COPART INC
Form 10-Q
March 12, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the quarterly period ended January 31, 2010

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, CA 94534

(Address of principal executive offices with zip code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o NO o

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

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

Number of shares of the Registrant s Common Stock outstanding as of March 11, 2010: 84,287,861

Table of Contents

Copart, Inc.

Index to the Quarterly Report

January 31, 2010

Description

PART I Financial Information	3
Item 1 Financial Statements	3
Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6
Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations	14
Overview	14
Acquisitions and New Operations	15
Critical Accounting Policies and Estimates	15
Results of Operations	18
Liquidity and Capital Resources	21
Item 3 Quantitative and Qualitative Disclosures About Market Risk	23
Item 4 Controls and Procedures	23
Evaluation of Disclosure Controls and Procedures	23
Changes in Internal Controls	24
PART II Other Information	24
Item 1 Legal Proceedings	24
Item 1A Risk Factors	24
Item 1B Unresolved Staff Comments	33
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3 Defaults upon Senior Securities	33
Item 4 Reserved	33
Item 5 Other Information	33
Item 6 Exhibits	34
Signatures	35

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Copart, Inc.

Consolidated Balance Sheets

(in thousands)

(Unaudited)

		January 31. 2010		July 31, 2009
ASSETS				
Current assets:				
Cash and cash equivalents	$	189,290	$	162,691
Accounts receivable, net		121,753		109,248
Vehicle pooling costs		30,813		28,685
Inventories		4,240		4,667
Income taxes receivable		9,822		5,426
Prepaid expenses and other assets		9,190		5,216
Total current assets		365,108		315,933
Property and equipment, net		558,302		530,886
Intangibles, net		15,294		15,212
Goodwill		176,697		166,327
Deferred income taxes		12,363		7,759
Other assets		20,125		21,915
Total assets	$	1,147,889	$	1,058,032
LIABILITIES AND SHAREHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	92,061	$	82,773
Deferred revenue		12,917		13,165
Income taxes payable		4,503		5,269
Deferred income taxes		1,738		1,948
Other current liabilities		427		429
Total current liabilities		111,646		103,584
Deferred income taxes		10,504		10,997
Income taxes payable		22,859		20,266
Other liabilities		1,457		1,726
Total liabilities		146,466		136,573
Commitments and contingencies				
Shareholders equity:				
Common stock, no par value - 180,000 shares authorized; 84,237 and 83,939 shares issued and outstanding at January 31, 2010 and July 31, 2009, respectively		349,406		334,440
Accumulated other comprehensive loss		(29,939)		(27,082)

Retained earnings		681,956		614,101
Total shareholders equity		1,001,423		921,459
Total liabilities and shareholders equity	$	1,147,889	$	1,058,032

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Copart, Inc.

Consolidated Statements of Income

(in thousands except per share amounts)

(Unaudited)

	Three months ended January 31, 2010	Three months ended January 31, 2009	Six months ended January 31, 2010	Six months ended January 31, 2009
Net sales and revenue:				
Service revenues	$ 149,468	$ 142,686	$ 303,233	$ 299,011
Vehicle sales	27,133	27,169	58,830	62,413
Total service revenues and vehicle sales	176,601	169,855	362,063	361,424
Operating costs and expenses:				
Yard operations	75,733	78,785	154,180	160,839
Cost of vehicle sales	22,181	23,778	46,610	53,722
General and administrative	25,455	21,723	51,547	41,807
Total operating costs and expenses	123,369	124,286	252,337	256,368
Operating income	53,232	45,569	109,726	105,056
Other income (expense):				
Interest expense	(21)	(27)	(164)	(61)
Interest income	63	434	135	1,050
Other income (expense), net	(102)	(1,798)	529	(544)
Total other income (expense)	(60)	(1,391)	500	445
Income before income taxes	53,172	44,178	110,226	105,501
Income taxes	17,439	17,028	39,221	41,094
Net Income	$ 35,733	$ 27,150	$ 71,005	$ 64,407
Earnings per share-basic				
Basic net income per share	$ 0.42	$ 0.33	$ 0.84	$ 0.77
Weighted average common shares outstanding	84,108	83,443	84,077	83,363
Earnings per share-diluted				
Diluted net income per share	$ 0.42	$ 0.32	$ 0.84	$ 0.76
Weighted average common shares and dilutive potential common shares outstanding	84,927	84,206	84,937	84,742

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Copart, Inc.

