COPART INC
Form 10-Q
February 28, 2019

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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, 2019

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 or organization)	(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 every Interactive Data File required to be submitted 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

As of February 27, 2019, 228,205,906 shares of the registrant’s common stock were outstanding.

Copart, Inc.
Index to the Quarterly Report
January 31, 2019

Table of Contents

Copart, Inc.
Consolidated Balance Sheets
(Unaudited)

(In thousands, except share amounts)	January 31, 2019	July 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$108,174	$274,520
Accounts receivable, net	393,561	351,601
Vehicle pooling costs	80,610	34,284
Inventories	28,315	16,734
Income taxes receivable	25	15,312
Prepaid expenses and other assets	17,781	16,665
Total current assets	628,466	709,116
Property and equipment, net	1,237,117	1,163,425
Intangibles, net	60,265	64,892
Goodwill	338,045	337,235
Deferred income taxes	348	470
Other assets	32,664	32,560
Total assets	$2,296,905	$2,307,698
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$266,126	$270,944
Deferred revenue	7,344	4,488
Income taxes payable	4,441	673
Current portion of revolving loan facility and capital lease obligations	94,122	1,151
Total current liabilities	372,033	277,256
Deferred income taxes	32,314	19,733
Income taxes payable	30,390	27,277
Long-term debt, revolving loan facility and capital lease obligations, net of discount	398,740	398,747
Other liabilities	3,475	3,586
Total liabilities	836,952	726,599
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; 226,700,670 and 233,898,841 shares issued and outstanding, respectively.	23	23
Additional paid-in capital	530,102	526,858
Accumulated other comprehensive loss	(107,223)	(107,928)
Retained earnings	1,037,051	1,162,146
Total stockholders' equity	1,459,953	1,581,099
Total liabilities and stockholders' equity	$2,296,905	$2,307,698

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

Copart, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended January 31, 2019	Three Months Ended January 31, 2018	Six Months Ended January 31, 2019	Six Months Ended January 31, 2018
Service revenues and vehicle sales:				
Service revenues	$416,807	$401,954	$811,613	$776,079
Vehicle sales	68,091	57,152	134,653	102,195
Total service revenues and vehicle sales	484,898	459,106	946,266	878,274
Operating expenses:				
Yard operations	215,460	217,184	423,154	434,791
Cost of vehicle sales	61,212	50,313	118,968	88,610
General and administrative	43,487	40,662	87,965	79,984
Total operating expenses	320,159	308,159	630,087	603,385
Operating income	164,739	150,947	316,179	274,889
Other (expense) income:				
Interest expense	(5,233)	(5,758)	(9,884)	(11,353)
Interest income	678	197	1,638	394
Other income (expense), net	4,782	(948)	5,819	(5,364)
Total other income (expense)	227	(6,509)	(2,427)	(16,323)
Income before income taxes	164,966	144,438	313,752	258,566
Income tax expense	33,593	41,137	68,296	77,705
Net income	131,373	103,301	245,456	180,861
Net income attributable to noncontrolling interest	—	45	—	90
Net income attributable to Copart, Inc.	$131,373	$103,256	$245,456	$180,771
Basic net income per common share	$0.57	$0.45	$1.06	$0.78
Weighted average common shares outstanding	230,798	231,478	232,343	231,086
Diluted net income per common share	$0.55	$0.43	$1.01	$0.75
Diluted weighted average common shares outstanding	240,660	241,360	242,743	240,076

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

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

	Three Months Ended January 31,		Six Months Ended January 31,	
(In thousands)	**2019**	**2018**	**2019**	**2018**
Comprehensive income, net of tax:				
Net income	$131,373	$103,301	$245,456	$180,861
Other comprehensive income:				
Foreign currency translation adjustments	8,423	23,243	705	21,763
Comprehensive income	139,796	126,544	246,161	202,624
Comprehensive income attributable to noncontrolling interest	—	45	—	90
Comprehensive income attributable to Copart, Inc.	$139,796	$126,499	$246,161	$202,534

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

Copart, Inc.
Consolidated Statements of Stockholder’s Equity
(Unaudited)

(in thousands, except share amounts)	Common Stock Outstanding Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Stockholders’ Equity
Balances at July 31, 2018	233,898,841	$ 23	$ 526,858	$ (107,928)	$ 1,162,146	$ —	$ 1,581,099
Net income	—	—	—	—	114,083	—	114,083
Currency translation adjustment	—	—	—	(7,718)	—	—	(7,718)
Cumulative effect of change in accounting principle	—	—	—	—	(22,954)	—	(22,954)
Exercise of stock options, net of repurchased shares	109,321	—	1,229	—	(2)	—	1,227
Stock-based compensation	—	—	6,021	—	—	—	6,021
Balances at October 31, 2018	234,008,162	23	534,108	(115,646)	1,253,273	—	1,671,758
Net income	—	—	—	—	131,373	—	131,373
Currency translation adjustment	—	—	—	8,423	—	—	8,423
Exercise of stock options, net of repurchased shares	241,896	—	3,991	—	(25)	—	3,966
Stock-based compensation	—	—	5,929	—	—	—	5,929
Shares issued for Employee Stock Purchase Plan	86,208	—	3,501	—	—	—	3,501
Shares repurchased	(7,635,596)	—	(17,427)	—	(347,570)	—	(364,997)
Balances at January 31, 2019	226,700,670	$ 23	$ 530,102	$ (107,223)	$ 1,037,051	$ —	$ 1,459,953

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

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Copart, Inc.
Consolidated Statements of Stockholder's Equity
Continued
(Unaudited)

(in thousands, except share amounts)	Common Stock Outstanding Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interest	Stockholders' Equity
Balances at July 31, 2017	230,488,296	$ 23	$ 453,349	$ (100,676)	$ 745,370	$ 534	$ 1,098,600
Net income	—	—	—	—	77,515	45	77,560
Currency translation adjustment	—	—	—	(1,480)	—	—	(1,480)
Exercise of stock options, net of repurchased shares	730,323	—	9,253	—	(3)	—	9,250
Stock-based compensation	—	—	5,307	—	—	—	5,307
Balances at October 31, 2017	231,218,619	23	467,909	(102,156)	822,882	579	1,189,237
Net income	—	—	—	—	103,256	45	103,301
Currency translation adjustment	—	—	—	23,243	—	—	23,243
Distributions to noncontrolling interest	—	—	—	—	—	(55)	(55)
Exercise of stock options, net of repurchased shares	508,285	—	7,349	—	—	—	7,349
Stock-based compensation	—	—	5,968	—	24	—	5,992
Shares issued for Employee Stock Purchase Plan	100,708	—	2,723	—	—	—	2,723
Balances at January 31, 2018	231,827,612	$ 23	$ 483,949	$ (78,913)	$ 926,162	$ 569	$ 1,331,790

