COPART INC
Form 10-Q
February 25, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended January 31, 2016
OR
o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from to
Commission file number: 000-23255
COPART, INC.
(Exact name of registrant as specified in its charter)

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

14185 Dallas Parkway, Suite 300, Dallas, Texas 75254
(Address of principal executive offices, including zip code)
(972) 391-5000
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ¨ NO x
As of February 24, 2016, 112,000,958 shares of the registrant's common stock were outstanding.

Copart, Inc.
Index to the Quarterly Report
January 31, 2016

Table of Contents

Copart, Inc.
Consolidated Balance Sheets
(Unaudited)

(In thousands, except share amounts)	January 31, 2016	July 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$141,416	$456,012
Marketable securities	17,465	—
Accounts receivable, net	281,227	215,696
Vehicle pooling costs	29,694	24,949
Inventories	9,458	8,613
Income taxes receivable	7,734	6,092
Deferred income taxes	685	3,396
Prepaid expenses and other assets	19,179	19,824
Total current assets	506,858	734,582
Property and equipment, net	744,224	700,402
Intangibles, net	14,408	17,857
Goodwill	264,128	271,850
Deferred income taxes	31,432	28,840
Other assets	43,314	46,421
Total assets	$1,604,364	$1,799,952
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	147,839	147,452
Deferred revenue	5,478	3,724
Income taxes payable	12,629	8,279
Current portion of long-term debt, revolving loan facility, and capital lease obligations	99,171	53,671
Total current liabilities	265,117	213,126
Deferred income taxes	4,868	5,322
Income taxes payable	23,696	21,157
Long-term debt and capital lease obligations, net of discount	576,501	592,135
Other liabilities	2,782	3,748
Total liabilities	872,964	835,488
Commitments and contingencies		
Stockholders' equity:		
Preferred stock: $0.0001 par value - 5,000,000 shares authorized; none issued	—	—
Common stock: $0.0001 par value - 400,000,000 shares authorized; 111,999,458 and 120,156,340 shares issued and outstanding, respectively.	11	12
Additional paid-in capital	394,002	407,808
Accumulated other comprehensive loss	(103,071)	(68,793)
Retained earnings	440,458	625,437
Total stockholders' equity	731,400	964,464
Total liabilities and stockholders' equity	$1,604,364	$1,799,952

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

3

Copart, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended January 31, 2016	2015	Six Months Ended January 31, 2016	2015
Service revenues and vehicle sales:				
Service revenues	$260,417	$238,508	$511,384	$485,128
Vehicle sales	39,289	37,750	77,160	81,516
Total service revenues and vehicle sales	299,706	276,258	588,544	566,644
Operating expenses:				
Yard operations	140,965	129,273	276,874	260,278
Cost of vehicle sales	34,127	32,118	66,195	69,191
General and administrative	32,529	34,399	67,144	74,306
Total operating expenses	207,621	195,790	410,213	403,775
Operating income	92,085	80,468	178,331	162,869
Other (expense) income:				
Interest expense	(5,570)	(4,688)	(11,294)	(6,598)
Interest income	602	183	813	322
Other income, net	4,435	4,141	5,462	5,734
Total other expenses	(533)	(364)	(5,019)	(542)
Income before income taxes	91,552	80,104	173,312	162,327
Income taxes	32,589	27,911	61,936	57,519
Net income	$58,963	$52,193	$111,376	$104,808
Basic net income per common share	$0.50	$0.41	$0.94	$0.83
Weighted average common shares outstanding	117,306	126,300	118,731	126,258
Diluted net income per common share	$0.48	$0.40	$0.90	$0.80
Diluted weighted average common shares outstanding	122,908	131,872	124,240	131,694

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

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

(In thousands)	Three Months Ended January 31, 2016	Three Months Ended January 31, 2015	Six Months Ended January 31, 2016	Six Months Ended January 31, 2015
Comprehensive income, net of tax:				
Net income	$58,963	$52,193	$111,376	$104,808
Other comprehensive income:				
Unrealized gain on interest rate swaps, net (a)	163	545	603	949
Reclassification adjustment of interest rate swaps, net (b)	(101)	(294)	(320)	(606)
Unrealized loss on available-for-sale securities, net (c)	(4,146)	—	(3,651)	—
Foreign currency translation adjustments	(24,247)	(22,840)	(30,910)	(46,808)
Total comprehensive income	$30,632	$29,604	$77,098	$58,343

(a) Net of tax effect of $(151) and $(299) for the three months ended January 31, 2016 and 2015, respectively. Net of tax effect of $(342) and $(526) for the six months ended January 31, 2016 and 2015, respectively.
(b) Net of tax effect of $56 and $157 for the three months ended January 31, 2016 and 2015, respectively. Net of tax effect of $178 and $332 for the six months ended January 31, 2016 and 2015, respectively.
(c) Net of tax effect of $(282) for the three months ended January 31, 2016. Net of tax effect of $(3) for the six months ended January 31, 2016.

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

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

(In thousands)	Six Months Ended January 31, 2016	2015
Cash flows from operating activities:		
Net income	$111,376	$104,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,294	25,367
Allowance for doubtful accounts	1,270	(242)
Equity in losses of unconsolidated affiliates	483	—
Stock-based payment compensation	10,800	8,870
Excess tax benefit from stock-based payment compensation	(241)	(534)
Gain on sale of property and equipment	(106)	(457)
Deferred income taxes	(106)	(2,317)
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(68,683)	(40,908)
Vehicle pooling costs	(5,139)	(2,125)
Inventories	(1,310)	(1,226)
Prepaid expenses and other current assets	(216)	1,747
Other assets	448	5,368
Accounts payable and accrued liabilities	3,702	(4,173)
Deferred revenue	1,810	351
Income taxes receivable	(1,410)	(4,938)
Income taxes payable	7,897	103
Other liabilities	(789)	(811)
Net cash provided by operating activities	83,080	88,883
Cash flows from investing activities:		
Purchases of property and equipment	(77,763)	(39,459)
Proceeds from sale of property and equipment	296	525
Proceeds from sale of assets held for sale	100	217
Purchases of marketable securities	(21,119)	—
Net cash used in investing activities	(98,486)	(38,717)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	944	2,303
Excess tax benefit from stock-based payment compensation	241	534
Proceeds from the issuance of Employee Stock Purchase Plan shares	1,640	1,495
Repurchases of common stock	(325,000)	(1,121)
Proceeds from the issuance of long-term debt, net of discount	—	698,939
Proceeds from revolving loan facility, net of repayments	68,000	—
Debt offering costs	—	(955)
Principal payments on long-term debt	(37,500)	(312,500)
Net cash (used in) provided by financing activities	(291,675)	388,695
Effect of foreign currency translation	(7,515)	(7,163)
Net (decrease) increase in cash and cash equivalents	(314,596)	431,698
Cash and cash equivalents at beginning of period	456,012	158,668
Cash and cash equivalents at end of period	$141,416	$590,366
Supplemental disclosure of cash flow information:		
Interest paid	$11,294	$3,788

Income taxes paid, net of refunds	$55,413	$64,432

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

Copart, Inc.
Notes to Consolidated Financial Statements
January 31, 2016
(Unaudited)

NOTE 1 – Description of Business and Summary of Significant Accounting Policies

Description of Business

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

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of the parent company and its domestic and foreign wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments of a normal recurring nature, considered necessary for fair presentation of its financial position as of January 31, 2016 and July 31, 2015, its consolidated statements of income and comprehensive income for the three and six months ended January 31, 2016 and 2015, and its cash flows for the six months ended January 31, 2016 and 2015. Interim results for the six months ended January 31, 2016 are not necessarily indicative of the results that may be expected for any future period, or for the entire year ending July 31, 2016. 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 (GAAP) have been condensed or omitted pursuant to such rules and regulations. The interim consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended July 31, 2015.