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Six Months Ended January 31, 2010	Six Months Ended January 31, 2009
Cash flows from operating activities:		
Net income	$ 71,005	$ 64,407
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,078	20,834
Allowance for doubtful accounts	304	(260)
Other long-term liabilities	(244)	(577)
Share-based compensation	8,883	3,193
Excess benefit from share-based compensation	(2,449)	(5,011)
(Gain) loss on sale of property and equipment	(77)	730
Deferred income taxes	(5,006)	(3,561)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(10,010)	(28,901)
Vehicle pooling costs	(2,065)	(7,665)
Inventory	583	(132)
Prepaid expenses and other current assets	(3,854)	736
Other assets	353	1,741
Accounts payable and accrued liabilities	6,106	(8,339)
Deferred revenue	(248)	1,835
Income taxes receivable	(1,323)	3,517
Income taxes payable	(232)	2,253
Net cash provided by operating activities	82,804	44,800
Cash flows from investing activities:		
Purchases of property and equipment	(39,847)	(57,114)
Proceeds from sale of property and equipment	1,711	4,926
Purchases of assets and liabilities in connection with acquisitions, net of cash acquired	(21,367)	
Net cash used in investing activities	(59,503)	(52,188)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	2,479	819
Proceeds from the issuance of Employee Stock Purchase Plan shares	1,087	942
Repurchase of common stock	(3,544)	(6,000)
Excess tax benefit from share-based payment arrangements	2,449	5,011
Change in book overdraft		(7,592)
Net cash provided by (used in) financing activities	2,471	(6,820)
Effect of exchange rate changes on cash	827	(2,297)
Net increase (decrease) in cash and cash equivalents	26,599	(16,505)
Cash and cash equivalents at beginning of period	162,691	38,954
Cash and cash equivalents at end of period	$ 189,290	$ 22,449

Supplemental disclosure of cash flow information:				
Interest paid	$	163	$	60
Income taxes paid	$	45,748	$	39,169

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Copart, Inc.

Notes to Consolidated Financial Statements

January 31, 2010

(Unaudited)

NOTE 1 Description of Business and Summary of Significant Accounting Policies

Description of Business

The Company provides vehicle sellers with a full range of services to process and sell vehicles over the Internet through the Company s Virtual Bidding Second Generation Internet auction-style sales technology, which we refer to as VB2. Sellers are primarily insurance companies but also include banks and financial institutions, charities, car dealerships, fleet operators, vehicle rental companies and the general public. The Company sells principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters; however at certain locations, the Company sells directly to the general public. The majority of vehicles sold on behalf of insurance companies are either damaged vehicles deemed a total loss or not economically repairable by the insurance companies or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. The Company offers vehicle sellers a full range of services that expedite each stage of the vehicle sales process, minimize administrative and processing costs and maximize the ultimate sales price to the extent possible. In the United States and Canada, or North America, the Company sells vehicles primarily as an agent and derives revenue primarily from fees paid by vehicle sellers and vehicle buyers as well as related fees for services such as towing and storage. In the United Kingdom, or UK, the Company operates a significant portion of our business on a principal basis, purchasing the salvage vehicle outright from the insurance company and reselling the vehicle for its own account.

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the parent company and its wholly-owned subsidiaries, including its foreign wholly-owned subsidiaries, Copart Canada, Inc. (Copart Canada) and Copart Europe Limited (Copart Europe) which currently operates solely in the UK. Significant intercompany transactions and balances have been eliminated in consolidation. Copart Canada was incorporated in January 2003 and Copart Europe was incorporated in June 2007.

In the opinion of the management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (which are normal recurring accruals) necessary to present fairly its financial position as of January 31, 2010 and July 31, 2009, and its consolidated statements of income and cash flows for the three and six month periods ended January 31, 2010 and January 31, 2009. Interim results for the six months ended January 31, 2010 are not necessarily indicative of the results that may be expected for any future period, nor for the entire year ending July 31, 2010. These consolidated financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The interim financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended July 31, 2009.

Use of Estimates

The preparation of financial statements in conformity with US generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the

financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to, vehicle pooling costs, self-insured reserves, allowance for doubtful accounts, income taxes, revenue recognition, share-based compensation, long-lived asset and goodwill impairment calculations and contingencies. Actual results may differ from those estimates.

Income Taxes

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

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740-10-25 *Income Taxes* as of August 1, 2007. For benefits to be realized, a tax position must be more likely than not to be sustained upon examination. The amount recognized is measured as the largest amount of benefit that has a greater than 50 percent likelihood of being realized upon settlement.