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, 2019	2018
Cash flows from operating activities:		
Net income	$245,456	$180,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including debt cost	42,487	33,994
Allowance for doubtful accounts	96	1,013
Equity in (earnings) losses of unconsolidated affiliates	(514)	251
Stock-based compensation	11,950	11,298
(Gain) loss on sale of property and equipment	(3,890)	4,639
Deferred income taxes	6,632	2,666
Changes in operating assets and liabilities:		
Accounts receivable	(86,125)	(86,147)
Vehicle pooling costs	(20,218)	(6,548)
Inventories	(11,640)	(2,525)
Prepaid expenses and other current assets	(1,220)	(1,437)
Other assets	495	(4,320)
Accounts payable and accrued liabilities	7,338	38,919
Deferred revenue	2,843	1,705
Income taxes receivable	15,286	2,575
Income taxes payable	6,890	9,365
Other liabilities	(662)	84
Net cash provided by operating activities	215,204	186,393
Cash flows from investing activities:		
Purchases of property and equipment	(136,727)	(110,905)
Proceeds from sale of property and equipment	17,488	2,812
Purchase of assets in connection with acquisitions	—	123
Net cash used in investing activities	(119,239)	(107,970)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	5,220	16,603
Proceeds from the issuance of Employee Stock Purchase Plan shares	3,501	2,723
Repurchases of common stock	(364,997)	—
Payments for employee stock-based tax withholdings	(27)	(3)
Net proceeds (repayments) on revolving loan facility	93,300	(120,300)
Distributions to noncontrolling interest	—	(55)
Net cash used in financing activities	(263,003)	(101,032)
Effect of foreign currency translation	692	7,809
Net decrease in cash and cash equivalents	(166,346)	(14,800)
Cash and cash equivalents at beginning of period	274,520	210,100
Cash and cash equivalents at end of period	$108,174	$195,300
Supplemental disclosure of cash flow information:		
Interest paid	$9,018	$11,010
Income taxes paid, net of refunds	$39,327	$64,104

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

Copart, Inc.
Notes to Consolidated Financial Statements
January 31, 2019
(Unaudited)

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation and Description of Business

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

Principles of Consolidation

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments of a normal recurring nature considered necessary for fair presentation of its financial position as of January 31, 2019 and July 31, 2018, its consolidated statements of income and comprehensive income for the three and six months ended January 31, 2019 and 2018, and its cash flows for the six months ended January 31, 2019 and 2018. Interim results for the three and six months ended January 31, 2019 are not necessarily indicative of the results that may be expected for any future period, or for the entire year ending July 31, 2019. These consolidated financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. The interim consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended July 31, 2018. Certain prior year amounts have been reclassified to conform to current year presentation.

The consolidated financial statements of the Company include the accounts of the parent company and its wholly-owned subsidiaries, including its foreign wholly-owned subsidiaries. The Company also had a 59.5% voting interest in a company, which was acquired as part of the Cycle Express, LLC acquisition (“majority-owned subsidiary”), which provided various repossession services for the powersports auction industry. The noncontrolling interest consisted of a 40.5% outside voting interest in the majority-owned subsidiary. Net income or loss of the majority-owned subsidiary was allocated to the members’ interests in accordance with the operating agreement. During the year ended July 31, 2018, the Company sold the majority-owned subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASC 606”), which superseded the revenue recognition requirements in ASC 605, *Revenue Recognition* (“ASC 605”). ASC 606 revised the timing of revenue recognition 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. ASC 606 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. On August 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts. Results for reporting periods beginning August 1,

2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting under ASC 605.
Under the new standard, the Company concluded its primary performance obligation is the auctioning of consigned vehicles through an online auction process. Upon adoption of ASC 606, service revenue and vehicle sales revenue are recognized at the date the vehicles are sold at auction, excluding annual registration fees. This timing of revenue recognition under ASC 606 represents a change in the timing of revenue recognition for certain service revenues, such as inbound transportation and titling fees, which were recognized under ASC 605 prior to auction, when the services were performed. Under ASC 606, costs to prepare the vehicles for auction, including inbound transportation costs and titling fees, are deferred and recognized at the time of revenue recognition at auction. The Company calculated the impact of the adoption on the consolidated financial statements, which resulted in a decrease to opening retained earnings, net of tax, as of August 1, 2018, of $23.0 million as a result of the initial application of the standard and did not have a material impact to earnings for the three and six months ended January 31, 2019. This retained earnings impact related to adjustments to accounts receivable, vehicle pooling costs and deferred taxes upon adoption of the standard.
There were no contract liabilities on the consolidated balance sheets at January 31, 2019. The Company's disaggregation between service revenues and vehicle sales at the segment level reflects how the nature, timing, amount and uncertainty of its revenues and cash flows are impacted by economic factors. The Company reports sales taxes on relevant transactions on a net basis in the Company's consolidated results of operations, and therefore does not include sales taxes in revenues or costs.
Service revenues
The Company's service revenue consists of auction and auction related sales transaction fees charged for vehicle remarketing services. Within this revenue category, the Company's primary performance obligation is the auctioning of consigned vehicles through an online auction process. These auction and auction related services may include a combination of vehicle purchasing fees, vehicle listing fees, and vehicle selling fees that can be based on a predetermined percentage of the vehicle sales price, tiered vehicle sales price driven fees, or at a fixed fee based on the sale of each vehicle regardless of the selling price of the vehicle; transportation fees for the cost of transporting the vehicle to or from the Company's facility; title processing and preparation fees; vehicle storage fees; bidding fees; and vehicle loading fees. These services are not distinct within the context of the contract. Accordingly, revenue for these services is recognized when the single performance obligation is satisfied at the completion of the auction process. The Company does not take ownership of these consigned vehicles, which are stored at the Company's facilities located throughout the U.S. and at its international locations. These fees are recognized as net revenue (not gross vehicle selling price) at the time of auction in the amount of such fees charged.
The Company identified a separate performance obligation related to providing access to its online auction platform. The Company charges members an annual registration fee for the right to participate in its online auctions and access the Company's bidding platform. Under the new standard, this fee will continue to be recognized ratably over the term of the arrangement, generally one year, as each day of access to the online auction platform represents the best depiction of the transfer of the service.
No provision for returns has been established, as all sales are final with no right of return or warranty, although the Company provides for bad debt expense in the case of non-performance by its buyers or sellers.

