites located in Greenwood, Nebraska; Grand Island, Nebraska; York Haven, Pennsylvania; Chambersburg, Pennsylvania; Altoona, Pennsylvania; Fruitland, Maryland and Billings, Montana. We opened new vehicle storage sites in Honolulu, Hawaii; Lansing, Michigan; Dover, Florida and Jacksonville, Florida.

During fiscal 2004, we converted all of our salvage vehicle storage facilities to an Internet based auction-style model using VB2. This second generation technology combines two bidding processes. An open Preliminary Bidding feature allows a buyer to enter bids either at a bidding station at the storage facility during the three preview days or over the Internet. To improve the effectiveness of bidding, the VB2 system lets a buyer see the current high bid on the vehicle they want to purchase. The preliminary bidding phase is an open sales format. Buyers enter the maximum price they are willing to pay for a vehicle and VB2 s BID4U feature will incrementally bid the vehicle on their behalf. Preliminary bidding ends one hour prior to the start of an Internet-only virtual sale. BID4U will represent the high preliminary bidder at the Internet-only virtual sale. This feature allows bidders the opportunity to bid against each other and the high preliminary bidder. The bidders enter bids via the Internet in a real time format. BID4U submits bids for the high preliminary bidder, up to their maximum bid. When bidding stops, a countdown is initiated. If no bids are received during the countdown, the vehicle sells to the highest bidder. VB2 opens our sales process to registered buyers anywhere in the world who have Internet access.

We believe the implementation of VB2 across our salvage operations has increased the pool of available buyers for each sale and the added competition has increased the amount buyers are willing to pay for vehicles from us. We also believe that it has improved the efficiency of our operations. For fiscal 2006, sales of vehicles to buyers outside the state where the vehicle is located accounted for 50% of total vehicles sold (26% of salvage vehicles were sold to out of state buyers and 24% were sold to buyers out of country, based on registration).

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

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

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

- establishing and efficiently integrating new facilities and acquisitions;

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

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

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

We adopted a formal plan in fiscal 2006 to discontinue the operations of our public auction business Motors Auction Group (MAG), a wholly owned subsidiary, and dispose of the related assets or convert them to our salvage business. We operated six public automobile sales facilities located in Detroit, Michigan; Chesapeake, Virginia; New Castle, Delaware; Greencastle, Pennsylvania; Pittsburgh, Pennsylvania and Richmond, Virginia. We sold the businesses located in Chesapeake, New Castle and Greencastle prior to the end of fiscal 2006. We converted Detroit, Pittsburgh and Richmond into salvage facilities. As of the end of fiscal 2006 no MAG operations remain.

We were organized as a California corporation in 1982 and became a public company in 1994. Our principal executive offices are located at 4665 Business Center Drive, Fairfield, California 94534, and our telephone number at that address is (707) 639-5000. We maintain a website, *http://www.copart.com*, where we make available, free of charge, our code of ethics and our Securities and Exchange Commission filings, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. We are providing the address to our website solely for the information of investors. Information contained on our website is not incorporated by reference herein and our web address is included as an inactive textual reference only.

Industry Overview

The salvage vehicle industry provides a venue for salvage vehicle suppliers to liquidate total loss vehicles. Salvage vehicle sales companies generally auction or sell salvage vehicles on consignment either for a fixed fee or a percentage of the sales price. On occasion, salvage sales companies may purchase vehicles from vehicle suppliers at a formula-based price, based on a percentage of the vehicles estimated pre-loss value (actual cash value) and sell the vehicles for their own account. Salvage vehicle sales companies typically operate from one or more salvage facilities where vehicles are processed, viewed, stored and sold. However, Copart through the introduction of VB2, eliminated local live auctions in our operations, and we now sell all our salvage vehicles over the Internet.

Although there are other suppliers of salvage vehicles, such as financial institutions, vehicle leasing companies, automobile rental companies, charities and automobile dealers, the primary source of salvage vehicles is insurance companies.

Automobile manufacturers are incorporating certain standard features that increase passenger safety, including unibody construction, passenger safety cages with surrounding crumple zones to absorb impacts, plastic components, airbags, xenon lights and computer systems. We believe that one effect of these features is that newer vehicles involved in accidents are more likely to be deemed a total loss for insurance purposes, which could result in an increasing supply of total loss salvage vehicles in the future.

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

Following an accident involving an insured vehicle, the damaged vehicle is generally towed to a towing company or a vehicle repair facility for temporary storage pending insurance company examination. The vehicle is inspected by the insurance company s adjuster, who estimates the costs of repairing the vehicle and gathers information regarding the damaged vehicle s mileage, options and condition in order to estimate its actual cash value (fair market value). The adjuster determines whether to pay for repairs or to classify the vehicle as a total loss based upon the adjuster s estimate of repair costs and the vehicle s salvage value, as well as customer service considerations. If the cost of repair is greater than the actual cash value less the estimated salvage value, the insurance company generally will classify the vehicle as a total loss. The insurance company will thereafter assign the vehicle to a salvage vehicle sales company, settle with the insured vehicle owner and receive title to the vehicle.

The primary factors that vehicle suppliers consider when selecting a salvage vehicle sales company include:

- the anticipated percentage return on salvage (i.e., gross salvage proceeds, minus vehicle handling and selling expenses, divided by the actual cash value);
- the services provided by the salvage vehicle sales company and the degree to which such services reduce administrative costs and expenses;
- the price the salvage vehicle sales company charges for its services;
- national coverage and ability to respond on a national scale; and
- the ability to generate custom seller reports.

Upon receipt of the pick up order (the assignment), the salvage vehicle sales company arranges for the transport of a vehicle to a facility. As a service to the vehicle supplier, the salvage vehicle sales company will customarily pay advance charges (reimbursable charges paid on behalf of vehicle suppliers) to obtain the subject vehicle s release from a towing company or vehicle repair facility. Typically, advance charges paid on behalf of the vehicle supplier are recovered upon sale of the salvage vehicle.

The vehicle then remains in storage until ownership documents are transferred from the insured vehicle owner and the title to the vehicle is cleared through the appropriate state s motor vehicle regulatory agency (DMV). Total loss vehicles may be sold

in most states only after obtaining a salvage title from the DMV. Upon receipt of the appropriate documentation from the DMV, which is generally received within 45 to 60 days of vehicle pick-up, the vehicle is sold.

Operating and Growth Strategy

Our growth strategy is to increase our 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 affect cost efficiencies at each of our acquired facilities by introducing our operational procedures, integrating our management information systems and redeploying personnel when necessary.

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

Acquire and Develop New Salvage Vehicle Storage Facilities in Key Markets

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

The following table sets forth facilities that we have acquired or opened from August 1, 2003 through July 31, 2006.

Salvage Locations	Acquisition/ Opening Date	Geographic Service Area
Toronto, Canada	September 2003	Ontario, Canada
Eugene, Oregon	September 2003	Central Oregon
Helena, Montana	January 2004	Montana
Cleveland, Ohio	June 2004	Northeast Ohio and Northwestern Pennsylvania
Anchorage, Alaska	July 2004	Alaska
Strongsville, Ohio	January 2005	Northwest Ohio
Ocala, Florida	February 2005	Central Florida
Knoxville, Tennessee	February 2005	Eastern Tennessee
Lexington, Kentucky	April 2005	Northern and Central Kentucky
Loganville, Georgia	April 2005	Central Georgia
Spokane, Washington	July 2005	Eastern Washington and Northern Idaho
Tallahassee, Florida	July 2005	Gulf Region
Hialeah, Florida	July 2005	Southeast Florida
Columbia, Missouri	July 2005	Central Missouri
Honolulu, Hawaii	August 2005	Hawaii
Greenwood, Nebraska	September 2005	Eastern Nebraska
Grand Island, Nebraska	September 2005	Eastern Nebraska
York Haven, Pennsylvania	November 2005	Southern Pennsylvania
Chambersburg, Pennsylvania	November 2005	Southern Pennsylvania
Altoona, Pennsylvania	November 2005	Central Pennsylvania
Fruitland, Maryland	November 2005	Eastern Maryland
Lansing, Michigan	December 2005	Central Michigan
Billings, Montana	March 2006	Central Montana
Dover, Florida	July 2006	Western Florida
Jacksonville, Florida	July 2006	Northeast Florida

Pursue National and Regional Vehicle Supply Agreements

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

Expand Our Service Offerings to Suppliers and Buyers

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

Our Competitive Advantages

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

National Coverage and Ability to Respond on a National Scale

Since our inception in 1982, we have expanded from a single facility in Vallejo, California to an integrated network of 122 facilities located in the United States and Canada as of July 31, 2006. We are able to offer integrated services on a national basis to our vehicle suppliers, which allow us to respond to the needs of our suppliers and buyers with maximum efficiency. Our national coverage provides our suppliers with key advantages, including:

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

Value-Added Services

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

- Internet bidding, Internet proxy bidding and virtual sales powered by VB2, which enhance the competitive bidding process;
- online payment capabilities via our ePay product;

- e-mail notifications to potential buyers of salvage vehicles that match desired characteristics;

- sophisticated vehicle processing at storage sites, including ten-view digital imaging of each vehicle and the scanning of each vehicle s title and other significant documents such as body shop invoices, all of which are available from us through the Internet;

- CoPartfinder, our Internet-based used vehicle parts locator that provides vehicle dismantlers with greater resale opportunities for their salvage purchases;

- Offsite sales, which allow vehicle suppliers to sell any vehicle, boat, or heavy equipment without transporting it to one of our facilities;

- Specialty sales, which allow buyers the opportunity to focus on select types of vehicles regardless of location, as we conduct a single national auction by vehicle type: i.e. motorcycles, heavy equipment, boats, recreational vehicles and rental cars; and

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

Proven Ability to Acquire and Integrate Acquisitions

We have a proven track record of successfully acquiring and integrating salvage vehicle storage facilities. Since becoming a public company in 1994, we have completed the acquisition of 67 salvage vehicle storage facilities. As part of our acquisition and integration strategy, we seek to:

- strengthen our national network and access new markets;

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

- introduce our comprehensive services and operational expertise.

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

Technology to Enhance and Expand Our Business

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

Our Service Offerings

We offer vehicle suppliers a full range of services, which expedite each stage of the salvage vehicle sales process, maximizing proceeds and minimizing costs.

Online Supplier Access

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

Salvage Estimation Services

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

Virtual Insured Exchange (VIX)

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

Transportation Services

We maintain contracts with third-party vehicle transport companies, which enables us to pick up most of our suppliers vehicles within 24 hours. Our national network and transportation capabilities provides cost and time savings to our vehicle suppliers and ensures on-time vehicle pick up and prompt response to catastrophes and natural disasters.

Vehicle Inspection Stations

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

On-Demand Reporting

We provide vehicle suppliers with on-demand reports online, via fax or e-mail that summarize data on salvage vehicles that we process for the particular supplier. These reports track our vehicle suppliers gross and net returns on each vehicle, service charges, and other data that enable our vehicle suppliers to more easily administer and monitor the salvage vehicle disposition process.

DMV Processing

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

Flexible Vehicle Processing Programs

At the election of the vehicle supplier, we sell vehicles pursuant to our Percentage Incentive Program consignment basis or on a fixed fee consignment basis.

Percentage Fee Consignment. Our Percentage Incentive Program (PIP) is an innovative processing program designed to broadly serve the needs of vehicle suppliers. Under PIP, we agree to sell all of the salvage vehicles of a vehicle supplier in a specified market, usually for a predetermined percentage of the vehicle sales price. Because our revenues under PIP are directly linked to the vehicle s sale price, we have an incentive to actively merchandise those vehicles to maximize the net return on salvage vehicles. We provide the vehicle supplier, at our expense, with transport of the vehicle to our nearest facility, storage for up to 90 days and DMV document and title processing. In addition, we provide merchandising services such as covering or taping openings to protect vehicle interiors from weather, washing vehicle exteriors, vacuuming vehicle interiors, cleaning and polishing dashboards and tires, making keys for drivable vehicles and identifying drivable vehicles. We believe our merchandising efforts increase the sales prices of salvage vehicles, thereby increasing the return on salvage vehicles to both vehicle suppliers and us.

Fixed Fee Consignment. Under our fixed fee consignment program, we sell vehicles for a fixed consignment fee, generally $50 to $175 per vehicle. 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.