Table of Contents

Foreign Currency Translation

The functional currency of the Company is the US dollar. The Canadian dollar and the British pound are the functional currencies of the Company s foreign subsidiaries, Copart Canada and Copart Europe, respectively, as they are the primary currencies within the economic environment in which each subsidiary operates. The original equity investment in the respective subsidiaries is translated at historical rates. Assets and liabilities of the respective subsidiary s operations are translated into US dollars at period-end exchange rates, and revenues and expenses are translated into US dollars at average exchange rates in effect during each reporting period. Adjustments resulting from the translation of each subsidiary s financial statements are reported in other comprehensive income (loss).

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 vehicle services include the ability to use the Company s Internet sales technology and vehicle delivery, loading, title processing, preparation and storage. The Company evaluates multiple-element arrangements relative to the Company s buyer and seller agreements in accordance with FASB ASC 605-25, *Revenue Recognition, Multiple Element Arrangements*, which addresses accounting for multiple-element arrangements and 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 North American 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 has 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.

Vehicle sales, where the Company purchases and remarkets vehicles on its own behalf, are recognized in accordance with FASB ASC 605-25 on the sale date, which is typically the point of high bid acceptance. Upon high bid acceptance, a legally binding contract is formed with the buyer, and the Company records the vehicle sales price, net of sales allowances, as revenue.

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 FASB ASC 605-25 to determine whether the Company has met the requirements to separate the services into units of accounting within a multi-element arrangement. The Company has concluded that the sale service and the post-sale services are separate units of accounting. The fees for the auction service are recognized upon completion of the sale, and the fees for the post-sale services are recognized upon successful completion of those services using the residual method.

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 buyers or sellers.

NOTE 2 Cash, Cash Equivalents and Marketable Securities

On August 1, 2008, the Company adopted FASB ASC 820-10, *Fair Value Measurements and Disclosures,* which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level I) observable inputs such as quoted prices in active markets; (Level II) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level III) unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures its investments, cash equivalents or marketable securities at fair value. Cash and cash equivalents are classified within Level I of the fair value hierarchy because they are valued using quoted market prices.

Table of Contents

As of January 31, 2010, cash and cash equivalents include the following (in thousands):

		Cost		Unrealized Gains		Unrealized Losses Less Than 12 Months		Unrealized Losses 12 Months or Longer		Estimated Fair Value
Cash	$	75,195	$		$		$		$	75,195
Money market funds		114,095								114,095
Total	$	189,290	$		$		$		$	189,290

The Company invests its excess funds in money market funds comprised of securities issued by the United States Treasury. The Company s cash and cash equivalents are placed with high credit quality financial institutions.

NOTE 3 Vehicle Pooling Costs

The Company defers in its vehicle pooling costs certain yard and fleet expenses 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 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.

NOTE 4 Net Income Per Share

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2010	2009	2010	2009
Basic weighted average shares outstanding	84,108	83,443	84,077	83,363
Effect of dilutive securities - stock options	819	763	860	1,379
Diluted weighted average shares outstanding	84,927	84,206	84,937	84,742

Excluded from the dilutive earnings per share calculation were 5,923,327 and 1,446,793 stock options for the three months ended January 31, 2010 and January 31, 2009, respectively and 5,799,298 and 1,225,000 stock options for the six months ended January 31, 2010 and January 31, 2009, respectively, because their effect would have been anti-dilutive.

NOTE 5 Goodwill and Intangible Assets

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

	January 31, 2010	July 31, 2009
Amortized intangibles:		
Covenants not to compete	$ 10,697	$ 10,697
Supply contracts	22,882	20,963
Software	661	712
Licenses and databases	1,323	1,322
Accumulated amortization	(20,269)	(18,482)
Net intangibles	$ 15,294	$ 15,212

Aggregate amortization expense on amortizable intangible assets was $1.0 million and $0.9 million for the three months ended January 31, 2010 and 2009, respectively and $2.1 million for the six months ended January 31, 2010 and 2009.