	Three Months Ended January 31, 2019			**Three Months Ended January 31, 2018**		
(In thousands)	**United States**	**International**	**Total**	**United States**	**International**	**Total**
Service revenues	$362,023	$ 54,784	$416,807	$355,542	$ 46,412	$401,954

	Six Months Ended January 31, 2019			**Six Months Ended January 31, 2018**		
(In thousands)	**United States**	**International**	**Total**	**United States**	**International**	**Total**
Service revenues	$705,596	$ 106,017	$811,613	$686,933	$ 89,146	$776,079

Vehicle sales
Certain vehicles are purchased and remarketed on the Company's own behalf. The Company identified a single

performance obligation related to the sale of these vehicles, which is the completion of the online auction process. Under the new standard, vehicle sales revenue will continue to be recognized on the auction date. As the Company acts as a principal in vehicle sales transactions, the gross sales price at auction is recorded as revenue.

	Three Months Ended January 31, 2019			**Three Months Ended January 31, 2018**		
(In thousands)	**United States**	**International**	**Total**	**United States**	**International**	**Total**
Vehicle sales	$28,049	$ 40,042	$68,091	$29,593	$ 27,559	$57,152

	Six Months Ended January 31, 2019			**Six Months Ended January 31, 2018**		
(In thousands)	**United States**	**International**	**Total**	**United States**	**International**	**Total**
Vehicle sales	$55,685	$ 78,968	$134,653	$49,307	$ 52,888	$102,195

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Contract assets

The Company capitalizes certain contract assets related to obtaining a contract, where the amortization period for the related asset is greater than one year. These assets are amortized over the expected life of the customer relationship. Contract assets are classified as current or long-term other assets, based on the timing of when the Company expects to recognize the related revenues and are amortized as an offset to the associated revenues on a straight-line basis. The Company assesses these costs for impairment at least quarterly and as “triggering” events occur that indicate it is more likely than not that an impairment exists. The contract asset costs where the amortization period for the related asset is one year or less are expensed as incurred and recorded within general and administrative expenses in the accompanying statements of income.

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

Balance as of July 31, 2018	$11,840
Costs amortized during the period	(3,322)
Effect of foreign currency exchange rates	(46)
Balance as of January 31, 2019	$8,472

Vehicle Pooling Costs

The Company defers costs that relate directly to the fulfillment of its contracts 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 inbound transportation costs, titling fees, certain facility costs, labor, and vehicle processing. Upon the adoption of ASC 606, the Company began deferring the inbound transportation costs and titling fees directly associated with the vehicles within its vehicle pooling costs. 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.

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, Brazilian real, European Union euro, U.A.E. dirham, Omani rial, Bahraini dinar, and Indian rupee 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, 2017	$(100,676)
Loss on foreign currency translation	(7,252)
Cumulative loss on foreign currency translation as of July 31, 2018	$(107,928)
Gain on foreign currency translation	705
Cumulative loss on foreign currency translation as of January 31, 2019	$(107,223)

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. Excess tax benefits and deficiencies related to exercises of stock options are recognized as expense or benefit in the income statement as discrete items in the reporting period in which they occur.

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 position 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.

The Company accounted for the tax effects of the Tax Cuts and Jobs Act, enacted on December 22, 2017, on a provisional basis in the six months ended January 31, 2018 consolidated financial statements. The Company completed its accounting as of January 31, 2019, within the one year measurement period from the enactment date.

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.

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.
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, 2019 and July 31, 2018, 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 3 – Long-Term Debt*, and *Note 5 – Fair Value Measures*.

Capitalized Software Costs

The Company capitalizes system development costs and website development costs related to 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, 2019 and July 31, 2018 was $34.3 million and $30.7 million, respectively. Accumulated amortization expense related to software as of January 31, 2019 and July 31, 2018 totaled $19.3 million and $16.0 million, respectively.

Acquisitions

The Company recognizes and measures identifiable assets acquired and liabilities assumed in acquired entities in accordance with ASC 805, *Business Combinations*. The allocation of the purchase consideration for acquisitions can require extensive use of accounting estimates and judgments to allocate the purchase consideration to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values. The excess of the fair value of purchase consideration over the values of the identifiable assets and liabilities is recorded as goodwill. Critical estimates in valuing certain identifiable assets include but are not limited to expected long-term revenues; future expected operating expenses; cost of capital; appropriate attrition; and discount rates.

Segments and Other Geographic Reporting

The Company's U.S. and International regions are considered two separate operating segments and are disclosed as two reportable segments. The segments represent geographic areas and reflect how the chief operating decision maker allocates resources and measures results, including total revenues, operating income and income before income taxes.

NOTE 2 — Accounts Receivable, Net

Accounts receivable, net consisted of:

(In thousands)	January 31, 2019	July 31, 2018
Advance charges receivable	$312,165	$230,092
Trade accounts receivable	84,290	125,255
Other receivables	2,646	1,698
	399,101	357,045
Less: Allowance for doubtful accounts	(5,540)	(5,444)
Accounts receivable, net	$393,561	$351,601

Advance charges receivable represents amounts paid to third parties on behalf of insurance companies for which the Company will be reimbursed when the vehicle is sold. As advance charges are recovered within one year, the Company has not adjusted the amount of consideration received from the customer for a significant financing component. Trade accounts receivable includes fees and gross auction proceeds to be collected from insurance companies and buyers.

NOTE 3 – Long-Term Debt

Credit Agreement

On December 3, 2014, the Company entered into a Credit Agreement (as amended from time to time, the "Credit Amendment") with Wells Fargo Bank, National Association, as administrative agent, and Bank of America, N.A., as syndication agent. The Credit Agreement provided for (a) a secured revolving loan facility in an aggregate principal amount of up to $300.0 million (the "Revolving Loan Facility"), and (b) a secured term loan facility in an aggregate principal amount of $300.0 million (the "Term Loan"), which was fully drawn at closing. The Term Loan amortized $18.8 million per quarter.

On March 15, 2016, the Company entered into a First Amendment to Credit Agreement (the "Amendment to Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent and Bank of America, N.A. The Amendment to Credit Agreement amended certain terms of the Credit Agreement, dated as of December 3, 2014. The Amendment to Credit Agreement provided for (a) an increase in the secured revolving credit commitments by $50.0 million, bringing the aggregate principal amount of the revolving credit commitments under the Credit Agreement to $350.0 million, (b) a new secured term loan (the "Incremental Term Loan") in the aggregate principal amount of $93.8 million having a maturity date of March 15, 2021, and (c) an extension of the termination date of the Revolving Loan Facility and the maturity date of the Term Loan from December 3, 2019 to March 15, 2021. The Amendment to Credit Agreement extended the amortization period for the Term Loan and decreased the quarterly amortization payments for that loan to $7.5 million per quarter. The Amendment to Credit Agreement additionally reduced the pricing levels under the Credit Agreement to a range of 0.15% to 0.30% in the case of the commitment fee, 1.125% to 2.0% in the case of the applicable margin for LIBOR loans, and 0.125% to 1.0% in the case of the applicable margin for base rate loans, based on the Company's consolidated total net leverage ratio during the preceding fiscal quarter. The Company borrowed the entire $93.8 million principal amount of the Incremental Term Loan concurrent with the closing of the

Amendment to Credit Agreement.