Buyer Network

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

Sales Process

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

CoPartfinder

CoPartfinder is our unique Internet search engine that enables users to locate used vehicle parts quickly and efficiently. CoPartfinder is accessible by the public through a Copart-sponsored website. CoPartfinder lists vehicles recently sold through VB2

and identifies certain purchasers. This allows vehicle dismantlers and other resellers to streamline their parts sale process and access a large pool of potential buyers. Parts buyers can use CoPartfinder to search for specific vehicle makes and models and view digital images of vehicles that meet their requirements. Once a specific parts supplier is identified for a specific part requirement, buyers may have the option to call, fax, or e-mail the dismantler/supplier. We believe that CoPartfinder provides an incentive for vehicle dismantlers to purchase their salvage vehicles through our sales process.

Supply Arrangements and Supplier Marketing

We obtain salvage vehicles from hundreds of different vehicle suppliers. State Farm Insurance Company accounted for 14%, 12% and 12% of our revenues for fiscal years 2006, 2005 and 2004, respectively. Of the total number of vehicles that we processed in fiscal years 2006, 2005 and 2004, we obtained approximately 83%, 79% and 85%, respectively, from insurance company suppliers. Our arrangements with our suppliers are typically subject to cancellation by either party upon 30 to 90 days notice.

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

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

Buyers

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

Competition

We face significant competition for the supply of salvage vehicles and for the buyers of those vehicles. We believe our principal competitors include vehicle auction and sales companies and vehicle dismantlers. These national, regional and local competitors may have established relationships with vehicle suppliers and buyers and may have financial resources that are greater than ours. The largest national or regional vehicle auctioneers include the ADESA Corporation; Auction Broadcasting Company; Insurance Auto Auctions, Inc.; Manheim Auctions and SADISCO. The largest national dismantlers include Greenleaf and

LKQ Corporation. These national dismantlers, in addition to trade groups of dismantlers such as the American Recycling Association and the United Recyclers Group, may purchase salvage vehicles directly from insurance companies, thereby bypassing auction and sales companies entirely, including us.

Management Information Systems

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

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

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

Employees

As of July 31, 2006, we had approximately 2,133 full-time employees, of whom approximately 282 were engaged in general and administrative functions and approximately 1,851 were engaged in yard operations. We are not currently subject to any collective bargaining agreements and believe our relationships with our employees are good.

Environmental Matters

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

In connection with the acquisition of our Dallas, Texas facility in 1994, we set aside $3.0 million to cover the costs of environmental remediation, stabilization and related consulting expenses for a six-acre portion of the facility that contained elevated levels of lead due to the activities of the former operators. We began the stabilization process in 1996 and completed it in 1999. We paid all remediation and related costs from the $3.0 million fund and, in accordance with the acquisition agreement, distributed the remainder of the fund to the seller of the Dallas facility, less $.2 million which was held back to cover the costs of obtaining the no-further-action letter. In September 2002, our environmental engineering consultant issued a report, which concludes that the soil stabilization has effectively stabilized the lead-impacted soil, and that the concrete cap should prevent impact to storm water and subsequent surface water impact. Our consultant thereafter submitted an Operations and Maintenance

Plan (Plan) to the Texas Commission on Environmental Quality (TCEQ) providing for a two-year inspection and maintenance plan for the concrete cap, and a two-year ground and surface water monitoring plan. In January of 2003, the TCEQ approved the Plan, subject to the additions of upstream (background) surface water samples from the intermittent stream adjacent to the facility and documentation of any repairs to the concrete cap during the post closure-monitoring period. The first semi-annual water sampling was conducted in April 2003, which reflected that the lead-impacted, stabilized soil is not impacting the ground and/or surface water. The second round of semi-annual water samples collected in October and November 2003 reported concentration of lead in one storm water and one surface water sample in excess of the established upstream criteria for lead. In correspondence, which we received in July 2004, the TCEQ approved with comment our water monitoring report dated February 24, 2004. The TCEQ instructed us to continue with post-closure monitoring and maintenance activities and submit the next report in accordance with the approved schedules. In February 2005, a report from our environmental engineering consultant was transmitted to the TCEQ containing the results of annual monitoring activities consisting of two (2) semi-annual sampling events which occurred in April/June 2004 and October/November 2004. Laboratory analytical results indicated no lead concentrations exceeding the target concentration level set in the Corrective Measures Study for the site. The Company s environmental engineering consultant concluded in the February 2005 report to the TECQ that it is unlikely that lead concentrations detected in the stormwater runoff samples are attributable to the lead impacted soils. Based on the results of the 2004 samplings, we requested that no further action be taken and that a closure letter be issued by the TCEQ. We are not assured of receiving the no-further-action letter and we may incur further liabilities if the stabilization process proves ineffective. In addition, in 1994, we detected a small quantity of two hazardous substances in a temporary groundwater monitoring well at the Dallas facility. Our environmental consultants concluded that both substances arose from an off-site source and no further action was recommended.

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

Governmental Regulations

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

Legal Proceedings

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

Ciano Dessources filed a lawsuit on May 21, 2003, in the Commonwealth of Massachusetts, Superior Court Department against Copart of Connecticut, Inc. and Copart, Inc. which purported to be a class action on behalf of persons whose vehicles were disposed of by us as abandoned vehicles, which the named plaintiff contends were disposed of without complying with state laws. Relief sought includes class certification, declaratory, remedial and/or injunctive relief, including the ordering of a

compliance program that will essentially protect consumers, as well as damages, fees, and costs. Copart s Motion for Summary Judgment was granted on December 8, 2004, dismissing the class claim element of the lawsuit. On August 9, 2006, Plaintiff s motion for summary judgment was denied. A trial date has not been set. Copart believes the claim is without merit, and intends to continue to defend the lawsuit vigorously.

On September 16, 2005, Richard M. Gray filed suit against Copart and A. Safrin, in the State Court for the County of Chatham, State of Georgia, alleging a class action for unreasonable amounts claimed for storage liens by Copart, and related claims. Relief sought included class certification, damages, fees, costs and expenses. Copart has filed a motion for summary judgment, the hearing for which has not been scheduled. Copart believes the claim is without merit, and intends to continue to defend the lawsuit vigorously.

On July 28, 2006, Foreign Car Sales and Service LLC filed suit against Copart in the United States District Court for the Middle District of Louisiana alleging antitrust violations and unfair trade practices. Relief sought is class certification, damages, fees, costs and expenses. Plaintiff is in pro per and is demanding a total award of the now current value of 51% of Copart issued stock. Copart believes the claim is without merit, and intends to defend 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 Copart, and related claims. Relief sought included class certification, damages, fees, costs and expenses. Copart filed an answer on September 1, 2006 denying the claim. Copart believes the claim is without merit, and intends to continue to defend this lawsuit vigorously.

On June 10, 2005, Manheim Services Corp. filed suit against Copart, Inc. in the United States District Court for the Northern District of Georgia, Atlanta Division, alleging infringement of Manheim s assigned patent (U.S. Patent No. 5,774,873). Relief sought included a patent infringement judgment, an injunction prohibiting us from using any infringing product or service (including VB2), damages, fees, costs and expenses. On August 3, 2005, we denied the claim and asserted counterclaims based on violations of antitrust laws and common-law tortuous interference (the Competition Claims). On February 10, 2006, the District Court denied Manheim s motion to bifurcate the Competition Claims and stayed discovery on the Competition Claims through April 13, 2006. Additionally, on February 6, 2006, Manheim requested the Court to grant it leave to assert its additional alleged claims of infringement by us of Manheim s assigned U.S. Patent No. 6,006,201, The Court denied this request on May 30, 2006. On June 27, 2006, Manheim Services Corp dismissed all claims against us alleging patent infringement and we dismissed all of our counterclaims against Manheim Services Corp alleging antitrust violations. The matter was resolved amicably with express denials of liability from both parties.

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, the amount and timing of the resolution of such matters. We believe that any ultimate liability will not have a material effect on our financial position, results of operations or cash flows. However, the amount of the liabilities associated with these claims, if any, cannot be determined with certainty.

Item 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 fiscal 2006, vehicles supplied by our two largest suppliers accounted for approximately 21% 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 the 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 FAS 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. As of July 31, 2006, approximately 28% of the incremental salvage vehicles received as a result of the hurricanes remained unsold and in inventory. The Company expects that the majority of these vehicles will be disposed of primarily in the next two quarters. The Company s expectation that we will sell the balance of the unsold hurricane-related vehicles primarily within the next two quarters is based on management s current expectations, which assumes, among other things, that the Gulf Coast region will not experience any additional adverse weather events, including any additional hurricanes during the remainder of the 2006 hurricane season. The normal costs that have been capitalized will be recognized as yard expense as the vehicles are sold.

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 year.

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. For example, 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.

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;

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- 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,

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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 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 subhaulers 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 subhaulers, 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 21% of our common stock as of July 31, 2006. 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.

Executive Officers of the Registrant

Executive Officers

Our executive officers and their ages as of July 31, 2006 were as follows:

Name	Age	Position
Willis J. Johnson	59	Chairman of the Board, Chief Executive Officer and Director
A. Jayson Adair	36	President and Director
James E. Meeks	56	Executive Vice President, Chief Operating Officer and Director
William E. Franklin	50	Senior Vice President and Chief Financial Officer
Paul A. Styer	50	Senior Vice President, General Counsel and Secretary
Vincent W. Mitz	43	Senior Vice President of Marketing
David L. Bauer	45	Senior Vice President of Information Technology and Chief Information Officer
Russell D. Lowy	47	Senior Vice President of Operations
Thomas E. Wylie	55	Senior Vice President of Human Resources
Simon E. Rote	34	Vice President of Finance

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

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

James E. Meeks has served as our Vice President and Chief Operating Officer since September 1992 when he joined us concurrent with our purchase of South Bay Salvage Pool (San Martin Operation). Mr. Meeks has served as our Executive Vice President and director since October 1996 and as Senior Vice President since April 1995. From April 1986 to September 1992, Mr. Meeks, together with his family, owned and operated the San Martin Operation. Mr. Meeks was also an officer, director and part owner of Cas & Meeks, Inc., a towing and subhauling service company, which he operated from 1991 to March 2001. Mr. Meeks has over 30 years of experience in the vehicle dismantling business.

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

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

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

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

Russell D. Lowy has served as our Senior Vice President of Operations since July 2002. Mr. Lowy served as Vice President of Operations, Eastern Division from December 1999 to July 2002. From December 1998 to December 1999, Mr. Lowy served as Director of Training and Auditing. Mr. Lowy served as Assistant Vice President of Operations from 1996 to 1997, Regional Manager of Northern California from 1995 to 1996 and Marketing

Manager from 1993 to 1994. Prior to joining us, Mr. Lowy spent

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nine years with ADP Claims Solutions Group. Mr. Lowy received a B.S. in Business Administration from California State University, Chico in 1982.

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

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

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

Item 1B. *Unresolved Staff Comments*

Not Applicable.

Item 2. *Properties*

Our corporate headquarters are located in Fairfield, California. This facility consists of approximately 100,000 square feet of office space owned by Copart. We also own or lease an additional 122 operating facilities. In the United States we have facilities in every state except Delaware, New Hampshire, North Dakota, Rhode Island, South Dakota, Vermont and Wyoming. In Canada we are only in the province of Ontario. We believe that our existing facilities are adequate to meet current requirements and that suitable additional or substitute space will be available as needed to accommodate any expansion of operations and additional offices.

Item 3. *Legal Proceedings*

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

Ciano Dessources filed a lawsuit on May 21, 2003, in the Commonwealth of Massachusetts, Superior Court Department against Copart of Connecticut, Inc. and Copart, Inc. which purported to be a class action on behalf of persons whose vehicles were disposed of by us as abandoned vehicles, which the named plaintiff contends were disposed of without complying with state laws. Relief sought includes class certification, declaratory, remedial and/or injunctive relief, including the ordering of a compliance program that will essentially protect consumers, as well as damages, fees, and costs. Copart s Motion for Summary Judgment was granted on December 8, 2004, dismissing the class claim element of the lawsuit. On August 9, 2006, Plaintiff s motion for summary judgment was denied. A trial date has not been set. Copart believes the claim is without merit, and intends to continue to defend the lawsuit vigorously.

On September 16, 2005, Richard M. Gray filed suit against Copart and A. Safrin, in the State Court for the County of Chatham, State of Georgia, alleging a class action for unreasonable amounts claimed for storage liens by Copart, and related claims. Relief sought included class certification, damages, fees, costs and expenses. Copart has filed a motion for summary judgment, the

hearing for which has not been scheduled. Copart believes the claim is without merit, and intends to continue to defend the lawsuit vigorously.