Table of Contents

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

Balance as of July 31, 2009	$	166,327
Goodwill recorded during the period		12,026
Effect of foreign currency exchange rates		(1,656)
Balance as of January 31, 2010	$	176,697

NOTE 6 Share-Based Compensation

Effective August 1, 2005, the Company adopted the provisions of FASB ASC 718, *Compensation Stock Compensation*, requiring it to recognize expense related to the fair value of its share-based compensation awards. The Company elected to use the modified prospective transition method as permitted by FASB ASC 718. Under this method, share-based compensation expense for the three- and six-month periods ended January 31, 2010 and January 31, 2009 includes compensation expense for all share-based compensation awards granted prior to, but not yet vested, as of August 1, 2005, based on the grant-date fair value estimated in accordance with the original provisions of FASB ASC 718 Accounting for Stock-Based Compensation, net of estimated forfeitures. Share-based compensation expense for all stock-based compensation awards granted subsequent to August 1, 2005 was based on the grant-date fair value estimated in accordance with the provisions of FASB ASC 718. For options issued subsequent to August 1, 2005, the Company recognizes compensation expense for stock option awards on a straight-line basis over the requisite service period of the award. For options issued prior to August 1, 2005, the Company recognizes compensation expense for stock option awards on a graded vesting basis over the requisite service period of the award.

The following is a summary of option activity for the Company s stock options during fiscal 2010:

	Shares (in 000s)		Weighted-average Exercise Price	Weighted-average Remaining Contractual Term		Aggregate Intrinsic Value (in 000s)
Outstanding at July 31, 2009	8,005	$	26.97			
Grants of options	745	$	33.00			
Exercises	(409)	$	15.18			
Forfeitures or expirations	(25)	$	26.33			
Outstanding at January 31, 2010	8,316	$	28.10	7.63	$	49,368
Exercisable at January 31, 2010	2,661	$	21.72	4.72	$	32,884

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of our common stock for the 7,960,936 options that were in-the-money at January 31, 2010.

In April 2009, the Compensation Committee of the Company s Board of Directors, following shareholder approval of proposed grants at a special meeting of shareholders, approved the grant to each of Willis J. Johnson, the Company s Chairman (and then Chief Executive Officer), and A. Jayson Adair, the Company s Chief Executive Officer (and then President), of nonqualified stock options to purchase 2,000,000 shares of the Company s common stock at an exercise price of $30.21 per share, which equaled the closing price of the Company s common stock on April 14, 2009, the effective date of grant. Such grants were made in lieu of any cash salary or bonus compensation in excess of $1.00 per year or the grant of any additional equity incentives for a five-year period. Each option will become exercisable over five years, subject to continued service by the executive, with twenty percent (20%) vesting on April 14, 2010, and the balance vesting monthly over the subsequent four years. Each option will become fully vested, assuming continued service, on April 14, 2014, the fifth anniversary of the date of grant. If, prior to a change in control, either executive s employment is terminated without cause, then one hundred percent (100%) of the shares subject to that executive s stock option will immediately vest. If, upon or following a change in control, either the Company or a successor entity terminates the executive s service without cause, or the executive resigns for good reason (as defined in the option agreement), then one hundred percent (100%) of the shares subject to his stock option will immediately vest. The value of each option at the date of grant was $13.04. The total

estimated compensation expense to be recognized by the Company over the five year estimated service period is approximately $26.1 million per grant.

On February 12, 2010 Mr. Willis J. Johnson resigned as Chief Executive Officer. He will continue to serve as Chairman of the Board and will remain an executive officer of the Company. In addition, Mr. A. Jayson (Jay) Adair, previously Copart s President was appointed Copart s Chief Executive Officer. In addition, Mr. Vincent W. Mitz, previously Copart s Executive Vice President was appointed as Copart s new President.

Table of Contents

NOTE 7 Common Stock Repurchases

In October 2007, the Company s Board of Directors approved a 20 million share increase in the Company s stock repurchase program, bringing the total current number of shares authorized for repurchase to 29 million shares. The repurchases may be effected through solicited or unsolicited transactions in the open market or in privately negotiated transactions. No time limit has been placed on the duration of the share repurchase program. Subject to applicable securities laws, such repurchases will be made at such times and in such amounts as the Company deems appropriate and may be discontinued at any time. The Company did not repurchase any shares during the six months ended January 31, 2010 or January 31, 2009. The total number of shares repurchased under the program as of January 31, 2010 was approximately 14 million, leaving approximately 15 million available for repurchase by the Company under the repurchase program.