Use of Estimates

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

Revenue Recognition

The Company provides a portfolio of services to its sellers and buyers that facilitate the sale and delivery of a vehicle from seller to buyer. These services include the ability to use the Company’s Internet sales technology and vehicle delivery, loading, title processing, preparation and storage. The Company evaluates multiple-element arrangements relative to its member and seller agreements.

The services provided to the seller of a vehicle involve disposing of a vehicle on the seller's behalf and, under most of the Company's current North American contracts, collecting the proceeds from the member. The Company applies Accounting Standard Update 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (ASU 2009-13) for revenue recognition. Pre-sale services, including towing, title processing, preparation and storage, as well as sale fees and other enhancement services meet the criteria for separate units of accounting. Revenue associated with each service is recognized upon completion of the respective service, net of applicable rebates or allowances. For certain sellers who are charged a proportionate fee based on high bid of the vehicle, the revenue associated with the pre-sale services is recognized upon completion of the sale when the total arrangement is fixed and determinable.

The estimated selling price of each service is determined based on management's best estimate and allotted based on the relative selling price method.

Vehicle sales, where vehicles are purchased and remarketed on the Company's own behalf, are recognized on the sale date, which is typically the point of high bid acceptance. Upon high bid acceptance, a legal binding contract is formed with the member, and the gross sales price is recorded as revenue.

The Company also provides a number of services to the buyer of the vehicle, charging a separate fee for each service. Each of these services has been assessed to determine whether the requirements have been met to separate them into units of accounting within a multiple-element arrangement. The Company has concluded that the sale and the post-sale services are separate units of accounting. The fees for sale services are recognized upon completion of the sale, and the fees for the post-sale services are recognized upon successful completion of those services using the relative selling price method.

The Company also charges members an annual registration fee for the right to participate in its vehicle sales program, which is recognized ratably over the term of the arrangement, and relist and late-payment fees, which are recognized upon receipt of payment by the member. No provision for returns has been established, as all sales are final with no right of return, although the Company provides for bad debt expense in the case of non-performance by its members or sellers.

The Company allocates arrangement consideration based upon management's best estimate of the selling price of the separate units of accounting contained within arrangements including multiple deliverables. Significant inputs in the Company's estimates of the selling price of separate units of accounting include market and pricing trends, pricing customization and practices, and profit objectives for the services.

Vehicle Pooling Costs

The Company defers in vehicle pooling costs certain yard operation expenses associated with vehicles consigned to and received by the Company, but not sold as of the end of the period. The Company quantifies the deferred costs using a calculation that includes the number of vehicles at its facilities at the beginning and end of the period, the number of vehicles sold during the period and an allocation of certain yard operation costs of the period. The primary expenses allocated and deferred are certain facility costs, labor, transportation, and vehicle processing. If the allocation factors change, then yard operation expenses could increase or decrease correspondingly in the future. These costs are expensed as vehicles are sold in subsequent periods on an average cost basis. Given the fixed cost nature of the Company's business, there are no direct correlations for increases in expenses or units processed on vehicle pooling costs.

The Company applies the provisions of accounting guidance for subsequent measurement of inventory to its vehicle pooling costs. The provision requires that items such as idle facility expenses, double freight and rehandling costs be recognized as current period charges regardless of whether they meet the criteria of "abnormal" as provided in the guidance. In addition, the guidance requires that the allocation of fixed production overhead to the costs of conversion be based on the normal capacity of production facilities.

Foreign Currency Translation

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

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

Cumulative loss on foreign currency translation as of July 31, 2014	$(18,992)
Loss on foreign currency translation	(49,518)
Cumulative loss on foreign currency translation as of July 31, 2015	$(68,510)
Loss on foreign currency translation	(30,910)

Cumulative loss on foreign currency translation as of January 31, 2016	$(99,420)

8

Income Taxes and Deferred Tax Assets

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, their respective tax basis, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In accordance with the provisions of ASC 740, Income Taxes, a two-step approach is applied to the recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return. The first step is to determine if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained in an audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company recognizes interest and penalties related to uncertain tax positions in the provision for income taxes on its consolidated statements of income.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents include cash held in checking, domestic certificates of deposit, and money market accounts. The Company periodically invests its excess cash in money market funds and U.S. Treasury Bills. The Company’s cash and cash equivalents are placed with high credit quality financial institutions.

Marketable Securities

Marketable securities consist of marketable equity securities and are classified as available-for-sale and stated at fair value. The cost basis of the marketable securities is based on the specific identification method. Unrealized gains or losses relating to available-for-sale securities are recorded in accumulated other comprehensive income, net of income taxes. Reclassification adjustments out of accumulated other comprehensive income resulting from realized gains or losses from the sale of available-for-sale securities are included in other income. As of January 31, 2016, the cost basis of the marketable securities was $21.1 million with a fair value of $17.5 million, resulting in an unrealized loss, net of tax of $3.6 million recorded in other comprehensive income.

Other Assets

Other assets consist of long-term deposits, contracted prepayments, notes receivable, and investments in unconsolidated affiliates. In accordance with ASC 323, Investments-Equity Method and Joint Ventures, the Company uses the equity method to account for investments in joint ventures and other unconsolidated entities if the Company has the ability to exercise significant influence over the financial and operating policies of those investees. Under the equity method, the Company records the initial investment in an entity at cost and subsequently adjusts the investment for the Company's share of the affiliate's undistributed earnings (losses) and distributions recorded in other income. The Company reviews the carrying amount of the investments in unconsolidated affiliates annually, or whenever circumstances indicate that the value of these investments may have declined. If the Company determines an investment is impaired on an other-than-temporary basis, a loss equal to the difference between the fair value of the investment and its carrying amount is recorded.

Fair Value of Financial Instruments

The Company records its financial assets and liabilities at fair value in accordance with the framework for measuring fair value in U.S. GAAP. In accordance with ASC 820, Fair Value Measurements and Disclosures, as amended by Accounting Standards Update 2011-04, the Company considers fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. This framework establishes a fair value hierarchy that prioritizes the inputs used to measure fair value:

Level I	Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities traded in active markets.
Level II	Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. Interest rate hedges are valued at exit prices obtained from the counter-party.

Level III	Inputs that are generally unobservable. These inputs may be used with internally developed methodologies that result in management’s best estimate.