On July 28, 2006, Foreign Car Sales and Service LLC filed suit against Copart in the United States District Court for the Middle District of Louisiana alleging antitrust violations and unfair trade practices. Relief sought is class certification, damages, fees, costs and expenses. Plaintiff is in pro per and is demanding a total award of the now current value of 51% of Copart issued stock. Copart believes the claim is without merit, and intends to defend 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 Copart, and related claims. Relief sought included class certification, damages, fees, costs and expenses. Copart filed an answer on September 1, 2006 denying the claim. Copart believes the claim is without merit and intends to continue to defend this lawsuit vigorously.

On June 10, 2005, Manheim Services Corp. filed suit against Copart, Inc. in the United States District Court for the Northern District of Georgia, Atlanta Division, alleging infringement of Manheim s assigned patent (U.S. Patent No. 5,774,873). Relief sought included a patent infringement judgment, an injunction prohibiting us from using any infringing product or service (including VB2), damages, fees, costs and expenses. On August 3, 2005, we denied the claim and asserted counterclaims based on violations of antitrust laws and common-law tortuous interference (the Competition Claims). On February 10, 2006, the District Court denied Manheim s motion to bifurcate the Competition Claims and stayed discovery on the Competition Claims through April 13, 2006. Additionally, on February 6, 2006, Manheim requested the Court to grant it leave to assert its additional alleged claims of infringement by us of Manheim s assigned U.S. Patent No. 6,006,201, The Court denied this request on May 30, 2006. On June 27, 2006, Manheim Services Corp dismissed all claims against us alleging patent infringement and we dismissed all of our counterclaims against Manheim Services Corp alleging antitrust violations. The matter was resolved amicably with express denials of liability from both parties.

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, the amount and timing of the resolution of such matters. We believe that any ultimate liability will not have a material effect on our financial position, results of operations or cash flows. However, the amount of the liabilities associated with these claims, if any, cannot be determined with certainty.

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

We did not submit any matters to a vote of our shareholders during the fourth quarter of our 2006 fiscal year.

PART II

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

Market Information

The following table summarizes the high and low sales prices per share of our common stock for each quarter during the last two fiscal years. As of July 31, 2006, there were 90,445,208 shares outstanding. Our common stock has been quoted on the Nasdaq under the symbol CPRT since March 17, 1994. As of July 31, 2006, we had 1,521 shareholders of record.

Fiscal Year 2006	High	Low
Fourth Quarter	27.92	23.51
Third Quarter	27.86	24.70
Second Quarter	25.80	21.14
First Quarter	25.50	22.00

Fiscal Year 2005	High	Low
Fourth Quarter	26.21	21.65
Third Quarter	25.99	21.00
Second Quarter	27.33	18.40
First Quarter	23.40	17.70

Dividend Policies

We have not paid a cash dividend since becoming a public company in 1994. We currently intend to retain any earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

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

Stock Repurchase

In February 2003, our Board of Directors authorized us to repurchase up to 9.0 million shares of our common stock. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the share repurchase program. The repurchases will be made at such times and in such amounts as we deem appropriate and may be discontinued at any time. For the year ended July 31, 2006, we repurchased 366,000 shares at a weighted average price of $24.24. For the year ended July 31, 2005, we did not repurchase any shares. The total number of shares repurchased under the program as of July 31, 2006 is approximately 4.0 million, leaving approximately 5.0 million available under the repurchase program.

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares That May Yet Be Purchased Under the Program
Fiscal 2006				
First Quarter				
Second Quarter	366,000	$ 24.24	4,038,300	4,961,700
Third Quarter				
Fourth Quarter				
Fiscal 2005				
First Quarter				
Second Quarter				
Third Quarter				
Fourth Quarter				

Issuances of Unregistered Securities

There were no issuances of unregistered securities in the quarter ended July 31, 2006.

Item 6. ***Selected Financial Data***

The following selected operating and balance sheet data, as of and for the years ended July 31, 2006, 2005 and 2004 have been derived from the audited consolidated financial statements of the Company. The following selected operating and balance sheet data, as of and for the years ended July 31, 2003 and 2002 have been derived from unaudited consolidated financial statements of the Company. The selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Company s consolidated financial statements and the notes thereto.

	Fiscal Year Ending July 31,				
	2006	2005	2004	2003	2002
	(In 000s except per share and other data)				
Operating Data					
Revenues	$ 528,571	$ 447,731	$ 391,014	$ 335,407	$ 306,472
Operating Income	171,562	156,436	124,461	90,638	89,724
Income from continuing operations before income taxes	174,522	164,595	129,921	93,994	94,848
Income tax expense	(61,862)	(62,772)	(50,929)	(36,877)	(36,727)
Income from continuing operations	112,660	101,823	78,992	57,117	58,121
Income (loss) from discontinued operations, net of income tax effects	(15,713)	293	228	105	689
Net income	96,947	102,116	79,220	57,222	57,389
Basic per share amounts:					
Income from continuing operations	$ 1.24	$ 1.13	$ 0.89	$ 0.63	$ 0.65
Discontinued operations	$ (0.17)	$	$	$	$
Net income per share	$ 1.07	$ 1.13	$ 0.89	$ 0.63	$ 0.65
Weighted average shares	90,372	90,162	89,457	91,408	88,718
Diluted per share amounts:					
Income from continuing operations	$ 1.21	$ 1.10	$ 0.87	$ 0.62	$ 0.63
Discontinued operations	$ (0.17)	$	$	$	$
Net income per share	$ 1.04	$ 1.10	$ 0.87	$ 0.62	$ 0.63
Weighted average shares	92,925	92,984	91,537	93,018	91,251
Balance Sheet Data					
Cash, cash equivalents and short-term investments	$ 275,315	$ 252,548	$ 178,320	$ 116,746	$ 132,690
Working capital	328,017	293,696	228,535	166,746	171,753
Total assets	894,705	793,528	673,023	587,100	535,848
Total debt			16	107	409
Shareholders equity	809,970	709,379	602,263	525,640	486,217
Other Data					
Number of storage facilities	122	117	107	102	94

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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. 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, cont 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 Item 1A. Business under the caption entitled Risk Factors beginning on page 15 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 Copart and its management, the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements.

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 action begins. The second step allows buyers to bid against each other, and the high bidder from the preliminary bidding process, in a real-time process over the Internet.

During the second quarter of fiscal 2006, we adopted a formal plan to discontinue the operations of our public auction business Motors Auction Group (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.

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 twelve vehicle storage facilities and established thirteen new facilities since the beginning of fiscal 2004. 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 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. In fiscal 2004 we acquired new facilities in or near Eugene, Oregon; Cleveland, Ohio and Anchorage, Alaska and opened new facilities in or near Toronto, Canada and Helena, Montana. We believe that these acquisitions and openings strengthen our coverage as we have 122 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

The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to vehicle pooling costs, allowance for doubtful accounts, goodwill, income taxes, long-lived assets and self insured liabilities. We base our estimates on historical experience and on

various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management has discussed the selection of critical accounting policies and estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting policies and estimates in this annual report on Form 10-K. Our significant accounting policies are described in Note 2 to our consolidated financial statements for fiscal 2006. The following is a summary of the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition

We provide a portfolio of services to our sellers and buyers that facilitate the sale and delivery of a vehicle from seller to buyer. These services include the ability to use our Internet sales technology and vehicle delivery, loading, title processing, preparation and storage. We evaluate multiple-element arrangements relative to our buyer and seller agreements in accordance with Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21), which addresses accounting for multiple-element arrangements, and Staff Accounting Bulletin No. 104, *Revenue Recognition* (SAB104), 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 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 (SFAS), No. 151, *Inventory Costs* (SFAS 151) to our vehicle pooling costs. SFAS 151 requires that items such as idle facility expense, excessive spoilage, double freight and rehandling costs be recognized as current-period charges regardless of whether they meet the criteria of so abnormal as provided in Accounting Research Bulletin No. 43, Chapter 4, Inventory Pricing. In addition, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of production facilities. The adoption of SFAS 151 increased yard expenses during fiscal 2006, as the Company incurred additional subhauling, payroll, equipment and facilities costs associated with hurricanes Katrina and Rita.

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 also 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 also evaluate the realizability of our deferred tax assets on an ongoing basis. Generally accepted accounting principles require the assessment of the Company s performance and other relevant factors when determining the need for a valuation allowance with respect to these deferred tax assets. The Company s ability to realize deferred tax assets is dependent on its ability to generate future taxable income. Accordingly, the Company has established a valuation allowance 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.

Stock-Based Compensation

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

Retained Insurance Liabilities

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

Results of Operations

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

	Fiscal Years Ended July 31,		
	2006	**2005**	**2004**
Revenues	100.0 %	100.0 %	100.0 %
Operating expenses:			
Yard operations	56.4	54.9	58.2
General and administrative	11.2	10.2	10.0
Total operating expenses	67.6	65.1	68.2
Operating income	32.4	34.9	31.8
Other income, net	0.6	1.8	1.4
Income from continuing operations before income taxes	33.0	36.7	33.2
Income taxes	11.7	14.0	13.0
Income from continuing operations	21.3	22.7	20.2
Income (loss) from discontinued operations, net of income tax effects	(3.0)	0.1	0.1
Net income	18.3 %	22.8 %	20.3 %

Fiscal 2006 Compared to Fiscal 2005

Revenues from continuing operations were approximately $528.6 million during fiscal 2006, an increase of approximately $80.8 million, or 18.1%, over fiscal 2005. The increase was due to increased vehicle sales volume and increased revenue per transaction driven by increased auction proceeds per vehicle. The increase in unit volume was driven by the additional salvage vehicles associated with hurricanes Katrina and Rita, growth in vehicles processed at existing yards and vehicles processed from new yards opened or acquired in fiscal 2006. The increase in gross proceeds per vehicle (the gross sales price of the vehicle at auction) yields higher revenue per car as buyer fees and certain seller fees, including those sold under the PIP program, are based on the gross proceeds per vehicle and generally increase as gross proceeds per vehicle grow. We believe the increase in recent

periods in proceeds per vehicle has been largely attributable to VB2, which allows more buyers to participate in the auctions. Given that VB2 has now been implemented across all of our yards for approximately two years, we do not expect to continue to experience the same incremental favorable impact from VB2 that we have experienced in prior periods. Existing facilities contributed approximately $71.3 million of the revenue growth and new facilities in or near Honolulu, Hawaii; Greenwood, Nebraska; Grand Island, Nebraska; York Haven, Pennsylvania; Chambersburg, Pennsylvania; Altoona, Pennsylvania; Fruitland, Maryland; Lansing, Michigan and Billings, Montana contributed approximately $9.5 million of new revenue growth.

Yard operation expenses from continuing operations were approximately $298.0 million during fiscal 2006, an increase of approximately $52.4 million, or 21.3%, over fiscal 2005. Included in yard expenses is depreciation expense of $26.9 million, an increase of $0.3 million over fiscal 2005. Yard operation expenses increased to 56.4% of revenues during fiscal 2006, as compared to 54.9% of revenues during fiscal 2005. The increases in yard expenses were primarily attributable to the cost of handling increased volume, a general increase in subhauling costs and the incremental abnormal costs incurred as a result of hurricanes Katrina and Rita. These additional inventory-type costs were approximately $14.1 million in fiscal 2006 and were charged to yard operations in accordance with SFAS 151. These costs include the additional subhauling, payroll, equipment and facilities expenses directly related to the operating conditions created by the hurricanes. These costs do not include normal expenses associated with the increased unit volume created by the hurricanes, which are deferred until the sale of the units and are recognized as vehicle pooling costs on the balance sheet. At the end of the year, approximately 28% of the incremental salvage vehicles received as a result of the hurricanes remained unsold and in inventory. We expect the majority of these vehicles to be disposed primarily in the next two quarters. If the Gulf Coast region were to experience additional hurricanes or adverse weather conditions during the recently commenced hurricane season, we may be unable to sell the existing vehicles within the currently anticipated time frame, which may have an adverse effect on our operating results. The processing of the hurricane vehicles has had and may continue to have a negative impact on gross and operating margin percentages.

General and administrative expenses from continuing operations were approximately $59.0 million during fiscal 2006, an increase of approximately $13.4 million, or 29.3%, over fiscal 2005. The increase was primarily due to increases in telecommunication costs, information technology payroll costs, costs relating to Sarbanes-Oxley compliance, SFAS 123(R) stock compensation costs and outside legal expense associated with a patent litigation matter that was settled during fiscal 2006 and other pending litigation and general corporate expansion. General and administrative expenses increased to 11.2% of revenues during fiscal 2006, as compared to 10.2% of revenues during fiscal 2005. The increase in general and administrative expenses as a percentage of total revenues reflects in part changes in the nature of our business. In particular, the introduction of VB2 resulted in a reduction in certain yard operation expenses relating to conducting live auctions but increased our general and administrative expenses as we continue to make technology infrastructure investments and hire additional personnel to enhance and maintain VB2 and other products for use in our auctions.