On July 21, 2016, the Company entered into a Second Amendment to Credit Agreement (the "Second Amendment to Credit Agreement") with Wells Fargo Bank, National Association, SunTrust Bank, and Bank of America, N.A., as administrative agent (as successor in interest to Wells Fargo Bank). The Second Amendment to Credit Agreement amends certain terms of the Credit Agreement, dated as of December 3, 2014 as amended by the Amendment to Credit Agreement, dated as of March 15, 2016. The Second Amendment to Credit Agreement provides for, among other things, (a) an increase in the secured revolving credit commitments by $500.0 million, bringing the aggregate principal amount of the revolving credit commitments under the Credit Agreement to $850.0 million, (b) the repayment of existing term loans outstanding under the Credit Agreement, (c) an extension of the termination date of the revolving credit facility under the Credit Agreement from March 15, 2021 to July 21, 2021, and (d) increased covenant flexibility.

Concurrent with the closing of the Second Amendment to Credit Agreement, the Company prepaid in full the outstanding $242.5 million principal amount of the Term Loan and Incremental Term Loan under the Credit Agreement without premium or penalty. The Second Amendment to Credit Agreement reduced the pricing levels under the Credit Agreement to a range of 0.125% to 0.20% in the case of the commitment fee, 1.00% to 1.75% in the case of the applicable margin for LIBOR loans, and 0.0% to 0.75% in the case of the applicable margin for base rate loans, in each case depending on the Company's consolidated total net leverage ratio. The principal purposes of these financing transactions were to increase the size and availability under the Company's Revolving Loan Facility and to provide additional long-term financing. The proceeds are being used for general corporate purposes, including working capital and capital expenditures, potential share repurchases, acquisitions, or other investments relating to the Company's expansion strategies in domestic and international markets.

The Revolving Loan Facility under the Credit Agreement bears 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 0.0% to 0.75% 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 1.00% to 1.75% 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, 2019 on the Company's Revolving Loan Facility was the one month LIBOR rate of 2.50% plus an applicable margin of 1.00%. 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, 2019, 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 July 21, 2021. The Company is obligated to pay a commitment fee on the unused portion of the Revolving Loan Facility. The commitment fee rate ranges from 0.125% to 0.20%, 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 $93.3 million of outstanding borrowings under the Revolving Loan Facility as of January 31, 2019 and no outstanding borrowings under the Revolving Loan Facility at July 31, 2018.

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 Credit Agreement contains no restrictions on the payment of dividends and other restricted payments, as defined, as long as (1) the consolidated total net leverage ratio, as defined, both before and after giving effect to any such dividend or restricted payment on a pro forma basis, is less than 3.25:1, in an unlimited amount, (2) if clause (1) is not available, so long as the consolidated total net leverage ratio both before and after giving effect to any such dividend on a pro forma basis is less than 3.50:1, in an aggregate amount not to exceed the available amount, as defined, and (3) if clauses (1) and (2) are not available, in an aggregate amount not to exceed $50.0 million; provided, that, minimum liquidity, as defined, shall be not less than $75.0 million both before and after giving effect to any such dividend or restricted payment. As of January 31, 2019, the consolidated total net leverage ratio was 0.53:1. Minimum liquidity as of January 31, 2019 was $0.8 billion. Accordingly, the Company does not believe that the provisions of the Credit Agreement represent a significant restriction to its ability to pay dividends or to the successful future operations of the business. The Company has not paid a cash dividend since becoming a public company in 1994. The Company was in compliance with all covenants related to the Credit Agreement as of January 31, 2019.

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 (the “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.

On July 21, 2016, the Company entered into Amendment No. 1 to Note Purchase Agreement (the “First Amendment to Note Purchase Agreement”) which amended certain terms of the Note Purchase Agreement, including providing for increased flexibility substantially consistent with the changes included in the Second Amendment to Credit Agreement, including among other things increased covenant flexibility.

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 assets of 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 Note Purchase Agreement contains no restrictions on the payment of dividends and other restricted payments, as defined, as long as (1) the consolidated total net leverage ratio, as defined, both before and after giving effect to any such dividend or restricted payment on a pro forma basis, is less than 3.25:1, in an unlimited amount, (2) if clause (1) is not available, so long as the consolidated total net leverage ratio both before and after giving effect to any such dividend on a pro forma basis is less than 3.50:1, in an aggregate amount not to exceed the available amount, as defined, and (3) if clauses (1) and (2) are not available, in an aggregate amount not to exceed $50.0 million; provided, that, minimum liquidity, as defined, shall be not less than $75.0 million both before and after giving effect to any such dividend or restricted payment. As of January 31, 2019, the consolidated total net leverage ratio was 0.53:1. Minimum liquidity as of January 31, 2019 was $0.8 billion. Accordingly, the Company does not believe that the provisions of the Note Purchase Agreement represent a significant restriction to its ability to pay dividends or to the successful future operations of the business. The Company has not paid a cash dividend since becoming a public company in 1994. The Company was in compliance with all covenants related to the Note Purchase Agreement as of January 31, 2019.

Related to the execution of the Credit Agreement, First Amendment to Credit Agreement, Second Amendment to Credit Agreement, and the Note Purchase Agreement, the Company incurred $3.4 million in costs, of which $2.0 million was capitalized as debt issuance fees and $1.4 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 and are classified as reductions of the outstanding liability.

NOTE 4 – Goodwill and Intangible Assets

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

(In thousands)	January 31, 2019	July 31, 2018
Amortized intangibles:		
Supply contracts & customer relationships	$ 49,206	$ 71,787
Trade name	23,573	24,173
Licenses and databases	7,706	9,291
Covenants not to compete	—	1,666
Accumulated amortization	(20,220)	(42,025)
Net intangibles	$ 60,265	$ 64,892

Aggregate amortization expense on amortizable intangible assets was $2.6 million and $3.5 million for the three months ended January 31, 2019 and 2018, respectively, and $5.5 million and $7.4 million for the six months ended January 31, 2019 and 2018, respectively. During the six months ended January 31, 2019, the Company retired fully amortized intangible assets of $28.0 million, which were no longer being utilized.

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

Balance as of July 31, 2018	$ 337,235
Effect of foreign currency exchange rates	810
Balance as of January 31, 2019	$ 338,045

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:

	January 31, 2019		July 31, 2018	
(In thousands)	Fair Value Total	Significant Observable Inputs (Level II)	Fair Value Total	Significant Observable Inputs (Level II)
Assets				
Cash equivalents	$ 12,840	$ 12,840	$ 130,769	$ 130,769
Total Assets	$ 12,840	$ 12,840	$ 130,769	$ 130,769
Liabilities				
Long-term fixed rate debt, including current portion	$ 391,961	$ 391,961	$ 381,230	$ 381,320
Revolving loan facility	93,300	93,300	—	—
Total Liabilities	$ 485,261	$ 485,261	$ 381,230	$ 381,320

During the six months ended January 31, 2019, no transfers were made between any levels within the fair value hierarchy. See *Note 1 – Summary of Significant Accounting Policies,* and *Note 3 – Long-Term Debt*.

NOTE 6 – Net Income Per Share

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

	Three Months Ended January 31,		Six Months Ended January 31,	
(In thousands)	2019	2018	2019	2018
Weighted average common shares outstanding	230,798	231,478	232,343	231,086
Effect of dilutive securities - stock options	9,862	9,882	10,400	8,990
Weighted average common and dilutive potential common shares outstanding	240,660	241,360	242,743	240,076

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 425,000 and 2,287,500 options to purchase the Company's common stock for the three months ended January 31, 2019 and 2018, respectively, and 460,000 and 4,478,004 options to purchase the Company's common stock for the six months ended January 31, 2019 and 2018, respectively, because their inclusion would have been anti-dilutive.

NOTE 7 – Stock-based 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, 2019:

(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, 2018	17,797	$ 20.29	6.19	$660,268
Grants of options	150	47.19		
Exercises	(294)	17.74		
Forfeitures or expirations	(98)	26.33		
Outstanding as of January 31, 2019	17,555	$ 20.53	5.02	$528,435
Exercisable as of January 31, 2019	14,077	$ 18.51	4.40	$452,199

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 17,555,424 at January 31, 2019.

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

	Three Months Ended January 31,		Six Months Ended January 31,	
(In thousands)	2019	2018	2019	2018
General and administrative	$4,691	$4,990	$9,680	$9,444
Yard operations	1,238	1,002	2,270	1,854
Total stock-based compensation	$5,929	$5,992	$11,950	$11,298

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 former President, of nonqualified stock options to purchase 4,000,000 and 3,000,000 shares of the Company's common stock, respectively, at an exercise price of $17.81 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. On December 16, 2018, the option held by Mr. Mitz became fully vested and the option held my Mr. Adair will become fully vested, assuming continued service by Mr. Adair on April 15, 2019. If, prior to a change in control, either executive's employment is terminated without cause, then 100% of the shares subject to that executive's stock option will immediately vest. 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 using the Black-Scholes Merton option-pricing model was $5.72. 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 $3.5 million and $3.6 million in compensation expenses for these grants in the six months ended January 31, 2019 and 2018, respectively.

NOTE 8 – Stock Repurchases

On September 22, 2011, the Company's Board of Directors approved an 80 million share increase in the stock repurchase program, bringing the total current authorization to 196 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 repurchased 7,635,596 shares of its common stock under the program during the six months ended January 31, 2019 at a weighted average price of $47.81 per share totaling $365.0 million. The Company did not repurchase any shares of its common stock under the program during the six months ended January 31, 2018. As of January 31, 2019, the total number of shares repurchased under the program was 114,549,198, and 81,450,802 shares were available for repurchase under the program.

In fiscal 2018, certain members of the Company's Board of Directors exercised stock options through cashless exercises. A portion of the options exercised were net settled in satisfaction of the exercise price. The Company remitted no amounts for the six months ended January 31, 2019 and 2018, respectively, to the proper taxing authorities in satisfaction of the employees' statutory withholding requirements.

The exercised stock options, utilizing a cashless exercise, 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 Individuals	Weighted Average Share Price for Withholding	Employee Stock Based Tax Withholding (in 000s)
FY 2018—Q2	80,000	$ 6.54	11,996	—	68,004	$ 43.60	$ —

(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.

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.

On December 22, 2017 legislation, commonly referred to as the Tax Cuts and Jobs Act (the "Act"), was enacted. The Act included a one-time tax on accumulated unremitted earnings of our foreign subsidiaries ("Transition Tax"). SEC Staff Accounting Bulletin No. 118 allows the use of provisional amounts (reasonable estimates) if accounting for the income tax effects of the Act has not been completed. Provisional amounts must be adjusted within one year from the enactment date of the Act. As of July 31 2018, the Company recorded a $12.4 million provisional Transition Tax charge. No adjustment to the provisional Transition Tax charge was made in the first quarter of fiscal year 2019. The Company completed its accounting for the tax effects of the enactment of the Tax Act during the three months ended January 31, 2019, and recorded a discrete decrease in tax expense of $1.1 million, whose effect on the Company's effective tax rate was immaterial for the three months ended January 31, 2019.

The Act reduced the U.S. federal statutory tax rate from 35.0% to 21.0%, effective January 1, 2018, which resulted in a fiscal year 2018 U.S. federal statutory tax rate of . The Company's U.S. federal statutory tax rate for fiscal year 2019 is 21.0%.

The Act contains Global Intangible Low-Taxed Income ("GILTI") provisions, which first impact the Company in fiscal year 2019. The GILTI provisions effectively subject income earned by the Company's foreign subsidiaries to current U.S. tax at a rate of 10.5%, less foreign tax credits. Under U.S. GAAP the Company can make an accounting policy election to either recognize deferred taxes for temporary differences expected to impact GILTI in future years or provide for tax expense related to GILTI in the year the tax is incurred as a period expense. The Company has elected to treat tax generated by GILTI provisions as a period expense.

The Act also includes a favorable tax treatment for certain Foreign Derived Intangible Income ("FDII"), effective for the Company starting August 1, 2018. The Company's provisional estimate for both GILTI and FDII did not materially impact the effective income tax rate or income tax expense for the three or six months ended January 31, 2019.

As of January 31, 2019, the gross amounts of the Company's liabilities for unrecognized tax benefits of $30.4 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 2014 and 2017. 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's effective income tax rates were 20.4% and 28.5% for the three months ended January 31, 2019 and 2018, respectively, and 21.8% and 30.1% for the six months ended January 31, 2019 and 2018, respectively.

for the three months ended January 31, 2019	21.0%

The effective tax rates in the current and prior year were also impacted from the result of recognizing excess tax benefits from the exercise of employee stock options of $4.8 million and $2.6 million for the three months ended January 31, 2019 and 2018, respectively, and $5.0 million and $6.4 million for the six months ended January 31, 2019 and 2018, respectively.

