COPART INC
Form 10-Q
March 11, 2008

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, 2008**

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x 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 x

Number of shares of Common Stock outstanding as of March 10, 2008: 88,199,381

Copart, Inc.

Index to the Quarterly Report

January 31, 2008

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Copart, Inc.

Consolidated Balance Sheets

(in thousands)

(Unaudited)

	January 31, 2008	July 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 173,225	$ 98,365
Short-term investments		102,625
Accounts receivable, net	137,286	109,895
Vehicle pooling costs	35,231	28,842
Inventories	7,356	5,999
Income taxes receivable	1,700	3,208
Prepaid expenses and other assets	6,820	5,518
Total current assets	361,618	354,452
Restricted cash and investments		9,148
Property and equipment, net	459,321	420,664
Intangibles, net	26,353	27,442
Goodwill	165,976	161,645
Deferred income taxes	12,120	7,785
Land purchase options and other assets	27,515	24,208
Total assets	$ 1,052,903	$ 1,005,344
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 90,934	$ 85,082
Deferred revenue	16,033	13,897
Income taxes payable	3,010	3,930
Deferred income taxes	2,575	3,219
Other current liabilities	462	474
Total current liabilities	113,014	106,602
Deferred income taxes	13,554	13,998
Other liabilities	4,492	3,878
Total liabilities	131,060	124,478
Commitments and contingencies		
Shareholders equity:		
Common stock, no par value - 180,000 shares authorized; 88,169 and 88,334 shares issued and outstanding at January 31, 2008 and July 31, 2007, respectively	183,937	206,126
Accumulated other comprehensive income	1,600	4,447
Retained earnings	736,306	670,293
Total shareholders equity	921,843	880,866
Total liabilities and shareholders equity	$ 1,052,903	$ 1,005,344

See accompanying notes to unaudited consolidated financial statements.

Copart, Inc.

Consolidated Statements of Income

(in thousands except per share amounts)

(Unaudited)

	Three months ended January 31, 2008	Three months ended January 31, 2007	Six months ended January 31, 2008	Six months ended January 31, 2007
Revenues	$ 173,459	$ 128,925	$ 357,416	$ 261,046
Operating costs and expenses:				
Yard operations	104,851	68,536	210,415	138,767
General and administrative	21,373	15,225	43,138	30,223
Total operating expenses	126,224	83,761	253,553	168,990
Operating income	47,235	45,164	103,863	92,056
Other income (expense):				
Interest income, net	2,472	3,283	5,216	6,310
Other income	882	245	1,677	895
Equity in losses of unconsolidated investment				(2,216)
Total other income	3,354	3,528	6,893	4,989
Income before income taxes	50,589	48,692	110,756	97,045
Income taxes	18,563	18,300	41,120	36,310
Net income	$ 32,026	$ 30,392	$ 69,636	$ 60,735
Earnings per share-basic				
Basic net income per share	$ 0.36	$ 0.33	$ 0.79	$ 0.67
Weighted average common shares outstanding	88,802	90,752	88,684	90,625
Earnings per share-diluted				
Diluted net income per share	$ 0.35	$ 0.32	$ 0.76	$ 0.65
Weighted average common shares and dilutive potential common shares outstanding	91,333	93,682	91,261	93,523

See accompanying notes to unaudited consolidated financial statements.

Copart, Inc.

Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Six Months Ended January 31, 2008		Six Months Ended January 31, 2007	
Cash flows from operating activities:				
Net income	$	69,636	$	60,735
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		22,086		17,539
Allowance for doubtful accounts		92		(249)
Deferred rent		89		101
Share-based compensation		3,569		1,685
(Gain)/loss on sale of property and equipment		(241)		416
Deferred income taxes		(3,791)		(2,014)
Equity in loss of unconsolidated entity				2,216
Changes in operating assets and liabilities, net of effects from acquisition:				
Accounts receivable		(26,447)		(11,965)
Vehicle pooling costs		(6,220)		(1,976)
Inventory		(1,257)		(47)
Prepaid expenses and other current assets		(1,325)		931
Land purchase options and other assets		(3,346)		147
Accounts payable and accrued liabilities		4,942		(1,984)
Deferred revenue		2,135		(645)
Income taxes receivable		1,506		690
Income taxes payable		(6,933)		(3,966)
Net cash provided by operating activities		54,495		61,614
Cash flows from investing activities:				
Purchases of short-term investments		(154,360)		(428,055)
Sales of short-term investments		256,985		380,895
Release of restricted cash and investments		9,148		
Purchases of property and equipment		(58,261)		(37,355)
Proceeds from sale of property and equipment		2,845		5,826
Purchase of assets and liabilities in connection with acquisition, net of cash acquired		(9,885)		
Net cash provided by (used in) investing activities		46,472		(78,689)
Cash flows from financing activities:				
Proceeds from the exercise of stock options		8,492		9,275
Proceeds from the issuance of Employee Stock Purchase Plan shares		792		779
Repurchases of common stock		(40,948)		
Excess tax benefit from share-based payment arrangements		5,905		4,409
Net cash (used in) provided by financing activities		(25,759)		14,463
Effect of foreign currency translation		(348)		75
Net increase (decrease) in cash and cash equivalents		74,860		(2,537)
Cash and cash equivalents at beginning of period		98,365		126,590
Cash and cash equivalents at end of period	$	173,225	$	124,053