Total other income was approximately $3.0 million during fiscal 2006, a decrease of approximately $5.2 million, from fiscal 2005. The decrease was due primarily to a $6.8 million loss recognized from an equity investment in an unconsolidated privately-held entity. We expect to recognize additional losses on this investment as the entity incurs development stage operating losses. Our aggregate losses are limited to the amount of our investment. This loss was offset by an increase in interest income of approximately $3.3 million due to higher interest rates and a higher average cash and investments balance. Other income, which consists primarily of rental income and gain on the sales of non-fleet assets, decreased approximately $1.7 million, resulting from losses on disposals of fixed assets.

Our effective combined federal, state and local income tax rates for fiscal 2006 and 2005 was approximately 35.4% and 38.1%, respectively. The decrease in effective tax rate is primarily the result of recording a $1.8 million out-of-period reduction to

deferred tax liabilities and income tax expense originating primarily in 2001 and adjustments to our state tax reserves based on the favorable outcome of an audit.

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

Under Statement of Financial Accounting Standard (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 goodwill exceeded its implied fair value. The corresponding write-down of goodwill of $21.8 million to its fair value was reported as a component of discontinued operations in the accompanying consolidated statements of income. We also determined that the value of the remaining MAG covenants not to compete were impaired and recorded an impairment expense in the amount of $0.5 million. This write-down of covenants not to compete is also reported as a component of discontinued operations in the accompanying consolidated statements of income.

During the second quarter of fiscal 2006, we sold the business and related assets of one of the MAG locations for approximately $0.1 million. During the third quarter of fiscal 2006, we sold the business and related assets including the real estate of one of the MAG locations. We received a $12 million promissory note from the buyer as purchase consideration. The promissory note bears interest at 7% per annum. Interest only payments on the note are due monthly until maturity on May 28, 2011, at which time the balance of the note is due in full. The note receivable is collateralized by the real estate and is personally guaranteed by the buyer. The consideration was allocated to the real estate, based on an appraisal, and to the business in proportion to their estimated fair values. The portion of the consideration allocated to the real estate sale totaled $7.1 million. We deferred a gain on the sale of the real estate of approximately $2.5 million that will be recognized upon payment of the principal balance of the note receivable. The remaining consideration of $4.9 million is allocated to the sale of the business. We recognized a gain on the sale of the business of approximately $3.0 million, which is included in the results of the discontinued operations. During the fourth quarter of fiscal 2006, we sold the business and related assets excluding the real estate of another MAG location. We received a $1.2 million promissory note and $0.2 million in cash from the buyer as purchase consideration. We recognized a gain on the sale of the business of approximately $1.3 million which is included in the results of discontinued operations. As of July 31, 2006, no MAG locations remain. Three of the original six MAG locations were sold and three are being converted into salvage facilities.

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

Fiscal 2005 Compared to Fiscal 2004

Revenues from continuing operations were approximately $447.7 million during fiscal 2005, an increase of approximately $56.7 million, or 14.5%, over fiscal 2004. The increase was due primarily to increased vehicle sales volume, on which fees are generated and higher fees resulting from increased sales proceeds per vehicle. The increase in gross proceeds per vehicle (the gross sales price of the vehicle) yields higher revenue per car as buyer fees and certain fees, including those sold under the PIP

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program, are based on the gross proceeds per vehicle and generally increase as gross proceeds per vehicle grow. We believe the increase in proceeds per vehicle was the result of the introduction of Virtual Bidding Second Generation VB2 as more buyers are able to participate in the sales. Existing facilities contributed approximately $52.1 million of the revenue growth and new facilities in or near Strongsville, Ohio; Ocala, Florida; Knoxville, Tennessee; Lexington, Kentucky; Loganville, Georgia; Spokane, Washington; Tallahassee, Florida; Hialeah, Florida and Columbia, Missouri contributed approximately $4.6 million of new revenue.

Historically, we recorded revenue for most seller and buyer fees upon completion of a sale. During the fourth quarter of fiscal 2005, we recorded a correction of an error to account for our services in accordance with the policy above; the effect of which was to reduce revenue from continuing operations, net income and diluted earnings per share by $4.4 million, $1.5 million and $0.01, respectively for the fourth quarter and fiscal year ended July 31, 2005.

Yard operation expenses from continuing operations were approximately $245.7 million during fiscal 2005, an increase of approximately $18.0 million, or 7.9%, over fiscal 2004. Included in yard operation expenses is depreciation expense of $26.6 million, an increase of $0.7 million over fiscal 2004. The increase in yard operation expenses was due principally to the cost of handling increased volume at existing operations and the costs of new facilities. Approximately $4.4 million of the increase was the result of the acquisition and opening of new facilities. Yard operation expenses from existing facilities grew by approximately $13.1 million, or 6%. Yard operation expenses decreased to 55% of revenues during fiscal 2005, as compared to 58% of revenues during fiscal 2004, due in part to the fixed cost nature of our business and the reduction or elimination of certain yard costs resulting from the implementation of VB2. Yard operation expenses in fiscal 2004 included a net adjustment to insurance reserves and sales taxes that decreased this expense by $3.6 million.

General and administrative expenses from continuing operations were approximately $45.6 million during fiscal 2005, an increase of approximately $6.7 million, or 17.2%, over fiscal 2004. The increase was primarily due to increases in software development cost, technology hardware leasing cost, and IT payroll costs, all directly associated with the development and deployment of VB2. In addition, the Company saw increases in the cost of professional services, impacted by Sarbanes-Oxley compliance and increased payroll and benefit costs associated with expanded support headcount. General and administrative expenses remained relatively flat as a percentage of revenues during fiscal 2005 and 2004.

Total other income was approximately $8.2 million during fiscal 2005, an increase of approximately $2.7 million, or 49.4%, from fiscal 2004. The increase was due primarily to an increase in interest income of approximately $3.4 million due to higher interest rates and a higher cash balance. Gain on the sale of fleet equipment decreased approximately $1.4 million as we sold the majority of the fleet in fiscal 2004 in connection with our decision to subcontract towing services. Other income, which consists primarily of rental income, increased approximately $0.7 million as we continued the rental of primarily unutilized areas within our facilities.

Our effective combined federal, state and local income tax rate from continuing operations for fiscal 2005 and fiscal 2004 was approximately 38.1% and 39.2%, respectively. The decrease in rate is attributable to an overall lower state tax rate, as we made certain revisions to our transfer pricing methodology and the beneficial impact of the growth in interest income which is predominantly federal tax exempt.

Due to the foregoing factors, we realized net income of approximately $102.1 million for fiscal 2005, compared to net income of approximately $79.2 million for fiscal 2004.

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 $22.8 million from July 31, 2005 to July 31, 2006, as a result of cash generated from continuing operations which was reduced by cash used for acquisitions, purchases of property and equipment, an equity investment in an unconsolidated privately-held entity and repurchases of common stock. 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 July 31, 2006, we had working capital of approximately $328.0 million, including cash, cash equivalents and short-term investments of approximately $275.3 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

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

Investing Activities

During the fiscal year ended July 31, 2006, we purchased approximately $717.1 million in short-term investments. These purchases were partially offset by the sale of $568.4 million of short-term investments. We typically invest our cash in auction rate notes with ratings of AAA.

Capital expenditures related to continuing operations (excluding those associated with fixed assets attributable to acquisitions) were approximately $97.0 million, $66.2 million and $61.8 million for fiscal 2006, 2005 and 2004, 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 fiscal year ended July 31, 2006, we used cash for the acquisition of facilities in or near Billings, Montana; Fruitland, Maryland; Altoona, Pennsylvania; Chambersburg , Pennsylvania; York Haven, Pennsylvania; Greenwood, Nebraska and Grand Island, Nebraska, which had an aggregate cash cost of approximately $23.0 million. During the fiscal year ended July 31, 2005, we used cash for the acquisition of operations in Lexington, Kentucky and Columbia, Missouri, which had an aggregate cash cost of approximately $4.5 million. During the fiscal year ended July 31, 2004, we used cash for the acquisition of operations in Eugene, Oregon; Cleveland, Ohio and Anchorage, Alaska, which had an aggregate cash cost of approximately $4.7 million.

During the fiscal year ended July 31, 2006, we invested approximately $8.9 million for a 50% equity interest in a limited liability corporation (the LLC). We are not committed to provide any additional funding to this entity.

Financing Activities

In fiscal 2006, 2005 and 2004, we generated approximately $5.4 million, $1.8 million and $5.1 million, respectively, through the exercise of stock options.

In fiscal 2006, 2005 and 2004, we generated approximately $1.6 million, $1.4 million and $1.3 million, respectively, through the issuance of shares under the employee stock purchase program.

In February 2003, our Board of Directors authorized us to repurchase up to 9.0 million shares of our common stock. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the share repurchase program. The repurchases will be made at such times and in such amounts as we deem appropriate and may be discontinued at any time. For the year ended July 31, 2006, we repurchased 366,000 shares at a weighted average price of $24.24. We accounted for the repurchase of our common stock by reducing common stock for $8.9 million. During the period from February 2003 through July 31, 2006, we repurchased a total of 4,038,300 shares at a weighted average price of $9.92. No shares were repurchased in fiscal 2005. For the year ended July 31, 2004, we repurchased a total of 977,100 shares at a weighted average price of $10.97 per share. We accounted for the repurchases of our common stock by decreasing common stock by $31.2 million. For the period from August 1, 2006 through October 30, 2006, we have not repurchased any shares of our common stock.

Lease, Purchase and Other Contractual Obligations

The following table summarizes our significant contractual obligations and commercial commitments as of July 31, 2006 (in thousands):

Payments Due By Period

Contractual Obligations(1)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Operating Leases	$ 119,625	$ 22,281	$ 34,604	$ 26,039	$ 36,701

Amount of Commitment Expiration Per Period

Commercial Commitments(2)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Letters of Credit	$ 10,550	$ 10,550			

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

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

Credit Facilities

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

Recently Issued Accounting Standards

For a description of the new accounting standards that affect us, see Note 2 to the Consolidated Financial Statements included in this Form 10-K.

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

Our principal exposures to financial market risk are interest rate and foreign currency risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio of marketable securities. As of July 31, 2006, 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 8. *Financial Statements and Supplementary Data*

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

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

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, or Disclosure Controls, as of the end of the period covered by this annual report on Form 10-K. This evaluation, or Controls Evaluation was performed under the supervision and with the participation of management, including our Chairman of the Board, Chief Executive Officer and Director (our CEO) and our Senior Vice President and Chief Financial Officer (our CFO). Disclosure Controls are controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), such as this annual

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

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

Management s Report on Internal Control Over Financial Reporting

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

Management assessed our internal control over financial reporting as of July 31, 2006, the end of our fiscal year. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management s assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment. This assessment is supported by testing and monitoring performed by our Finance department.

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

Our independent registered public accounting firm, Ernst & Young LLP, audited management s assessment of internal control over financial reporting and also independently assessed the effectiveness of our internal control over financial reporting as of July 31, 2006. Ernst & Young LLP has issued an attestation report which appears on the following page of this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Copart, Inc.

We have audited management s assessment, included in the accompanying Management s Report on Internal Controls over Financial Reporting, that Copart Inc. maintained effective internal control over financial reporting as of July 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Copart s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, management s assessment that Copart Inc. maintained effective internal control over financial reporting as of July 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Copart Inc. maintained, in all material respects, effective internal control over financial reporting as of July 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Copart Inc. as of July 31, 2006, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for the year ended July 31, 2006 of Copart Inc. Our report dated October 27, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Sacramento, California
October 27, 2006

Limitations on the Effectiveness of Controls

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

Changes in Internal Control Over Financial Reporting

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

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

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

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

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

Code of Ethics

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

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

1. From our main web page, click on Investor Relations.

2. Next, click on Corporate Governance.

3. Finally, click on Code of Ethics for Principal Executive and Senior Financial Officers.

We intend to satisfy disclosure requirements regarding an amendment to, or waiver from, a provision of the Code of Ethics by posting such information on our website, at the address and location specified above.