The amounts recorded for financial instruments in the Company's consolidated financial statements, which included cash, accounts receivable, accounts payable, accrued liabilities, and revolving loan facility approximated their fair values as of January 31, 2016 and July 31, 2015, due to the short-term nature of those instruments, and are classified within Level II of the fair value hierarchy. Cash equivalents are classified within Level II of the fair value hierarchy because they are valued using quoted market prices of the underlying investments. See Note 2 – Long-Term Debt, Note 5 – Fair Value Measures, and Note 12 – Acquisitions.

Derivatives and Hedging

The Company had entered into two interest rate swaps to eliminate interest rate risk on the Company's variable interest rate debt, and the swaps were designated as effective cash flow hedges under ASC 815, Derivatives and Hedging. See Note 3 – Derivatives and Hedging. Each quarter, the Company measured hedge effectiveness using the "hypothetical derivative method" and recorded in earnings any hedge ineffectiveness with the effective portion of the change in fair value recorded in other comprehensive income or loss. The interest rate swaps expired in December 2015.

Capitalized Software Costs

The Company capitalizes system development costs and website development costs related to the enterprise computing services during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, generally three years. The Company evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that impact the recoverability of these assets.

Total gross capitalized software as of January 31, 2016 and July 31, 2015 was $70.5 million and $65.1 million, respectively. Accumulated amortization expense related to software as of January 31, 2016 and July 31, 2015 totaled $45.6 million and $42.6 million, respectively.

Accounting for Acquisitions

The Company recognizes and measures identifiable assets acquired and liabilities assumed in acquired entities in accordance with ASC 805, Business Combinations. The accounting for acquisitions involves significant judgments and estimates, including the fair value of certain forms of consideration, the fair value of acquired intangible assets, which involve projections of future revenues, cash flows and terminal value, which are then either discounted at an estimated discount rate or measured at an estimated royalty rate, and the fair value of other acquired assets and assumed liabilities, including potential contingencies and the useful lives of the assets. The projections are developed using internal forecasts, available industry and market data and estimates of long-term growth rates of the Company. Historical experience is additionally utilized, in which historical or current costs have approximated fair value for certain assets acquired.

Segments and Other Geographic Reporting

The Company's North American and U.K. regions are considered two separate operating segments, which have been aggregated into one reportable segment because they share similar economic characteristics.

NOTE 2 – Long-Term Debt

Credit Facility

On December 14, 2010, the Company entered into an Amended and Restated Credit Facility Agreement (Credit Facility), with Bank of America, N.A. The Credit Facility was an unsecured credit agreement providing for (i) a $100.0 million revolving credit facility, including a $100.0 million alternative currency borrowing sublimit and a $50.0 million letter of credit sublimit and (ii) a term loan facility of $400.0 million. On September, 29, 2011, the Company amended the Credit Facility increasing the amount of the term loan facility from $400.0 million to $500.0 million.

Credit Agreement

On December 3, 2014, the Company entered into a Credit Agreement with Wells Fargo Bank, National Association, as administrative agent, and Bank of America, N.A., as syndication agent, which superseded the Credit Facility. The Credit Agreement provides for (a) a secured revolving loan facility in an aggregate principal amount of up to $300.0 million, none of which was outstanding at July 31, 2015 and $68.0 million was outstanding at January 31, 2016 (Revolving Loan Facility), and (b) a secured term loan facility in an aggregate principal amount of $300.0 million (Term Loan), which was fully drawn at closing. Proceeds from the Credit Agreement were used to repay all outstanding amounts under the Credit Facility totaling $275.0 million at December 3, 2014. The remaining proceeds are being used for general corporate purposes. The Revolving Loan Facility and the Term Loan facility mature on December 3, 2019.

The Term Loan, which as of January 31, 2016, had $206.3 million outstanding, amortized $18.8 million each quarter during December 31, 2014 through December 31, 2015, then amortizes $7.5 million each quarter, with all outstanding borrowings due on December 3, 2019. All amounts borrowed under the Term Loan may be prepaid without premium or penalty.

The Revolving Loan Facility and Term Loan under the Credit Agreement bear interest, at the election of the Company, at either (a) the Base Rate, which is defined as a fluctuating rate per annum equal to the greatest of (i) the Prime Rate in effect on such day; (ii) the Federal Funds Rate in effect on such date plus 0.50%; or (iii) an adjusted LIBOR rate determined on the basis of a one-month interest period plus 1.0%, in each case plus an applicable margin ranging from 0.25% to 1.0% based on the Company's consolidated total net leverage ratio during the preceding fiscal quarter; or (b) an adjusted LIBOR rate plus an applicable margin ranging from 1.25% to 2.0% depending on the Company's consolidated total net leverage ratio during the preceding fiscal quarter. Interest is due and payable quarterly, in arrears, for loans bearing interest at the Base Rate, and at the end of an interest period (or at each three month interval in the case of loans with interest periods greater than three months) in the case of loans bearing interest at the adjusted LIBOR rate. The interest rate as of January 31, 2016 on the Company's variable interest rate debt was the one month LIBOR rate of 0.43% plus an applicable margin of 1.25%. The carrying amount of the Credit Agreement is comprised of borrowings under which interest accrues under a fluctuating interest rate structure. Accordingly, the carrying value approximates fair value at January 31, 2016, and was classified within Level II of the fair value hierarchy.

Amounts borrowed under the Revolving Loan Facility may be repaid and reborrowed until the maturity date of December 3, 2019. The Company is obligated to pay a commitment fee on the unused portion of the Revolving Loan Facility. The commitment fee rate ranges from 0.20% to 0.35%, depending on the Company's consolidated total net leverage ratio during the preceding fiscal quarter, on the average daily unused portion of the revolving credit commitment under the Credit Agreement. The Company had $68.0 million of outstanding borrowings under the Revolving Loan Facility as of January 31, 2016 and none were outstanding at July 31, 2015.

The Company's obligations under the Credit Agreement are guaranteed by certain of the Company's domestic subsidiaries meeting materiality thresholds set forth in the Credit Agreement. Such obligations, including the guaranties, are secured by substantially all of the assets of the Company and the assets of the subsidiary guarantors pursuant to a Security Agreement, dated December 3, 2014, among the Company, the subsidiary guarantors from time to time party thereto, and Wells Fargo Bank, National Association, as collateral agent.

The Credit Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends, or make distributions on and repurchase stock, in each case subject to certain exceptions. The Company is also required to maintain compliance, measured at the end of each fiscal quarter, with a consolidated total net leverage ratio and a consolidated interest coverage ratio. The Company was in compliance with all covenants related to the Credit Agreement as of January 31, 2016.

Note Purchase Agreement

On December 3, 2014, the Company entered into a Note Purchase Agreement and sold to certain purchasers (collectively, the Purchasers) $400.0 million in aggregate principal amount of senior secured notes (Senior Notes) consisting of (i) $100.0 million aggregate principal amount of 4.07% Senior Notes, Series A, due December 3, 2024; (ii) $100.0 million aggregate principal amount of 4.19% Senior Notes, Series B, due December 3, 2026; (iii) $100.0 million aggregate principal amount of 4.25% Senior Notes, Series C, due December 3, 2027; and (iv) $100.0 million aggregate principal amount of 4.35% Senior Notes, Series D, due December 3, 2029. Interest is due and payable quarterly, in arrears, on each of the Senior Notes. Proceeds from the Note Purchase Agreement are being used for general corporate purposes.

