COPART INC
Form 10-Q
November 28, 2017
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 October 31, 2017
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: 000-23255
COPART, INC.
(Exact name of registrant as specified in its charter)

Delaware	94-2867490
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

14185 Dallas Parkway, Suite 300, Dallas, Texas 75254
(Address of principal executive offices, including zip code)
(972) 391-5000
(Registrant’s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
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 x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x
As of November 27, 2017, 231,303,973 shares of the registrant’s common stock were outstanding.

Copart, Inc.
Index to the Quarterly Report
October 31, 2017

Copart, Inc.
Consolidated Balance Sheets
(Unaudited)

(In thousands, except share amounts)	October 31, 2017	July 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$224,246	$210,100
Accounts receivable, net	366,641	311,846
Vehicle pooling costs	37,679	31,118
Inventories	10,138	10,163
Income taxes receivable	139	6,418
Prepaid expenses and other assets	15,528	17,616
Total current assets	654,371	587,261
Property and equipment, net	959,716	944,056
Intangibles, net	73,285	75,938
Goodwill	339,024	340,243
Deferred income taxes	—	1,287
Other assets	36,274	33,716
Total assets	$2,062,670	$1,982,501
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$222,400	$208,415
Deferred revenue	5,189	5,019
Income taxes payable	28,430	6,472
Deferred income taxes	—	92
Current portion of revolving loan facility and capital lease obligations	33,150	82,155
Total current liabilities	289,169	302,153
Deferred income taxes	4,807	3,192
Income taxes payable	26,086	24,573
Long-term debt, revolving loan facility and capital lease obligations, net of discount	550,704	550,883
Other liabilities	2,995	3,100
Total liabilities	873,761	883,901
Commitments and contingencies		
Stockholders’ equity:		
Preferred stock: $0.0001 par value - 5,000,000 shares authorized; none issued	—	—
Common stock: $0.0001 par value - 400,000,000 shares authorized; 231,218,619 and 230,488,296 shares issued and outstanding, respectively.	23	23
Additional paid-in capital	467,909	453,349
Accumulated other comprehensive loss	(102,156)	(100,676)
Retained earnings	822,555	745,370
Noncontrolling interest	578	534
Total stockholders’ equity	1,188,909	1,098,600
Total liabilities and stockholders’ equity	$2,062,670	$1,982,501

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

Copart, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended October 31, 2017	2016
Service revenues and vehicle sales:		
Service revenues	$374,125	$307,078
Vehicle sales	45,043	38,913
Total service revenues and vehicle sales	419,168	345,991
Operating expenses:		
Yard operations	217,607	167,611
Cost of vehicle sales	38,297	33,087
General and administrative	39,322	40,469
Total operating expenses	295,226	241,167
Operating income	123,942	104,824
Other (expense) income:		
Interest expense	(5,595)	(5,959)
Interest income	197	337
Other (expense) income, net	(4,416)	3,332
Total other expenses	(9,814)	(2,290)
Income before income taxes	114,128	102,534
Income tax expense (benefit)	36,568	(64,746)
Net income	77,560	167,280
Net income attributable to noncontrolling interest	45	—
Net income attributable to Copart, Inc.	$77,515	$167,280
Basic net income per common share	$0.34	$0.74
Weighted average common shares outstanding	230,694	225,436
Diluted net income per common share	$0.32	$0.70
Diluted weighted average common shares outstanding	238,791	237,758

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

Copart, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended October 31,	
(In thousands)	2017	2016
Comprehensive income, net of tax:		
Net income	$77,560	$167,280
Other comprehensive income:		
Foreign currency translation adjustments	(1,480)	(18,775)
Comprehensive income	76,080	148,505
Comprehensive income attributable to noncontrolling interest	45	—
Comprehensive income attributable to Copart, Inc.	$76,035	$148,505

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

Copart, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Three Months Ended October 31, 2017	2016
Cash flows from operating activities:		
Net income	$77,560	$167,280
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including debt cost	16,012	14,820
Allowance for doubtful accounts	547	22
Equity in (earnings) losses of unconsolidated affiliates	(109)	349
Stock-based payment compensation	5,306	5,085
Loss on sale of property and equipment	4,460	38
Deferred income taxes	2,759	22,088
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(55,904)	(29,472)
Vehicle pooling costs	(6,568)	(2,935)
Inventories	36	1,152
Prepaid expenses and other current assets	(62)	1,392
Other assets	(2,420)	(202)
Accounts payable and accrued liabilities	22,213	(14,828)
Deferred revenue	166	(602)
Income taxes receivable	6,272	(92,172)
Income taxes payable	23,460	2,615
Other liabilities	(368)	(337)
Net cash provided by operating activities	93,360	74,293
Cash flows from investing activities:		
Purchases of property and equipment	(41,484)	(38,209)
Proceeds from sale of property and equipment	2,019	190
Purchase of assets in connection with acquisitions	123	—
Investment in unconsolidated affiliate	—	(1,050)
Net cash used in investing activities	(39,342)	(39,069)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	9,253	13,977
Payments for employee stock-based tax withholdings	(3)	(134,615)
Net (repayments) proceeds on revolving loan facility	(49,000)	103,900
Net cash used in financing activities	(39,750)	(16,738)
Effect of foreign currency translation	(122)	(5,914)
Net increase in cash and cash equivalents	14,146	12,572
Cash and cash equivalents at beginning of period	210,100	155,849
Cash and cash equivalents at end of period	$224,246	$168,421
Supplemental disclosure of cash flow information:		
Interest paid	$5,496	$5,428
Income taxes paid, net of refunds	$4,167	$2,677