Item 11. *Executive Compensation*

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

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

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

Item 13. *Certain Relationships and Related Transactions*

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

Item 14. *Principal Accountant Fees and Services*

The information required by this Item is incorporated herein by reference from the section captioned Proposal Two Ratification of Independent Auditors in the Proxy Statement.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

The following documents are filed as part of this report:

			Page
(a)	1.	*Financial Statements:* **Index to Consolidated Financial Statements**	
		Reports of Independent Registered Public Accounting Firms	48
		Consolidated Balance Sheets at July 31, 2006 and 2005	50
		Consolidated Statements of Income for the three years ended July 31, 2006	51
		Consolidated Statements of Shareholders Equity and Comprehensive Income for the three years ended July 31, 2006	52
		Consolidated Statements of Cash Flows for the three years ended July 31, 2006	53
		Notes to Consolidated Financial Statements	54

2. *Financial Statement Schedules*: All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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

Number	Description
3.1	Amended and Restated Articles of Incorporation of the registrant(4)
3.1b	Certificate of Amendment of Articles of Incorporation(4)
3.2	Bylaws of the registrant, as amended(3)
3.2b	Certificate of Amendment of Bylaws(12)
3.3	Certificate of Determination of Rights, Preferences and Privileges of Series A Participating Preferred Stock of Copart, Inc.(8)
3.4	Certificate of Amendment of Bylaws(10)
4.1	Preferred Stock Rights Agreement, dated as of March 6, 2003, between the Company and Equiserve Trust Company, N.A., including the Certificate of Determination, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B, and C, respectively.(8)
10.1*	Copart, Inc. 1992 Stock Option Plan, as amended(2)
10.2*	1994 Employee Stock Purchase Plan (as amended December 8, 2003) with form of Subscription Agreement(11)
10.3*	1994 Director Option Plan, with form of Subscription Agreement(11)
10.4*	Copart, Inc. 2001 Stock Option Plan(6)
10.5	Form of Indemnification Agreement, signed by Executive Officers and Directors and the registrant(7)
10.6	General lease dated as of December 29, 1997 between Robert Arthur Gomes and Robert Paul Gomes and Copart of Connecticut, Inc.(7)
10.7	Standard Industrial/Commercial single-tenant lease-net dated as of December 23, 1998 between Wickland Oil Martinez and the registrant(7)
10.8	Lease agreement dated as of September 14, 2001 between Woodmich L.L.C. and the registrant(7)
10.10	Aircraft lease dated as of April 11, 2002 between Fleet Capital Corporation and the registrant(7)
10.11	Credit Agreement among the registrant and Wells Fargo Bank, National Association, U.S. Bank, National Association and Fleet National Bank and Wells Fargo Bank, National Association, as Administrative Agent and Lead Arranger and Fleet National Bank, as Syndication Agent, dated February 23, 2001(5)
10.12	Amendment No. 1 dated November 1, 2004, to Stock Option Agreement dated as of October 6, 2003 between the registrant and Marvin L. Schmidt(13)
14.01	Code of Ethics for Principal Executive and Senior Financial Officers (adopted September 30, 2003)(9)
21.1	List of subsidiaries of registrant(9)
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm
23.2	Consent of KPMG LLP, Independent Registered Public Accounting Firm

24.1	Power of Attorney (included on page 47)
31.1	Certification of Willis J. Johnson, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of William E. Franklin, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Willis J. Johnson, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of William E. Franklin, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Incorporated by reference from exhibit to registrant s Registration Statement on Form S-1, originally filed on January 19, 1994, as amended (File No. 33-74250).

(2) Incorporated by reference from exhibit to registrant s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on December 31, 1999.

(3) Incorporated by reference from exhibit to registrant s Form 10-K for its fiscal year ended July 31, 1995, filed with the Securities and Exchange Commission on October 21, 1995.

(4) Incorporated by reference from exhibit to registrant s Form 10-K for its fiscal year ended July 31, 2000, filed with the Securities and Exchange Commission on October 26, 2000.

(5) Incorporated by reference from exhibit to registrant s Form 10-Q for the quarter ended January 31, 2001, filed with the Securities and Exchange Commission on March 16, 2001.

(6) Incorporated by reference from exhibit to registrant s Form 10-Q for the quarter ended January 31, 2002, filed with the Securities and Exchange Commission on March 18, 2002.

(7) Incorporated by reference from exhibit to registrant s Form 10-K for its fiscal year ended July 31, 2002, filed with the Securities and Exchange Commission on October 29, 2002.

(8) Incorporated by reference from exhibit to registrant s Form 8-A12/G filed with the Securities and Exchange Commission on March 11, 2003.

(9) Incorporated by reference from exhibit to registrant s Form 10-K for its fiscal year ended July 31, 2003, filed with the Securities and Exchange Commission on October 17, 2003.

(10) Incorporated by reference from exhibit to registrant s Form 10-Q for the quarter ended October 31, 2003, filed with the Securities and Exchange Commission on December 15, 2003.

(11) Incorporated by reference from exhibit to registrant s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on February 6, 2004.

(12) Incorporated by reference from exhibit to registrant s Form 10-K for its fiscal year ended July 31, 2004, filed with the Securities and Exchange Commission on October 14, 2004.

(13) Incorporated by reference from exhibit to registrant s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2004.

* Denotes a compensation plan in which an executive officer participates

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

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

SIGNATURES

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

	Registrant COPART, INC. By:	/s/ WILLIS J. JOHNSON Willis J. Johnson *Chief Executive Officer*
October 30, 2006		
	COPART, INC. By:	/s/ WILLIAM E. FRANKLIN William E. Franklin *Chief Financial Officer*
October 30, 2006		

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POWER OF ATTORNEY

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

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

Signature	Capacity in Which Signed	Date
/s/ WILLIS J. JOHNSON Willis J. Johnson	Chief Executive Officer (Principal Executive Officer and Director)	October 30, 2006
/s/ WILLIAM E. FRANKLIN William E. Franklin	Senior Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	October 30, 2006
/s/ A. JAYSON ADAIR A. Jayson Adair	President and Director	October 30, 2006
/s/ HAROLD BLUMENSTEIN Harold Blumenstein	Director	October 30, 2006
/s/ JAMES GROSFELD James Grosfeld	Director	October 30, 2006
/s/ JAMES E. MEEKS James E. Meeks	Executive Vice President, Chief Operating Officer and Director	October 30, 2006
/s/ JONATHAN VANNINI Jonathan Vannini	Director	October 30, 2006
/s/ STEVEN D. COHAN Steven D. Cohan	Director	October 30, 2006
/s/ DANIEL ENGLANDER Daniel Englander	Director	October 30, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Copart, Inc.

We have audited the accompanying consolidated balance sheet of Copart Inc. as of July 31, 2006 and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for the year ended July 31, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Copart Inc. at July 31, 2006 and the consolidated results of its operations and its cash flows for the year ended July 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the Financial Statements, effective August 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment .

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Copart s internal control over financial reporting as of July 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated October 27, 2006 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Sacramento, California
October 27, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Copart, Inc.

We have audited the accompanying consolidated balance sheet of Copart, Inc. and subsidiaries as of July 31, 2005, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the years in the two-year period ended July 31, 2005. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

/s/ KPMG LLP

San Francisco, California
October 14, 2005, except as to footnote 3 as it relates to July 31, 2005 and each of the years in the two-year period then ended, which is as of October 30, 2006

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

	July 31, 2006	July 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 126,590	$ 252,548
Short-term investments	148,725	
Accounts receivable, net	99,959	89,002
Vehicle pooling costs	29,148	25,983
Income taxes receivable	2,064	
Prepaid expenses and other assets	4,864	6,274
Total current assets	411,350	373,807
Property and equipment, net	341,943	295,270
Intangibles, net	1,874	1,938
Goodwill	112,291	116,375
Deferred income taxes	5,137	
Land purchase options and other assets	22,110	6,138
Total assets	$ 894,705	$ 793,528
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 60,644	$ 56,965
Deferred revenue	15,372	12,477
Income taxes payable		7,248
Deferred income taxes	7,191	3,295
Other current liabilities	126	126
Total current liabilities	83,333	80,111
Deferred income taxes		2,878
Other liabilities	1,402	1,160
Total liabilities	84,735	84,149
Commitments and contingencies		
Shareholders equity:		
Common stock, no par value 180,000,000 shares authorized; 90,445,208 and 90,337,643 shares issued and outstanding at July 31, 2006 and 2005, respectively	276,052	272,017
Accumulated other comprehensive income (loss)	(37)	354
Retained earnings	533,955	437,008
Total shareholders equity	809,970	709,379
Total liabilities and shareholders equity	$ 894,705	$ 793,528

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

	Years Ended July 31, 2006	2005	2004
Revenues	$ 528,571	$ 447,731	$ 391,014
Operating costs and expenses:			
Yard operations	298,023	245,666	227,625
General and administrative	58,986	45,629	38,928
Total operating expenses	357,009	291,295	266,553
Operating income	171,562	156,436	124,461
Other income (expense):			
Interest expense	(72)	(62)	(3)
Interest income	8,182	4,908	1,509
Gain (loss) on sale of fleet equipment		(57)	1,359
Other income	1,634	3,370	2,595
Equity in losses of unconsolidated investment	(6,784)		
Total other income	2,960	8,159	5,460
Income from continuing operations before income taxes	174,522	164,595	129,921
Income taxes	61,862	62,772	50,929
Income from continuing operations	112,660	101,823	78,992
Discontinued operations:			
Income (loss) from discontinued operations, net of income tax effects	(15,713)	293	228
Net income	$ 96,947	$ 102,116	$ 79,220
Earnings per share basic			
Income from continuing operations	$ 1.24	$ 1.13	$ 0.89
Income (loss) from discontinued operations	(0.17)		
Basic net income per share	$ 1.07	$ 1.13	$ 0.89
Weighted average shares outstanding	90,372	90,162	89,457
Earnings per share diluted			
Income from continuing operations	$ 1.21	$ 1.10	$ 0.87
Income (loss) from discontinued operations	(0.17)		
Diluted net income per share	$ 1.04	$ 1.10	$ 0.87
Weighted average shares and dilutive potential common shares outstanding	92,925	92,984	91,537

See accompanying notes to consolidated financial statements.

COPART, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME
(in thousands, except share amounts)

	Common Stock Outstanding Shares	Amount	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders Equity
Balances at July 31, 2003	89,883,412	$ 269,968	$	$ 255,672	$ 525,640
Net income				79,220	79,220
Currency translation adjustment			95		95
Comprehensive income					79,315
Exercise of stock options and related tax benefit, net of repurchased shares	1,033,796	6,686			6,686
Shares issued for Employee Stock Purchase Plan	135,735	1,345			1,345
Shares repurchased	(977,100)	(10,723)			(10,723)
Balances at July 31, 2004	90,075,843	267,276	95	334,892	602,263
Net income				102,116	102,116
Currency translation adjustment			259		259
Comprehensive income					102,375
Exercise of stock options and related tax benefit, net of repurchased shares	193,167	3,297			3,297
Shares issued for Employee Stock Purchase Plan	68,633	1,444			1,444
Shares repurchased					
Balances at July 31, 2005	90,337,643	272,017	354	437,008	709,379
Net income				96,947	96,947
Currency translation adjustment			(391)		(391)
Comprehensive income					96,556
Exercise of stock options and related tax benefit, net of repurchased shares	389,800	11,268			11,268
Shares issued for Employee Stock Purchase Plan	83,765	1,640			1,640
Shares repurchased	(366,000)	(8,873)			(8,873)
Balances at July 31, 2006	90,445,208	$ 276,052	$ (37)	$ 533,955	$ 809,970

See accompanying notes to consolidated financial statements.