The Company may prepay the Senior Notes, in whole or in part, at any time, subject to certain conditions, including minimum amounts and payment of a make-whole amount equal to the discounted value of the remaining scheduled interest payments under the Senior Notes.

The Company's obligations under the Note Purchase Agreement are guaranteed by certain of the Company's domestic subsidiaries meeting materiality thresholds set forth in the Note Purchase Agreement. Such obligations, including the guaranties, are secured by substantially all of the assets of the Company and the subsidiary guarantors. The obligations of the Company and its subsidiary guarantors under the Note Purchase Agreement will be treated on a pari passu basis with the obligations of those entities under the Credit Agreement as well as any additional debt the Company may obtain.

The Note Purchase Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company and its subsidiaries' ability to, among other things, incur indebtedness, grant liens, merge or consolidate, dispose of assets, make investments, make acquisitions, enter into transactions with affiliates, pay dividends, or make distributions and repurchase stock, in each case subject to certain exceptions. The Company is also required to maintain compliance, measured at the end of each fiscal quarter, with a consolidated total net leverage ratio and a consolidated interest coverage ratio. The Company was in compliance with all covenants related to the Note Purchase Agreement as of January 31, 2016.

Related to the execution of the Credit Agreement and the Note Purchase Agreement, the Company incurred $2.1 million in costs, of which $1.0 million was capitalized as debt issuance fees and $1.1 million was recorded as a reduction of the long-term debt proceeds as a debt discount. Both the debt issuance fees and debt discount are amortized to interest expense over the term of the respective debt instruments.

NOTE 3 – Derivatives and Hedging

The Company had entered into two interest rate swaps to exchange its variable interest rate payments commitment for fixed interest rate payments through December 2015. The swaps were designated effective cash flow hedges under ASC 815, Derivatives and Hedging. Each quarter, the Company measured hedge effectiveness using the “hypothetical derivative method” and recorded in earnings any hedge ineffectiveness with the effective portion of the change in fair value recorded in other comprehensive income or loss. The Company has reclassified $0.2 million and $0.4 million for the three months ended January 31, 2016 and 2015, respectively, and $0.5 million and $0.9 million for the six months ended January 31, 2016 and 2015, respectively, out of other comprehensive income into interest expense.

The interest rate swaps were classified within Level II of the fair value hierarchy as the derivatives were valued using observable inputs. The Company determined fair value of the derivative utilizing observable market data of swap rates and basis rates. These inputs were placed into a pricing model using a discounted cash flow methodology in order to calculate the mark-to-market value of the interest rate swaps. The interest rate swaps expired in December 2015. As of July 31, 2015, the Company’s fair value of the interest rate swaps was $0.4 million and was classified as other liabilities in the consolidated balance sheets.

NOTE 4 – Goodwill and Intangible Assets

The following table sets forth amortizable intangible assets by major asset class:

(In thousands)	January 31, 2016	July 31, 2015
Amortized intangibles:		
Covenants not to compete	$1,663	$1,691
Supply contracts & customer relationships	26,459	27,506
Trade name	5,097	5,129
Licenses and databases	2,470	2,498
Accumulated amortization	(21,281)	(18,967)
Net intangibles	$14,408	$17,857

Aggregate amortization expense on amortizable intangible assets was $1.5 million and $1.7 million for the three months ended January 31, 2016 and 2015, respectively, and $3.0 million and $3.6 million for the six months ended January 31, 2016 and 2015, respectively,

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

Balance as of July 31, 2015	$271,850
Effect of foreign currency exchange rates	(7,722)
Balance as of January 31, 2016	$264,128

NOTE 5 – Fair Value Measures

The following table summarizes the fair value of the Company's financial assets and liabilities measured and recorded at fair value on a recurring basis based on inputs used to derive their fair values:

(In thousands)	January 31, 2016 Fair Value Total	Observable Inputs (Level I)	Significant Observable Inputs (Level II)	July 31, 2015 Fair Value Total	Significant Observable Inputs (Level II)
Assets					
Cash equivalents	$2,584	$—	$ 2,584	$2,121	$ 2,121
Marketable equity securities	17,465	17,465	—	—	—
Total Assets	$20,049	$17,465	$ 2,584	$2,121	$ 2,121
Liabilities					
Long-term variable rate debt, including current portion	$206,250	$—	$ 206,250	$243,750	$ 243,750
Long-term fixed rate debt, including current portion	411,751	—	411,751	403,375	403,375
Revolving loan facility	68,000	—	68,000	—	—
Interest rate swap derivative	—	—	—	446	446
Total Liabilities	$686,001	$—	$ 686,001	$647,571	$ 647,571

During the six months ended January 31, 2016, no transfers were made between any levels within the fair value hierarchy. See Note 1 – Description of Business and Summary of Significant Accounting Policies, Note 2 – Long-Term Debt, Note 3 – Derivatives and Hedging, and Note 12 – Acquisitions.

NOTE 6 – Net Income Per Share

The table below reconciles basic weighted shares outstanding to diluted weighted average shares outstanding:

	Three Months Ended January 31,		Six Months Ended January 31,	
(In thousands)	2016	2015	2016	2015
Weighted average common shares outstanding	117,306	126,300	118,731	126,258
Effect of dilutive securities - stock options	5,602	5,572	5,509	5,436
Weighted average common and dilutive potential common shares outstanding	122,908	131,872	124,240	131,694

There were no material adjustments to net income required in calculating diluted net income per share. Excluded from the dilutive earnings per share calculation were 7,750,598 and 5,104,400 stock options for the three months ended January 31, 2016 and 2015, respectively, and 7,713,448 and 5,148,374 shares for the six months ended January 31, 2016 and 2015, respectively, because their inclusion would have been anti-dilutive.

NOTE 7 – Stock-based Payment Compensation

The Company recognizes compensation expense for stock option awards on a straight-line basis over the requisite service period of the award. The following is a summary of activity for the Company's stock options for the six months ended January 31, 2016:

(In thousands, except per share and term data)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value
Outstanding as of July 31, 2015	21,011	$23.65	5.78	$261,339
Grants of options	370	38.50		
Exercises	(100)	17.42		
Forfeitures or expirations	(57)	35.88		
Outstanding as of January 31, 2016	21,224	$23.91	5.37	$223,358
Exercisable as of January 31, 2016	15,204	$19.24	4.09	$221,706

13

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock. The number of options that were in-the-money was 13,324,066 at January 31, 2016.

The table below sets forth the stock-based payment compensation recognized by the Company:

	Three Months Ended January 31,		Six Months Ended January 31,	
(In thousands)	2016	2015	2016	2015
General and administrative	$4,710	$3,955	$9,438	$7,775
Yard operations	676	549	1,362	1,095
Total stock-based payment compensation	$5,386	$4,504	$10,800	$8,870

In accordance with ASC 718, Compensation – Stock Compensation, the Company made an estimate of expected forfeitures and recognized compensation cost only for those equity awards expected to vest.

In October 2013, the Compensation Committee of the Company's Board of Directors, subject to stockholder approval (which was subsequently obtained at the December 16, 2013 annual meeting of stockholders), approved the grant to each of A. Jayson Adair, the Company's Chief Executive Officer, and Vincent W. Mitz, the Company's President, of nonqualified stock options to purchase 2,000,000 and 1,500,000 shares of the Company's common stock, respectively, at an exercise price of $35.62 per share, which equaled the closing price of the Company's common stock on December 16, 2013, the effective date of grant. Such grants were made in lieu of any cash salary or bonus compensation in excess of $1.00 per year or the grant of any additional equity incentives for a five-year period. Each option will become exercisable over five years, subject to continued service by Mr. Adair and Mr. Mitz, with 20% vesting on April 15, 2015 and December 16, 2014, respectively, and the balance vesting monthly over the subsequent four years. Each option will become fully vested, assuming continued service on April 15, 2019 and December 16, 2018, respectively. If, upon or following a change in control, either the Company or a successor entity terminates the executive's service without cause, or the executive resigns for good reason (as defined in the option agreement), then 100% of the shares subject to his stock option will immediately vest. On June 2, 2015, the Compensation Committee of the Company's Board of Directors approved the amendment of each of the stand-alone stock option agreements, by and between the Company and A. Jayson Adair and Vincent W. Mitz, respectively, to remove the provision providing at times prior to a "change in control" for the immediate vesting in full of the underlying option upon an involuntary termination of Mr. Adair or Mr. Mitz, as applicable, without "cause." The fair value of each option at the date of grant was $11.43. The total estimated compensation expense to be recognized by the Company over the five year estimated service period for these options is $40.0 million. The Company recognized $3.8 million in compensation expenses for these grants in the six months ended January 31, 2016 and 2015.

NOTE 8 – Common Stock Repurchases

On September 22, 2011, the Company's board of directors approved a 40 million share increase in the Company's stock repurchase program, bringing the total current authorization to 98 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 stock repurchase program. Subject to applicable securities laws, such repurchases will be made at such times and in such amounts as the Company deems appropriate and may be discontinued at any time. The Company did not repurchase any common stock under the program during the six months ended January 31, 2016 or 2015. As of January 31, 2016, the total number of shares repurchased under the program was 50,518,282, and 47,481,718 shares were available for repurchase under the program.

On December 30, 2015, the Company completed a modified "Dutch Auction" tender offer, or tender offer, to purchase up to 7,317,073 shares of its common stock at a price not greater than $41.00 nor less than $38.00 per share. In connection with the tender offer, the Company accepted for payment an aggregate of 8,333,333 shares of its common stock at a purchase price of $39.00 per share for a total value of $325.0 million. The Company's directors and executive officers did not participate in the tender offer. The shares repurchased as a result of the tender offer are not part of the Company's stock repurchase program.

In fiscal 2015, certain executive officers and employees exercised stock options through cashless exercises. A portion of the options exercised were net settled in satisfaction of the exercise price and federal and state minimum statutory tax withholding requirements. The Company remitted $1.1 million for the six months ended January 31, 2015 to the proper taxing authorities in satisfaction of the employees' minimum statutory withholding requirements.

The stock options exercised by certain employees and executive officers through cashless exercises are summarized in the following table:

Period	Options Exercised	Weighted Average Exercise Price	Shares Net Settled for Exercise	Shares Withheld for Taxes(1)	Net Shares to Employees	Weighted Average Share Price for Withholding	Tax Withholdings (in 000s)
FY 2015—Q1	201,333	$19.59	124,621	35,416	41,296	$31.65	$ 1,121
FY 2015—Q3	139,690	$20.27	76,021	20,656	43,013	$37.27	$ 770
FY 2015—Q4	200,000	$12.02	66,602	52,158	81,240	$36.08	$ 1,882

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

No stock options were exercised by certain employees and executive officers through cashless exercises during the three months ended January 31, 2015, October 31, 2015, and January 31, 2016.

NOTE 9 – Income Taxes

The Company applies the provisions of the accounting standard for uncertain tax positions to its income taxes. 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% likely of being realized upon ultimate settlement.

As of January 31, 2016, the gross amounts of the Company’s liabilities for unrecognized tax benefits of $23.7 million, including interest and penalties, were classified as long-term income taxes payable in the accompanying consolidated balance sheets. Over the next twelve months, the Company’s existing positions will continue to generate an increase in liabilities for unrecognized tax benefits, as well as a likely decrease in liabilities as a result of the lapse of the applicable statute of limitations and the conclusion of income tax audits. The expected decrease in liabilities relating to unrecognized tax benefits will have a positive effect on the Company’s consolidated results of operations and financial position when realized. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company is currently under examination by certain taxing authorities in the U.S. for fiscal years between 2011 and 2013. At this time, the Company does not believe that the outcome of any examination will have a material impact on the Company’s consolidated results of operations and financial position.

The Company has not provided for U.S. federal income and foreign withholding taxes on its foreign subsidiaries’ undistributed earnings as of January 31, 2016 because the Company intends to reinvest such earnings indefinitely in its foreign operations. Specifically, the earnings will be dedicated to the following areas outside the U.S. (i) funding operating and capital spending needs in existing foreign markets; (ii) funding merger and acquisition deals both in existing and new foreign markets; and (iii) other investments to help expand the Company's footprint in foreign emerging markets. The Company does not anticipate the need for any foreign cash in the U.S. operations. It is not practical to determine the taxes that might be incurred if these earnings were to be distributed in the form of dividends or otherwise. If distributed, however, foreign tax credits may become available under current law to reduce or eliminate the resultant U.S. income tax liability.

NOTE 10 – Recent Accounting Pronouncements

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires companies to classify all deferred tax assets and liabilities as non-current on the balance sheet, rather than separating deferred taxes into current and non-current amounts. This ASU is effective for annual and interim reporting periods beginning after December 15, 2016 and can be adopted prospectively or retrospectively; however, early adoption is permitted. The Company’s adoption of ASU 2015-17 will not have a material impact on the Company’s consolidated results of operations and financial position.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments are effective for financial statements issued for annual and interim periods beginning after December 15, 2015. The amendments are to be applied on a retrospective basis, wherein the balance sheet of each individual period presented is adjusted to reflect the period-specific effects of applying the new guidance. The Company’s adoption of ASU 2015-03 will not have a material impact on the Company’s consolidated results of operations and financial position.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810), which is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification and improves current U.S. GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE), and changing consolidation conclusions for companies in several industries that typically make use of limited partnerships or VIEs. The ASU will be effective for annual and interim periods beginning after December 15, 2015. The Company's adoption of ASU 2015-02 will not have a material impact on the Company's consolidated results of operations and financial position.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2017. ASU 2014-09 allows adoption with either retrospective application to each period presented or retrospective application with the cumulative effect recognized as of the date of initial application. The Company has not determined the potential effects of implementing ASU 2014-09 on the consolidated financial statements.

NOTE 11 – Legal Proceedings

The Company is subject to threats of litigation and is involved in actual 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. The material pending legal proceedings to which the Company is a party, or of which any of the Company's property is subject, include the following matters.

On November 1, 2013, the Company filed suit against Sparta Consulting, Inc. (now known as KPIT) in the 44th Judicial District Court of Dallas County, Texas, alleging fraud, fraudulent inducement, and/or promissory fraud, negligent misrepresentation, unfair business practices pursuant to California Business and Professions Code § 17200, breach of contract, declaratory judgment, and attorney's fees. The Company seeks compensatory and exemplary damages, disgorgement of amounts paid, attorney's fees, pre- and post-judgment interest, costs of suit, and a judicial declaration of the parties' rights, duties, and obligations under the Implementation Services Agreement dated October 6, 2011. The suit arises out of the Company's September 17, 2013 decision to terminate the Implementation Services Agreement, under which KPIT was to design, implement, and deliver a customized replacement enterprise resource planning system for the Company. On January 2, 2014, KPIT removed this suit to the United States District Court for the Northern District of Texas. On August 11, 2014, the Northern District of Texas transferred the suit to the United States District Court for the Eastern District of California for convenience. On January 8, 2014, KPIT filed suit against the Company in the United States District Court for the Eastern District of California, alleging breach of contract, promissory estoppel, breach of the implied covenant of good faith and fair dealing, account stated, quantum meruit, unjust enrichment, and declaratory relief. KPIT seeks compensatory and exemplary damages, prejudgment interest, costs of suit, and a judicial declaration of the parties' rights, duties, and obligations under the Implementation Services Agreement. The Company is pursuing its claim for damages, and defending KPIT's claim for damages.

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 consolidated results of operations and cash flows 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 consolidated results of operations, financial position 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 the Company. 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 the insurance is purchased.

Governmental Proceedings

The Georgia Department of Revenue, or DOR, has conducted a sales and use tax audit of the Company’s operations in Georgia for the period from January 1, 2007 through June 30, 2011. As a result of their initial audit, the DOR issued a notice of proposed assessment for uncollected sales taxes in which it asserted that the Company failed to collect and remit sales taxes totaling $73.8 million, including penalties and interest. According to the DOR, the proposed assessment was based on its initial determination that the Company's sales did not constitute nontaxable sales for resale.

The Company subsequently engaged a Georgia law firm and outside tax advisors to review the conduct of its business operations in Georgia, the notice of proposed assessment, and the DOR’s policy position. In particular, the Company’s outside legal counsel provided the Company an opinion that the sales for resale to non-U.S. registered resellers should not be subject to Georgia sales and use tax. In rendering its opinion, the Company’s counsel noted that non-U.S. registered resellers are unable to comply strictly with technical requirements for a Georgia certificate of exemption but concluded that its sales for resale to non-U.S. registered resellers should not be subject to Georgia sales and use tax notwithstanding this technical inability to comply.

Since the Company's receipt of the notice of proposed assessment, the Company and its counsel have engaged in active discussions with the DOR to resolve the matter. On June 5, 2015, following the Company's discussions and after additional review of documentation, the DOR provided the Company with revised audit work papers computing a sales tax liability of $2.7 million before interest and any penalties.

On June 22, 2015, representatives of the DOR and the Office of the Attorney General for the State of Georgia informed the Company's counsel that the DOR intended to issue a formal notice of assessment for an estimated $100.0 million, based on the DOR’s original proposed assessment of $73.8 million plus additional accumulated interest and penalties. On August 4, 2015, the DOR issued an official Assessment and Demand for Payment for $96.1 million for sales taxes, penalties, and interest that the DOR alleges the Company owes the State of Georgia. The Company filed an appeal of this notice of assessment from the DOR with the Georgia Tax Tribunal on September 3, 2015.

Based on the opinion from the Company’s outside law firm, advice from its outside tax advisors, and the Company's best estimate of a probable outcome, the Company has adequately provided for the payment of any assessment in its consolidated financial statements. The Company believes it has strong defenses to the DOR’s notice of assessment and intends to defend this matter. There can be no assurance that this matter will be resolved in the Company’s favor or that the Company will not ultimately be required to make a substantial payment to the Georgia DOR. The Company understands that litigating and defending the matter in Georgia could be expensive and time-consuming and result in substantial management distraction. If the matter were to be resolved in a manner adverse to the Company, it could have a material adverse effect on the Company’s consolidated results of operations and financial position.

NOTE 12 – Acquisitions

During the year ended July 31, 2014, the Company acquired one facility in Montreal, Canada; a salvage vehicle auction business in Brazil, which did not include any facilities; as well as the assets of an online marketing company, which included the rights to hundreds of web domains including www.cashforcars.com and www.cash4cars.com. During the year ended July 31, 2015, the purchase price allocations for the assets of the online marketing company and the salvage vehicle auction businesses in Montreal, Canada and Brazil were finalized. As a result, from the preliminary purchase price allocation as of July 31, 2014, goodwill decreased $0.8 million, primarily related to a $0.9 million increase in intangible assets, and changes to deferred taxes on acquired intangible assets. In accordance with ASC 805, any adjustments to the fair value of acquired assets and liabilities that occur subsequent to the measurement period will be reflected in the Company’s results of operations. There were no acquisitions during the six months ended January 31, 2016.

These acquisitions were undertaken because of their strategic fit and have been accounted for using the purchase method in accordance with ASC 805, Business Combinations, which resulted in the recognition of goodwill in the Company's consolidated financial statements. Goodwill arose because the purchase price of each acquisition reflected a number of factors, including their 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 these businesses; and the complementary strategic fit and resulting synergies brought to existing operations. Goodwill that arose from these acquisitions was within Level III of the fair value hierarchy as it was valued using unobservable inputs. Unobservable inputs reflect the Company’s best estimate of what hypothetical market participants would use to determine the value of acquired assets at the reporting date based on the best information available in the circumstances. When a determination is made to classify items within Level III of the fair value hierarchy, the evaluation is based upon the significance of the unobservable inputs to the overall fair value measurement. Due to the limitation of goodwill asset market values or pricing information, the determination of fair value of the goodwill asset is inherently more difficult. Goodwill is not amortized for financial reporting purposes but could be amortizable for tax purposes. The intangible assets that arose from these acquisitions were also within Level III of the fair value hierarchy as it was valued using unobservable inputs, primarily from utilizing the Multi-Period Excess Earnings Method (MPEEM) model, which is an income-based approach that allocates to goodwill any acquisition costs not specifically assigned to intangibles, fixed assets or working capital. Intangible assets acquired include covenants not to compete, supply contracts, customer relationships, trade names, licenses and databases and software with a useful life ranging from three to eight years.

These acquisitions did not result in a significant change in the Company's consolidated results of operations individually or in the aggregate; therefore, pro forma financial information has not been presented. The operating results have been included in the Company's consolidated results of operations and financial position since the acquisition dates.

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 compar terminology. The forward-looking statements contained in this Form 10-Q involve known and unknown risks, uncertainties and situations that may cause our or our industry's actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These forward-looking statements are made in reliance upon the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These factors include those listed in Part I, Item 1A. under the caption entitled "Risk Factors" in this Form 10-Q and those discussed elsewhere in this Form 10-Q. Unless the context otherwise requires, references in this Form 10-Q to "Copart," the "Company," "we," "us," or "our" refer to Copart, Inc
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). We may from time to time make additional written and oral forward-looking statements, including statements contained in our filings with the SEC. We do not undertake to update any forward-looking statement that may be made from time to time by or on behalf of us.

Although we believe that, based on information currently available to us and our management, the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements.