Supplemental disclosure of cash flow information:		
Income taxes paid	$ 45,150	$ 37,192

See accompanying notes to unaudited consolidated financial statements.

Copart, Inc.

Notes to Consolidated Financial Statements

January 31, 2008

(Unaudited)

NOTE 1 Summary of Significant Accounting Policies

Description of Business

Copart, Inc. (the Company) provides vehicle suppliers, primarily insurance companies, with a full range of services to process and sell salvage vehicles primarily 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 remarketing services that expedite each stage of the salvage vehicle sales process and minimize administrative and processing costs.

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 (UK) Limited (Copart UK). Significant intercompany transactions and balances have been eliminated in consolidation. Copart Canada was incorporated in January 2003 and Copart UK was incorporated in June 2007. Investments in companies in which the Company exercises significant influence, but the Company does not control (generally 20% to 50% ownership interest), are accounted for under the equity method of accounting.

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, 2008 and July 31, 2007, and its consolidated statements of income for the three and six month periods ended January 31, 2008 and January 31, 2007 and its consolidated statements of cash flows for the six month periods ended January 31, 2008 and January 31, 2007. Interim results for the six months ended January 31, 2008 are not necessarily indicative of the results that may be expected for any future period, nor for the entire year ending July 31, 2008. 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, 2007.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 impairment calculations and contingencies. Actual results could differ from those estimates.

Income Taxes

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

In July 2006, the Financial Accounting Standards Board (FASB) issued Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109* (FIN 48), which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax positions; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim-period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2006 and as a result, was effective for the Company on August 1, 2007. See Note 13 for additional information, including the effects of adoption of FIN 48 on the Company s consolidated financial statements.

Foreign Currency Translation

The Canadian Dollar and the British Pound are the functional currencies of the Company s foreign subsidiaries, Copart Canada and Copart UK, respectively, as they are the primary currencies within the economic environment in which each subsidiary operates. 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.

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 remarketing 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* (SAB 104), which addresses revenue recognition for units of accounting.

The vehicle remarketing 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 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 SAB 104 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 the Company records the gross sales price 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 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 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 and sellers.

NOTE 2 Vehicle Pooling Costs

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

NOTE 3 Net Income Per Share

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2008	2007	2008	2007
Basic weighted average shares outstanding	88,802	90,752	88,684	90,625
Effect of dilutive securities - stock options	2,531	2,930	2,577	2,898
Diluted weighted average shares outstanding	91,333	93,682	91,261	93,523

Options to purchase 40,000 shares of common stock at a weighted average price of $40.44 per share were outstanding during the three months ended January 31, 2008 (none during the three months ended January 31, 2007), and options to purchase 40,000 and 110,000 shares of common stock at a weighted average price of $40.44 and $29.76 were outstanding during the six months ended January 31, 2008 and 2007, respectively, but were not included in the computation of diluted earnings per share because the options exercise price was greater than the average market price of the common shares during the respective periods.

NOTE 4 Short-term Investments

Short-term investments consist primarily of AAA-rated auction rate securities with readily determinable fair market values and with original maturities in excess of three months. Auction rate securities are principally variable rate securities tied to short-term interest rates. Auction rate securities have interest rate resets through a modified Dutch auction, at predetermined short-term intervals, usually every 7, 28 or 35 days. They trade at par and are callable at par on any interest payment date at the option of the issuer. Interest paid during a given period is based upon the interest rate determined during the prior auction. Although these instruments are issued and rated as long-term securities, they are priced and traded as short-term securities because of the liquidity provided through the interest rate reset. As of January 31, 2008 the Company had no short-term investments.