COPART, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended July 31,		
	2006	**2005**	**2004**
Cash flows from operating activities:			
Net income	$ 96,947	$ 102,116	$ 79,220
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (income) from discontinued operations	17,950	(474)	(376)
Depreciation and amortization	31,456	30,466	29,649
Allowance for doubtful accounts	548	(517)	760
Deferred rent	242	(13)	(74)
Stock-based compensation	3,530	411	
Loss (gain) on sale of property and equipment	655	(756)	(1,247)
Deferred income taxes	(4,120)	(5,620)	(122)
Equity in loss of unconsolidated entity	6,784		
Changes in operating assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(10,865)	(8,764)	(10,542)
Vehicle pooling costs	(2,259)	(1,245)	(398)
Prepaid expenses and other current assets	1,463	(1,383)	394
Land purchase options and other assets	948	475	1,243
Accounts payable and accrued liabilities	4,371	12,837	5,455
Deferred revenue	2,918	2,775	15
Income taxes receivable	(2,064)		
Income taxes payable	(7,248)	4,523	9,441
Net cash provided by operating activities from continuing operations	141,256	134,831	113,418
Net cash provided by operating activities from discontinued operations	688	1,160	1,692
Net cash provided by operating activities	141,944	135,991	115,110
Cash flows from investing activities:			
Purchase of short-term investments	(717,120)	(755,420)	(140,180)
Sales of short-term investments	568,395	928,020	78,935
Purchase of property and equipment	(97,036)	(66,202)	(61,797)
Proceeds from sale of property and equipment	9,556	5,649	19,767
Purchase of net current assets in connection with acquisitions	(2,325)	(504)	(867)
Purchase of property and equipment in connection with acquisitions	(385)	(79)	(41)
Purchase of goodwill and intangible assets in connection with acquisitions	(20,266)	(3,960)	(3,825)
Other intangible asset changes			58
Investment in unconsolidated entity	(8,892)		
Net cash (used in) provided by investing activities from continuing operations	(268,073)	107,504	(107,950)
Net cash provided (used in) by investing activities from discontinued operations	158	(56)	(2,630)
Net cash (used in) provided by investing activities	(267,915)	107,448	(110,580)
Cash flows from financing activities:			
Proceeds from the exercise of stock options	5,421	1,791	5,082
Proceeds from the issuance of Employee Stock Purchase Plan shares	1,640	1,444	1,345
Repurchases of common stock	(8,873)		(10,723)
Excess tax benefit from stock-based payment arrangements	2,317		
Net cash provided by (used in) financing activities from continuing operations	505	3,235	(4,296)
Net cash provided by financing activities from discontinued operations			
Net cash (used in) provided by financing activities	505	3,235	(4,296)
Effect of foreign currency translation	(492)	154	95
Net (decrease) increase in cash and cash equivalents	(125,958)	246,828	329
Cash and cash equivalents at beginning of period	252,548	5,720	5,391
Cash and cash equivalents at end of period	$ 126,590	$ 252,548	$ 5,720
Supplemental disclosure of cash flow information:			
Interest paid	$	$ 62	$ 3
Cash paid for income taxes	$ 71,542	$ 64,670	$ 41,743
Non-cash notes receivable from sales of discontinued operations	$ 10,389	$	$

See accompanying notes to consolidated financial statements.

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2006, 2005 and 2004

(1) Business and Basis of Presentation

Description of Business

Copart, Inc. and its subsidiaries (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

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

(2) Summary of Significant Accounting Policies and Practices

Revenue Recognition

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

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

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

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

(2) Summary of Significant Accounting Policies and Practices (Continued)

the auction, and the fees for the post-auction services are recognized upon successful completion of those services using the residual method.

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

Historically, the Company recorded revenue for most seller and buyer fees upon completion of a sale. During the fourth quarter of fiscal 2005, the Company recorded a correction of an error to account for its services in accordance with the policy above; the effect of which was to reduce revenue, net income and diluted earnings per share by $4.4 million, $1.5 million and $0.01, respectively for the fourth quarter and fiscal year ended July 31, 2005.

Yard Operations

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

General and Administrative Expenses

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

Cash, Cash Equivalents and Short-Term Investments

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

Vehicle Pooling Costs

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

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(2) Summary of Significant Accounting Policies and Practices (Continued)

increase or decrease correspondingly in the future. These costs are expensed as vehicles are sold in the subsequent periods on an average cost basis.

The operating results for the year ended July 31, 2006 were adversely affected by incremental costs, characterized as abnormal in Statement of Financial Accounting Standards (SFAS) 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 $14.1 million for the year ended July 31, 2006. These costs include the additional subhauling, payroll, equipment and facilities expenses directly related to the operating conditions created by the hurricanes and will continue. These costs do not include normal expenses associated with the increased unit volume created by the hurricanes, which are deferred until the sale of the units and are recognized as vehicle pooling costs on the balance sheet. As of July 31, 2006, approximately 28% of the incremental salvage vehicles received as a result of the hurricanes remained unsold and in inventory. The Company expects the majority of these vehicles will be sold primarily in the next two quarters, provided that the Gulf Coast region does not experience additional hurricanes or severe weather. The processing of the hurricane vehicles has had and may continue to have a negative impact on gross and operating margin percentages.

Accounts Receivable

Accounts receivable, which consist primarily of advance charges due from insurance companies and the gross sales price of the vehicle due from buyers, are recorded when billed, advanced or accrued and represent claims against third parties that will be settled in cash. The Company estimates its allowances for doubtful accounts based on historical collection trends, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past-due account balances are written off when the Company s internal collection efforts have been unsuccessful in collecting the amount due. The Company does not have off-balance sheet credit exposure related to its customers.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease terms or the useful lives of the respective assets.

Depreciation is computed on a straight-line basis over the estimated useful lives of: 3 to 7 years for transportation and other equipment; 5 to 10 years for office furniture and equipment; and 15 to 40 years or life of lease, whichever is shorter, for buildings and leasehold improvements.

Intangible Assets

Intangible assets consist of covenants not to compete. Amortization is provided on the straight-line basis over the life of the covenant, which ranges from 5 to 7 years.

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(2) Summary of Significant Accounting Policies and Practices (Continued)

Fair Value of Financial Instruments

The amounts recorded for financial instruments in the Company s consolidated financial statements, which include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate their fair values as of July 31, 2006 and 2005.

Income Taxes

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

Net Income Per Share

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

Stock-Based Compensation

The Company has two stock-based compensation plans, which are described more fully in Note 11.

Prior to August 1, 2005, the Company accounted for these plans under the recognition and measurement provisions of Accounting Principals Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, as permitted by Financial Accounting Standards Board (FASB) Statement No. 123, Accounting for Stock-Based Compensation. No stock-based employee compensation cost was recognized for employee options granted in the Consolidated Statements of Income for the year ended July 31, 2005 and 2004, as all such options granted under those plans has an exercise price equal to the market value of the underlying common stock on the date of grant. Effective August 1, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment , (SFAS 123(R)), requiring it to recognize expense related to the fair value of its stock-based compensation awards. The Company elected to use the modified prospective transition method as permitted by SFAS 123(R) and therefore has not restated its financial results for prior periods. Under this transition method, stock-based compensation expense for the year ended July 31, 2006 includes compensation expense for all stock-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. Stock-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

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(2) Summary of Significant Accounting Policies and Practices (Continued)

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.

As a result of adopting SFAS 123(R) on August 1, 2005, the Company s income from continuing operations before income taxes, income from continuing operations, and net income for the year ended July 31, 2006 were approximately $3.5 million, $2.3 million and $2.3 million lower respectively, than if it had continued to account for stock-based compensation under APB 25. Basic and diluted earnings per share were approximately $.03 and $.03 lower, respectively, than if the Company had continued to account for stock-based compensation under Opinion 25. The allocation of stock-based compensation of approximately $2.3 million included in the Company s Consolidated Statements of Income is approximately $1.6 million to general and administrative expenses and approximately $0.7 million to yard operations.

Prior to the adoption of SFAS 123(R), we applied SFAS 123, amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure (SFAS 148), which allowed companies to apply the existing accounting rules under APB 25 and related interpretations. In general, as the exercise price of options granted under these plans was equal to the market price of the underlying common stock on the grant date, no share-based employee compensation cost was recognized in its net income. As required by SFAS 148 prior to the adoption of SFAS 123(R), we provided pro forma net income and pro forma net income per common share disclosures for share-based awards, as if the fair-value-based method defined in SFAS 123 had been applied.

The following table illustrates the effect on net income after tax and net income per common share as if we had applied the fair value recognition provisions of SFAS 123 to stock-based compensation during the fiscal year ended July 31, 2005 and 2004, respectively (in thousands, except per share amounts):

	July 31, 2005	July 31, 2004
Net income as reported	$ 102,116	$ 79,220
Add: total employee stock-based compensation expense included in net income as reported, net of related tax effects	411	
Deduct: total employee stock-based compensation expense determined under fair value method for all awards, net of related tax effects	(2,034)	(2,206)
Pro forma net income	$ 100,493	$ 77,014
Pro forma net income per share:		
Basic as reported	$ 1.13	$ 0.89
Basic pro forma	$ 1.11	$ 0.86
Diluted as reported	$ 1.10	$ 0.87
Diluted pro forma	$ 1.08	$ 0.84

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COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(2) Summary of Significant Accounting Policies and Practices (Continued)

The fair value of stock-based awards was estimated using the Black-Scholes model with the following assumptions for the year ended July 31, 2006, 2005 and 2004, respectively:

	July 31, 2006		July 31, 2005		July 31, 2004	
Expected life (in years)	4.9 6.5		5.0		5.0	
Interest rate	4.2 5.0	%	3.7	%	3.3	%
Volatility	36% 42	%	40	%	41	%
Dividend yield	0	%	0	%	0	%
Weighted-average fair value at grant date	$ 10.74		$ 5.13		$ 3.57	

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

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

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

Risk-Free Interest Rate The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield currently available on U.S. Treasury zero-coupon issues with the same or substantially equivalent remaining term.

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

Net cash proceeds from the exercise of stock options were approximately $5.4 million, $1.8 million and $5.1 million for the years ended July 31, 2006, 2005 and 2004, respectively. The Company realized an income tax benefit of approximately $2.3 million, $1.1 million and $1.6 million from stock option exercises during the years ended July 31, 2006, 2005 and 2004, respectively. In accordance with SFAS 123(R), the Company presents excess tax benefits from disqualifying dispositions of the exercise of incentive stock options, vested prior to August 1, 2005, if any, as financing cash flows rather than operating cash flows.

Comprehensive Income

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

Segment Reporting

The Company operates in a single segment providing vehicle 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.

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(2) Summary of Significant Accounting Policies and Practices (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Business Combinations and Goodwill

The Company accounts for business combinations and goodwill according to SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations and that certain acquired intangible assets be recognized as assets apart from goodwill. SFAS No. 142 provides that goodwill should not be amortized but instead should be tested for impairment annually at the reporting unit level. The Company s annual impairment test was performed in the fourth quarter of fiscal 2006. The results of this test indicated that goodwill was not impaired. Refer to Note 3 for additional discussion.

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

Balance as of July 31, 2004	$ 112,691
Goodwill relating to acquisitions during the period	3,684
Balance as of July 31, 2005	116,375
Goodwill relating to acquisitions during the period	19,015
Goodwill impairment	(21,800)
Divestitures	(1,299)
Balance as of July 31, 2006	$ 112,291

Impairment of Long-Lived Assets

The Company evaluates 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 such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value.

Advertising

All advertising costs are expensed as incurred. Advertising expenses were $1.8 million, $2.8 million and $2.0 million in fiscal 2006, 2005 and 2004, respectively.

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(2) Summary of Significant Accounting Policies and Practices (Continued)

Retained Insurance Liabilities

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

Reclassifications

Certain previous year amounts have been reclassified to conform to the current year presentation.

Recently Issued Accounting Standards

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, effective for fiscal years beginning after December 15, 2006. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return (including a decision whether to file or not to file a return in a particular jurisdiction). Under FIN 48, the financial statements will reflect expected future tax consequences of such positions presuming the taxing authorities full knowledge of the position and all relevant facts, but without considering time values. The Company will assess all material open positions in all tax jurisdictions as of the adoption date and determine the appropriate amount of tax benefits that are recognizable under FIN 48. Any difference between the amounts previously recognized and the benefit determined under the new guidance, including changes in accrued interest and penalties will be recorded on the date of adoption. The Company has not yet determined the exact impact the adoption of FIN 48 will have on our results of operations and financial position when adopted on August 1, 2007.

(3) Discontinued Operations and Goodwill Impairment

During 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. The MAG yards to be converted into salvage facilities will continue to be included in the results of continuing operations on the income statements.

Under SFAS No 142, Goodwill and Other Intangible Assets, goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test or on an interim basis if certain indicators are present. The discontinuation of an operating segment is one of those indicators. Accordingly, goodwill was tested for impairment in accordance with the provisions

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(3) Discontinued Operations and Goodwill Impairment (Continued)

of SFAS No. 142 during the second quarter of 2006. The Company used a combination of valuation techniques, which included consideration of market-based approaches and an income approach, in determining the fair value of the Company s applicable reporting unit in the interim impairment test of goodwill.