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

Copart, Inc.
Notes to Consolidated Financial Statements
October 31, 2017
(Unaudited)

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation and Description of Business

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

Principles of Consolidation

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments of a normal recurring nature considered necessary for fair presentation of its financial position as of October 31, 2017 and July 31, 2017, its consolidated statements of income and comprehensive income for the three months ended October 31, 2017 and 2016, and its cash flows for the three months ended October 31, 2017 and 2016. Interim results for the three months ended October 31, 2017 are not necessarily indicative of the results that may be expected for any future period, or for the entire year ending July 31, 2018. These consolidated financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. The interim consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2017. Certain prior year amounts have been reclassified to conform to current year presentation.

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

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

Use of Estimates

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

Revenue Recognition
The Company provides a portfolio of services to its sellers and buyers that facilitate the sale and delivery of a vehicle from seller to buyer. These services include the ability to use the Company’s Internet sales technology and vehicle delivery, loading, title processing, preparation and storage. The Company evaluates multiple-element arrangements relative to its member and seller agreements.
The services provided to the seller of a vehicle involve disposing of a vehicle on the seller’s behalf and, under most of the Company’s current contracts, collecting the proceeds from the member. The Company applies Accounting Standard Update 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (ASU 2009-13) for revenue recognition. Pre-sale services, including towing, title processing, preparation and storage, as well as sale fees and other enhancement services meet the criteria for separate units of accounting. Revenue associated with each service is recognized upon completion of the respective service, net of applicable rebates or allowances. For certain sellers who are charged a proportionate fee based on the high bid of the vehicle, the revenue associated with the pre-sale services is recognized upon completion of the sale when the total arrangement is fixed and determinable. The estimated selling price of each service is determined based on management’s best estimate and allotted based on the relative selling price method.
Vehicle sales, where vehicles are purchased and remarketed on the Company’s own behalf, are recognized on the sale date, which is typically the point of high bid acceptance. Upon high bid acceptance, a legally binding contract is formed with the member, and the gross sales price is recorded as revenue.
The Company also provides a number of services to the buyer of the vehicle, charging a separate fee for each service. Each of these services has been assessed to determine whether the requirements have been met to separate them into units of accounting within a multiple-element arrangement. The Company has concluded that the sale and the post-sale services are separate units of accounting. The fees for sale services are recognized upon completion of the sale, and the fees for the post-sale services are recognized upon successful completion of those services using the relative selling price method.
The Company also charges members an annual registration fee for the right to participate in its vehicle sales program, which is recognized ratably over the term of the arrangement, and relist and late-payment fees, which are recognized upon receipt of payment by the member. No provision for returns has been established, as all sales are final with no right of return, although the Company provides for bad debt expense in the case of non-performance by its members or sellers.
The Company allocates arrangement consideration based upon management’s best estimate of the selling price of the separate units of accounting contained within arrangements including multiple deliverables. Significant inputs in the Company’s estimates of the selling price of separate units of accounting include market and pricing trends, pricing customization and practices, and profit objectives for the services.
Vehicle Pooling Costs
The Company defers in vehicle pooling costs certain yard operation expenses associated with vehicles consigned to and received by the Company, but not sold as of the end of the period. The Company quantifies the deferred costs using a calculation that includes the number of vehicles at its facilities at the beginning and end of the period, the number of vehicles sold during the period and an allocation of certain yard operation costs of the period. The primary expenses allocated and deferred are certain facility costs, labor, transportation, and vehicle processing. If the allocation factors change, then yard operation expenses could increase or decrease correspondingly in the future. These costs are expensed as vehicles are sold in subsequent periods on an average cost basis. Given the fixed cost nature of the Company’s business, there are no direct correlations for increases in expenses or units processed on vehicle pooling costs.
The Company applies the provisions of accounting guidance for subsequent measurement of inventory to its vehicle pooling costs. The provision requires that items such as idle facility expenses, double freight and rehandling costs be recognized as current period charges regardless of whether they meet the criteria of “abnormal” as provided in the guidance. In addition, the guidance requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of production facilities.
In August 2017, Hurricane Harvey hit the Texas Gulf Coast. As a result of the extensive flooding that it caused, the Company expended $35.8 million in additional costs for i) temporary storage facilities, ii) premiums for subhaulers,

iii) labor costs incurred for overtime, iv) travel and lodging due to the reassignment of employees to the affected region, and v) equipment lease expenses to handle the increased volume. These costs, which are characterized as "abnormal" under ASC 330, Inventory, were expensed as incurred and not included in vehicle pooling costs. At the end of the quarter, the majority of the incremental salvage vehicles received as a result of Hurricane Harvey remained unsold.

Foreign Currency Translation

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

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

Cumulative loss on foreign currency translation as of July 31, 2016	$(109,194)
Gain on foreign currency translation	8,518
Cumulative loss on foreign currency translation as of July 31, 2017	$(100,676)
Loss on foreign currency translation	(1,480)
Cumulative loss on foreign currency translation as of October 31, 2017	$(102,156)

Income Taxes and Deferred Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax c