

COPART INC  
Form 10-Q  
December 10, 2007

**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, 2007**

**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 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  Accelerated Filer  Non-Accelerated Filer

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 7, 2007: 89,054,975

Copart, Inc.

Index to the Quarterly Report

October 31, 2007

Description

<b><u>PART I</u></b>	<b><u>Financial Information</u></b>	3	
	<b><u>Item 1</u></b>	<b><u>Financial Statements</u></b>	3
		<u>Consolidated Balance Sheets</u>	3
		<u>Consolidated Statements of Income</u>	4
		<u>Consolidated Statements of Cash Flows</u>	5
		<u>Notes to Consolidated Financial Statements</u>	6
	<b><u>Item 2</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	15
		<u>Overview</u>	15
		<u>Acquisitions and New Operations</u>	16
		<u>Critical Accounting Policies and Estimates</u>	17
		<u>Results of Operations</u>	19
		<u>Liquidity and Capital Resources</u>	20
	<b><u>Item 3</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	22
	<b><u>Item 4</u></b>	<b><u>Controls and Procedures</u></b>	22
		<u>Evaluation of Disclosure Controls and Procedures</u>	22
		<u>Changes in Internal Controls</u>	23
<b><u>PART II</u></b>	<b><u>Other Information</u></b>	24	
	<b><u>Item 1</u></b>	<b><u>Legal Proceedings</u></b>	24
	<b><u>Item 1A</u></b>	<b><u>Risk Factors</u></b>	24
	<b><u>Item 2</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	32
	<b><u>Item 6</u></b>	<b><u>Exhibits</u></b>	32
	<b><u>Signatures</u></b>		33

## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## Copart, Inc.

## Consolidated Balance Sheets

(in thousands)

(Unaudited)

	October 31, 2007	July 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 249,854	\$ 98,365
Short-term investments		102,625
Accounts receivable, net	114,888	109,895
Vehicle pooling costs	29,823	28,842
Inventories	7,772	5,999
Income taxes receivable		3,208
Prepaid expenses and other assets	5,172	5,518
Total current assets	407,509	354,452
Restricted cash and investments		9,148
Property and equipment, net	435,754	420,664
Intangibles, net	29,299	27,442
Goodwill	168,356	161,645
Deferred income taxes	12,085	7,785
Land purchase options and other assets	24,684	24,208
Total assets	\$ 1,077,687	\$ 1,005,344
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 80,308	\$ 85,082
Deferred revenue	14,159	13,897
Income taxes payable	27,162	3,930
Deferred income taxes	2,981	3,219
Other current liabilities	492	474
Total current liabilities	125,102	106,602
Deferred income taxes	14,666	13,998
Other liabilities	3,821	3,878
Total liabilities	143,589	124,478
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value - 180,000 shares authorized; 89,042 and 88,334 shares issued and outstanding at October 31, 2007 and July 31, 2007, respectively	221,235	206,126
Accumulated other comprehensive income	8,581	4,447
Retained earnings	704,282	670,293
Total shareholders' equity	934,098	880,866

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Total liabilities and shareholders' equity	\$	1,077,687	\$	1,005,344
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See accompanying notes to unaudited consolidated financial statements.

## Copart, Inc.

## Consolidated Statements of Income

(in thousands except per share amounts)

(Unaudited)

	Three months ended October 31,	
	2007	2006
Revenues	\$ 183,957	\$ 132,121
Operating costs and expenses:		
Yard operations	102,217	70,231
General and administrative	25,113	14,997
Total operating expenses	127,330	85,228
Operating income	56,627	46,893
Other income (expense):		
Interest income, net	2,743	3,027
Other income	796	651
Equity in losses of unconsolidated investment		(2,216)
Total other income	3,539	1,462
Income before income taxes	60,166	48,355
Income taxes	22,556	18,010
Net income	\$ 37,610	\$ 30,345
Earnings per share-basic		
Basic net income per share	\$ 0.42	\$ 0.34
Weighted average common shares outstanding	88,558	90,500
Earnings per share-diluted		
Diluted net income per share	\$ 0.41	\$ 0.32
Weighted average common shares and dilutive potential common shares outstanding	90,686	93,375

See accompanying notes to unaudited consolidated financial statements.

## Copart, Inc.

## Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Three Months Ended October 31,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 37,610	\$ 30,345
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,004	8,740
Allowance for doubtful accounts	35	(37)
Deferred rent	12	32
Share-based compensation	2,061	848
(Gain)/loss on sale of property and equipment	(27)	38
Deferred income taxes	(1,948)	(1,342)
Equity in loss of unconsolidated entity		2,216
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(5,593)	(379)
Vehicle pooling costs	(889)	(23)
Inventory	(1,623)	775
Prepaid expenses and other current assets	439	190
Land purchase options and other assets	(458)	(296)
Accounts payable and accrued liabilities	(5,650)	(3,665)
Deferred revenue	253	(1,000)
Income taxes receivable	3,208	2,064
Income taxes payable	17,258	15,482
Net cash provided by operating activities	55,692	53,988
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(154,360)	(213,800)
Sales of short-term investments	256,985	175,470
Restricted cash and purchases of short-term investments	9,148	
Purchases of property and equipment	(19,911)	(21,102)
Proceeds from sale of property and equipment	97	3,013
Purchases of assets and liabilities in connection with acquisition, net of cash acquired	(10,086)	
Net cash provided by (used in) investing activities	81,873	(56,419)
<b>Cash flows from financing activities:</b>		
Proceeds from the exercise of stock options	7,507	1,570
Proceeds from the issuance of Employee Stock Purchase Plan shares		7
Excess tax benefit from share-based payment arrangements	5,540	576
Net cash provided by financing activities	13,047	2,153
Effect of foreign currency translation	877	333
Net increase in cash and cash equivalents	151,489	55
Cash and cash equivalents at beginning of period	98,365	126,590
Cash and cash equivalents at end of period	\$ 249,854	\$ 126,645

**Supplemental disclosure of cash flow information:**



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Income taxes paid	\$	415	\$	1,388
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See accompanying notes to unaudited consolidated financial statements.

**Copart, Inc.**

**Notes to Consolidated Financial Statements**

October 31, 2007

(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 (VB) 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 October 31, 2007 and July 31, 2007, and its consolidated statements of income and cash flows for the three months ended October 31, 2007 and October 31, 2006. Interim results for the three months ended October 31, 2007 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):

	<b>Three Months Ended October 31,</b>	
	<b>2007</b>	<b>2006</b>
Basic weighted average shares outstanding	88,558	90,500
Effect of dilutive securities - stock options	2,128	2,875
Diluted weighted average shares outstanding	90,686	93,375

Options to purchase 970,000 and 5,000 shares of common stock at a weighted average price of \$34.39 and \$28.31 per share were outstanding during the three months ended October 31, 2007 and 2006, 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 and including these options would have an anti-dilutive impact.

**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.

Restricted investments consist of AAA-rated enhanced cash funds with next day liquidity. Enhanced cash funds typically invest in commercial paper, floating rate notes and fixed rate bonds which have an original maturity in excess of three months. Although the funds may invest in securities with maturities in excess of three months, they are priced and traded as short-term securities as they have next day liquidity.

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):

	October 31, 2007	July 31, 2007
Available-for-sale securities:		
Auction rate securities	\$	\$ 102,625
Total short-term investments	\$	\$ 102,625

#### 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):

	October 31, 2007		July 31, 2007	
Amortized intangibles:				
Covenants not to compete	\$	10,071	\$	10,071
Supply contracts		24,679		21,889
Tradenname		3,229		2,964
Software		1,882		1,780
Licenses and databases		379		318
Accumulated amortization		(10,941)		(9,580)
Net intangibles	\$	29,299	\$	27,442

Aggregate amortization expense on amortizable intangible assets was \$1.4 million and \$0.2 million for the three months ended October 31, 2007 and 2006, respectively.

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

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Balance as of July 31, 2007	\$	161,645
Goodwill recorded during the period		5,207
Effect of foreign currency exchange rates		1,504
Balance as of October 31, 2007	\$	168,356

**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-month periods ended October 31, 2007 and October 31, 2006 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	5,226	\$ 13.20		
Grants of options	1,030	\$ 34.10		
Exercises	(689)	\$ 10.21		
Forfeitures or expirations	(31)	\$ 19.45		
Outstanding at October 31, 2007	5,536	\$ 17.43	5.48	\$ 115,983
Exercisable at October 31, 2007	3,607	\$ 11.43	3.67	\$ 97,194

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 4,566,404 options that were in-the-money at October 31, 2007.

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 per director, 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 did not repurchase any shares during the three months ended October 31, 2007 and 2006. The total number of shares repurchased under the program as of October 31, 2007 was approximately 7 million, leaving approximately 22 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):

	<b>Three Months Ended October 31,</b>	
	<b>2007</b>	<b>2006</b>
United States	\$ 138,901	\$ 131,201
Canada	1,274	920
North America	140,175	132,121
United Kingdom	43,782	
	\$ 183,957	\$ 132,121

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

	<b>Three Months Ended October 31,</b>	
	<b>2007</b>	<b>2006</b>
United States	\$ 516,589	\$ 487,124
Canada	6,212	4,697
North America	522,801	491,821
United Kingdom	147,377	
	\$ 670,178	\$ 491,821

**NOTE 9 Comprehensive Income**

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

	<b>Three Months Ended October 31,</b>	
	<b>2007</b>	<b>2006</b>
Net income, as reported	\$ 37,610	\$ 30,345
Other comprehensive income:		
Foreign currency translation adjustments, net of tax effects	4,134	359
Total other comprehensive income	\$ 41,744	\$ 30,704

**NOTE 10 Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the potential impact on our consolidated results of operations and financial position.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* ( SFAS 159 ). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred: for example, debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by us in the first quarter of fiscal 2009. We are currently determining whether fair value accounting is appropriate for any of its eligible items and cannot estimate the impact, if any, which SFAS 159 may have on our consolidated results of operations and financial position.

#### **NOTE 11 Equity Investment and Related Party Transaction**

During the year ended July 31, 2006, the Company paid approximately \$9.0 million for a non-controlling equity interest in Lanelogic, a Delaware limited liability corporation ( Lanelogic ). The Company has no further contractual funding commitment. Based on the Company's evaluation of Lanelogic and the related agreements, management believes that Lanelogic does not constitute a Variable Interest Entity as defined in FIN No. 46, *Consolidation of Variable Interest Entities*. As a result, the Company's investment has been accounted for under the equity method prescribed by APB No. 18, *The Equity Method of Accounting for Investments in Common Stock*.

During the second quarter ended January 31, 2007, the Company's Chairman and CEO made a personal unsecured loan to Lanelogic to prevent a restriction of working capital from disrupting its business as Lanelogic sought additional equity financing. The loan was repaid during the second quarter ended January 31, 2007. The Company has concluded that the personal unsecured loan did not cause a change in the accounting of Lanelogic as an equity method investment. During the second quarter ended January 31, 2007, Lanelogic received a strategic equity investment totaling approximately \$10 million from two new investment groups as well as Lanelogic's founder. The Company did not participate in this additional equity financing into Lanelogic. In addition, Lanelogic converted from a limited liability company to a Delaware Corporation, of which the Company is now a stockholder.

On August 15, 2007, the Company's Chairman and CEO provided a personal guaranty in favor of Dealer Services Corporation as a condition for providing a credit facility to Lanelogic. The guaranty was approved by the Company's Audit Committee. The Company has concluded that the personal guaranty does not cause a change in the accounting of Lanelogic as an equity method investment.

As of October 31, 2007 and 2006, the Company's investment in Lanelogic totaled \$0 and \$2.1 million, respectively. The Company has discontinued recording its share of the losses of Lanelogic because it has no commitment to provide further funding.

**NOTE 12 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 matters:

On September 16, 2005, Richard M. Gray filed suit against Copart of Connecticut, Inc. and A. Safrin in the State Court of the County of Chatham, State of Georgia, alleging a class action for unreasonable amounts claimed for storage liens by the Company, and related claims. Relief sought includes class certification, damages, fees, costs and expenses. The Company's motion for summary judgment was heard on January 31, 2007 and was denied. The Company believes the claim is without merit, and is defending the lawsuit vigorously.

On July 28, 2006, Foreign Car Sales and Service LLC ( FCS ) filed suit against Copart in the United States District Court for the Middle District of Louisiana, originally alleging antitrust violations and unfair trade practices. Relief sought originally included class certification based on both unfair trade practices and Sherman Act violations, damages, fees, costs and expenses. On January 5, 2007 the Magistrate required FCS to amend its complaint. A First Amended Complaint was rejected, and a Second Amended Complaint was submitted February 16, 2007, in which FCS abandoned its unfair trade practices claims, and now relies simply on breach of contract claims. On August 23, 2007, Copart filed: (a) Motion to Dismiss Claims for Improper Venue; (b) Motion to Dismiss for Failure to Join Persons Needed for Just Adjudication; (c) Motion To Dismiss for Lack of Diversity Jurisdiction; (d) Motion to Dismiss Load Out Fee Class Action for Failure to State Claim; and (e) Motion to Dismiss Load Out Fee Class Action for Lack of Diversity Jurisdiction. The court has the motions under consideration at this time, but no decision has been rendered. The Company believes the claim is without merit, and is defending the lawsuit vigorously.

On November 20, 2007, Car Auction & Reinsurance Solutions, Inc. (CARS, Inc.) filed suit against Copart in the Superior Court in the County of New Castle, Delaware. CARS is seeking \$2,000,000 in damages, punitive damages, and prejudgment interest related to allegations that the Company breached a contract. At this time, the Company has only received a courtesy copy of the complaint and has not been formally served. The Company believes the claim is without merit, and will defend the lawsuit vigorously.

On November 30, 2007, Tracy Utterback Suggs filed suit against Copart in Harris County, Texas District Court. The complaint alleges negligent spoliation of evidence on grounds that Copart allowed a vehicle in its possession to be destroyed. Relief sought includes damages, exemplary damages and prejudgment interest. At this time, Plaintiff has made a demand through counsel of \$50 million. The Company has retained counsel to evaluate the plaintiff's claims and prepare a defense. The Company intends to defend the lawsuit vigorously.

The Company provides for costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on the Company's future results of operations cannot be predicted because any such effect depends on future results of operations 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 its financial position, results of operations or cash flows. However, the amount of the liabilities associated with these claims, if any, cannot be determined with certainty. The Company maintains insurance which may or may not provide coverage for claims made against us. There is no assurance that there will be insurance coverage available when and if needed. Additionally, the insurance that the Company carries requires that the Company pay for costs and/or claims exposure up to the amount of the insurance deductibles negotiated when insurance is purchased.

**NOTE 13 Income Taxes**

The Company adopted the provisions of FIN 48, as of the beginning of fiscal 2008. 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 a result of the Company's adoption of FIN 48, as of August 1, 2007, the Company recognized a \$3.6 million cumulative decrease to retained earnings. The Company also recognized a liability for unrecognized tax benefits of \$13.3 million, of which \$9.1 million (net of tax) would reduce the Company's effective tax rate if recognized in future periods. The interest and penalties, if any, related to unrecognized tax benefits are recorded in income tax expense. As of the beginning of fiscal 2008, the Company had \$2.6 million of accrued interest and penalties included in unrecognized tax benefits.

As of October 31, 2007, there has been no material change to the amount of unrecognized tax benefits. The Company does not anticipate that the total gross unrecognized tax benefit will change significantly by the end of fiscal year 2008.

The Company files income tax returns in the U.S. federal jurisdiction, various states, Canada and United Kingdom. With some exceptions, the Company is no longer subject to U.S. federal, state/local, or non-U.S. income tax examinations by tax authorities for years prior to fiscal year 2000. The Company expects the commencement of certain state tax audits in the near term. At this time, the Company does not believe that the outcome of any examination will have a material impact on the Company's financial statements.

The Company has not provided U.S. federal income and foreign withholding taxes from undistributed earnings of its foreign operations, including Copart UK, because it plans to permanently reinvest the earnings of its foreign operations as of October 31, 2007. If these earnings were distributed, foreign tax credits may become available under current law to reduce or eliminate the resultant U.S. income tax liability.

#### **NOTE 14 Acquisitions**

In August 2007, the Company completed the acquisition of Century Salvage Sales Limited ( Century ), a vehicle salvage disposal company with three facilities located in the UK. This acquisition was completed because of its strategic fit with the United Kingdom business. The acquisition has been accounted for using the purchase method in accordance with SFAS No. 141, *Business Combinations*, which has resulted in the recognition of goodwill in the Company's consolidated financial statements. This goodwill arises because the purchase price for Century 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 SFAS No. 141, Century's assets acquired and liabilities assumed have been recorded at their estimated fair values.

In June 2007, the Company completed the acquisition of Universal Salvage plc ( Universal ) (the Acquisition ). Universal, based in the UK, operates seven salvage yards in the UK and is a leading service provider to the motor insurance and automotive industries. Universal specializes in the disposal of accident-damaged, End-of-Life and fee-based non-salvage vehicles. The Acquisition has been accounted for using the purchase method in accordance with SFAS No. 141, *Business Combinations*, which has resulted in the recognition of goodwill in the Company's consolidated financial statements. This goodwill arises because the purchase price for Universal 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.

The Company has arranged to obtain additional information regarding certain asset valuations related to these acquisitions. 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.

The Company has included the operating results of Century and Universal in its consolidated financial statements from the date of acquisition.

**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 report involve known and unknown risks, uncertainties and situations that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These factors include those listed in Part I, Item 1A. - Risk Factors beginning on page 24 of this Quarterly Report on Form 10-Q and those discussed elsewhere in this Quarterly Report on 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 (the 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. In addition, historical information should not be considered an indicator of future performance. You should not place undue reliance on these forward-looking statements.*

**Overview**

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We provide vehicle suppliers, primarily insurance companies, with a full range of remarketing services to process and sell vehicles primarily over the Internet through our Virtual Bidding Second Generation, or VB<sup>2</sup>, Internet auction-style sales technology. In the United Kingdom, or UK, we sell salvage vehicles through a combination of live auctions and Internet bidding. We sell principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters. Salvage vehicles are either damaged vehicles deemed a total loss 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 suppliers a full range of remarketing services that expedite each stage of the salvage vehicle sales process and minimize administrative and processing costs. In the United States, or US, we sell vehicles primarily as an agent and derive revenue primarily from fees paid by vehicle suppliers and vehicle buyers as well as related fees for services such as towing and storage. In the United Kingdom, we operate primarily on a principal basis, purchasing the salvage vehicle outright from the insurance companies and reselling the vehicle for our own account to buyers through a combination of live auctions and Internet sales.

Our revenues consist of salvage fees charged to vehicle suppliers and vehicle buyers, transportation revenue and purchased vehicle revenues. Consignment revenues from suppliers are generally generated either on a fixed fee contract basis where we collect a fixed amount for selling the vehicles regardless of the selling price of the vehicle or, under our percentage incentive program, or PIP program, 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). Salvage fees also include fees charged to vehicle buyers for purchasing vehicles, storage and annual registration. Transportation revenue includes charges to suppliers for towing vehicles under certain contracts. Transportation revenue also includes towing charges assessed to buyers for delivering vehicles. Purchased vehicle 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.

Operating costs consist primarily of operating personnel (which includes yard management, clerical and yard employees), rent, contract vehicle towing, insurance, fuel, equipment maintenance and repair, and costs of vehicles we sold under purchase contracts. Because we operate as a principal in the UK, purchasing and reselling salvaged vehicles for our own account, we expect operating costs to increase as a percentage of revenue in future periods. 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.

In fiscal 2004, we converted all of our North American vehicle remarketing facilities to an Internet-based auction-style model using our VB<sup>2</sup> Internet sales technology. This process employs a two-step bidding process. The first step, called the preliminary bid, allows buyers to submit bids up to one hour before a real-time virtual action begins. The second step allows buyers to bid against each other, and the high bidder from the preliminary bidding process, in a real-time process over the Internet.

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

### **Acquisitions and New Operations**



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We have experienced significant growth as we have acquired seventeen vehicle storage facilities and established eight new facilities since the beginning of fiscal 2006. All of these acquisitions have been accounted for using the purchase method of accounting.

As part of our overall expansion strategy of offering integrated services to vehicle suppliers, we anticipate acquiring and developing facilities in new regions, as well as the regions currently served by our facilities. As part of this strategy, in fiscal 2008 we acquired three new facilities in the UK, located in Peterlee, Wisbech, and Rochford, and in North America we opened a new facility in London, Ontario. In fiscal 2007 we acquired seven new facilities in the UK located in Sandy, Sandtoft, Sandwich, Westbury, Chester, Denny, and Wootton, and in North America we opened new facilities in Baltimore, Maryland; Woodburn, Oregon and Punta Gorda, Florida. In fiscal 2006 we acquired new facilities in or near Greenwood, Nebraska; Grand Island, Nebraska; York Haven, Pennsylvania; Chambersburg, Pennsylvania; Altoona, Pennsylvania; Fruitland, Maryland; Billings, Montana and opened new facilities in or near Honolulu, Hawaii; Lansing, Michigan; Dover, Florida and Jacksonville, Florida. We believe that these acquisitions and openings strengthen our coverage as we have 135 facilities located in North America and the United Kingdom and are able to provide national coverage for our suppliers.

During the fourth quarter of fiscal 2007, we acquired all the issued share capital of Universal Salvage plc, or Universal, for £2.00 per share (approximately \$3.94 based on currency exchange rates on June 14, 2007). Universal, based in the UK and operating exclusively within the UK, is a service provider to the motor insurance and automotive industries. The aggregate acquisition consideration paid by us totaled approximately £60.7 million (approximately \$120.0 million based on currency exchange rates on June 14, 2007) and was funded from our available cash resources. We also assumed outstanding indebtedness of Universal totaling approximately £2.3 million (\$4.5 million as of June 14, 2007). This acquisition marks our first acquisition outside North America and includes the seven facilities discussed above. In addition, during the first quarter of fiscal 2008, we completed the acquisition of Century Salvage Sales Limited, or Century, a vehicle salvage disposal company with three facilities located in the UK. This acquisition brings our total number of facilities in the UK to ten.

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, the UK acquisitions, because of their size and also because the UK operates primarily on the principal model versus the agency model employed in the United States, will have a significant impact on the comparability of revenues and gross margin percentages in future periods.

In addition to growth through acquisitions, we seek to increase revenues and profitability by, among other things, (i) acquiring and developing new salvage vehicle storage facilities in key markets, (ii) pursuing national and regional vehicle supply agreements, (iii) expanding our service offerings to suppliers and buyers, and (iv) expanding the application of VB<sup>2</sup> 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**

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The preparation of consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to vehicle pooling costs, allowance for doubtful accounts, goodwill, income taxes, long-lived assets and self insured liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management has discussed the selection of critical accounting policies and estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed our disclosure relating to critical accounting policies and estimates in this Quarterly Report on Form 10-Q. The following is a summary of the more significant judgments and estimates used in the preparation of our consolidated financial statements:

### **Revenue Recognition**

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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 vehicle remarketing services include the ability to use our Internet sales technology and vehicle delivery, loading, title processing, preparation and storage. We evaluate multiple-element arrangements relative to our buyer and seller agreements in accordance with Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* ( EITF 00-21 ), which addresses accounting for multiple-element arrangements, and Staff Accounting Bulletin No. 104, *Revenue Recognition* ( SAB 104 ), which addresses revenue recognition for units of accounting.

The vehicle remarketing 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 such seller fees until we have collected the sales proceeds from the buyer for the seller and, accordingly, we recognize revenue for seller services after service delivery and cash collection.

Vehicle sales, where we purchase and remarket vehicles on our 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 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 EITF 00-21 to determine whether we have met the requirements to separate them into units of accounting within a multi-element arrangement. We have concluded that the 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 an annual registration fee for the right to participate in our vehicle sales program, which is recognized ratably over the term of the arrangement, and relist and late-payment fees, which are recognized upon receipt of payment by the buyer. No provision for returns has been established, as all sales are final with no right of return, although we provide for bad debt expense in the case of non-performance by our buyers and sellers.

### **Vehicle Pooling Costs**

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

We apply the provisions of Statement of Financial Accounting Standards ( SFAS ), No. 151, *Inventory Costs* ( SFAS 151 ) to our vehicle pooling costs. SFAS 151 requires that items such as idle facility expense, excessive spoilage, double freight and rehandling costs be recognized as current-period charges regardless of whether they meet the criteria of so abnormal as provided in Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*. In addition, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of production facilities.

**Allowance for Doubtful Accounts**

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We maintain an allowance for doubtful accounts in order to provide for estimated losses resulting from disputed amounts billed to suppliers or buyers and the inability of our suppliers or buyers to make required payments. If billing disputes exceed expectations and/or if the financial condition of our suppliers or buyers were to deteriorate, additional allowances may be required.

### **Valuation of Goodwill**

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We evaluate the impairment of goodwill of our salvage sales operating segment, annually (or on an interim basis if certain indicators are present) by comparing the fair value of the operating segment to its carrying value. Future adverse changes in market conditions or poor operating results of the operating segment could result in an inability to recover the carrying value of the investment, thereby requiring impairment charges in the future.

### **Income Taxes and Deferred Tax Assets**



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We are required to estimate income tax provisions and amounts ultimately payable or recoverable in numerous jurisdictions. Such estimates involve significant interpretations of regulations and are inherently very complex. Resolution of income tax treatments in individual jurisdictions may not be known for many years after completion of any fiscal year.

We evaluate the realizability of our deferred tax assets on an ongoing basis. U.S. generally accepted accounting principles require the assessment of our performance and other relevant factors when determining the need for a valuation allowance with respect to these deferred tax assets. Our ability to realize deferred tax assets is dependent on the Company's ability to generate future taxable income. Accordingly, we have established a valuation allowance when, in certain taxable jurisdictions, the utilization of the tax asset is uncertain. Additional timing differences, future earning trends and/or tax strategies may occur which could warrant a need for establishing an additional valuation allowance or a reserve.

### **Long-lived Asset Valuation, including Intangible Assets**

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We evaluate long-lived assets, including property and equipment and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by a comparing the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the use of the asset. If the estimated undiscounted cash flows change in the future, we may be required to reduce the carrying amount of an asset.

### **Stock-Based Compensation**



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

**Retained Insurance Liabilities**

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

### **Recently Issued Accounting Standards**

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In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the potential impact on our consolidated results of operations and financial position.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* ( SFAS 159 ). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for financial instruments that otherwise would not be recognized at inception and non-cash warranty obligations where a warrantor is permitted to pay a third party to provide the warranty goods or services. If the use of fair value is elected, any upfront costs and fees related to the item must be recognized in earnings and cannot be deferred: for example, debt issue costs. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to the adoption of SFAS 159, changes in fair value are recognized in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by us in the first quarter of fiscal 2009. We are currently determining whether fair value accounting is appropriate for any of our eligible items and cannot estimate the impact, if any, which SFAS 159 will have on our consolidated results of operations and financial position.

### **Results of Operations**

*Three Months Ended October 31, 2007 Compared to Three Months Ended October 31, 2006*



**Revenues.** The following sets forth information on customer revenue by geographic region based on the location of the selling entity (in thousands, except percentages):

	2007		Percentage of Revenue	2006		Percentage of Revenue
North America	\$	140,175	76%	\$	132,121	100%
United Kingdom		43,782	24%			
	\$	183,957	100%	\$	132,121	100%

Revenues were approximately \$184.0 million during the three months ended October 31, 2007, an increase of approximately \$51.8 million, or 39.2% over the three months ended October 31, 2006. Revenue growth from same store sales in North America, those opened before November 1, 2006, was approximately \$6.6 million. Revenue growth from new facilities, those opened after November 1, 2006, including facilities in or near Baltimore, Maryland; Woodburn, Oregon; Punta Gorda, Florida and London, Ontario was approximately \$1.4 million. Of the increase in revenues \$43.8 million was attributable to revenues generated in the UK during the three months ended October 31, 2007 resulting from the recent acquisitions of Universal and Century both of which were not a part of the company in the three months ended October 31, 2006.

**Yard Operation Expenses.** Yard operation expenses were approximately \$102.2 million during the three months ended October 31, 2007, an increase of approximately \$32.0 million, or 45.5%, over the three months ended October 31, 2006. Included in yard expenses is depreciation expense of \$7.8 million, an increase of \$0.3 million over the three months ended October 31, 2006. Yard operation expenses increased to 55.6% of revenues during the three months ended October 31, 2007, as compared to 53.2% of revenues during the three months ended October 31, 2006. The absolute and percentage increases in yard expenses, excluding depreciation, were attributable to the new UK entities Universal and Century, which contributed \$31.8 million in yard operation expenses. Also, the UK operates primarily on a principal basis and has a lower gross margin percentage.

The following sets forth information on gross margin, defined as revenue less yard operation expenses, and gross margin percentage by geographic region (in thousands, except percentages):

	2007		2006		
North America	\$	69,759	49.8%	\$ 61,890	46.8%
United Kingdom		11,981	27.4%		
	\$	81,740	44.4%	\$ 61,890	46.8%

**General and Administrative Expenses.** General and administrative expenses were approximately \$25.1 million for the three months ended October 31, 2007, an increase of approximately \$10.1 million, or 67.5%, over the three months ended October 31, 2006. Included in general and administrative expenses is depreciation and amortization of \$3.2 million an increase of \$1.9 million over the three months ended October 31, 2006. Also included in general and administrative expenses is \$1.0 million associated with the modification of certain common stock options for retiring directors and \$1.4 million in employee separation expense in the UK. The remaining increase is primarily attributable to the new UK entities Universal and Century. General and administrative expenses increased to 13.7% of revenues during the three months ended October 31, 2007, as compared to 11.4% of revenues during the three months ended October 31, 2006.

**Other Income.** Total other income was approximately \$3.5 million during the three months ended October 31, 2007, an increase of approximately \$2.1 million related to a decrease of \$2.2 million in losses from an equity investment in Lanelogic Corporation ( Lanelogic ) which was recorded in the three months ended October 31, 2006. The Company has discontinued recording its share of the losses of Lanelogic because it has no commitment to provide further funding.

**Income Taxes.** Our effective combined federal, state and local income tax rates for three months ended October 31, 2007 and 2006 were approximately 37.5% and 37.2%, respectively.

**Net Income.** Due to the foregoing factors, we realized net income of approximately \$37.6 million for the three months ended October 31, 2007, compared to net income of approximately \$30.3 million for the three months ended October 31, 2006.

#### **Liquidity and Capital Resources**

Historically, we have financed our growth through cash generated from operations, public offerings of common stock, the equity issued in conjunction with certain acquisitions and debt financing. Cash and cash equivalents combined with short-term investments increased by approximately \$48.9 million from July 31, 2007 to October 31, 2007. During the winter months, most of our facilities process 10% to 30% more vehicles than at other times of the year. This increased seasonal volume requires the increased use of our cash to pay out advances and handling costs of the additional business. Our primary source of cash generated by operations is from the collection of sellers' fees, buyers' fees and reimbursable advances from the proceeds of auctioned salvage vehicles.

As of October 31, 2007, we had working capital of approximately \$282.4 million, including cash and cash equivalents of approximately \$249.9 million. During the course of the year, we invest substantially all of our cash balances in AAA-rated auction rate securities and typically convert a portion of these securities to cash and cash equivalents prior to the end of each quarter. Auction rate securities are principally variable rate securities tied to short-term interest rates with maturities on the face of the securities in excess of 90 days. Auction rate securities have interest rate resets through a modified Dutch auction, at predetermined short-term intervals, usually every 7, 28 or 35 days. They trade at par and are callable at par on any interest payment date at the option of the issuer. Interest paid during a given period is based upon the interest rate determined during the prior auction. Although these instruments are issued and rated as long-term securities, they are priced and traded as short-term securities because of the liquidity provided through the interest rate reset. Prior to the end of current quarter we converted all of these securities to cash and cash equivalents.

We believe that our currently available cash and cash equivalents and cash generated from operations will be sufficient to satisfy our operating and working capital requirements for at least the next 12 months. However, if we experience significant growth in the future, we may be required to raise additional cash through the issuance of new debt or additional equity.

#### ***Operating Activities***

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Net cash provided by operating activities increased by approximately \$1.7 million to \$55.7 million during the three months ended October 31, 2007 when compared to the three months ended October 31, 2006, due to the increase in net income which was offset in part due to the timing of routine changes in working capital items.

### *Investing Activities*

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During the three months ended October 31, 2007, we sold approximately \$257.0 million in short-term investments. These sales were partially offset by the purchase of \$154.4 million of short-term investments. Prior to October 31, 2007, the end of the quarter, we converted our entire balance of short-term investments to cash and cash equivalents.

During the three months ended October 31, 2007, we utilized the entire restricted cash amount of \$9.1 million for the purchase of Century Salvage. During the three months ended October 31, 2006 we did not acquire any facilities.

Capital expenditures (excluding those associated with fixed assets attributable to acquisitions) were approximately \$19.9 million and \$21.1 million for three months ended October 31, 2007 and 2006, respectively. Our capital expenditures are related primarily to opening and improving facilities and acquiring yard equipment. We continue to expand and invest in new and existing facilities in order to handle increased volume and standardize the appearance of existing locations.

***Financing Activities***

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For the three months ended October 31, 2007 and 2006, we generated approximately \$13.0 million and \$2.2 million, respectively, through the exercise of stock options, including the related excess tax benefit from share based payment arrangements and shares issued under our Employee Stock Purchase Plan.

In October 2007, our Board of Directors approved a 20 million share increase in our stock repurchase program, bringing the total current authorization 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 we deem appropriate and may be discontinued at any time. We did not repurchase any shares during the three months ended October 31, 2007 and 2006. The total number of shares repurchased under the program as of October 31, 2007 is approximately 7 million, leaving approximately 22 million available under the repurchase program.



*Lease, Purchase and Other Contractual Obligations*



The following summarizes our significant contractual obligations and commercial commitments entered into subsequent to July 31, 2007.

On November 19, 2007, we entered into an agreement to acquire an aircraft with a purchase price of approximately \$18.7 million. This purchase is expected to close during the quarter ending January 31, 2008.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our principal exposures to financial market risk are interest rate and foreign currency risk. Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio of marketable securities. As of October 31, 2007, our cash and cash equivalents consisted primarily of funds invested in money market accounts, which bear interest at a variable rate. During the course of the quarter we invested substantially all of our cash balances in AAA-rated auction rate securities, which also bear interest at a variable rate. Due to the average maturity and nature of the Company's investment portfolio, we believe a sudden change in interest rates would not have a material effect on the value of our investment portfolio. As the interest rates on a material portion of our cash and cash equivalents are variable, a change in interest rates earned on our investment portfolio would impact interest income along with cash flows, but would not materially impact the fair market value of the related underlying instruments.

Our exposure to foreign currency risks relates to our operations in Canada and the UK. We do not hedge our exposure to the Canadian Dollar or the British Pound. We do not use derivative financial instruments for speculative or trading purposes.

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, or Disclosure Controls, as of the end of the period covered by this Quarterly Report on Form 10-Q. This evaluation, or Controls Evaluation, was performed under the supervision and with the participation of management, including our Chairman of the Board, Chief Executive Officer and Director (our CEO) and our Senior Vice President and Chief Financial Officer (our CFO). Disclosure Controls are controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure Controls include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our Disclosure Controls include some, but not all, components of our internal control over financial reporting.

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

(b) Changes in Internal Controls

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

On September 16, 2005, Richard M. Gray filed suit against Copart of Connecticut, Inc. and A. Safrin in the State Court of the County of Chatham, State of Georgia, alleging a class action for unreasonable amounts claimed for storage liens by us, and related claims. Relief sought includes class certification, damages, fees, costs and expenses. Our motion for summary judgment was heard on January 31, 2007 and was denied. We believe the claim is without merit, and are defending the lawsuit vigorously.

On July 28, 2006, Foreign Car Sales and Service LLC ( FCS ) filed suit against Copart in the United States District Court for the Middle District of Louisiana, originally alleging antitrust violations and unfair trade practices. Relief sought originally included class certification based on both unfair trade practices and Sherman Act violations, damages, fees, costs and expenses. On January 5, 2007 the Magistrate required FCS to amend its complaint. A First Amended Complaint was rejected, and a Second Amended Complaint was submitted February 16, 2007, in which FCS abandoned its unfair trade practices claims, and now relies simply on breach of contract claims. On August 23, 2007, Copart filed: (a) Motion to Dismiss Claims for Improper Venue; (b) Motion to Dismiss for Failure to Join Persons Needed for Just Adjudication; (c) Motion To Dismiss for Lack of Diversity Jurisdiction; (d) Motion to Dismiss Load Out Fee Class Action for Failure to State Claim; and (e) Motion to Dismiss Load Out Fee Class Action for Lack of Diversity Jurisdiction. The court has the motions under consideration at this time, but no decision has been rendered. We believe the claim is without merit, and are defending the lawsuit vigorously.

On November 20, 2007, Car Auction & Reinsurance Solutions, Inc. (CARS, Inc.) filed suit against Copart in the Superior Court in the County of New Castle, Delaware. CARS is seeking \$2 million in damages, punitive damages, and prejudgment interest related to allegations that we breached a contract. At this time, we have only received a courtesy copy of the complaint and have not been formally served. We believe the claim is without merit, and will defend the lawsuit vigorously.

On November 30, 2007, Tracy Utterback Suggs filed suit against Copart in Harris County, Texas District Court. The complaint alleges negligent spoliation of evidence on grounds that we allowed a vehicle in its possession to be destroyed. Relief sought includes damages, exemplary damages, and prejudgment interest. At this time, Plaintiff has made a demand through counsel of \$50 million. We have retained counsel to evaluate the plaintiff's claims and prepare a defense. However, it is currently too early to know whether the claims have merit. We intend to defend the lawsuit vigorously.

We provide for costs relating to these matters when a loss is probable and the amount can be reasonably estimated. The effect of the outcome of these matters on our future results of operations cannot be predicted because any such effect depends on future results of operations, and the amount and timing of the resolution of such matters. We believe that any ultimate liability will not have a material effect on its financial position, results of operations or cash flows. However, the amount of the liabilities associated with these claims, if any, cannot be determined with certainty. We maintain insurance which may or may not provide coverage for claims made against us. There is no assurance that there will be insurance coverage available when and if needed. Additionally, the insurance that we carry requires that we pay for costs and/or claims exposure up to the amount of the insurance deductibles negotiated when insurance is purchased.

### ITEM 1A. RISK FACTORS

Set forth below and elsewhere in this report and in other documents we file with the SEC are descriptions of the risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report.

**We depend on a limited number of major suppliers of salvage vehicles. The loss of one or more of these major suppliers could adversely affect our results of operations and financial condition, and an inability to increase our sources of vehicle supply could adversely affect our growth rates.**

Historically, a limited number of vehicle suppliers have accounted for a substantial portion of our revenues. In the first quarter of fiscal 2008, vehicles supplied by our largest supplier accounted for approximately 11% of our revenues. Supplier arrangements are either written or oral agreements typically subject to cancellation by either party upon 30 to 90 days notice. Vehicle suppliers have terminated agreements with us in the past in particular markets, which has affected the pricing for sales services in those markets. There can be no assurance that our existing agreements will not be cancelled. Furthermore, there can be no assurance that we will be able to enter into future agreements with vehicle suppliers or that we will be able to retain our existing supply of salvage vehicles. A reduction in vehicles from a significant vehicle supplier or any material changes in the terms of an arrangement with a substantial vehicle supplier could have a material adverse effect on our results of operations and financial condition. In addition, a failure to increase our sources of vehicle supply could adversely affect our earnings and revenue growth rates.

**Our United Kingdom acquisition of Universal Salvage plc on June 14, 2007 and our subsequent acquisition of Century Salvage Sales Limited on August 1, 2007 will expose us to risks arising from the acquisitions and risks associated with operating in markets outside North America. We may acquire additional companies in the United Kingdom or Europe or seek to establish new yards or facilities to complement the acquired companies' operations. We have no prior experience operating outside North America, and any failure to integrate these recently acquired companies or future UK or European acquisitions into our operations successfully could have an adverse effect on our financial position, results of operations or cash flows.**

During fiscal 2007, we announced the acquisition of Universal Salvage plc, or Universal, our first acquisition in the UK. Subsequently, in August 2007, we announced the acquisition of Century Salvage Sales Limited, or Century, also in the UK. We may acquire additional companies or operations in the UK or Europe or may seek to establish new yards or operations in the UK or Europe now that we have established a presence in these markets. We have no experience operating our business outside North America, which presents numerous strategic, operating, and financial risks to us.

Our recent acquisitions in the UK and continued expansion of our operations outside North America pose substantial risks and uncertainties that could have an adverse effect on our future operating results. In particular, we may not be successful in realizing anticipated synergies from these acquisitions, or we may experience unanticipated costs or expenses integrating the acquired operations into our existing business. We may also incur substantial expenses establishing new yards or operations in the UK or Europe. Among other things, we intend to eventually deploy our VB<sup>2</sup> vehicle remarketing technologies at all of our operations in the UK, where appropriate, and we cannot predict whether this deployment will be successful or will result in increases in the revenues or operating efficiencies of any acquired companies relative to their historic operating performance. Integration of our respective operations, including information technology integration and integration of financial and administrative functions, may not proceed as we currently anticipate and could result in presently unanticipated costs or expenses (including unanticipated capital expenditures) that could have an adverse effect on our future operating results. We cannot provide any assurances that we will achieve our business and financial objectives in connection with these acquisitions or our strategic decision to expand our operations internationally.

We have no experience operating our business outside North America and lack familiarity with local laws, regulations and business practices. We will need to develop policies and procedures to manage our business on a global scale. Operationally, the businesses of Universal and Century have depended on key customer and supplier relationships, and we will need to maintain those. If we fail to maintain those relationships it would have an adverse effect on our operating objectives for the UK and could have an adverse effect on our future operating results.

In addition, we anticipate our international operations will subject us to a variety of risks associated with operating on an international basis, including:

the difficulty of managing and staffing foreign offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;

the need to localize our product offerings, particularly with respect to VB<sup>2</sup>;

tariffs and trade barriers and other regulatory or contractual limitations on our ability to operate in certain foreign markets; and

exposure to foreign currency exchange rate risk, which we have not been previously subject to in any material amounts.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Our failure to manage any of these risks successfully could harm our international operations and have an adverse effect on our operating results.

The period-to-period comparability of our operating results and financial condition is substantially affected by business acquisitions during such periods. In particular, the UK acquisitions, because of their size and, also, because the UK operates primarily on the principal model versus the agency model employed in the US, will have a significant impact on the comparability of revenues, margins and margin percentages in future periods. Further operating on a principal basis will have a negative impact on our future consolidated gross margins.

**In the UK we operate primarily on a principal basis, purchasing the salvage vehicle outright from the insurance companies and reselling the vehicle to buyers. This exposes us to inventory risks including:**

loss from theft or damage;

loss from devaluation; and

loss from obsolescence.

**Our strategic shift from live salvage sales to an entirely Internet-based sales model presents new risks, including substantial technology risks.**

In fiscal 2004, we converted all our North American salvage sales from a live auction process to an entirely Internet-based auction-style model based on technology developed internally by us. The conversion represents a significant change in the way we conduct business and presents numerous risks, including our increased reliance on the availability and reliability of our network systems. In particular, we believe the conversion presents the following risks, among others:

Our operating results in a particular period could be adversely affected in the event our networks are not operable for an extended period of time for any reason, as a result of Internet viruses, or as a result of any other technological circumstance that makes us unable to conduct our virtual sales.

Our business is increasingly reliant on internally developed technology, and we have limited historic experience developing technologies or systems for large-scale implementation and use.

Our general and administrative expenses have tended to increase as a percentage of revenue as our information technology payroll has increased.

The change in our business model may make it more difficult for management, investment analysts, and investors to model or predict our future operating results until sufficient historic data is available to evaluate the effect of the VB<sup>2</sup> implementation over a longer period of time and in different economic environments.

Our increasing reliance on proprietary technology subjects us to intellectual property risks, including the risk of third party infringement claims or the risk that we cannot establish or protect intellectual property rights in our technologies. We have filed patent applications for VB<sup>2</sup> in the United States, the Netherlands, and Europe, but we cannot provide any assurances that the patents will actually be issued, or if issued that the patents would not later be found to be unenforceable or invalid.

**Our results of operations may not continue to benefit from the implementation of VB<sup>2</sup> to the extent we have experienced in recent periods.**



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We believe that the implementation of our proprietary VB<sup>2</sup> sales technologies across our North America salvage operations has had a favorable impact on our results of operations by increasing the size and geographic scope of our buyer base and increasing the average selling price for vehicles sold through our sales. VB<sup>2</sup> was implemented across all our salvage yards beginning in the third quarter of fiscal 2004. We do not believe, however, that we will continue to experience improvements in our results of operations at the same relative rates we have experienced in the last few years. In addition, we cannot predict whether we will experience the same initial benefits from the implementation of VB<sup>2</sup> in the UK market, or in future markets we may enter, that we experienced in North America.

**Failure to have sufficient capacity to accept additional cars at one or more of our salvage yards could adversely affect our relationships with insurance companies or other suppliers of salvage vehicles.**

Capacity at our salvage yards varies from period to period and from region to region. For example, following adverse weather conditions in a particular area, our yards in that area may fill and limit our ability to accept additional salvage vehicles while we process existing inventories. As discussed below, Hurricanes Katrina and Rita had an adverse effect on our operating results, in part because of yard capacity constraints in the Gulf Coast area. We regularly evaluate our capacity in all our markets and, where appropriate, seek to increase capacity through the acquisition of additional land and yards. We may not be able to reach agreements to purchase independent salvage yards in markets where we have limited excess capacity, and zoning restrictions or difficulties obtaining use permits may limit our ability to expand our capacity through acquisitions of new land. Failure to have sufficient capacity at one or more of our yards could adversely affect our relationships with insurance companies or other suppliers of salvage vehicles, which could have an adverse effect on our operating results.