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

During the second quarter of fiscal 2006, the Company sold the business and related assets of one of the MAG locations for approximately $0.1 million. During the third quarter, the Company sold the business and related assets including the real estate of one of the MAG locations. The Company received a $12 million promissory note from the buyer as purchase consideration. The promissory note bears interest at 7% per annum. Interest only payments on the note are due monthly until maturity on May 28, 2011, at which time the balance of the note is due in full. The note receivable is collateralized by the real estate and is personally guaranteed by the buyer. The consideration was allocated to the real estate, based on an appraisal, and to the business in proportion to their estimated fair values. The portion of the consideration allocated to the real estate sale totaled $7.1 million. The Company deferred a gain on the sale of the real estate of approximately $2.5 million that will be recognized upon payment of the principal balance of the note receivable. The remaining consideration of $4.9 million is allocated to the sale of the business. The Company recognized a gain on the sale of the business of approximately $3.0 million, which is included in the results of the discontinued operations. During the fourth quarter of fiscal 2006, the Company sold the business and related assets excluding the real estate of another MAG location. The Company received a $1.2 million promissory note and $0.2 million in cash from the buyer as purchase consideration. The Company recognized a gain on the sale of the business of approximately $1.3 million which is included in the results of discontinued operations. As of July 31, 2006, no MAG locations remain. Three of the original six MAG locations were sold and three are being converted into salvage facilities.

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

	July 31, 2006	2005	2004
Net revenue	$ 6,351	$ 9,380	$ 9,782
Income (loss) before income taxes	(17,950)	474	376
Income tax (expense) benefit	2,237	(181)	(148)
Net income (loss) from discontinued operations	$ (15,713)	$ 293	$ 228

The net carrying values of the assets that were sold, and the related goodwill and other intangibles that were impaired, during fiscal 2006 totaled approximately $28.7 million as of July 31, 2005. This balance consisted of approximately $23.1 million of goodwill, $5.0 million of property and equipment and $0.6 million of intangibles.

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(4) Acquisitions

Fiscal 2006 Transactions

During fiscal 2006, the Company made the following three acquisitions: Auto Auction Associates of Montana, Inc.; Heartland Insurance Pool, Inc. and Central Penn Sales, LLC. These three companies consisted of seven separate facilities. The consideration paid for these acquisitions consisted of $23.0 million in cash. The acquired net assets consisted of accounts and advances receivable, vehicle pooling costs, fixed assets, land, buildings, goodwill, and covenants not to compete. The acquisitions were accounted for using the purchase method of accounting, and the operating results subsequent to the acquisition dates are included in the Company s consolidated statements of income. These new facilities contributed $6.9 million of revenues during fiscal 2006. The excess of the purchase price over the fair market value of the net identifiable assets acquired of $19.0 million has been recorded as goodwill. The Company estimates the entire goodwill balance relating to these acquisitions will be deductible for tax purposes. In addition, the Company paid $1.3 million for covenants not to compete relating to these acquisitions, which are being amortized over five to seven years. In conjunction with the Central Penn Sales acquisition, the Company entered into leases for the use of these facilities at fair value.

Fiscal 2005 Transactions

During fiscal 2005, the Company made the following two acquisitions: Kentucky Auto Salvage Pool, Inc. (KASP) of Lexington, Kentucky and Insurance Auctions of Missouri, Inc. of Columbia, Missouri. The consideration paid for these acquisitions consisted of $4.5 million in cash. The acquired net assets consisted of accounts and advances receivable, vehicle pooling costs, fixed assets, land, buildings, goodwill, and covenants not to compete. The acquisitions were accounted for using the purchase method of accounting, and the operating results subsequent to the acquisition dates are included in the Company s consolidated statements of income. These new facilities contributed $0.7 million of revenues during fiscal 2005. The excess of the purchase price over the fair market value of the net identifiable assets acquired of $3.7 million has been recorded as goodwill. The Company estimates the entire goodwill balance relating to these acquisitions will be deductible for tax purposes. In addition, the Company paid $0.3 million for covenants not to compete relating to these acquisitions, which are being amortized over five to seven years. In conjunction with the Lexington, Kentucky and Columbia, Missouri, acquisitions, the Company entered into leases for the use of these facilities at fair value.

Fiscal 2004 Transactions

During fiscal 2004, the Company made the following four acquisitions: Brasher s Northwest Auto Auction, Inc. of Eugene, Oregon; Spooner Enterprises, Inc. d/b/a Insured Salvage Pool, of Reno, Nevada; Joe Horisk Salvage Pool Systems of Ohio, of Cleveland, Ohio and Alaska Towing and Wrecking of Anchorage, Alaska. The consideration paid for these acquisitions consisted of $4.7 million in cash. The acquired net assets consisted of accounts and advances receivable, vehicle pooling costs, fixed assets, land, buildings, goodwill, and covenants not to compete. The acquisitions were accounted for using the purchase method of accounting, and the operating results subsequent to the acquisition dates are included in the Company s consolidated statements of income. These new facilities contributed $1.4 million of revenues during fiscal 2004. The excess of the purchase price over the fair market value of the net identifiable assets acquired of $3.6 million has been recorded as goodwill. The Company estimates the entire goodwill balance relating to these acquisitions will be deductible for tax purposes. In addition, the

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COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(4) Acquisitions (Continued)

Company paid $0.2 million for covenants not to compete relating to these acquisitions, which are being amortized over five years. In conjunction with the Eugene, Oregon; Reno, Nevada and Anchorage, Alaska acquisitions, the Company entered into leases for the use of these facilities at fair value.

Pro forma financial information for the 2006, 2005 and 2004 acquisitions does not result in a significant change from actual results.

(5) 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):

	July 31, 2006	2005
Available-for-sale securities:		
Auction rate securities	$ 148,725	$
Total short-term investments	$ 148,725	$

(6) Accounts Receivable

Accounts receivable consists of the following (in thousands):

	July 31, 2006	2005
Advance charges receivable	$ 66,704	$ 59,121
Trade accounts receivable	33,454	31,110
Other receivables	1,621	43
	101,779	90,274
Less allowance for doubtful accounts	(1,820)	(1,272)
	$ 99,959	$ 89,002

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(6) Accounts Receivable (Continued)

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

Movements in allowance for doubtful accounts (in thousands):

Description and Fiscal Year	Balance at Beginning of Year	Charged to Costs And Expenses	Deductions Applications to Bad Debt	Balance at End of Year
Allowance for doubtful accounts:				
July 31, 2006	$ 1,272	$ 1,555	$ (1,007)	$ 1,820
July 31, 2005	$ 1,789	$ 247	$ (764)	$ 1,272
July 31, 2004	$ 1,028	$ 1,945	$ (1,184)	$ 1,789

(7) Property and Equipment, Net

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

	July 31, 2006	2005
Transportation and other equipment	$ 17,059	$ 9,929
Office furniture and equipment	38,734	44,650
Land	155,323	125,168
Buildings and leasehold improvements	263,707	233,407
	474,823	413,154
Less accumulated depreciation and amortization	(132,880)	(117,884)
	$ 341,943	$ 295,270

Depreciation and amortization expense on property and equipment was approximately $30.8 million, $29.5 million and $28.4 million for the fiscal years ended July 31, 2006, 2005 and 2004 respectively.

(8) Intangibles, Net

Intangible assets consist of the following (in thousands):

	July 31, 2006	2005
Covenants not to compete	$ 10,071	$ 11,753
Less accumulated amortization	(8,197)	(9,815)
	$ 1,874	$ 1,938

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(8) Intangibles, Net (Continued)

Aggregate amortization expense on intangible assets was approximately $0.7 million, $1.0 million and $1.3 million for the fiscal years ended July 31, 2006, 2005, and 2004, respectively. Estimated amortization expense for each of the five succeeding fiscal years is as follows (in thousands):

2007	$ 689
2008	418
2009	336
2010	299
2011	112

(9) Accounts Payable and Accrued Liabilities

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

	July 31,	
	2006	**2005**
Trade accounts payable	$ 8,716	$ 9,733
Accounts payable to insurance companies	28,748	26,652
Accrued insurance	3,235	5,179
Accrued compensation and benefits	13,697	11,142
Other accrued liabilities	6,248	4,259
	$ 60,644	$ 56,965

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

(10) Long-Term Debt

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

(11) Shareholders Equity

General

The Company has authorized the issuance of 180 million shares of common stock, no par value of which approximately 90.4 million shares are issued and outstanding at July 31, 2006. The Company has authorized the issuance of 5 million shares of preferred stock, no par value, none of which are issued or outstanding at July 31, 2006.

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(11) Shareholders Equity (Continued)

Stock Repurchase

In February 2003, the Company s Board of Directors authorized the Company to repurchase up to 9 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. For the year ended July 31, 2006, the Company repurchased 366,000 shares at a weighted average price of $24.24. For the year ended July 31, 2005, the Company did not repurchase any shares. For the year ended July 31, 2004, the Company repurchased a total of 977,100 shares at a weighted average price of $10.97 per share. The total number of shares repurchased under the program as of July 31, 2006 is approximately 4.0 million, leaving approximately 5.0 million available under the repurchase program.

Employee Stock Purchase Plan

The Copart, Inc. Employee Stock Purchase Plan (ESPP) provides for the purchase of up to an aggregate of 1.5 million shares of common stock of the Company by employees pursuant to the terms of the ESPP. The Company s ESPP was adopted by the Board of Directors and approved by the shareholders in 1994. The ESPP was amended and restated in 2003 and again approved by the shareholders. Under the ESPP, employees of the Company who elect to participate have the right to purchase common stock at a 15 percent discount from the lower of the market value of the common stock at the beginning or the end of each six month offering period. The ESPP permits an enrolled employee to make contributions to purchase shares of common stock by having withheld from their salary an amount up to 10 percent of their compensation (which amount may be increased from time to time by the Company but may not exceed 15% of compensation). No employee may purchase more than $25,000 worth of common stock (calculated at the time the purchase right is granted) in any calendar year. The Compensation Committee of the Board of Directors administers the ESPP. The number of shares of common stock issued pursuant to the ESPP during each of fiscal 2006, 2005 and 2004 was 83,765, 68,633 and 135,735, respectively.

Stock Options

In December 2001, the Company adopted the Copart, Inc. 2001 Stock Option Plan (Plan), presently covering an aggregate of 4.5 million shares of the Company s common stock. The Plan provides for the grant of incentive stock options to employees and non-qualified stock options to employees, officers, directors and consultants at prices not less than 100% and 85% of the fair market value for incentive and non-qualified stock options, respectively, as determined by the Board of Directors at the grant date. Incentive and non-qualified stock options may have terms of up to ten years and vest over periods determined by the Board of Directors. Options generally vest ratably over a five-year period. The Plan replaced the Company s 1992 Stock Option Plan (1992 Plan), which expired in August 2002.

As required by SFAS 123(R), the Company made an estimate of expected forfeitures and is recognizing compensation cost only for those equity awards expected to vest.

As of July 31, 2006, the total compensation cost related to unvested stock-based awards granted to employees under the Company s stock option plans but not yet recognized was $8.3 million, net of estimated forfeitures. This cost will be amortized on

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COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(11) Shareholders Equity (Continued)

straight-line basis over a weighted average term of 3.1 years and will be adjusted for subsequent changes in estimated forfeitures.

The Company issues new shares of common stock upon exercise of stock options. Summary stock option activity for the year ended July 31, 2006, is as follows:

	Shares (in 000s)	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value (in 000s)
Outstanding at July 31, 2005	5,461	$ 11.09		
Grants of options	909	$ 24.16		
Exercises	(390)	$ 14.10		
Forfeitures or expirations	(102)	$ 17.97		
Outstanding at July 31, 2006	5,878	$ 12.80	5.35	$ 81,389
Exercisable at July 31, 2006	4,263	$ 10.20	4.24	$ 70,104

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between the Company s closing stock price on the last trading day of the year ended July 31, 2006 and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their options on July 31, 2006. This amount changes based on the fair market value of the Company s common stock. Total intrinsic value of options exercised was approximately $4.9 million, $2.9 million and $17.9 million for the fiscal years ended July 31, 2006, 2005 and 2004, respectively.

A summary of stock options outstanding and exercisable at July 31, 2006 follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at July 31, 2006 (in 000s)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable at July 31, 2006 (in 000s)	Weighted-Average Exercise Price
$2.90 -5.70	1,505	2.09	$ 3.55	1,505	$ 3.55
7.75 -10.99	1,102	6.68	9.81	736	9.91
11.02 -16.93	1,546	4.31	13.91	1,539	13.91
17.16 -27.28	1,725	8.29	21.78	483	19.50
	5,878	5.35	$ 12.80	4,263	$ 10.20

(12) Income Taxes

Income (loss) from continuing operations before taxes consists of the following for the years ended July 31 (in thousands):

	2006	2005	2004
U.S.	$ 174,636	$ 165,073	$ 130,702
Non U.S.	(114)	(478)	(781)
Total income before taxes	$ 174,522	$ 164,595	$ 129,921

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(12) Income Taxes (Continued)

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

	Years Ended July 31, 2006	2005	2004
Federal:			
Current	$ 62,754	$ 59,242	$ 43,109
Deferred	(4,264)	(5,233)	172
	58,490	54,009	43,281
State:			
Current	3,895	9,290	8,010
Deferred	(523)	(527)	(362)
	3,372	8,763	7,648
	$ 61,862	$ 62,772	$ 50,929

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

	Years Ended July 31, 2006	2005	2004
Federal statutory rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax benefit	1.9	3.5	4.4
Compensation and fringe benefits	0.3	0.2	
Other differences	(1.8)	(0.6)	(0.2)
Effective tax rate	35.4 %	38.1 %	39.2 %

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below, as of July 31 (in thousands):

	2006	2005
Deferred tax assets:		
Allowance for doubtful accounts	$ 691	$ 488
Accrued compensation and benefits	1,444	1,084
State taxes	42	2,993
Accrued other	789	966
Deferred revenue	1,852	938
Property and equipment	16,431	9,517
State net operating losses	378	229
Foreign net operating loss	455	455
Total gross deferred tax assets	22,082	16,670
Less valuation allowance	(786)	(630)
Net deferred tax assets	21,296	16,040
Deferred tax liabilities:		
Vehicle pooling costs	(10,694)	(9,764)
Prepaid insurance	(645)	
Intangibles and goodwill	(12,011)	(12,449)
Total gross deferred tax liabilities	(23,350)	(22,213)
Net deferred tax liability	$ (2,054)	$ (6,173)

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(12) Income Taxes (Continued)

The above net deferred tax liability as of July 31 has been reflected in the accompanying balance sheets as follows (in thousands):

	2006	2005
Current liabilities	$ 7,191	$ 3,295
Non-current liabilities (assets)	(5,137)	2,878
Net deferred tax liability	$ 2,054	$ 6,173

The Company s ability to realize deferred tax assets is dependent on its ability to generate future taxable income. Accordingly, the Company has established a valuation allowance in taxable jurisdictions where the utilization of the tax assets are uncertain. Additional timing differences or future tax losses may occur which could warrant a need for establishing additional valuation allowances against certain deferred tax assets.

The Company is under routine income tax audits in two states for tax years between 2001 and 2005. Management believes that adequate amounts have been provided for any adjustments that may ultimately result from these examinations.

In fiscal 2006, 2005 and 2004, the Company recognized a tax benefit of approximately $2.3 million, $1.1 million and $1.6 million, respectively, upon the exercise of certain stock options which is reflected in shareholders equity.

The valuation allowance for the years ended July 31, 2006 and 2005 was approximately $0.8 million and $0.6 million, respectively, which is a net increase of $0.2 million.

The Company has a Canadian net operating loss of approximately $1.4 million, most of which expires between 2010 and 2013. In addition, the Company also has various state net operating losses of $12.0 million, which expire between 2016 and 2026.

(13) Net Income Per Share

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

	Years Ended July 31,		
	2006	2005	2004
Weighted average shares outstanding	90,372	90,162	89,457
Effect of dilutive securities-stock options	2,553	2,822	2,080
Weighted average shares and dilutive potential shares outstanding	92,925	92,984	91,537

Options to purchase approximately 42,000, 82,500 and 1.4 million shares of common stock at an average price of $27.22, $24.14 and $17.91 per share were outstanding at July 31, 2006, 2005 and 2004, 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.

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(14) Major Customers

In fiscal 2006, 2005 and 2004 one customer accounted for 14%, 12% and 12%, respectively of the Company s revenues. At July 31, 2006 one customer accounted for 12% of accounts receivable. At July 31, 2005 two customers accounted for 13% and 10% of accounts receivable, respectively.

(15) Commitments and Contingencies

Leases

The Company leases certain facilities under noncancelable operating leases and in some cases has either a right of first refusal to acquire or option to purchase certain facilities at fair value. The Company recognizes rent expense on a straight-line basis over the lease term and has accrued for rent expense incurred but not paid. Facilities rental expense for the fiscal years ended July 31, 2006, 2005 and 2004 aggregated approximately $18.0 million, $17.2 million and $18.1 million, respectively.

Yard operations equipment rental expense for the fiscal years ended July 31, 2006, 2005 and 2004 aggregated approximately $4.4 million, $4.0 million and $6.3 million, respectively.

Noncancelable future minimum lease payments under operating leases with initial or remaining lease terms in excess of one year at July 31, 2006 are as follows (in thousands):

Years Ending July 31,	Operating Leases
2007	$ 22,281
2008	18,741
2009	15,863
2010	14,111
2011	11,928
Thereafter	36,701
	$ 119,625

Commitments

The Company had outstanding letters of credit of $10.6 million at July 31, 2006. These letters of credit secure certain insurance obligations.

Contingencies

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 Department against Copart of Connecticut, Inc. and Copart, Inc. which purported to be a class action on behalf of persons whose vehicles were disposed of by the Company as abandoned vehicles, which the named plaintiff contends were disposed of without complying with state laws. Relief sought includes class certification, declaratory, remedial and/or injunctive relief, including the ordering of a compliance program that will essentially protect consumers, as well as damages, fees, and costs. Copart s Motion for Summary

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(15) Commitments and Contingencies (Continued)

Judgment was granted on December 8, 2004, dismissing the class claim element of the lawsuit. On August 9, 2006, Plaintiff s motion for summary judgment was denied. A trial date has not been set. The Company believes the claim is without merit, and the Company intends to continue to defend this lawsuit vigorously.

On September 16, 2005, Richard M. Gray filed suit against Copart and A. Safrin, in the State Court for the County of Chatham, State of Georgia, alleging a class action for unreasonable amounts claimed for storage liens by the Company, and related claims. Relief sought included class certification, damages, fees, costs and expenses. The Company has filed a motion for summary judgment, the hearing for which has not been scheduled. The Company believes the claim is without merit, and intends to continue to defend the lawsuit vigorously.

On July 28, 2006, Foreign Car Sales and Service LLC filed suit against Copart in the United States District Court for the Middle District of Louisiana alleging antitrust violations and unfair trade practices. Relief sought is class certification, damages, fees, costs and expenses. Plaintiff is in pro per and is demanding a total award of the now current value of 51% of Copart issued stock. The Company believes the claim is without merit, and intends to defend 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 included 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 the Company intends to continue to defend this lawsuit vigorously.

On June 10, 2005, Manheim Services Corp. filed suit against Copart, Inc. in the United States District Court for the Northern District of Georgia, Atlanta Division, alleging infringement of Manheim s assigned patent (U.S. Patent No. 5,774,873). Relief sought included a patent infringement judgment, an injunction prohibiting the Company from using any infringing product or service (including VB2), damages, fees, costs and expenses. On August 3, 2005, the Company denied the claim and asserted counterclaims based on violations of antitrust laws and common-law tortuous interference (the Competition Claims). On February 10, 2006, the District Court denied Manheim s motion to bifurcate the Competition Claims and stayed discovery on the Competition Claims through April 13, 2006. Additionally, on February 6, 2006, Manheim requested the Court to grant it leave to assert its additional alleged claims of infringement by the Company of Manheim s assigned U.S. Patent No. 6,006,201, The Court denied this request on May 30, 2006. On June 27, 2006, Manheim Services Corp dismissed all claims against the Company alleging patent infringement and the Company dismissed all of its counterclaims against Manheim Services Corp alleging antitrust violations. The matter was resolved amicably with express denials of liability from both parties.

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, 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.

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(16) Related Party Transactions

The Company leases certain of its facilities from officers and/or directors of the Company under various lease agreements. Rental payments under these leases aggregated approximately $0.5 million for the fiscal years ended July 31, 2006, 2005 and 2004, and expire on various dates through 2009. The Company leases certain of its facilities from other employees of the Company under various lease agreements. Rental payments under these leases aggregated approximately $0.3 million, $0.4 million and $0.4 million for the fiscal years ended July 31, 2006, 2005 and 2004, respectively.

(17) Employee Benefit Plan

The Company sponsors a 401(k) defined contribution plan covering its eligible employees. The plan is available to all employees who meet minimum age and service requirements and provides employees with tax deferred salary deductions and alternative investment options. The Company matches 10% of employee contributions up to 15% of employee salary deferral. The Company recognized an expense of approximately $0.3 million, $0.2 million and $0.2 million for each of the years ended July 31, 2006, 2005 and 2004 related to this plan.

(18) Investment in Unconsolidated Entity

During the year ended July 31, 2006, the Company invested approximately $8.9 million for a 50% equity interest in a limited liability corporation (the LLC) of which approximately $3.0 million was contributed during the three months ended October 31, 2005 and approximately $5.9 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 the LLC and related agreements, management believes the LLC 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.

(19) Noncash Financing and Investing Activities

In fiscal 2006, 2005 and 2004, the Company received 4,378, 42,071 and 983 shares of common stock, respectively as payment for the exercise of 8,678, 95,106 and 9,000 shares of common stock under the 1992 Stock Option Plan, respectively. The Company retired these shares upon receipt.

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(20) Quarterly Information (in thousands, except per share data) (Unaudited)(1)

	Fiscal Quarter			
Fiscal Year 2006	**First**	**Second**	**Third**	**Fourth**
Revenues:				
2006 as reported	$ 119,025	$ 125,099	$ 149,513	$ 137,220
2006 as restated	$ 116,739	N/A	N/A	N/A
Operating income:				
2006 as reported	$ 34,226	$ 37,015	$ 53,351	$ 47,197
2006 as restated	$ 33,999	N/A	N/A	N/A
Income from continuing operations:				
2006 as reported	N/A	$ 26,118	$ 33,180	$ 30,788
2006 as restated	$ 22,574	N/A	N/A	N/A
Income (loss) from discontinued operations:				
2006 as reported	N/A	$ (18,265)	$ 1,530	$ 785
2006 as restated	$ 237	N/A	N/A	N/A
Net income:				
2006 as reported	$ 22,813	$ 7,852	$ 34,710	$ 31,573
2006 as restated	$ 22,813	N/A	N/A	N/A
Basic income per share from continuing operations				
2006 as reported	$ 0.25	$ 0.29	$ 0.37	$ 0.34
2006 as restated	$ 0.25	N/A	N/A	N/A
Basic net income per share				
2006 as reported	$ 0.25	$ 0.09	$ 0.38	$ 0.35
2006 as restated	$ 0.25	N/A	N/A	N/A
Diluted income per share from continuing operations				
2006 as reported	$ 0.25	$ 0.28	$ 0.37	$ 0.33
2006 as restated	$ 0.25	N/A	N/A	N/A
Diluted net income per share				
2006 as reported	$ 0.25	$ 0.08	$ 0.37	$ 0.34
2006 as restated	$ 0.25	N/A	N/A	N/A

COPART, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
July 31, 2006, 2005 and 2004

(20) Quarterly Information (in thousands, except per share data) (Unaudited)(1) (Continued)

Fiscal Year 2005	First	Second	Third	Fourth
Revenues:				
2005 as reported	$ 104,110	$ 110,015	$ 130,425	$ 112,561
2005 as restated	$ 101,683	$ 107,701	$ 127,772	$ 110,575
Operating income:				
2005 as reported	$ 35,068	$ 36,624	$ 47,752	$ 37,415
2005 as restated	$ 34,878	$ 36,500	$ 47,457	$ 37,601
Income from continuing operations:				
2005 as reported	$ 22,670	$ 23,553	$ 30,905	$ 24,988
2005 as restated	$ 22,545	$ 23,466	$ 30,713	$ 25,099
Income (loss) from discontinued operations:				
2005 as reported	N/A	N/A	N/A	N/A
2005 as restated	$ 124	$ 87	$ 192	$ (110)
Net income:				
2005 as reported	$ 22,670	$ 23,553	$ 30,905	$ 24,988
2005 as restated	$ 22,670	$ 23,553	$ 30,905	$ 24,988
Basic income per share from continuing operations				
2005 as reported	$ 0.25	$ 0.26	$ 0.34	$ 0.28
2005 as restated	$ 0.25	$ 0.26	$ 0.34	$ 0.28
Basic net income per share				
2005 as reported	$ 0.25	$ 0.26	$ 0.34	$ 0.28
2005 as restated	$ 0.25	$ 0.26	$ 0.34	$ 0.28
Diluted income per share from continuing operations				
2005 as reported	$ 0.24	$ 0.25	$ 0.33	$ 0.27
2005 as restated	$ 0.24	$ 0.25	$ 0.33	$ 0.27
Diluted net income per share				
2005 as reported	$ 0.24	$ 0.25	$ 0.33	$ 0.27
2005 as restated	$ 0.24	$ 0.25	$ 0.33	$ 0.27

The tables above restate all periods presented for the effect of the discontinued operations in fiscal 2006 (See Note 3).

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