In December 2008, Mr. Adair exercised 600,000 options at an exercise price of $4.47 per share. In a cashless exercise, 96,929 shares of the 600,000 options exercised were net settled in satisfaction of the exercise price for the portion of options that were classified as non-qualified stock options. Additionally, 222,817 shares were withheld at a per share price of $26.93, totaling approximately $6.0 million, based on the closing price of the Company s common stock on the date of exercise, in lieu of the federal and state minimum statutory tax withholding requirements. In June 2009, Mr. Adair exercised 361,035 options at an exercise price of $11.12 per share. In a cashless exercise, 116,741 shares of the 361,035 options exercised were net settled in satisfaction of the exercise price for the portion of options that were classified as non-qualified stock options. Additionally, 109,595 shares were withheld at a per share price of $34.39, totaling approximately $3.8 million, based on the closing price of the Company s common stock on the date of exercise, in lieu of the federal and state minimum statutory tax withholding requirements. The Company remitted approximately $9.8 million to the proper taxing authorities in satisfaction of the employee s minimum statutory withholding requirements. In August 2009, Mr. Adair exercised 323,631 options at an average exercise price of $13.03 per share. In a cashless exercise, 114,354 shares of the 323,631 options exercised were net settled in satisfaction of the exercise price for the portion of options that were classified as non-qualified stock options. Additionally, 95,746 shares were withheld at a per share price of $36.89, totaling approximately $3.5 million, based on the closing price of our common stock on the date of exercise, in lieu of the federal and state minimum statutory tax withholding requirements. The Company remitted approximately $3.5 million to the proper taxing authorities in satisfaction of the employee s minimum statutory withholding requirements. The tax withholding amounts paid by the Company have been accounted for as a repurchase of shares. However, these deemed share repurchases are not included as part of the Company s stock repurchase program.

Period		Options exercised	Exercise price	Shares net settled for exercise	Shares withheld for taxes (1)	Share price for withholding	Tax withholding (in 000s)
FY 2009	Q2	600,000	$ 4.47	96,929	222,817	$ 26.93	$ 6,000
FY 2009	Q4	361,035	$ 11.12	116,741	109,595	$ 34.39	$ 3,769
FY 2010	Q1	323,631	$ 13.03	114,354	95,746	$ 36.89	$ 3,532

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

NOTE 8 Segments and Other Geographic Reporting

The Company s North American region and its United Kingdom region are considered two separate operating segments, which have been aggregated into one reportable segment because they share similar economic characteristics.

The following geographic data is provided in accordance with FASB ASC 280, *Segment Reporting*. Revenues are based upon the geographic location of the selling facility and are summarized in the following table (in thousands):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2010	**2009**	**2010**	**2009**
United States	$ 141,072	$ 137,556	$ 287,291	$ 288,429
Canada	1,511	1,082	2,750	2,364
North America	142,583	138,638	290,041	290,793
United Kingdom	34,018	31,217	72,022	70,631
	$ 176,601	$ 169,855	$ 362,063	$ 361,424

10

Table of Contents

Long-lived assets based upon geographic location are summarized in the following table (in thousands):

	Six Months Ended January 31,			
		2010		2009
United States	$	620,400	$	602,718
Canada		5,185		5,054
North America		625,585		607,772
United Kingdom		157,196		120,266
	$	782,781	$	728,038

NOTE 9 Comprehensive Income

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

	Three Months Ended January 31,				Six Months Ended January 31,			
		2010		2009		2010		2009
Net income, as reported	$	35,733	$	27,150	$	71,005	$	64,407
Other comprehensive loss:								
Foreign currency translation adjustments, net of tax effects		(4,397)		(14,276)		(2,857)		(45,569)
Total other comprehensive income	$	31,336	$	12,874	$	68,148	$	18,838

NOTE 10 Recent Accounting Pronouncements

FASB ASC 820, *Fair Value Measurements and Disclosures,* which was effective for the Company in the first quarter ended October 31, 2009. The Company adopted FASB ASC 820 for its non-financial assets and non-financial liabilities, which include assets and liabilities acquired in connection with business combinations and intangible assets. The adoption of FASB ASC 820 for non-financial assets and liabilities did not have an impact on the Company s consolidated results of operations or financial condition.

FASB ASC 810, *Consolidation,* which was effective for the Company in the first quarter ended October 31, 2009, provides guidance on the presentation of minority interests in the financial statements. This standard requires that minority interest be presented as a component of equity rather than as a mezzanine item between liabilities and equity, and also requires that minority interests be presented as a separate caption in the income statement. This standard also requires all transactions with minority interest holders, including the issuance and repurchase of minority interests, be accounted for as equity transactions unless a change in control of the subsidiary occurs. The adoption of FASB ASC 810 did not have an impact on the Company s consolidated results of operations or financial position.