NOTE 10 – Recent Accounting Pronouncements

Pending

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The current standard, ASC Topic 740 - *Income Taxes*, requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. This includes the tax effects of items in accumulated other comprehensive income ("AOCI") that were originally recognized in other comprehensive income, subsequently creating stranded tax effects. ASU 2018-02 allows a reclassification from AOCI to retained earnings for stranded tax effects specifically resulting from the U.S. federal government's recently enacted tax bill, the Tax Cuts and Jobs Act. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. The adoption of ASU 2018-02 will result in a reclassification from AOCI to retained earnings and will have no impact on the Company's consolidated results of operations, financial position or cash flows.

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350).* ASU 2017-04 amends the requirement that entities compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, entities should perform their annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment if the carrying amount exceeds the reporting unit's fair value. ASU 2017-04 is effective for annual periods beginning after December 15, 2019. The Company's adoption of ASU 2017-04 will not have a material impact on the Company's consolidated results of operations and financial position.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), that supersedes all existing guidance on accounting for leases in ASC Topic 840. ASU 2016-02 is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. ASU 2016-02 will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 is effective for annual and interim periods within those annual reporting periods beginning after December 15, 2018 and adoption is to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients; however early adoption is permitted. Based on a preliminary assessment, the Company expects that most of its operating lease commitments will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in a significant increase in the assets and liabilities on the Company's consolidated balance sheets. The Company is continuing its assessment, which may identify additional impacts ASU 2016-02 may have on the Company's consolidated results of operations, financial position, and related disclosures.

Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASC 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 within those annual reporting periods beginning after December 15, 2017 and was effective for the Company beginning with the first quarter of fiscal year 2019. ASU 2014-09 allows adoption with either retrospective application to each period presented, or modified retrospective application, with the cumulative effect recognized as of the date of initial application. The Company used the modified retrospective application with the cumulative effect as its transition method.

Upon adoption, service revenue and vehicle sales revenue are recognized at the date the vehicles are sold at auction. This timing of revenue recognition under ASU 2014-09 is consistent with the Company's previous policy under ASC 605 for most service and vehicle sales revenue. However, the adoption represents a change in the timing of revenue recognition for certain service revenues, such as inbound transportation and titling fees, which were previously recognized under ASC 605 when the services were performed, which generally occurred prior to auction. Related costs to prepare the vehicles for auction, including inbound transportation and titling, are deferred and recognized at the time of revenue recognition. This change resulted in a decrease to beginning retained earnings as of August 1, 2018, of $23.0 million as a result of the initial application of the standard and did not have a material impact to earnings.

On August 1, 2018, the Company adopted ASC 606 using the modified retrospective method for all contracts. Results for reporting periods beginning August 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605, *Revenue Recognition*.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory.* ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs and eliminates the exception for an intra-entity transfer of an asset, other than inventory. This ASU is effective for annual and interim periods within those annual periods beginning after December 15, 2017, and is required to be adopted using a modified retrospective approach; however early adoption is permitted. The Company's adoption of ASU 2016-16 did not have a material impact on the Company's consolidated results of operations and financial position.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230), which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. ASU 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. The guidance is required to be applied on a retrospective basis. The Company's adoption of ASU 2016-15 did not have a material impact on the Company's consolidated results of operations and financial position.

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, contract disputes, 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 sought 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 arose 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 sought 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. On June 8, 2016, the Company amended its complaint to include claims that KPIT stole certain intellectual property owned by the Company and acted negligently in its provision of services. The case was tried in April and May 2018. On May 22, 2018, the jury returned a verdict for the Company on its fraud claim against KPIT for $4.7 million, and on its professional negligence claim against KPIT for $16.3 million, and the jury found for KPIT on its implied covenant counterclaim against the Company for $4.9 million.

In a September 10, 2018, post-trial order, the Court reduced the Company's professional negligence award to $9.1 million, found KPIT liable under California's Unfair Competition Law (UCL) for fraudulent and unfair conduct and held that the Company could recover restitution of $6.3 million if the Company chooses to forego its fraud and professional negligence damages, found that the Company was not entitled to restitution on its unjust enrichment claim, and awarded KPIT prejudgment interest on its implied covenant counterclaim starting from December 26, 2016. On January 24, 2019, the Court heard argument on the Company's motion for prejudgment interest, and on KPIT's motion for judgment notwithstanding the jury verdict, and for new trial. The Court is expected to issue a written opinion on these motions later this year.

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, 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.

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.

It was determined that grounds exist for a substantial reduction in the Official Assessment, on the basis that (i) the transactions and resulting tax at issue were erroneously double-counted by the DOR in the audit sales transaction work papers on which the Assessment was based; and (ii) the Company was ultimately able to provide documentation showing that most of the remaining transactions were sales at wholesale, therefore qualifying for the sale for resale exemption from Georgia Sales and Use Tax. After these reductions, the remaining amount of principal Georgia Sales and Use Tax still in dispute between the parties was $2.6 million, plus applicable interest. A Consent Order to this effect was entered by the Georgia Tax Tribunal on May 22, 2017. The DOR subsequently filed a Motion for Summary Judgment related to the remaining $2.6 million in dispute. On November 16, 2018, the Georgia Tax Tribunal denied the DOR's motion for summary judgment with regard to substantially all of the amount at issue.

Following the Court's denial of the DOR's Motion for Summary Judgment, the parties engaged in settlement negotiations, which resulted in a confidential settlement and dismissal of the case.

NOTE 12 – Segments and Other Geographic Reporting

The Company's U.S. and International regions are considered two separate operating segments and are disclosed as two reportable segments. The segments represent geographic areas and reflect how the chief operating decision maker allocates resources and measures results, including total revenues, operating income and income before income taxes. Intercompany income (expense) is primarily related to charges for services provided by the U.S. segment.