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. The Company has classified auction rate securities 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):

	January 31, 2008	July 31, 2007
Available-for-sale securities:		

Auction rate securities	$	$	102,625
Total short-term investments	$	$	102,625

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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, 2008	July 31, 2007
Amortized intangibles:		
Covenants not to compete	$ 10,071	$ 10,071
Supply contracts	23,699	21,889
Tradename	3,120	2,964
Software	1,643	1,780
Licenses and databases	334	318
Accumulated amortization	(12,514)	(9,580)
Net intangibles	$ 26,353	$ 27,442

Aggregate amortization expense on amortizable intangible assets was $1.8 million and $0.2 million for the three months ended January 31, 2008 and 2007, respectively and $3.7 million and $0.4 million for the six months ended January 31, 2008 and 2007, respectively.

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

Balance as of July 31, 2007	$	161,645
Goodwill recorded during the period		5,584
Effect of foreign currency exchange rates		(1,253)
Balance as of January 31, 2008	$	165,976

NOTE 6 Share-Based Compensation

Effective August 1, 2005, the Company adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), requiring it to recognize expense related to the fair value of its share-based compensation awards. The Company elected to use the modified prospective transition method as permitted by SFAS 123(R). Under this transition method, share-based compensation expense for the three- and six-month periods ended January 31, 2008 and January 31, 2007 include compensation expense for all share-based compensation awards granted prior to, but not yet vested as of August 1, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123 Accounting for Stock-Based Compensation, net of estimated forfeitures. Share-based compensation expense for all stock-based compensation awards granted subsequent to August 1, 2005 was based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). For options issued subsequent to August 1, 2005, the Company recognizes compensation expense for stock option awards on a straight-line basis over the requisite service period of the award. For options issued prior to August 1, 2005, the Company recognizes compensation expense for stock option awards on a graded vesting basis over the requisite service period of the award.

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

	Shares (in 000s)		Weighted-average Exercise Price	Weighted-average Remaining Contractual Term		Aggregate Intrinsic Value (in 000s)
Outstanding at July 31, 2007	5,230	$	13.21			
Grants of options	1,070	$	34.34			
Exercises	(746)	$	10.72			
Forfeitures or expirations	(36)	$	20.13			
Outstanding at January 31, 2008	5,518	$	17.60	5.26	$	128,476
Exercisable at January 31, 2008	3,673	$	11.67	3.52	$	107,298

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 5,478,418 options that were in-the-money at January 31, 2008.

The Company recorded approximately $3.6 million of share-based compensation expense during the six months ended January 31, 2008.

In September 2007, James Grosfeld and Harold Blumenstein, who served as members of the Company s board of directors since 1993 and 1994, respectively, resigned as members to pursue other business and personal interests. In connection with their resignations, the board of directors exercised its discretion pursuant to the terms of the 2001 Stock Option Plan to accelerate the vesting of all unvested shares of the Company s common stock subject to options held by Mr. Grosfeld and Mr. Blumenstein. As of September 6, 2007, Mr. Grosfeld and Mr. Blumenstein each held options to acquire 86,000 shares of common stock, of which 14,316 for each were unvested. In addition, the board approved amendments to outstanding option agreements with Mr. Grosfeld and Mr. Blumenstein to extend the period in which they will be able to exercise their options following their resignation until the earlier of September 14, 2012 or the date the option would otherwise have terminated by its terms assuming they had continued to serve as members of the board of directors. As a result of the amendment to the outstanding option agreements, the Company recognized a share-based compensation expense of approximately $1.0 million during the quarter ended October 31, 2007.

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. The repurchases will be made at such times and in such amounts as the Company deems appropriate and may be discontinued at any time. The Company repurchased approximately 983,000 shares at a weighted average price of $41.67 during the six months ended January 31, 2008 and did not repurchase any shares during the six months ended January 31, 2007. The total number of shares repurchased under the program as of January 31, 2008 was approximately 8 million leaving approximately 21 million available under the repurchase program.

NOTE 8 Segments and Other Geographic Reporting

Operating segments are defined as components of a business about which separate financial information is available that is evaluated regularly by the chief operating decision maker with respect to the allocation of resources and performance. The Company considers itself to operate in a single operating segment, specifically providing vehicle suppliers, primarily insurance companies, with a full range of services to process and sell salvage vehicles, primarily over the Internet through the Company s Virtual Bidding Second Generation (VB) Internet auction-style sales technology.

The following geographic data is provided in accordance with SFAS No. 131. 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,	
	2008	2007	2008	2007
United States	$ 136,417	$ 128,028	$ 275,318	$ 259,229
Canada	1,227	897	2,501	1,817
North America	137,644	128,925	277,819	261,046
United Kingdom	35,815		79,597	
	$ 173,459	$ 128,925	$ 357,416	$ 261,046

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

	January 31	
	2008	2007
United States	$ 544,325	$ 491,576
Canada	5,805	4,829
North America	550,130	496,405
United Kingdom		