FASB ASC 815-10-50, *Derivatives and Hedging,* which was effective for the Company in the first quarter ended October 31, 2009, requires enhanced disclosure related to derivatives and hedging activities and thereby seeks to improve the transparency of financial reporting. Under FASB ASC 815-10-50, entities are required to provide enhanced disclosures relating to: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedge items are accounted for and its related interpretations; and (c) how derivative instruments and

related hedged items affect an entity s financial position, financial performance, and cash flows. FASB ASC 815-10-50 must be applied prospectively to all derivative instruments and non-derivative instruments that are designated and qualify as hedging instruments and related hedged items accounted for under FASB ASC 815-10-50. The adoption of FASB ASC 815-10-50 did not have an impact on the Company s consolidated results of operations or financial position.

FASB ASC 350-30-35, *Intangibles Goodwill and other*, which was effective for the Company in the first quarter ended October 31, 2009, amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The adoption of FASB ASC 350-30-35 did not have an impact on the Company s consolidated results of operations or financial position.

FASB ASC 810-15-13, *Consolidation Variable Interest Entities*, which was effective for the Company in the first quarter ended October, 31, 2009, requires an enterprise to perform an analysis:

- to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity;

Table of Contents

- to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity;

- to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest entity;

- to add an additional reconsideration event for determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity s economic performance; and

- to require enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in a variable interest entity.

The adoption of FASB ASC 810-15-13 did not have an impact on the Company s consolidated results of operations or financial position.

In June 2009, the FASB established the FASB Accounting Standards Codification (Codification) which was effective for the Company in the first quarter ended October 31, 2009. The codification became the single official source of authoritative US GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF), and related literature. After that date, only one level of authoritative US GAAP exists. All other literature is considered non-authoritative.

NOTE 11 Legal Proceedings

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

On November 20, 2007, Car Auction & Reinsurance Solutions, Inc. (CARS) filed suit against Copart in the Superior Court in the County of New Castle, Delaware. CARS is seeking in excess of $2 million in damages, punitive damages, and prejudgment interest related to allegations involving breach of contract and misrepresentation. We believe the claim is without merit and are defending the lawsuit vigorously.

The Company provides for costs relating to these matters when a loss is probable and the amount can be reasonably estimated. When a range of outcomes can be identified the Company will recognize an expense in the financials in an amount equal to the lower end of the range. The effect of the outcome of these matters on our future results of operations cannot be predicted because any such effect depends on future results of operations and the amount and timing of the resolution of such matters. The Company believes 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. The Company maintains insurance which may or may not provide coverage for claims made against us. There is no assurance that the Company will have insurance coverage available when and if needed. Additionally, the insurance that the

Company carries requires that the Company pay for costs or claims exposure up to the amount of the insurance deductibles negotiated when insurance is purchased.

NOTE 12 Income Taxes

The Company adopted the provisions of FASB ASC 740-10-25 as of August 1, 2007. For benefits to be realized, a tax position must be more likely than not to be sustained upon examination. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

As of January 31, 2010, the total gross unrecognized tax benefits increased by approximately $2.6 million to $22.9 million, including interest and penalty.

As of January 31, 2010, the gross amounts of the Company s liabilities for unrecognized tax benefits were classified as long term income taxes payable and as long term receivables, respectively, in the accompanying consolidated balance sheet. Over the next twelve months, the Company s existing positions will continue to generate an increase in liabilities for unrecognized tax benefits, as well as a likely decrease in liabilities as a result of the lapse of the applicable statute of limitations and the conclusion of income tax audits. The expected decrease in liabilities relating to unrecognized tax benefits will have a positive effect on the Company s consolidated results of operations and financial position when realized. The Company recognized interest and penalties related to uncertain tax positions in income tax expense. The amount of interest and penalties accrued as of January 31, 2010 was approximately $0.8 million.

Table of Contents

The Company files income tax returns in the US federal jurisdiction, various states, Canada and the United Kingdom. The Company is currently under audit by the state of New York and the state of Georgia. With some exceptions, the Company is no longer subject to US federal, state and local, or non-US income tax examinations by tax authorities for years prior to fiscal year 2005. At this time, the Company does not believe that the outcome of any examination will have a material impact on the Company s consolidated results of operations and financial position.

The Company has not provided US federal income and foreign withholding taxes from undistributed earnings of its foreign operations, including Copart Europe, because it plans to permanently reinvest the earnings of its foreign operations as of January 31, 2010. If these earnings were distributed, foreign tax credits may become available under current law to reduce or eliminate the resultant US income tax liability.