Overview

We are a leading provider of online auctions and vehicle remarketing services in the United States (U.S.), Canada, the United Kingdom (U.K.), Brazil, the United Arab Emirates (U.A.E.), Oman, Bahrain, and India. We also provide vehicle remarketing services in Germany and Spain.

We provide vehicle sellers with a full range of services to process and sell vehicles primarily over the Internet through our Virtual Bidding Third Generation Internet auction-style sales technology, which we refer to as VB3. Vehicle sellers consist primarily of insurance companies, but also include banks and financial institutions, charities, car dealerships, fleet operators and vehicle rental companies. We sell the vehicles principally to licensed vehicle dismantlers, rebuilders, repair licensees, used vehicle dealers and exporters and, at certain locations, to the general public. The majority of the vehicles sold on behalf of insurance companies are either damaged vehicles deemed a total loss or not economically repairable by the insurance companies, or are recovered stolen vehicles for which an insurance settlement with the vehicle owner has already been made. We offer vehicle sellers a full range of services that expedite each stage of the vehicle sales process, minimize administrative and processing costs, and maximize the ultimate sales price.

In the U.S. and Canada (North America), Brazil, the U.A.E., Oman, Bahrain, and India, we sell vehicles primarily as an agent and derive revenue primarily from fees paid by vehicle sellers and vehicle buyers as well as related fees for services, such as towing and storage. In the U.K., we operate both on a principal basis, purchasing the salvage vehicles outright from the insurance companies and reselling the vehicles for our own account, and as an agent. In Germany and Spain, we derive revenue from sales listing fees for listing vehicles on behalf of many insurance companies.

We monitor and analyze a number of key financial performance indicators in order to manage our business and evaluate our financial and operating performance. Such indicators include:

Service and Vehicle Sales Revenue: Our revenue consists of sales transaction fees charged to vehicle sellers and vehicle buyers, transportation revenue, purchased vehicle revenue, and other remarketing services. Revenues from sellers are generally generated either on a fixed fee contract basis, where our fees are fixed based on the sale of each vehicle regardless of the selling price of the vehicle or under our Percentage Incentive Program (PIP), where our fees are generally based on a predetermined percentage of the vehicle sales price. Under the consignment or fixed fee program, we generally charge an additional fee for title processing and special preparation. We may also charge additional fees for the cost of transporting the vehicle to our facility, storage of the vehicle, and other incidental costs not included in the consignment fee. Under the consignment program, only the fees associated with vehicle processing are recorded in revenue, not the actual sales price (gross proceeds). Sales transaction fees also include fees charged to vehicle buyers for purchasing vehicles, storage, loading, and annual registration. Transportation revenue includes charges to sellers for towing vehicles under certain contracts and 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 U.K. We have certain contracts with insurance companies in which we act as a principal, purchasing vehicles and reselling them for our own account. We also purchase vehicles in the open market, primarily from individuals and resell them for our own account.

Our revenue is impacted by several factors, including salvage frequency and the average vehicle auction selling price, as over 50% of our service revenue is associated in some manner to the ultimate selling price of the vehicle. Vehicle auction selling prices are driven primarily by: (i) changes in commodity prices, particularly the per ton price for crushed car bodies, as we believe this has an impact on the ultimate selling price of vehicles sold for scrap and vehicles sold for dismantling; (ii) used car pricing, which we believe has an impact on salvage frequency; (iii) the mix of cars sold; and (iv) changes in the U.S. dollar exchange rate to foreign currencies, which we believe has an impact on auction participation by international buyers. We cannot determine the impact of the movement of these influences as we cannot determine which vehicles are sold to the end user or for scrap, dismantling, retailing or export. We also cannot predict the future movements of these influences. Accordingly, we cannot quantify the specific impact that commodity pricing, used car pricing, and product sales mix has on the selling price of vehicles and ultimately on service revenue. Salvage frequency is the percentage of cars involved in accidents which insurance companies salvage rather than repair and is driven by the relationship between repairs costs, used car values, and auction returns. Over the last several years, we believe there has been an increase in overall growth in the salvage market driven by an increase in salvage frequency. The increase in salvage frequency may have been driven by the decline in used car values relative to repair costs, which we believe are generally trending upward. Conversely, increases in used car prices, such as occurred during the most recent recession, may decrease salvage frequency and adversely affect our growth rate. Used car values are determined by many factors, including the used car supply, which is tied directly to new car sales, and the average age of cars on the road. New car sales grew on a year over year basis increasing the supply of used cars. Additionally, the average age of cars on the road continued to increase, growing from 9.6 years in 2002 to 11.5 years in 2015. Contrary to what movements in these factors would indicate, used car values have remained stable over the last twelve months. The factors that influence repair costs, used car pricing, and auction returns are many and varied and we cannot predict their movements. Accordingly, we cannot predict future trends in salvage frequency.

Operating Costs and Expenses: Yard operations expenses 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 sold under the purchase contracts. General and administrative expenses consist primarily of executive management, accounting, data processing, sales personnel, human resources, professional fees, research and development, and marketing expenses.

Other Income and Expense: Other income primarily includes income from the rental of certain real property, foreign exchange rate gains and losses, and gains and losses from the disposal of assets, which will fluctuate based on the nature of these activities each period. Other expense consists primarily of interest expense on long-term debt. See Notes to Unaudited Consolidated Financial Statements, Note 2 – Long-Term Debt.

Liquidity and Cash Flows: Our primary source of working capital is cash operating results and debt financing. The primary source of our liquidity is our cash and cash equivalents. The primary factors affecting cash operating results are: (i) seasonality; (ii) market wins and losses; (iii) supplier mix; (iv) accident frequency; (v) salvage frequency; (vi) increased volume from our existing suppliers; (vii) commodity pricing; (viii) used car pricing; (ix) foreign currency exchange rates; (x) product mix; and (xi) contract mix to the extent applicable. These factors are further discussed in the Results of Operations and Risk Factors sections of this Quarterly Report on Form 10-Q.

Potential internal sources of additional working capital are the sale of assets or the issuance of equity through option exercises and shares issued under our Employee Stock Purchase Plan. A potential external source of additional working capital is the issuance of debt and equity; however, we cannot predict if these sources will be available in the future and, if available, if they can be issued under terms commercially acceptable to us.

Results of Tender Offer

On December 30, 2015, we completed a modified "Dutch Auction" tender offer, or tender offer, to purchase up to 7,317,073 shares of our common stock at a price not greater than $41.00 nor less than $38.00 per share. In connection with the tender offer, we accepted for payment an aggregate of 8,333,333 shares of common stock at a purchase price of $39.00 per share for a total value of $325.0 million. Our directors and executive officers did not participate in the tender offer. The shares repurchased as a result of the tender offer are not part of our stock repurchase program.

Acquisitions and New Operations

As part of our overall expansion strategy of offering integrated services to vehicle sellers, we anticipate acquiring and developing facilities in new regions, as well as the regions currently served by our facilities. We believe that these acquisitions and openings will strengthen our coverage, as we have facilities located in North America, the U.K., Brazil, the U.A.E., Oman, Bahrain, Germany, Spain and India, with the intention of providing national coverage for our sellers. All of our acquisitions have been accounted for using the purchase method of accounting.

