

COPART INC
Form 10-Q
December 09, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

for the quarterly period ended October 31, 2009

OR

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

for the transition period from to

Commission file number: 0-23255

COPART, INC.

(Exact name of registrant as specified in its charter)

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California
(State or other jurisdiction
of incorporation or organization)

94-2867490
(I.R.S. Employer
Identification Number)

4665 Business Center Drive, Fairfield, CA 94534

(Address of principal executive offices with zip code)

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

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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

YES NO

Number of shares of Common Stock outstanding as of December 8, 2009: 84,149,456

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Copart, Inc.

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October 31, 2009

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Copart, Inc.****Consolidated Balance Sheets****(in thousands)****(Unaudited)**

	October 31, 2009	July 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 218,279	\$ 162,691
Accounts receivable, net	109,715	109,248
Vehicle pooling costs	27,838	28,685
Inventories	4,411	4,667
Income taxes receivable		5,426
Prepaid expenses and other assets	6,237	5,216
Total current assets	366,480	315,933
Property and equipment, net	546,088	530,886
Intangibles, net	14,212	15,212
Goodwill	166,575	166,327
Deferred income taxes	9,757	7,759
Land purchase options and other assets	20,228	21,915
Total assets	\$ 1,123,340	\$ 1,058,032
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 93,636	\$ 82,773
Deferred revenue	12,299	13,165
Income taxes payable	18,154	5,269
Deferred income taxes	1,843	1,948
Other current liabilities	440	429
Total current liabilities	126,372	103,584
Deferred income taxes	11,099	10,997
Income taxes payable	21,330	20,266
Other liabilities	1,603	1,726
Total liabilities	160,404	136,573
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value - 180,000 shares authorized; 84,146 and 83,939 shares issued and outstanding at October 31, 2009 and July 31, 2009, respectively	342,257	334,440
Accumulated other comprehensive loss	(25,542)	(27,082)

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Retained earnings		646,221		614,101
Total shareholders' equity		962,936		921,459
Total liabilities and shareholders' equity	\$	1,123,340	\$	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 October 31,	
	2009	2008
Service revenues and vehicle sales:		
Service revenues	\$ 153,765	\$ 156,325
Vehicle sales	31,696	35,244
Total service revenues and vehicle sales	185,461	191,569
Operating costs and expenses:		
Yard operations	78,447	82,054
Cost of vehicle sales	24,429	29,945
General and administrative	26,093	20,085
Total operating costs and expenses	128,969	132,084
Operating income	56,492	59,485
Other income (expense):		
Interest expense	(142)	(34)
Interest income	71	615
Other income, net	631	1,254
Total other income	560	1,835
Income before income taxes	57,052	61,320
Income taxes	21,782	24,066
Net income	\$ 35,270	\$ 37,254
Earnings per share-basic		
Basic net income per share	\$ 0.42	\$ 0.45
Weighted average common shares outstanding	84,045	83,283
Earnings per share-diluted		
Diluted net income per share	\$ 0.42	\$ 0.44
Weighted average common shares and dilutive potential common shares outstanding	84,948	85,320

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**Copart, Inc.****Consolidated Statements of Cash Flows****(in thousands)****(Unaudited)**

	Three Months Ended October 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 35,270	\$ 37,254
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,614	10,709
Allowance for doubtful accounts	176	(56)
Deferred rent	(125)	(73)
Share-based compensation	4,285	1,500
Excess tax benefits from stock-based compensation	(2,429)	(54)
(Gain)loss on sale of property and equipment	(18)	527
Deferred income taxes	(2,053)	1,721
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(580)	(8,828)
Vehicle pooling costs	861	(2,521)
Inventory	271	225
Prepaid expenses and other current assets	(1,013)	(1,020)
Land purchase options and other assets	251	(276)
Accounts payable and accrued liabilities	10,825	(8,308)
Deferred revenue	(868)	921
Income taxes receivable	5,590	11,831
Income taxes payable	16,634	8,812
Net cash provided by operating activities	77,691	52,364
Cash flows from investing activities:		
Purchases of property and equipment	(23,512)	(29,200)
Proceeds from sale of property and equipment	605	165
Net cash used in investing activities	(22,907)	(29,035)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	1,026	620
Excess tax benefit from share-based payment arrangements	2,429	54
Repurchase of common stock	(3,532)	
Change in book overdraft		(9,923)
Net cash used in financing activities	(77)	(9,249)
Effect of foreign currency translation	881	(2,264)
Net increase in cash and cash equivalents	55,588	11,816
Cash and cash equivalents at beginning of period	162,691	38,954
Cash and cash equivalents at end of period	\$ 218,279	\$ 50,770

Supplemental disclosure of cash flow information:

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Interest paid	\$	142	\$	33
Income taxes paid	\$	1,607	\$	2,016

See accompanying notes to unaudited consolidated financial statements.

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Notes to Consolidated Financial Statements

October 31, 2009

(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 October 31, 2009 and July 31, 2009, and its consolidated statements of income and cash flows for the three months ended October 31, 2009 and October 31, 2008. Interim results for the three months ended October 31, 2009 are not necessarily indicative of the results that may be expected for any future period, or for the entire year ending July 31, 2010. These consolidated financial statements have been prepared in accordance with the rules and regulations of the US Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with US 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

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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 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 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.

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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 and Cash Equivalents

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.

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As of October 31, 2009, cash and cash equivalents include the following (in thousands):

Cost	Unrealized Gains	Unrealized Losses Less Than 12 Months	Unrealized Losses 12 Months or Longer
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