NOTE 13 Credit Facility

On March 6, 2008, the Company entered into an unsecured credit agreement with Bank of America, N.A. (the Credit Agreement) providing for a $175 million (reduced from $200 million pursuant to the terms of the Credit Agreement) revolving credit facility (the Credit Facility), including a $100 million foreign currency borrowing sublimit and a $50 million letter of credit sublimit. Amounts borrowed under the Credit Facility may be used for repurchases of stock, capital expenditures, working capital and other general corporate purposes. The Credit Facility matures and all outstanding borrowings are due on the fifth anniversary of the Credit Agreement (the Maturity Date), with annual reductions in availability of $25 million on each of the first three anniversaries of the Credit Agreement. Amounts borrowed under the Credit Facility may be repaid and re-borrowed until the Maturity Date and bear interest, at the Company s option, at either Eurocurrency Rate plus 0.5% to 0.875%, depending on the leverage ratio, as defined in the Credit Agreement, at the end of the previous quarter or at the U.S. prime rate. A default interest rate applies on all obligations during an event of default under the Credit Facility at a rate per annum equal to 2.0% above the otherwise applicable interest rate. The Credit Facility requires the Company to pay a commitment fee on the unused portion of the Credit Facility. The commitment fee ranges from 0.075% to 0.15% depending on the leverage ratio as of the end on the previous quarter. The Credit Facility contains customary representations and warranties and places certain business operating restrictions on the Company relating to, among other things, indebtedness, liens and other encumbrances, investments, mergers and acquisitions, asset sales, and dividends, distributions and redemptions of capital stock. In addition, the Credit Agreement provides for a maximum total leverage ratio and a minimum interest coverage ratio. The Credit Facility contains events of default that include, among others, non-payment of principal, interest or fees, violation of covenants, inaccuracy of representations and warranties, cross-defaults to certain other indebtedness, bankruptcy and insolvency defaults, material judgments, invalidity of the loan documents and events constituting a change of control. The Credit Facility is guaranteed by the Company s material domestic subsidiaries. The Credit Facility contains restrictions with respect to investments, mergers and acquisitions, dividends and distributions and redemptions of capital stock, these restrictions become effective only after the Company s debt to EBITDA ratio exceeds 1.0:1.0. At January 31, 2010, the debt to EBITDA ratio was less than 1.0:1.0. As of January 31, 2010 and July 31, 2009, the Company did not have an outstanding balance under the Credit Facility.

NOTE 14 Acquisitions

In January 2010, the Company completed the purchase of the assets and business of D Hales Limited (D Hales) which operated five locations in the United Kingdom. This acquisition was completed because of its strategic fit with the United Kingdom business and has been accounted for using the purchase method in accordance with FASB ASC 805, which has resulted in the recognition of goodwill in the Company s consolidated financial statements. This goodwill arises because the purchase price for D Hales reflects a number of factors including its future earnings and cash flow potential; the multiple to earnings, cash flow and other factors at which similar businesses have been purchased by other acquirers, the competitive nature of the process by which the Company acquired the business; and because of the complementary strategic fit and resulting synergies it brings to existing operations. In accordance with FASB ASC 805, D Hales assets acquired and liabilities assumed have been recorded at their estimated fair values. The Company has arranged to obtain additional information regarding certain asset valuations. The Company believes the potential changes to its preliminary purchase price allocation will not have a material impact on the Company s

consolidated results of operations and financial position.

NOTE 15 Subsequent Events

On February 12, 2010, Mr. Willis J. Johnson resigned as Chief Executive Officer. He will continue to serve as Chairman of the Board and will remain an executive officer of the Company. In addition, Mr. A. Jayson (Jay) Adair, previously Copart s President was appointed Copart s new Chief Executive Officer. In addition, Mr. Vincent W. Mitz, previously Copart s Executive Vice President was appointed as Copart s new President.

Table of Contents

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

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

Although we believe that, based on information currently available to the Company and its management, the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements. In addition, historical information should not be considered an indicator of future performance.