**Factors such as mild weather conditions can have an adverse effect on our revenues and operating results as well as our revenue and earnings growth rates by reducing the available supply of salvage vehicles. Conversely, extreme weather conditions can result in an oversupply of salvage vehicles that requires us to incur abnormal expenses to respond to market demands.**

Mild weather conditions tend to result in a decrease in the available supply of salvage vehicles because traffic accidents decrease and fewer automobiles are damaged. Accordingly, mild weather can have an adverse effect on our salvage vehicle inventories, which would be expected to have an adverse effect on our revenue and operating results and related growth rates. Conversely, our inventories will tend to increase in poor weather such as a harsh winter or as a result of adverse weather-related conditions such as flooding. During periods of mild weather conditions, our ability to increase our revenues and improve our operating results and related growth will be increasingly dependent on our ability to obtain additional vehicle suppliers and to compete more effectively in the market, each of which is subject to the other risks and uncertainties described in these sections. In addition, extreme weather conditions, although they increase the available supply of salvage cars, can have an adverse effect on our operating results. For example, during the year ended July 31, 2006, we recognized substantial additional costs associated with the impact of Hurricanes Katrina and Rita in Gulf Coast states. These additional costs, characterized as abnormal under Statement of Financial Accounting Standards 151, were recognized during the year ended July 31, 2006, and included the additional subhauling, payroll, equipment and facilities expenses directly related to the operating conditions created by the hurricanes. In the event that we were to again experience extremely adverse weather or other anomalous conditions that result in an abnormally high number of salvage vehicles in one or more of our markets, those conditions could have an adverse effect on our future operating results.

**High fuel prices may have an adverse effect on our revenues and operating results as well as our earnings growth rates.**

Significant increases in the cost of fuel could lead to a reduction in miles driven per car and a reduction in accident rates. A material reduction in accident rates could have a material impact on revenue growth. In addition, under our percentage incentive program contracts, or PIP, the cost of towing the vehicle to one of our facilities is included in the PIP fee. We may incur increased fees, which we will not be able to pass on to our suppliers of salvage vehicles. A material increase in tow rates could have a material impact on our operating results.

**The salvage vehicle sales industry is highly competitive and we may not be able to compete successfully.**

We face significant competition for the supply of salvage vehicles and for the buyers of those vehicles. We believe our principal competitors include other vehicle remarketing companies with whom we compete directly in obtaining vehicles from insurance companies and other suppliers, and large vehicle dismantlers, who may buy salvage vehicles directly from insurance companies, bypassing the salvage sales process. Many of the insurance companies have established relationships with competitive remarketing companies and large dismantlers. Certain of our competitors may have greater financial resources than us. Due to the limited number of vehicle suppliers, particularly in the UK, the absence of long-term contractual commitments between us and our suppliers and the increasingly competitive market environment, there can be no assurance that our competitors will not gain market share at our expense.

We may also encounter significant competition for local, regional and national supply agreements with vehicle suppliers. There can be no assurance that the existence of other local, regional or national contracts entered into by our competitors will not have a material adverse effect on our business or our expansion plans. Furthermore, we are likely to face



competition from major competitors in the acquisition of salvage vehicle remarketing facilities, which could significantly increase the cost of such acquisitions and thereby materially impede our expansion objectives or have a material adverse effect on our results of operations. These potential new competitors may include consolidators of automobile dismantling businesses, organized salvage vehicle buying groups, automobile manufacturers, automobile auctioneers and software companies. While most vehicle suppliers have abandoned or reduced efforts to sell salvage vehicles directly without the use of service providers such as us, there can be no assurance that this trend will continue, which could adversely affect our market share, results of operations and financial condition. Additionally, existing or new competitors may be significantly larger and have greater financial and marketing resources than us; therefore, there can be no assurance that we will be able to compete successfully in the future.

**Because the growth of our business has been due in large part to acquisitions and development of new salvage vehicle facilities, the rate of growth of our business and revenues may decline if we are not able to successfully complete acquisitions and develop new facilities.**

We seek to increase our sales and profitability through the acquisition of other salvage vehicle facilities and the development of new salvage vehicle facilities. There can be no assurance that we will be able to:

continue to acquire additional facilities on favorable terms;

expand existing facilities in no-growth regulatory environments;

increase revenues and profitability at acquired and new facilities;

maintain the historical revenue and earnings growth rates we have been able to obtain through facility openings and strategic acquisitions; or

create new salvage vehicle storage facilities that meet our current revenue and profitability requirements.

**As we continue to expand our operations, our failure to manage growth could harm our business and adversely affect our results of operations and financial condition.**

Our ability to manage growth is not only dependent on our ability to successfully integrate new facilities, but also on our ability to:

hire, train and manage additional qualified personnel;

establish new relationships or expand existing relationships with vehicle suppliers;

identify and acquire or lease suitable premises on competitive terms;

secure adequate capital; and

maintain the supply of vehicles from vehicle suppliers.

Our inability to control or manage these growth factors effectively could have a material adverse effect on our financial position, results of operations, or cash flows.

**Our annual and quarterly performance may fluctuate, causing the price of our stock to decline.**

Our revenues and operating results have fluctuated in the past and can be expected to continue to fluctuate in the future on a quarterly and annual basis as a result of a number of factors, many of which are beyond our control. Factors that may affect our operating results include, but are not limited to, the following:

fluctuations in the market value of salvage and used vehicles;

as a result of our recently acquired companies in the UK, the impact of foreign exchange gain and loss;

our ability to successfully integrate our newly acquired operations in the UK and any additional international markets we may enter;

the availability of salvage vehicles;

variations in vehicle accident rates;

buyer participation in the Internet bidding process;

delays or changes in state title processing;

changes in international, state or federal laws or regulations affecting salvage vehicles;

changes in local laws affecting who may purchase salvage vehicles;

our ability to integrate and manage our acquisitions successfully;

the timing and size of our new facility openings;

the announcement of new vehicle supply agreements by us or our competitors;

severity of weather and seasonality of weather patterns;

the amount and timing of operating costs and capital expenditures relating to the maintenance and expansion of our business, operations and infrastructure;

the availability and cost of general business insurance;

labor costs and collective bargaining;

availability of subhauers at competitive rates;

acceptance of buyers and sellers of our Internet-based model deploying VB<sup>2</sup>, a proprietary Internet auction-style sales technology, including in the UK market where we sell salvage vehicles using live auctions at certain locations;

changes in the current levels of out of state and foreign demand for salvage vehicles;

the introduction of a similar Internet product by a competitor; and

the ability to obtain necessary permits to operate salvage storage facilities.

Due to the foregoing factors, our operating results in one or more future periods can be expected to fluctuate. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. In the event such fluctuations result in our financial performance being below the expectations of public market analysts and investors, the price of our common stock could decline substantially.

**Our strategic shift to an Internet-based sales model has increased the relative importance of intellectual property assets to our business, and any inability to protect those rights could have a material adverse effect on our business, financial condition, or results of operations.**

Implementation of VB<sup>2</sup> across our North American salvage operations has increased the relative importance of intellectual property rights to our business. Our intellectual property rights include pending patent applications for VB<sup>2</sup> as well as trademarks, trade secrets, copyrights and other intellectual property rights. We are in the process of prosecuting an initial patent application relating to VB<sup>2</sup> and cannot predict whether a patent

will actually issue from that application. Even if a patent is issued, the scope of the protection gained may be insufficient or any issued patent could subsequently be deemed invalid or unenforceable. In addition, we are increasingly entering into agreements with third parties regarding the license or other use of our intellectual property in foreign jurisdictions. Effective intellectual property protection may not be available in every country in which our products and services are distributed, deployed, or made available. We seek to maintain certain intellectual property rights as trade secrets. The secrecy could be compromised by third parties, or intentionally or accidentally by our employees, which would cause us to lose the competitive advantage resulting from those trade secrets. Any significant impairment of our intellectual property rights, or any inability to protect our intellectual property rights, could have a material adverse effect on our financial position, results of operations, or cash flows.