The following table sets forth facilities that we have acquired or opened from August 1, 2014 through January 31, 2016:

Locations	Acquisitions or Greenfield	Date	Geographic Service Area
Manama, Bahrain	Greenfield	May 2015	Bahrain
Muscat, Oman	Greenfield	June 2015	Oman
Moncton, New Brunswick	Greenfield	July 2015	Canada
Sonepat, Haryana	Greenfield	October 2015	India

The period-to-period comparability of our consolidated operating results and financial position is affected by business acquisitions, new openings, weather and product introductions during such periods. In particular, we have certain contracts inherited through our U.K. acquisitions that require us to act as a principal, purchasing vehicles from the insurance companies and reselling them for our own account. It is our intention, where possible, to migrate these contracts to the agency model in future periods. Changes in the amount of revenue derived in a period from principal transactions relative to total revenue will impact revenue growth and margin percentages.

In addition to growth through business acquisitions, we seek to increase revenues and profitability by, among other things, (i) acquiring and developing additional vehicle storage facilities in key markets; (ii) pursuing national and regional vehicle seller agreements; (iii) increasing our service offerings to sellers and members; and (iv) expanding the application of VB3 into new markets. In addition, we implement our pricing structure and auction procedures, and attempt to introduce cost efficiencies at each of our acquired facilities by implementing our operational procedures, integrating our management information systems, and redeploying personnel, when necessary.

Results of Operations

The following table shows certain data from our consolidated statements of income expressed as a percentage of total service revenues and vehicle sales for the three and six months ended January 31, 2016 and 2015:

	Three Months Ended January 31,				Six Months Ended January 31,			
(In percentages)	2016		2015		2016		2015	
Service revenues and vehicle sales:								
Service revenues	87	%	86	%	87	%	86	%
Vehicle sales	13	%	14	%	13	%	14	%
Total service revenues and vehicle sales	100	%	100	%	100	%	100	%
Operating expenses:								
Yard operations	47	%	47	%	47	%	46	%
Cost of vehicle sales	11	%	12	%	11	%	12	%
General and administrative	11	%	12	%	12	%	13	%
Total operating expenses	69	%	71	%	70	%	71	%
Operating income	31	%	29	%	30	%	29	%
Other (expense) income:	—	%	—	%	(1	)%	—	%
Income before income taxes	31	%	29	%	29	%	29	%
Income taxes	11	%	10	%	11	%	10	%
Net income	20	%	19	%	19	%	18	%

Comparison of the Three and Six Months Ended January 31, 2016 and 2015
The following table presents a comparison of service revenues and vehicle sales for the three and six months ended January 31, 2016 and 2015:

	Three Months Ended January 31,				Six Months Ended January 31,			
(In thousands)	2016	2015	Change	% Change	2016	2015	Change	% Change
Service revenues	$260,417	$238,508	$21,909	9.2 %	$511,384	$485,128	$26,256	5.4 %
Vehicle sales	39,289	37,750	1,539	4.1 %	77,160	81,516	(4,356)	(5.3)%
Total service revenues and vehicle sales	$299,706	$276,258	$23,448	8.5 %	$588,544	$566,644	$21,900	3.9 %

Service Revenues. The increase in service revenues during the three months ended January 31, 2016 of $21.9 million, or 9.2% as compared to the same period last year came from (i) growth in North America of $19.6 million; and (ii) growth in the U.K. of $2.3 million. The growth in North America was driven primarily by increased volume, partially offset by a marginal decrease in revenue per car due to lower average auction selling prices, which we believe is due to lower commodity prices, the strengthening of the U.S. dollar against foreign currencies, and a change in mix of vehicles sold. The increase in volume in North America was derived largely from existing suppliers, driven by what we believe was increased salvage frequency. Excluding a detrimental impact of $1.3 million due to the change in the British pound to U.S. dollar exchange rate, the growth in the U.K. of $3.6 million was driven primarily by increased volume as we increased our market share and a marginal increase in revenue per car. Excluding a detrimental impact of $1.1 million due to changes in foreign currency exchange rates, primarily from the change in the Brazilian real to U.S. dollar exchange rate, the growth in our other international markets was $1.1 million.

The increase in service revenues during the six months ended January 31, 2016 of $26.3 million, or 5.4% as compared to the same period last year came from (i) growth in North America of $24.5 million; and (ii) growth in the U.K. of $2.8 million; partially offset by (iii) a decline in our other international markets of $1.0 million. The growth in North America was driven primarily by increased volume, partially offset by a marginal decrease in revenue per car due to lower average auction selling prices, which we believe is due to lower commodity prices, the strengthening of the U.S. dollar against foreign currencies, and a change in mix of vehicles sold. The increase in volume in North America came from existing suppliers as we believe there may have been an increase in the overall growth in the salvage market driven by increased salvage frequency. Excluding a detrimental impact of $2.9 million due to the change in the British pound to U.S. dollar exchange rate, the growth in the U.K. of $5.7 million was driven primarily by increased volume and secondarily by a marginal increase in revenue per car. Excluding a detrimental impact of $2.5 million due to changes in foreign currency exchange rates, primarily from the change in the Brazilian real to U.S. dollar exchange rate, the growth in our other international markets was $1.5 million.

Vehicle Sales. The increase in vehicle sales for the three months ended January 31, 2016 of $1.5 million, or 4.1% as compared to the same period last year came from (i) an increase in North America of $0.6 million; (ii) an increase in the U.K. of $0.3 million; and (iii) growth in our other international markets of $0.6 million. The increase in North America was driven primarily by increased volume, partially offset by a decrease in revenue per car due to lower average auction selling prices, which we believe is due to lower commodity prices and a change in mix of vehicles sold. The increase in the U.K. was primarily the result of increased volume, partially offset by a decrease in revenue per car due to lower average auction selling prices driven by increased open market purchase activity from the general public and included a $1.1 million detrimental impact due to the change in the British pound to U.S. dollar exchange rate. The growth in our other international markets was driven primarily by increased volume.

The decrease in vehicle sales for the six months ended January 31, 2016 of $4.4 million, or 5.3% as compared to the same period last year came from (i) a decline in the U.K. of $4.9 million; and (ii) a decline in North America of $0.3 million; partially offset by (iii) growth in our other international markets of $0.8 million. The decline in the U.K. was primarily the result of lower average auction selling prices driven by decreased insurance volume and increased open market purchase activity from the general public and included a $2.6 million detrimental impact due to the change in the British pound to U.S. dollar exchange rate. The decline in North America was primarily the result of lower average auction selling prices, which we believe is due to lower commodity prices and a change in mix of vehicles sold. The growth in our other international markets was driven primarily by increased volume.

21

The following table summarizes operating expenses, total other expenses and income taxes for the three and six months ended January 31, 2016 and 2015:

	Three Months Ended January 31,				Six Months Ended January 31,			
(In thousands)	2016	2015	Change	% Change	2016	2015	Change	% Change
Operating expenses:								
Yard operations	$132,717	$120,730	$11,987	9.9 %	$260,281	$242,875	$17,406	7.2 %
Yard depreciation and amortization	8,248	8,543	(295)	(3.5)%	16,593			