The following table presents financial information by segment:

	Three Months Ended January 31, 2019			Three Months Ended January 31, 2018		
(In thousands)	United States	International	Total	United States	International	Total
Service revenues	$362,023	$ 54,784	$416,807	$355,542	$ 46,412	$401,954
Vehicle sales	28,049	40,042	68,091	29,593	27,559	57,152
Total service revenues and vehicle sales	390,072	94,826	484,898	385,135	73,971	459,106
Yard operations	181,335	34,125	215,460	189,378	27,806	217,184
Cost of vehicle sales	26,883	34,329	61,212	28,794	21,519	50,313
General and administrative	36,452	7,035	43,487	33,953	6,709	40,662
Operating income	145,402	19,337	164,739	133,010	17,937	150,947
Interest (expense) income, net	(4,674)	119	(4,555)	(5,628)	67	(5,561)
Other income (expense), net	4,674	108	4,782	(490)	(458)	(948)
Intercompany income (expense)	1,931	(1,931)	—	1,182	(1,182)	—
Income before income taxes	147,333	17,633	164,966	128,074	16,364	144,438
Income tax expense	32,799	794	33,593	37,677	3,460	41,137
Net income	$114,534	$ 16,839	$131,373	$90,397	$ 12,904	$103,301
Depreciation and amortization	$17,877	$ 2,522	$20,399	$14,054	$ 3,817	$17,871
Capital expenditures	66,901	7,490	74,391	56,804	12,617	69,421

	Six Months Ended January 31, 2019			Six Months Ended January 31, 2018		
(In thousands)	United States	International	Total	United States	International	Total
Service revenues	$705,596	$ 106,017	$811,613	$686,933	$ 89,146	$776,079
Vehicle sales	55,685	78,968	134,653	49,307	52,888	102,195
Total service revenues and vehicle sales	761,281	184,985	946,266	736,240	142,034	878,274
Yard operations	358,977	64,177	423,154	382,211	52,580	434,791
Cost of vehicle sales	52,826	66,142	118,968	47,554	41,056	88,610
General and administrative	73,784	14,181	87,965	67,446	12,538	79,984
Operating income	275,694	40,485	316,179	239,029	35,860	274,889
Interest (expense) income, net	(8,488)	242	(8,246)	(11,116)	157	(10,959)
Other income (expense), net	5,299	520	5,819	(4,601)	(763)	(5,364)
Intercompany income (expense)	3,342	(3,342)	—	3,486	(3,486)	—
Income before income taxes	275,847	37,905	313,752	226,798	31,768	258,566
Income tax expense	63,265	5,031	68,296	71,262	6,443	77,705
Net income	$212,582	$ 32,874	$245,456	$155,536	$ 25,325	$180,861
Depreciation and amortization	$37,269	$ 4,999	$42,268	$27,583	$ 6,190	$33,773
Capital expenditures	102,154	34,573	136,727	95,709	15,073	110,782

	January 31, 2019			July 31, 2018		
(In thousands)	United States	International	Total	United States	International	Total
Total assets	$1,848,216	$ 448,689	$2,296,905	$1,856,058	$ 451,640	$2,307,698
Goodwill	256,434	81,611	338,045	256,434	80,801	337,235

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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 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 with operations in the United States (U.S.), Canada, the United Kingdom (U.K.), Brazil, the Republic of Ireland, Germany, Finland, the United Arab Emirates (U.A.E.), Oman, Bahrain, and Spain.

Our goals are to generate sustainable profits for our stockholders, while also producing environmental and social benefits for the world, by promoting vehicle restoration, repair, and recycling; parts refurbishment and re-use; and facilitating the recovery and resilience of communities affected by severe climate events and other disasters.

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, finance companies, charities, fleet operators, dealers and vehicles sourced directly from individual owners. 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 help expedite each stage of the vehicle sales process, minimize administrative and processing costs, and maximize the ultimate sales price through the online auction process.

In the U.S., Canada, Brazil, the Republic of Ireland, Finland, the U.A.E., Oman, Bahrain, and Spain, we sell vehicles primarily as an agent and derive revenue primarily from auction and auction related sales transaction fees charged for vehicle remarketing services as well as fees for services subsequent to the auction, such as delivery and storage. In the U.K. and Germany, we operate both as an agent and on a principal basis, in some cases purchasing salvage vehicles outright and reselling the vehicles for our own account. In Germany and Spain, we also derive revenue from listing vehicles on behalf of insurance companies and insurance experts to determine the vehicle's residual value and/or to facilitate a sale for the insured.

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 service revenue consists of auction and auction related sales transaction fees charged for vehicle remarketing services. These auction and auction related services may include a combination of vehicle purchasing fees, vehicle listing fees, and vehicle selling fees that can be based on a predetermined percentage of the vehicle sales price, tiered vehicle sales price driven fees, or at a fixed fee based on the sale of each vehicle regardless of the selling price of the vehicle; transportation fees for the cost of transporting the vehicle to or from our facility; title processing and preparation fees; vehicle storage fees; bidding fees; and vehicle loading fees. These fees are recognized as net revenue (not gross vehicle selling price) at the time of auction in the amount of such fees charged. Purchased vehicle revenue includes the gross sales price of the vehicles which we have purchased or are otherwise considered to own. We have certain contracts with insurance companies, primarily in the U.K., 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 total loss frequency and the average vehicle auction selling price, as a significant amount of our service revenue is associated in some manner with 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 also believe has an impact on total loss 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 specifically quantify the financial impact that commodity pricing, used car pricing, and product sales mix has on the selling price of vehicles, our service revenues or financial results. Total loss frequency is the percentage of cars involved in accidents that 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 total loss frequency. The increase in total loss 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 total loss frequency and adversely affect our growth rate. Used car values are determined by many factors, including used car supply, which is tied directly to new car sales, and the average age of cars on the road. The average age of cars on the road continued to increase, growing from 9.6 years in 2002 to 12.1 years in 2018. The factors that can 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 total loss frequency.

Operating Costs and Expenses: Yard operations expenses consist primarily of operating personnel (which includes yard management, clerical and yard employees), rent, contract vehicle transportation, 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 3 – 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 and Revolving Loan Facility. The primary factors affecting cash operating results are: (i) seasonality; (ii) market wins and losses; (iii) supplier mix; (iv) accident frequency; (v) total loss frequency; (vi) increased volume from our existing suppliers; (vii) commodity pricing; (viii) used car pricing; (ix) foreign currency exchange rates; (x) product mix; (xi) contract mix to the extent applicable; and (xii) our capital expenditures. 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 shares through option exercises and shares issued under our Employee Stock Purchase Plan. A potential external source of additional working capital is the issuance of additional debt with new lenders and equity. However, we cannot predict if these sources will be available in the future or on commercially acceptable terms.

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 the U.S., Canada, the U.K., Brazil, the Republic of Ireland, Germany, Finland, the U.A.E., Oman, Bahrain, and Spain with the intention of providing national coverage for our sellers. All of these acquisitions have been accounted for using the purchase method of accounting.