**We have in the past been and may in the future be subject to intellectual property rights claims, which are costly to defend, could require us to pay damages, and could limit our ability to use certain technologies in the future.**

Litigation based on allegations of infringement or other violations of intellectual property rights are common among companies who rely heavily on intellectual property rights. Our reliance on intellectual property rights has increased significantly in recent years as we have implemented our VB<sup>2</sup> auction-style sales technologies across our business and ceased conducting live auctions in our North American operations. As we face increasing competition, the possibility of intellectual property rights claims against us grows. Litigation and any other intellectual property claims, whether with or without merit, can

be time-consuming, expensive to litigate and settle, and can divert management resources and attention from our core business. An adverse determination in current or future litigation could prevent us from offering our products and services in the manner currently conducted. We may also have to pay damages or seek a license for the technology, which may not be available on reasonable terms and which may significantly increase our operating expenses, if it is available for us to license at all. We could also be required to develop alternative non-infringing technology, which could require significant effort and expense.

**New accounting pronouncements or new interpretations of existing standards could require us to make changes or adjustments in our accounting policies and procedures that could adversely affect our financial statements.**

The Financial Accounting Standards Board, the SEC, or other accounting organizations or governmental entities issue new pronouncements or new interpretations of existing accounting standards that may require us to change our accounting policies and procedures. To date, we do not believe any new pronouncements or interpretations have had an adverse effect on our financial condition or results of operations, but future pronouncements or interpretations could require us to change our policies or procedures. Moreover, we continually review our critical accounting policies in light of the accounting literature and changes in our operations.

**Government regulation of the salvage vehicle sales industry may impair our operations, increase our costs of doing business and create potential liability.**

Participants in the salvage vehicle sales industry are subject to, and may be required to expend funds to ensure compliance with, a variety of governmental, regulatory and administrative rules, regulations, land use ordinances, licensure requirements and procedures, including those governing vehicle registration, the environment, zoning and land use. Failure to comply with present or future regulations or changes in interpretations of existing regulations may result in impairment of our operations and the imposition of penalties and other liabilities. At various times, we may be involved in disputes with local governmental officials regarding the development and/or operation of our business facilities. We believe that we are in compliance in all material respects with applicable regulatory requirements. We may be subject to similar types of regulations by federal, national, international, provincial, state, and local governmental agencies in new markets. In addition, new regulatory requirements or changes in existing requirements may delay or increase the cost of opening new facilities, may limit our base of salvage vehicle buyers and may decrease demand for our vehicles.

**The operation of our storage facilities poses certain environmental risks, which could adversely affect our financial position, results of operations or cash flows.**

Our operations are subject to federal, state, national, provincial and local laws and regulations regarding the protection of the environment in the countries which we have storage facilities. In the salvage vehicle remarketing industry, large numbers of wrecked vehicles are stored at storage facilities and, during that time, spills of fuel, motor oil and other fluids may occur, resulting in soil, surface water or groundwater contamination. In addition, certain of our facilities generate and/or store petroleum products and other hazardous materials, including waste solvents and used oil. In the UK, we provide vehicle de-pollution and crushing services for End-of-Life program vehicles. We could incur substantial expenditures for preventative, investigative or remedial action and could be exposed to liability arising from our operations, contamination by previous users of certain of our acquired facilities, or the disposal of our waste at off-site locations. Environmental laws and regulations could become more stringent over time and there can be no assurance that we or our operations will not be subject to significant costs in the future. Although we have obtained indemnification for pre-existing environmental liabilities from many of the persons and entities from whom we have acquired facilities, there can be no assurance that such indemnifications will be adequate. Any such expenditures or liabilities could have a material adverse effect on our results of operations and financial condition.

**If we experience problems with our providers of fleet operations, our business could be harmed.**

We rely solely upon independent subhauers to pick up and deliver vehicles to and from our North American storage facilities. Our failure to pick up and deliver vehicles in a timely and accurate manner could harm our reputation and brand, which could have a material adverse effect on our business. Further, an increase in fuel cost may lead to increased prices charged by our independent subhauers, which may significantly increase our cost. We may not be able to pass these costs on to our sellers or buyers.



**If we experience problems with our UK trucking fleet operations, our business could be harmed.**

We use a fleet of company owned trucks to pick up and deliver vehicles to and from our UK storage facilities. We are subject to the risks associated with providing trucking services, including inclement weather, disruptions in transportation infrastructure, availability and price of fuel, any of which could result in an increase in our operating expenses and reduction in our net income.

**We are partially self-insured for certain losses.**

We are partially self-insured for certain losses related to medical insurance, general liability, workers compensation and auto liability. Our liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet date. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial estimates. While we believe these estimates are reasonable based on the information currently available, if actual trends, including the severity of claims and medical cost inflation, differ from our estimates, our results of operations could be impacted. Further, we rely on independent actuaries to assist us in establishing the proper amount of reserves for anticipated payouts associated with these self-insured exposures.

**Our executive officers, directors and their affiliates hold a large percentage of our stock and their interests may differ from other shareholders.**

Our executive officers, directors and their affiliates beneficially own, in the aggregate, approximately 27% of our common stock as of October 31, 2007. If they were to act together, these shareholders would have significant influence over most matters requiring approval by shareholders, including the election of directors, any amendments to our articles of incorporation and certain significant corporate transactions, including potential merger or acquisition transactions. In addition, without the consent of these shareholders, we could be delayed or prevented from entering into transactions that could be beneficial to us or our other investors. These shareholders may take these actions even if they are opposed by our other investors.

**We have a shareholder rights plan, or poison pill, which could affect the price of our common stock and make it more difficult for a potential acquirer to purchase a large portion of our securities, to initiate a tender offer or a proxy contest, or to acquire us.**

In March 2003, our board of directors adopted a shareholder rights plan, commonly known as a poison pill. The poison pill may discourage, delay, or prevent a third party from acquiring a large portion of our securities, initiating a tender offer or proxy contest, or acquiring us through an acquisition, merger, or similar transaction. Such an acquirer could be prevented from consummating one of these transactions even if our shareholders might receive a premium for their shares over then-current market prices.

**If we lose key management or are unable to attract and retain the talent required for our business, we may not be able to successfully manage our business or achieve our objectives.**

Our future success depends in large part upon the leadership and performance of our executive management team, all of whom are employed on an at-will basis and none of whom are subject to any agreements not to compete. If we lose the service of one or more of our executive officers or key employees, in particular Willis J. Johnson, our Chief Executive Officer, and A. Jayson Adair, our President, or if one or more of them decides to join a competitor or otherwise compete directly or indirectly with us, we may not be able to successfully manage our business or achieve our business objectives.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth information concerning the number of Common Shares repurchased under our publicly announced program since the beginning of fiscal 2007:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Maximum Number of Shares That May Yet Be Purchased Under the Program</b>
<i>Fiscal 2008</i>				
First Quarter				
<i>Fiscal 2007</i>				
First Quarter				
Second Quarter				
Third Quarter				
Fourth Quarter	2,995,405	\$29.91	7,033,705	21,966,295

**ITEM 6. EXHIBITS**

(a)	<u>Exhibits</u>
31.1	Certification of Willis J. Johnson, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of William E. Franklin, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Willis J. Johnson, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of William E. Franklin, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COPART, INC.

/s/ William E. Franklin  
William E. Franklin, Senior Vice President and Chief  
Financial Officer (duly authorized officer and principal  
financial and accounting officer)

Date: December 7, 2007