Overview

We provide vehicle sellers with a full range of services to process and sell vehicles over the Internet through our Virtual Bidding Second Generation Internet auction-style sales technology, which we refer to as VB2. Sellers are primarily insurance companies but also include banks and financial institutions, charities, car dealerships, fleet operators, vehicle rental companies and the general public. We sell principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters and, at certain locations, we sell directly to the general public. The majority of the vehicles sold on behalf of the insurance companies are either damaged vehicles deemed a total loss or not economically repairable by the insurance companies or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. We offer vehicle sellers a full range of services that expedite each stage of the salvage vehicle sales process, minimize administrative and processing costs, and maximize the ultimate sales price to the extent possible. In the United States and Canada, or North America, we sell vehicles primarily as an agent and derive revenue primarily from fees paid by vehicle sellers and vehicle buyers as well as related fees for services such as towing and storage. In the United Kingdom, or UK, we operate a significant portion of our business on a principal basis, purchasing salvage vehicles outright from insurance companies and reselling the vehicles for our own account.

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

Table of Contents

Operating costs consist primarily of operations 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 and fiscal 2008, we converted all of our North American and UK sales, respectively, to an Internet-based auction-style model using our VB2 Internet sales technology. This process employs a two-step bidding process. The first step, called the preliminary bid, allows buyers to submit bids up to one hour before a real-time virtual auction begins. The second step allows buyers to bid against each other, and the high bidder from the preliminary bidding process, in a real-time process over the Internet.

Acquisitions and New Operations

We have experienced growth as we have established or acquired ten new facilities since the beginning of fiscal 2009.

As part of our overall expansion strategy of offering integrated services to vehicle sellers, we anticipate acquiring and developing facilities in new regions, as well as the regions currently served by our facilities. We believe that these acquisitions and openings strengthen our coverage as we have 152 facilities located in North America and the United Kingdom and are able to provide national coverage for our sellers.

The following table sets forth facilities that we have acquired or opened from August 1, 2008 through January 31, 2010:

Salvage Locations	Acquisition or Greenfield		Date	Geographic Service Area
Louisville, Kentucky	Greenfield		September 2008	Western Kentucky and Southern Indiana
Richmond, Virginia	Greenfield	*	October 2008	Central Virginia
Montgomery, Alabama	Greenfield		February 2009	Central Alabama
Greer, South Carolina	Greenfield		February 2009	Northwest South Carolina
Warren, Massachusetts	Greenfield		June 2009	Central Massachusetts
Bristol	Acquisition		January 2010	United Kingdom
Bedford	Acquisition		January 2010	United Kingdom
Colchester	Acquisition		January 2010	United Kingdom
Gainsborough	Acquisition		January 2010	United Kingdom
Luton	Acquisition		January 2010	United Kingdom

* Former MAG facility

The period-to-period comparability of our operating results and financial condition is substantially affected by business acquisitions, new openings, weather and product introductions during such periods. In particular, we have certain contracts we acquired as a result of our UK acquisitions that require us to act as a principal, purchasing vehicles from the insurance companies and reselling them for our own account. It is

our intention, where possible, to migrate these contracts to the agency model in future periods. Changes in the amount of revenue derived in a period from principal based transactions relative to total revenue will impact revenue growth and margin percentages.

In addition to growth through acquisitions, we seek to increase revenues and profitability by, among other things, (i) acquiring and developing new vehicle storage facilities in key markets, (ii) pursuing national and regional vehicle seller agreements, (iii) expanding our service offerings to sellers 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, self-insured reserves, allowance for doubtful accounts, income taxes, revenue recognition, share-based compensation, long-lived asset impairment calculations and contingencies. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Table of Contents

Management has discussed the selection of critical accounting policies and estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting policies and estimates in this Quarterly Report on Form 10-Q. The following is a summary of the more significant judgments and estimates included in our critical accounting policies used in the preparation of our consolidated financial statements. Where appropriate, we discuss sensitivity to change based on other outcomes reasonably likely to occur.

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 FASB ASC 605, which addresses accounting for multiple-element arrangements and revenue recognition for units of accounting.

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

Vehicle sales, where we purchase and remarket vehicles on our own behalf, are recognized in accordance with FASB ASC 605 on the sale date, which is typically the point of high bid acceptance. Upon high bid acceptance, a legal binding contract is formed with the buyer, and we record the gross sales price as revenue.

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

We provide a number of services to the buyer of the vehicle, charging a separate fee for each service. Each of these services has been assessed under the criteria of FASB ASC 605 to determine whether we have met the requirements to separate them into units of accounting within a multi-element arrangement. We have concluded that the sale and the post-sale services are separate units of accounting. The fees for sale services are recognized upon completion of the sale, and the fees for the post-sale services are recognized upon successful completion of those services using the residual method.

We also charge buyers a registration fee for the right to participate in our vehicle sales program, which is usually 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 or sellers.

Vehicle Pooling Costs