The following table sets forth operational facilities that we have opened and began operations from August 1, 2017 through January 31, 2019:

Locations	Date	Geographic Service Area
Andrews, Texas (Midland)	August 2017	United States
Exeter, Rhode Island	October 2017	United States
Lumberton, North Carolina	June 2018	United States
Spartanburg, South Carolina	August 2018	United States
Madison, Wisconsin	September 2018	United States
Harleyville, South Carolina	January 2019	United States
Macon, Georgia	January 2019	United States
Mocksville, North Carolina	January 2019	United States
Antelope, California	January 2019	United States
Nobitz, Thuringia (Leipzig)	April 2018	Germany
Mannheim, Rhineland-Palatinate	October 2018	Germany
Stuttgart, Baden-Württemberg	November 2018	Germany
Hessen, Frankfurt	November 2018	Germany
Schleswig-Holstein (Hamburg)	November 2018	Germany
Furth, Bavaria (Nuremberg)	November 2018	Germany
Massen, Brandenburg (Berlin)	November 2018	Germany
Friesack, Brandenburg (Berlin)	December 2018	Germany
Belfast, Northern Ireland	April 2018	United Kingdom
Curitiba, Paraná	September 2018	Brazil

The following table sets forth operational facilities obtained through business acquisitions from August 1, 2017 through January 31, 2019:

Locations	Date	Geographic Service Area
Espoo, Finland	March 2018	Finland
Pirkkala, Finland	March 2018	Finland
Oulu, Finland	March 2018	Finland
Turku, Finland	March 2018	Finland

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 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; 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, 2019 and 2018:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2019	2018	2019	2018
Service revenues and vehicle sales:				
Service revenues	86 %	88 %	86 %	88 %
Vehicle sales	14 %	12 %	14 %	12 %
Total service revenues and vehicle sales	100 %	100 %	100 %	100 %
Operating expenses:				
Yard operations	44 %	47 %	45 %	50 %
Cost of vehicle sales	13 %	11 %	13 %	10 %
General and administrative	9 %	9 %	9 %	9 %
Total operating expenses	66 %	67 %	67 %	69 %
Operating income	34 %	33 %	33 %	31 %
Other expense	— %	(1)%	— %	(2)%
Income before income taxes	34 %	32 %	33 %	29 %
Income taxes	7 %	9 %	7 %	9 %
Net income	27 %	23 %	26 %	20 %

Comparison of the Three and Six Months Ended January 31, 2019 and 2018

The following table presents a comparison of service revenues for the three and six months ended January 31, 2019 and 2018:

	Three Months Ended January 31,				Six Months Ended January 31,			
(In thousands)	2019	2018	Change	% Change	2019	2018	Change	% Change
Service revenues								
United States	$362,023	$355,542	$6,481	1.8 %	$705,596	$686,933	$18,663	2.7 %
International	54,784	46,412	8,372	18.0 %	106,017	89,146	16,871	18.9 %
Total service revenues	$416,807	$401,954	$14,853	3.7 %	$811,613	$776,079	$35,534	4.6 %

Service Revenues. The increase in service revenues during the three months ended January 31, 2019 of $14.9 million, or 3.7%, as compared to the same period last year resulted from (i) an increase in International of $8.4 million and (ii) an increase in the U.S. of $6.5 million. The growth in the U.S. was driven primarily by (i) increased volume, (ii) an increase in revenue per car due to higher average auction selling prices, which we believe is due to a change in the mix of vehicles sold and higher commodity prices, partially offset by (iii) Hurricane Harvey, as the storm produced an extraordinary volume of flood damaged vehicles. The increase in volume in the U.S. was derived from (i) growth in the number of units sold from new and expanded contracts with insurance companies, (ii) growth from existing suppliers, driven by what we believe was an increase in total loss frequency. Excluding the detrimental impact of $3.0 million due to changes in foreign currency exchange rates, primarily from the change in the British pound and Brazilian real to U.S. dollar exchange rates, the growth in International of $11.4 million was driven primarily by increased volume and higher average auction selling prices.

The increase in service revenues during the six months ended January 31, 2019 of $35.5 million, or 4.6%, as compared to the same period last year resulted from (i) an increase in the U.S. of $18.7 million and (ii) an increase in International of $16.9 million. The growth in the U.S. was driven primarily by (i) increased volume, (ii) an increase in revenue per car due to higher average auction selling prices, which we believe is due to a change in the mix of vehicles sold, and higher commodity prices, partially offset by (iii) Hurricane Harvey, as the storm produced an extraordinary volume of flood damaged vehicles. The increase in volume in the U.S. was derived from (i) growth in the number of units sold from new and expanded contracts with insurance companies, (ii) growth from existing suppliers, driven by what we believe was an increase in total loss frequency. Excluding the detrimental impact of $4.8

million due to changes in foreign currency exchange rates, primarily from the change in the British pound and Brazilian real to U.S. dollar exchange rates, the growth in International of $21.7 million was driven primarily by increased volume and higher average auction selling prices.

The following table presents a comparison of vehicle sales for the three and six months ended January 31, 2019 and 2018:

	Three Months Ended January 31,				Six Months Ended January 31,			
(In thousands)	2019	2018	Change	% Change	2019	2018	Change	% Change
Vehicle sales								
United States	$28,049	$29,593	$(1,544)	(5.2)%	$55,685	$49,307	$6,378	12.9 %
International	40,042	27,559	12,483	45.3 %	78,968	52,888	26,080	49.3 %
Total vehicle sales	$68,091	$57,152	$10,939	19.1 %	$134,653	$102,195	$32,458	31.8 %

Vehicle Sales. The increase in vehicle sales for the three months ended January 31, 2019 of $10.9 million, or 19.1%, as compared to the same period last year resulted from (i) an increase in International of $12.5 million that was partially offset by (ii) a decrease in the U.S. of $1.5 million. The decrease in the U.S. was primarily the result of decreased volume. Excluding a detrimental impact of $1.9 million due to changes in foreign currency exchange rates, primarily from the change in the British pound and European Union euro to U.S. dollar exchange rates, the growth in International of $14.4 million was primarily the result of higher average auction selling prices and an increase in volume.

The increase in vehicle sales for the six months ended January 31, 2019 of $32.5 million, or 31.8%, as compared to the same period last year resulted from (i) an increase in International of $26.1 million and (ii) an increase in the U.S. of $6.4 million. The increase in the U.S. was primarily the result of increased volume and higher average auction selling prices, which we believe was due to a change in the mix of vehicles sold and higher commodity prices. Excluding a detrimental impact of $2.5 million due to changes in foreign currency exchange rates, primarily from the change in the British pound and European Union euro to U.S. dollar exchange rates, the growth in International of $28.6 million was primarily the result of higher average auction selling prices and an increase in volume.

The following table presents a comparison of yard operations expenses for the three and six months ended January 31, 2019 and 2018:

	Three Months Ended January 31,				Six Months Ended January 31,			
(In thousands)	2019	2018	Change	% Change	2019	2018	Change	% Change
Yard operations expenses								
United States	$181,335	$189,378	$(8,043)	(4.2)%	$358,977	$382,211	$(23,234)	(6.1)%
International	34,125	27,806	6,319	22.7 %	64,177	52,580	11,597	22.1 %